Paramount
resources ltd.

SECOND QUARTER OVERVIEW

Oil and Gas Operations

- Average sales volumes increased 30 percent to 21,474 Boe/d in the second quarter of 2012 compared to 16,572 Boe/d in the same period in 2011; NGLs volumes increased by 31 percent.
- The Company's wholly-owned Musreau 45 MMcf/d refrigeration facility (the "Musreau Refrig Facility") has been operating near capacity since re-commissioning in March.
- Operating expenses per Boe decreased 21 percent to $8.20 from $10.40 in the second quarter of 2011 with higher Kaybob production, the re-commissioning of the Mureau Refrig Facility and the sale of higher cost US properties.
- Regulatory approval was received for the Musreau 200 MMcf/d deep cut facility and site preparation work has commenced.
- Advance drilling for the deep cut facility expansions at Musreau and Smoky continued. The Company currently has an inventory of 21 net wells with estimated first month deliverability of 34,700 Boe/d and average first year deliverability of 17,300 Boe/d.
- In May, Paramount's wholly-owned subsidiary, Summit Resources, Inc., closed the sale of all of its operated properties in North Dakota and all of its Montana properties for cash proceeds of approximately US$70 million. The Company is continuing to pursue the disposition of the remaining US properties.

Strategic Investments

- The Company is currently evaluating drilling plans for its Liard Basin Besa River shale gas lands for the 2012 / 2013 winter drilling season. Industry test results from prolific shale gas wells adjacent to Paramount's lands support the Company's internal resource estimates.
- Cavalier Energy Inc. continued to focus on finalizing its regulatory application for the first 10,000 Bbl/d phase at the Hoole property, anticipated to be submitted in the fourth quarter of 2012.
- Fox Drilling Inc. continued the construction of two new triple-sized walking drilling rigs, expected to be operational in late-2012.

Corporate

- The revolving period and maturity date of the Company's $300 million bank credit facility (the "Existing Facility") were extended to October 31, 2012 and October 31, 2013, respectively, to provide for the evaluation of an unsolicited proposal for an expanded committed credit facility (the "Proposed Facility") from one of Paramount's lenders.
- The Proposed Facility would have a term extending into 2014 and provide additional funding capacity to complete construction of the Musreau deep cut facility and to drill additional wells.
- Corporate general and administrative costs per Boe decreased 13 percent in the second quarter to $2.09 from $2.40 in 2011.

Financial and Operating Highlights[1,2]

($ millions, except as noted)

	Three months ended June 30			Six months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Financial						
Petroleum and natural gas sales	**46.5**	61.1	(24)	**101.2**	107.9	(6)
Funds flow from operations	**12.1**	23.4	(48)	**25.0**	37.3	(33)
Per share – diluted ($/share)	**0.15**	0.29	(48)	**0.28**	0.48	(42)
Net income (loss)	**–**	12.2	(100)	**124.5**	0.3	100
Per share – basic ($/share)	**–**	0.16	(100)	**1.46**	–	100
Per share – diluted ($/share)[3]	**–**	(0.02)	100	**1.43**	–	100
Exploration and development expenditures	**66.4**	54.5	22	**208.6**	214.6	(3)
Investments in other entities – market value[4]				**611.4**	783.1	(22)
Total assets				**1,777.3**	1,714.5	4
Net debt[5]				**472.8**	514.1	(8)
Common shares outstanding (thousands)				**85,573**	79,051	8
Operating						
Sales volumes						
Natural gas (MMcf/d)	**106.2**	77.7	37	**97.4**	68.3	43
NGLs (Bbl/d)	**1,973**	1,504	31	**1,813**	1,237	47
Oil (Bbl/d)	**1,808**	2,110	(14)	**2,097**	2,231	(6)
Total (Boe/d)	**21,474**	16,572	30	**20,144**	14,844	36
Average realized price						
Natural gas ($/Mcf)	**2.09**	4.36	(52)	**2.40**	4.26	(44)
NGLs ($/Bbl)	**69.63**	81.95	(15)	**73.71**	79.47	(7)
Oil ($/Bbl)	**78.65**	94.58	(17)	**84.66**	87.65	(3)
Net wells drilled (excluding oil sands evaluation)	**8**	8	–	**19**	20	(5)
Net oil sands evaluation wells drilled	**–**	1	(100)	**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 six months ended June 30, 2012.
(3) Per share – diluted ($/share) has been adjusted for the six months ended June 30, 2011 as a result of changes to reflect discontinued operations accounting. See Paramount's unaudited Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2012.
(4) Based on the period-end closing prices of publicly traded enterprises and the book value of the remaining investments.
(5) 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 six months ended June 30, 2012.

REVIEW OF OPERATIONS(1)

	Second Quarter 2012		First Quarter 2012		% Change
Sales volumes					
Natural gas (MMcf/d)		**106.2**		88.6	*20*
NGLs (Bbl/d)		**1,973**		1,652	*19*
Oil (Bbl/d)		**1,808**		2,386	*(24)*
Total (Boe/d)		**21,474**		18,813	*14*
Average realized prices					
Natural gas ($/Mcf)		**2.09**		2.77	*(25)*
NGLs ($/Bbl)		**69.63**		78.57	*(11)*
Oil ($/Bbl)		**78.65**		89.21	*(12)*
Total ($/Boe)		**23.82**		31.95	*(25)*
Netbacks ($ millions)		***($/Boe)***		*($/Boe)*	*% Change in $/Boe*
Petroleum and natural gas sales	**46.5**	***23.82***	54.7	*31.95*	*(25)*
Royalties	**(3.9)**	***(2.00)***	(5.3)	*(3.09)*	*(35)*
Operating expense and production tax	**(15.9)**	***(8.20)***	(21.3)	*(12.45)*	*(34)*
Transportation	**(5.7)**	***(2.90)***	(5.6)	*(3.29)*	*(12)*
Netback	**21.0**	***10.72***	22.5	*13.12*	*(18)*
Financial commodity contract settlements	**0.4**	***0.23***	(1.4)	*(0.84)*	*127*
Netback including financial commodity contract settlements	**21.4**	***10.95***	21.1	*12.28*	*(11)*

(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 six months ended June 30, 2012.

Paramount's sales volumes averaged 21,474 Boe/d in the second quarter of 2012 compared to 18,813 Boe/d in the first quarter, as the Musreau Refrig Facility operated near capacity after being re-commissioned in March. Valhalla production also increased following the commissioning of additional compression capacity. Second quarter NGLs sales volumes increased to 1,973 Bbl/d, including 1,200 Bbl/d of condensate.

Sales volumes in April increased to 23,000 Boe/d, the highest since Paramount spun-out Trilogy in 2005. Through May and June, throughput at the Musreau Refrig Facility was temporarily reduced to address increased liquids production from new wells brought-on through the facility. Liquids yields have since stabilized and liquids handling processes have been optimized, allowing processing levels to return to normal. Sales volumes were also impacted by the May disposition of United States properties producing approximately 900 Boe/d and by maintenance operations at a third party ethane extraction facility, which shut-in approximately 2,000 Boe/d of production at Valhalla for 15 days in May and reduced NGLs volumes in May and June.

Petroleum and natural gas sales revenue decreased by $8.2 million quarter over quarter because of a 25 percent decline in realized prices. Operating costs per Boe were 34 percent lower than in the first quarter, primarily due to the elimination of third party processing charges for volumes now processed through the Musreau Refrig Facility and higher Kaybob COU production. The sale of higher cost United States properties and higher first quarter seasonal maintenance costs in the Northern COU also contributed to the quarter over quarter decrease in operating costs.

Kaybob

	Second Quarter 2012		First Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	**66.3**		52.7		*26*
NGLs (Bbl/d)	**1,132**		821		*38*
Oil (Bbl/d)	**61**		65		*(6)*
Total (Boe/d)	**12,236**		9,675		*26*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**16.9**		40.4		*(58)*
Facilities and gathering	**23.0**		31.1		*(26)*
	39.9		71.5		*(44)*
	Gross	**Net**	Gross	Net	
Wells Drilled	**7**	**4.7**	6	4.5	

Second quarter sales volumes in the Kaybob COU averaged 12,236 Boe/d. The Musreau Refrig Facility was successfully re-commissioned in March, with Paramount's working interest share of second quarter volumes processed averaging approximately 60 percent. To date, the majority of production routed through the facility has been from horizontal Falher and earlier multi-zone Cretaceous vertical wells in which Paramount has a 50 percent working interest.

Production within the Kaybob COU remains constrained by available processing capacity, pending completion of facilities expansions at Musreau and Smoky. Paramount is working to increase its working interest share of volumes produced through available capacity by bringing on higher working interest wells. One (1.0 net) Montney formation well was brought-on production in early-August and a second 100 percent working interest well is planned to be brought-on later in the third quarter. Two (2.0 net) Montney wells are scheduled to be brought-on in the fourth quarter.

With the Musreau Refrig Facility on-stream throughout the second quarter, the Kaybob COU's operating costs decreased to approximately $5.00 per Boe, before accounting for the impact of third party processing income. The new facility provides significant savings to the Company through the elimination of third party processing fees.

Paramount submitted a $6 million insurance claim in the first quarter of 2012 related to the electrical failure at the Musreau Refrig Facility in the fourth quarter of 2011. The Company expects to receive a settlement in the second half of 2012.

Paramount received regulatory approval in July for its wholly-owned 200 MMcf/d deep cut facility at Musreau (the "Musreau Deep Cut Facility") and site preparation work has commenced. The project is proceeding on-time and on-budget and the procurement of major long lead-time equipment is complete. The Company has incurred total costs of approximately $45 million to June 30, 2012 and anticipates spending an additional $70 million during the second half of 2012. The facility is expected to be commissioned in the second half of 2013 at an estimated total cost of $180 million. The relatively minor incremental investment in deep cut facilities when compared to the cost of a similar sized refrigeration facility will add significant value to Paramount's natural gas production due to the price premium realized from the sale of additional NGLs volumes that would otherwise be sold as slightly higher heat content natural gas.

The current configuration of Company-operated Montney wells includes well site sweetening equipment and the use of chemicals to address sour gas production. 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 well site equipping costs by over $1 million and reduce ongoing operating costs. The Company is currently finalizing the design of the amine train and plans to begin ordering long lead-time components later in 2012 for a planned start-up in the first half of 2014. The addition of the amine train will not impact the commissioning of the Musreau Deep Cut Facility during the second half of 2013.

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 initiate the increase to 300 MMcf/d, which would bring the Company's total owned capacity in the plant to 60 MMcf/d. Work has commenced on the initial expansion / upgrade with orders being placed for long lead-time equipment and the establishment of a construction camp near the site.

During the second quarter, the Kaybob COU drilled four (2.7 net) Falher formation wells, two (1.0 net) Montney formation wells and one (1.0 net) directional multi-zone Cretaceous well. Three of these wells have been fracture stimulated and results have been consistent with expectations, further confirming the Company's well performance profiles. The Company has achieved lower per-well drilling costs in 2012 by optimizing drilling techniques, resulting in fewer drilling days per well, and by drilling from multi-well pads which reduces mobilization time and costs. Completion costs have also been falling as a result of lower rates for fracturing equipment.

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**		**Estimated Net Sales Volumes[1]**	
				First Month	**First Year**	**First Month**	**First Year**
	Gross	Net	($ millions)	(MMcf/d)	(MMcf/d)	(Boe/d)	(Boe/d)
Tied-in, capable of producing	5	2	–	14	7	3,000	1,400
Completed, awaiting tie-in	8	7	11	48	24	12,500	6,500
Drilled, awaiting completion	16	12	65	80	38	19,200	9,400
	29	21	76	142	69	34,700	17,300

(1) Based on processing through a deep cut facility

The Company plans to drill up to an additional 15 wells for the remainder of 2012, with more wells to be drilled in 2013 to continue building behind pipe production in advance of the completion of facilities expansions at Musreau and Smoky. Paramount continues to utilize its own facilities and third party processing capacity to maximize production while these expansions are in progress. In the interim, behind pipe wells will be produced where capacity is available.

Grande Prairie

	Second Quarter 2012		First Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	**21.5**		16.8		*28*
NGLs (Bbl/d)	**658**		596		*10*
Oil (Bbl/d)	**269**		391		*(31)*
Total (Boe/d)	**4,514**		3,792		*19*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**12.3**		31.4		*(61)*
Facilities and gathering	**6.5**		12.5		*(48)*
	18.8		43.9		*(57)*
	Gross	**Net**	Gross	Net	
Wells Drilled	**3**	**2.1**	5	3.4	

Second quarter sales volumes in the Grande Prairie COU increased 19 percent to 4,514 Boe/d compared to 3,792 Boe/d in the first quarter, as additional wells were brought-on production at Valhalla following the commissioning of the gathering and compression system expansion. Sales volumes were impacted by a disruption at a downstream third party ethane extraction facility, resulting in a 15 day shut-in at Valhalla and reduced NGLs volumes in May and June. The Company was able to partially mitigate the impact of the disruption by re-routing production through alternate facilities for a portion of the outage. The third party disruption was resolved at the end of June and production has been fully restored.

The Company drilled two (2.0 net) wells at Valhalla during the second quarter and expects to complete these wells in the second half of 2012. These wells, along with an additional four (2.3 net) wells drilled in the first quarter, are expected to be brought-on production in the second half of 2012.

At Karr-Gold Creek, surface equipment that had been ordered as part of a well performance enhancement program was delivered and installed on two (2.0 net) wells that had previously been completed but not placed on production. The wells were brought-on in April and the Company is continuing to evaluate the results.

Southern

	Second Quarter 2012		First Quarter 2012		% Change
Sales Volumes[(1)]					
Natural gas (MMcf/d)	**9.8**		11.0		*(11)*
NGLs (Bbl/d)	**169**		217		*(22)*
Oil (Bbl/d)	**1,250**		1,663		*(25)*
Total (Boe/d)	**3,059**		3,718		*(18)*
Exploration and Development Expenditures[(1)] ($ millions)					
Exploration, drilling, completions and tie-ins	**1.9**		4.4		*(57)*
Facilities and gathering	**0.7**		1.4		*(50)*
	2.6		5.8		*(55)*
	Gross	**Net**	Gross	Net	
Wells Drilled	–	–	1	0.5	

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

In May 2012, Paramount's wholly-owned subsidiary, Summit Resources, Inc. ("Summit"), closed the sale of all of its operated properties in North Dakota and all of its Montana properties for cash proceeds of approximately US$70 million. The disposition included approximately 900 Boe/d of production and approximately 38,000 (27,000 net) acres of land.

The transaction did not include Summit's Bakken / Three Forks lands in North Dakota with production of approximately 200 Boe/d and joint venture exploratory acreage. The Company is continuing to pursue the disposition of the remaining US properties.

Second quarter sales volumes in the Southern COU decreased mainly because of the US property disposition.

The Southern COU plans to drill three (2.5 net) wells in Harmattan in Southern Alberta during the second half of 2012 targeting liquids-rich natural gas.

Northern

	Second Quarter 2012		First Quarter 2012		% Change
Sales Volumes					
Natural gas (MMcf/d)	**8.6**		8.1		*6*
NGLs (Bbl/d)	**14**		18		*(22)*
Oil (Bbl/d)	**228**		267		*(15)*
Total (Boe/d)	**1,665**		1,628		*2*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	**0.6**		18.5		*(97)*
Facilities and gathering	**1.9**		2.3		*(17)*
	2.5		20.8		*(88)*
	Gross	**Net**	Gross	Net	
Wells Drilled	–	–	2	2.0	

Second quarter sales volumes in the Northern COU were unchanged from the first quarter of 2012. Processing disruptions at the Bistcho plant impacted second quarter volumes.

Paramount's first well at Birch in Northeast British Columbia was brought-on production in the second quarter and subsequently shut-in due to higher than expected liquids production. Modifications to surface equipment are underway and the well is expected to be re-started in the third quarter. The Company has 3 MMcf/d of raw gas processing capacity at Birch and will bring on two (2.0 net) additional wells as production from the initial well moderates. Production results from these wells will be evaluated over the coming months.

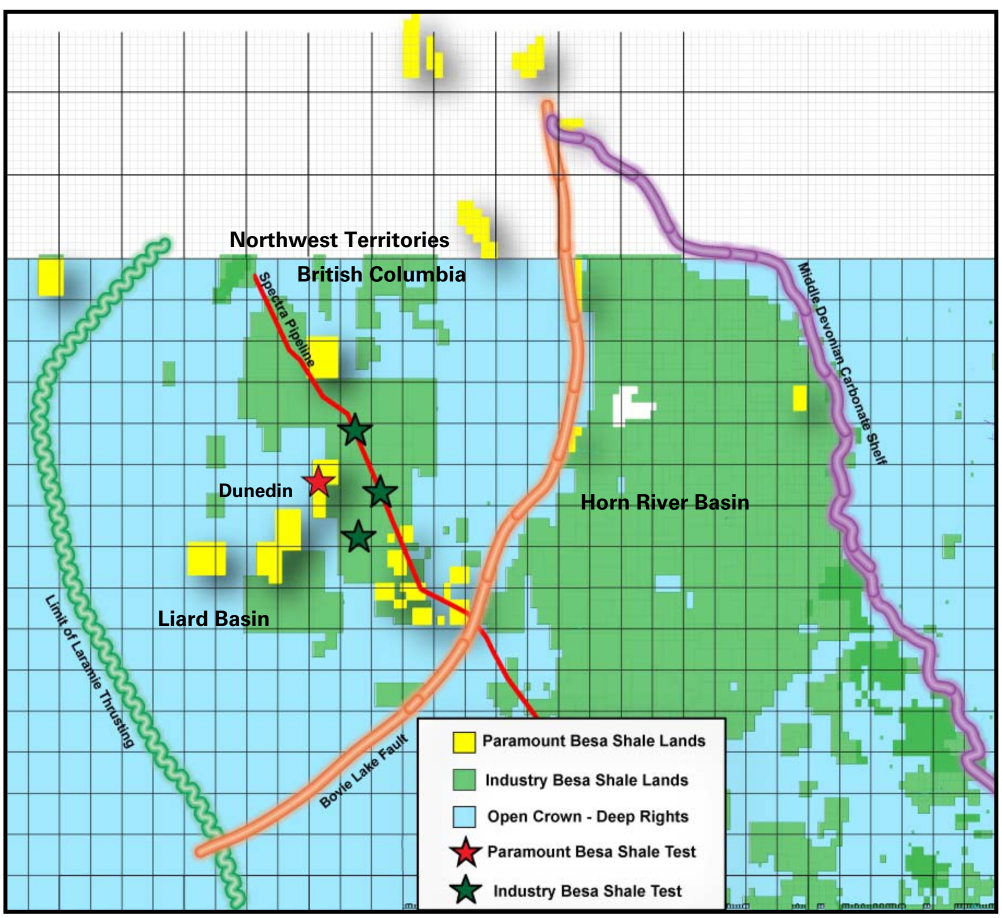
Strategic Investments

Cavalier Energy Inc. ("Cavalier") continued to build its management team during the second quarter of 2012. The team's efforts are focused on finalizing the 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 remains on schedule to submit this application in the fourth quarter of 2012 and anticipates first steam commencing 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 a vertical evaluation well at a winter access location at Dunedin in the first quarter before suspending operations due to warm weather. Paramount is evaluating further drilling plans for its shale gas lands for the 2012 / 2013 winter drilling season. Recently announced industry test results from prolific shale gas wells adjacent to Paramount's lands support the Company's internal estimates of the resource.

Besa River Shale Gas



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated August 8, 2012, should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the three and six months ended June 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.

SECOND QUARTER OVERVIEW

Principal Properties

- Average sales volumes increased 30 percent to 21,474 Boe/d in the second quarter of 2012 compared to 16,572 Boe/d in the same period in 2011; NGLs volumes increased by 31 percent.
- The Company's wholly-owned Musreau 45 MMcf/d refrigeration facility (the "Musreau Refrig Facility") has been operating near capacity since re-commissioning in March.
- Operating expenses per Boe decreased 21 percent to $8.20 from $10.40 in the second quarter of 2011 with higher Kaybob production, the re-commissioning of the Musreau Refrig Facility and the sale of higher cost US properties.
- Regulatory approval was received for the Musreau 200 MMcf/d deep cut facility and site preparation work has commenced.
- Advance drilling to build behind-pipe inventory for the deep cut facility expansions at Musreau and Smoky continued.
- In May, Paramount's wholly-owned subsidiary, Summit Resources, Inc., closed the sale of all of its operated properties in North Dakota and all of its Montana properties for cash proceeds of approximately US$70 million. The Company is continuing to pursue the disposition of the remaining US properties.

Strategic Investments

- The Company is currently evaluating drilling plans for its Liard Basin Besa River shale gas lands for the 2012/2013 winter drilling season.
- Cavalier Energy Inc. continued to focus on finalizing its regulatory application for the first 10,000 Bbl/d phase at the Hoole property, anticipated to be submitted in the fourth quarter of 2012.
- Fox Drilling continued the construction of two new triple-sized walking drilling rigs, expected to be operational in late-2012.

Corporate

- The revolving period and maturity date of the Company's $300 million bank credit facility (the "Existing Facility") were extended to October 31, 2012 and October 31, 2013, respectively, to provide for the evaluation of an unsolicited proposal for an expanded committed credit facility (the "Proposed Facility") from one of Paramount's lenders.
- The Proposed Facility would have a term extending into 2014 and provide additional funding capacity to complete construction of the Musreau deep cut facility and to drill additional wells.
- Corporate segment general and administrative costs per Boe decreased 13 percent in the second quarter to $2.09 from $2.40 in 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 June 30		Six months ended June 30	
	2012	2011	**2012**	2011
FINANCIAL				
Petroleum and natural gas sales	**46.5**	61.1	**101.2**	107.9
Funds flow from operations	**12.1**	23.4	**25.0**	37.3
per share – diluted ($/share)	**0.15**	0.29	**0.28**	0.48
Net income (loss)	**–**	12.2	**124.5**	0.3
per share – basic ($/share)	**–**	0.16	**1.46**	–
per share – diluted ($/share)[3]	**–**	(0.02)	**1.43**	–
Exploration and development expenditures	**66.4**	54.5	**208.6**	214.6
Investments in other entities – market value[4]			**611.4**	783.1
Total assets			**1,777.3**	1,714.5
Long-term debt			**405.1**	455.1
Net debt			**472.8**	514.1
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	**106.2**	77.7	**97.4**	68.3
NGLs (Bbl/d)	**1,973**	1,504	**1,813**	1,237
Oil (Bbl/d)	**1,808**	2,110	**2,097**	2,231
Total (Boe/d)	**21,474**	16,572	**20,144**	14,844
Net wells drilled (excluding oil sands evaluation)	**8**	8	**19**	20
Net oil sands evaluation wells drilled	**–**	1	**1**	27
FUNDS FLOW FROM OPERATIONS ($/Boe)				
Petroleum and natural gas sales	**23.82**	40.52	**27.62**	40.14
Royalties	**(2.00)**	(3.46)	**(2.51)**	(3.70)
Operating expense and production tax	**(8.20)**	(10.40)	**(10.18)**	(11.62)
Transportation	**(2.90)**	(3.52)	**(3.09)**	(3.50)
Netback	**10.72**	23.14	**11.84**	21.32
Financial commodity contract settlements	**0.23**	(0.47)	**(0.27)**	(0.36)
Netback including financial commodity contract settlements	**10.95**	22.67	**11.57**	20.96
General and administrative – corporate	**(2.09)**	(2.40)	**(1.94)**	(2.52)
General and administrative – strategic	**(0.71)**	(0.74)	**(0.83)**	(0.80)
Interest	**(4.01)**	(5.60)	**(4.15)**	(5.94)
Dividends from investments	**1.03**	1.68	**1.10**	2.14
Other	**1.01**	(0.08)	**1.05**	0.06
	6.18	15.53	**6.80**	13.90

(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) Per share – diluted ($/share) has been adjusted for the six months ended June 30, 2011 as result of changes to reflect discontinued operations accounting. See Paramount's unaudited Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2012.
(4) 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 June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Principal Properties	**(14.4)**	(8.2)	**(6.9)**	(23.9)
Strategic Investments	**(3.5)**	19.2	**149.6**	12.0
Corporate	**(18.7)**	(2.1)	**(34.8)**	(22.9)
Taxes – Continuing Operations	**5.7**	1.9	**(13.6)**	12.9
Discontinued Operations, net of tax	**30.9**	1.4	**30.2**	22.2
Net Income	**–**	12.2	**124.5**	0.3

Net income for the three months ended June 30, 2012 was $12.2 million lower than in the same period of 2011. Significant factors contributing to the change are shown below:

	Three months ended June 30
Net Income – 2011	12.2
Higher stock-based compensation expense	(18.2)
Lower other income, mainly because 2011 included gains related to previous investments in NuLoch Resources Inc. and ProspEx Resources Ltd.	(14.9)
Lower petroleum and natural gas sales because of a 40 percent decline in prices	(9.8)
Higher income from discontinued operations, mostly due to the recognition of a gain on the sale of United States properties in May 2012	29.5
Other	1.2
Net Income – 2012	**–**

Net income for the six months ended June 30, 2012 was $124.2 million higher than in the same period of 2011. Significant factors contributing to the change are shown below:

	Six months ended June 30
Net Income – 2011	0.3
Gain within the Strategic Investments business segment on the sale of 5.0 million non-voting shares of Trilogy in January 2012	157.2
Higher gain on sale of property plant and equipment related to continuing operations	26.1
Higher income tax expense	(26.5)
Higher stock-based compensation expense	(13.9)
Lower other income, mainly because 2011 included gains related to previous investments in NuLoch Resources Inc. and ProspEx Resources Ltd.	(13.7)
Other	(5.0)
Net Income – 2012	**124.5**

Funds Flow From Operations [1, 2]

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Cash from (used in) operating activities	**11.5**	(9.9)	**25.6**	29.9
Change in non-cash working capital	**(2.5)**	32.7	**(9.9)**	(1.4)
Geological and geophysical expenses	**2.0**	1.2	**4.4**	4.1
Asset retirement obligations settlements	**1.1**	(0.6)	**4.9**	4.7
Funds flow from operations	**12.1**	23.4	**25.0**	37.3
Funds flow from operations ($/Boe)	**6.18**	15.53	**6.80**	13.90

(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 $11.3 million in the second quarter of 2012 million compared to the same period in 2011, primarily as a result of a 41 percent decrease in average realized petroleum and natural gas prices and the sale of oil producing properties in North Dakota and Montana, partially offset by the impact of a 35 percent increase in continuing operations sales volumes.

Year-to-date funds flow from operations decreased by $12.3 million in 2012 compared to 2011, primarily as a result of a 32 percent decrease in average realized petroleum and natural gas prices, the sale of properties in North Dakota and Montana and increased operating expenses, partially offset by the impact of higher sales volumes.

DISCONTINUED OPERATIONS

In May 2012, Summit 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 table reconciles 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 June 30, 2012						Three months ended June 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	20.3	–	20.3	2.09	–	2.09	30.7	0.1	30.8	4.36	4.40	4.36
NGLs	12.5	–	12.5	69.76	31.14	69.63	11.1	0.1	11.2	82.18	65.62	81.95
Oil	9.5	3.3	12.8	81.79	70.86	78.65	10.2	8.0	18.2	101.72	86.75	94.58
Royalty and sulphur revenue	0.9	–	0.9	–	–	–	0.9	–	0.9	–	–	–
Petroleum and natural gas sales	43.2	3.3	46.5	22.65	69.96	23.82	52.9	8.2	61.1	37.53	83.77	40.52
Royalties	(3.3)	(0.5)	(3.8)	(1.75)	(11.83)	(2.00)	(3.9)	(1.3)	(5.2)	(2.74)	(13.80)	(3.46)
Operating expense and production tax	(15.1)	(0.9)	(16.0)	(7.92)	(19.46)	(8.20)	(13.4)	(2.3)	(15.7)	(9.53)	(22.95)	(10.40)
Transportation	(5.7)	–	(5.7)	(2.98)	–	(2.90)	(5.3)	–	(5.3)	(3.77)	–	(3.52)
Netback	19.1	1.9	21.0	10.00	38.67	10.72	30.3	4.6	34.9	21.49	47.02	23.14
Financial commodity contract settlements	0.4	–	0.4	0.23	–	0.23	(0.7)	–	(0.7)	(0.50)	–	(0.47)
Netback including financial commodity contract settlements	19.5	1.9	21.4	10.23	38.67	10.95	29.6	4.6	34.2	20.99	47.02	22.67
General and administrative	(5.5)	–	(5.5)	(2.88)	–	(2.80)	(4.7)	–	(4.7)	(3.35)	–	(3.14)
Interest	(7.8)	–	(7.8)	(4.11)	–	(4.01)	(8.4)	–	(8.4)	(5.99)	–	(5.60)
Dividends from investments	2.0	–	2.0	1.05	–	1.03	2.5	–	2.5	1.80	–	1.68
Other	2.0	–	2.0	1.02	–	1.01	(0.3)	0.1	(0.2)	(0.19)	1.49	(0.08)
Funds flow from operations	10.2	1.9	12.1	5.31	38.67	6.18	18.7	4.7	23.4	13.26	48.51	15.53
DD&A / Accretion	(38.5)	–	(38.5)				(34.5)	(2.2)	(36.7)			
Gain (loss) on sale of PP&E	(0.2)	50.8	50.6				(0.4)	–	(0.4)			
Other	(8.1)	(0.1)	(8.2)				25.1	–	25.1			
Income tax (expense) recovery	5.7	(21.7)	(16.0)				1.9	(1.1)	0.8			
Net Income (loss)	(30.9)	30.9	–				10.8	1.4	12.2			

[1] Natural gas revenue shown per Mcf.

	Six months ended June 30, 2012						Six months ended June 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	42.4	0.1	42.5	2.40	2.31	2.40	52.5	0.2	52.7	4.26	4.48	4.26
NGLs	24.0	0.3	24.3	73.88	62.67	73.71	17.5	0.3	17.8	79.79	65.22	79.47
Oil	21.3	11.0	32.3	86.08	82.06	84.66	21.4	14.0	35.4	90.75	83.30	87.65
Royalty and sulphur revenue	2.1	–	2.1	–	–	–	2.0	–	2.0	–	–	–
Petroleum and natural gas sales	89.8	11.4	101.2	25.49	79.53	27.62	93.4	14.5	107.9	37.24	80.60	40.14
Royalties	(7.3)	(1.9)	(9.2)	(2.06)	(13.45)	(2.51)	(7.5)	(2.4)	(9.9)	(3.00)	(13.39)	(3.70)
Operating expense and production tax	(33.9)	(3.5)	(37.4)	(9.62)	(23.90)	(10.18)	(26.9)	(4.3)	(31.2)	(10.75)	(23.80)	(11.62)
Transportation	(11.3)	–	(11.3)	(3.21)	–	(3.09)	(9.4)	–	(9.4)	(3.75)	–	(3.50)
Netback	37.3	6.0	43.3	10.60	42.18	11.84	49.6	7.8	57.4	19.74	43.41	21.32
Financial commodity contract settlements	(1.0)	–	(1.0)	(0.28)	–	(0.27)	(1.0)	–	(1.0)	(0.39)	–	(0.36)
Netback including financial commodity contract settlements	36.3	6.0	42.3	10.32	42.18	11.57	48.6	7.8	56.4	19.35	43.41	20.96
General and administrative	(10.1)	–	(10.1)	(2.88)	–	(2.77)	(8.9)	–	(8.9)	(3.56)	–	(3.32)
Interest	(15.2)	–	(15.2)	(4.32)	–	(4.15)	(16.0)	–	(16.0)	(6.37)	–	(5.94)
Dividends from investments	4.0	–	4.0	1.14	–	1.10	5.7	–	5.7	2.29	–	2.14
Other	3.5	0.5	4.0	0.99	2.57	1.05	(0.1)	0.2	0.1	(0.04)	1.05	0.06
Funds flow from operations	18.5	6.5	25.0	5.25	44.75	6.80	29.3	8.0	37.3	11.67	44.46	13.90
DD&A / Accretion	(70.6)	(1.4)	(72.0)				(61.9)	(4.8)	(66.7)			
Gain (loss) on sale of PP&E	28.2	50.8	79.0				2.1	37.1	39.2			
Other	131.8	(0.2)	131.6				(4.3)	(2.8)	(7.1)			
Income tax (expense) recovery	(13.6)	(25.5)	(39.1)				12.9	(15.3)	(2.4)			
Net Income (loss)	94.3	30.2	124.5				(21.9)	22.2	0.3			

[1] Natural gas revenue shown per Mcf.

PRINCIPAL PROPERTIES

Netback and Segment (Loss) – Continuing Operations

	Three months ended June 30				Six months ended June 30			
	2012		2011		**2012**		2011	
		($/Boe)		*($/Boe)*		***($/Boe)***		*($/Boe)*
Petroleum and natural gas sales	**43.2**	***22.65***	52.9	*37.53*	**89.8**	***25.49***	93.4	37.24
Royalties	**(3.3)**	***(1.75)***	(3.9)	*(2.74)*	**(7.3)**	***(2.06)***	(7.5)	(3.00)
Operating expense	**(15.1)**	***(7.92)***	(13.4)	*(9.53)*	**(33.9)**	***(9.62)***	(26.9)	(10.75)
Transportation	**(5.7)**	***(2.98)***	(5.3)	*(3.77)*	**(11.3)**	***(3.21)***	(9.4)	(3.75)
Netback	**19.1**	***10.00***	30.3	*21.49*	**37.3**	***10.60***	49.6	19.74
Financial commodity contract settlements	**0.4**	***0.23***	(0.7)	*(0.50)*	**(1.0)**	***(0.28)***	(1.0)	(0.39)
Netback including financial commodity contract settlements	**19.5**	***10.23***	29.6	*20.99*	**36.3**	***10.32***	48.6	19.35
Other principal property items (see below)	**(33.9)**		(37.8)		**(43.2)**		(72.5)	
Segment loss	**(14.4)**		(8.2)		**(6.9)**		(23.9)	

Petroleum and Natural Gas Sales – Continuing Operations

	Three months ended June 30			Six months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Natural gas	**20.3**	30.7	(34)	**42.4**	52.5	(19)
NGLs	**12.5**	11.1	13	**24.0**	17.5	37
Oil	**9.5**	10.2	(7)	**21.3**	21.4	–
Royalty and sulphur revenue	**0.9**	0.9	–	**2.1**	2.0	5
	43.2	52.9	(18)	**89.8**	93.4	(4)

Petroleum and natural gas sales in the second quarter of 2012 were $43.2 million, a decrease of $9.7 million from the second quarter of 2011. Year-to-date petroleum and natural gas sales were $89.8 million in 2012, a decrease of $3.6 million compared to the same period in 2011. The decreases were primarily due to the impact of lower realized prices, partially offset by higher 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 June 30, 2011	30.7	11.1	10.2	0.9	52.9
Effect of changes in prices	(21.8)	(2.2)	(2.3)	–	(26.3)
Effect of changes in sales volumes	11.4	3.6	1.6	–	16.6
Change in royalty and sulphur	–	–	–	–	–
Three months ended June 30, 2012	**20.3**	**12.5**	**9.5**	**0.9**	**43.2**

	Natural gas	NGLs	Oil	Royalty and sulphur	Total
Six months ended June 30, 2011	52.5	17.5	21.4	2.0	93.4
Effect of changes in prices	(32.9)	(1.9)	(1.2)	–	(36.0)
Effect of changes in sales volumes	22.8	8.4	1.1	–	32.3
Change in royalty and sulphur	–	–	–	0.1	0.1
Six months ended June 30, 2012	**42.4**	**24.0**	**21.3**	**2.1**	**89.8**

Sales Volumes

	Three months ended June 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	**66.3**	43.5	52	**1,132**	847	34	**61**	102	(40)	**12,236**	8,204	49
Grande Prairie	**21.5**	12.6	71	**658**	560	18	**269**	448	(40)	**4,514**	3,108	45
Southern	**9.8**	10.3	(5)	**162**	64	153	**731**	476	54	**2,531**	2,262	12
Northern	**8.6**	11.0	(22)	**14**	7	100	**228**	83	175	**1,665**	1,927	(14)
Continuing	**106.2**	77.4	37	**1,966**	1,478	33	**1,289**	1,109	16	**20,946**	15,501	35
Discontinued	–	0.3	(100)	7	26	(73)	519	1,001	(48)	528	1,071	(51)
Total	106.2	77.7	37	1,973	1,504	31	1,808	2,110	(14)	21,474	16,572	30

Second quarter natural gas sales volumes increased 28.8 MMcf/d or 37 percent to 106.2 MMcf/d in 2012 compared to 77.4 MMcf/d in 2011. Second quarter NGLs sales volumes increased 33 percent to 1,966 Bbl/d in 2012 compared to 1,478 Bbl/d in the same period of the prior year. The increases in natural gas and NGLs sales volumes were primarily related to new well production from the Company's 2011 / 2012 drilling program at Musreau and Resthaven within the Kaybob COU and at Valhalla within the Grande Prairie COU and wells added through the May 2011 acquisition of ProspEx Resources Ltd. ("ProspEx"). The Company's new 45 MMcf/d natural gas refrigeration processing facility at Musreau was re-commissioned during March, allowing the Company to begin producing incremental volumes that had been shut-in due to capacity constraints since the fourth quarter of 2011. In May, a disruption at a downstream third party ethane extraction facility resulted in the Company's production at Valhalla being shut-in for 15 days and NGLs sales being reduced during May and June. The disruption was resolved in June 2012 and the Company's production at Valhalla was fully restored.

Oil sales volumes increased mainly due to new well production in the Southern COU, primarily associated with the remaining United States joint venture lands and at Enchant in Southern Alberta.

	Six months ended June 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	**59.5**	35.7	67	**976**	692	41	**63**	99	(36)	**10,956**	6,732	63
Grande Prairie	**19.2**	12.8	50	**627**	464	35	**330**	437	(24)	**4,153**	3,032	37
Southern	**10.3**	9.5	8	**165**	43	284	**715**	528	35	**2,595**	2,141	21
Northern	**8.3**	10.1	(18)	**17**	10	70	**247**	239	3	**1,647**	1,943	(15)
Continuing	**97.3**	68.1	43	**1,785**	1,209	48	**1,355**	1,303	4	**19,351**	13,848	40
Discontinued	0.1	0.2	(50)	28	28	–	742	928	(20)	793	996	(20)
Total	97.4	68.3	43	1,813	1,237	47	2,097	2,231	(6)	20,144	14,844	36

Year-to-date natural gas sales volumes increased 29.2 MMcf/d or 43 percent to 97.3 MMcf/d in 2012 compared to 68.1 MMcf/d in 2011. Year-to-date NGLs sales volumes increased 48 percent to 1,785 Bbl/d in 2012 compared to 1,209 Bbl/d in the same period of 2011. The increases in natural gas and NGLs sales volumes were primarily related to higher production at Musreau and Resthaven in the Kaybob COU and at Valhalla in the Grande Prairie COU.

Production within the Kaybob COU remains constrained by available 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 June 30			Six months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Natural gas ($/Mcf)	**2.09**	4.36	(52)	**2.40**	4.26	(44)
NGLs ($/Bbl)	**69.76**	82.18	(15)	**73.88**	79.79	(7)
Oil ($/Bbl)	**81.79**	101.72	(20)	**86.08**	90.75	(5)
Total ($/Boe)	**22.65**	37.53	(40)	**25.49**	37.24	(32)

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 June 30			Six months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Natural Gas						
AECO (Cdn$/GJ)	**1.74**	3.55	(51)	**2.06**	3.56	(42)
New York Mercantile Exchange (Henry Hub US$/MMbtu)	**2.22**	4.32	(49)	**2.48**	4.22	(41)
Crude Oil						
Edmonton par (Cdn$/Bbl)	**84.39**	102.65	(18)	**88.54**	95.54	(7)
West Texas Intermediate (US$/Bbl)	**93.49**	102.56	(9)	**98.21**	98.33	–
Foreign Exchange						
$Cdn / 1 $US	**1.010**	0.968	4	**1.006**	**0.977**	3

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 June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Oil contracts	**0.4**	(0.7)	**(1.0)**	(1.0)

At June 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	**1.0**	July – December 2012
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $91.50/Bbl	**1.0**	July – December 2012
			$ 2.0	

Royalties – Continuing Operations

	Three months ended June 30				Six months ended June 30			
	2012	***Rate***	2011	*Rate*	**2012**	***Rate***	2011	*Rate*
Royalties	**3.3**	***7.9%***	3.9	*7.4%*	**7.3**	***8.3%***	7.5	*8.2%*

Second quarter 2012 royalties decreased $0.6 million to $3.3 million compared to $3.9 million in 2011. Year-to-date royalties decreased $0.2 million to $7.3 million in 2012 compared to $7.5 million in 2011. Royalties expense decreased because of lower petroleum and natural gas sales revenue.

Operating Expense – Continuing Operations

	Three months ended June 30			Six months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Operating expense	**15.1**	13.4	13	**33.9**	26.9	26

Operating expense in the second quarter of 2012 increased $1.7 million or 13 percent to $15.1 million compared to $13.4 million in the same quarter in 2011. Year-to-date operating expense increased $7.0 million or 26 percent to $33.9 million in 2012 compared to $26.9 million in 2011. The increase in operating expense was primarily related to higher production from new wells in the Kaybob, Grande Prairie and Southern COU's.

Operating expenses per Boe decreased 17 percent to $7.92 for the second quarter ended June 30, 2012 and 11 percent to $9.62 for year-to-date 2012. Operating costs per Boe were lower in 2012 as a result of lower third party processing fees, with a portion of Kaybob 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 June 30			Six months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Transportation expense	**5.7**	5.3	7	**11.3**	9.4	20

Second quarter transportation expense increased $0.4 million to $5.7 million in 2012 compared to $5.3 million in 2011 as a result of a 35 percent increase in sales volumes. Year-to-date transportation expense increased to $11.3 million in 2012 compared to $9.4 million in 2011 as a result of a 40 percent increase in sales volumes. Transportation expense per Boe decreased 21 percent to $2.98 in the second quarter of 2012 compared to $3.77 in 2011. Year-to-date transportation expense decreased 14 percent to $3.21 per Boe in 2012 compared to $3.75 per Boe in 2011.

Other Principal Property Items – Continuing Operations

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Commodity contracts – net of settlements	**(6.8)**	(3.9)	**(4.6)**	(0.8)
Depletion and depreciation	**36.1**	31.9	**65.8**	56.5
Exploration and evaluation	**3.6**	7.2	**8.1**	15.4
(Gain) loss on sale of property, plant and equipment	**0.2**	0.4	**(28.2)**	(2.1)
Accretion of asset retirement obligations	**1.7**	2.3	**3.3**	4.5
Other	**(0.9)**	(0.1)	**(1.2)**	(1.0)
Total	**33.9**	37.8	**43.2**	72.5

Second quarter depletion and depreciation expense increased to $36.1 million ($18.92 per Boe) in 2012 compared to $31.9 million ($22.60 per Boe) in the prior year due to higher production volumes. Year-to-date depletion and depreciation expense increased to $65.8 million ($18.67 per Boe) compared to $56.5 million ($22.54 per Boe) in the prior year. 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. Second quarter exploration and evaluation expense included expired lease costs of $1.6 million ($5.4 million - 2011) and year-to-date expired lease costs of $4.0 million ($10.0 million – 2011).

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

STRATEGIC INVESTMENTS

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Income (loss) from equity – accounted investments	**(0.5)**	1.2	**156.0**	–
Drilling rig revenue	**3.1**	1.6	**6.5**	3.2
Drilling rig expense	**(2.0)**	(0.5)	**(3.8)**	(2.3)
General and administrative	**(1.4)**	(1.1)	**(3.0)**	(2.1)
Stock-based compensation	**(1.4)**	3.1	**(2.8)**	0.1
Interest	**(0.4)**	(0.3)	**(0.7)**	(0.6)
Other	**(0.9)**	15.2	**(2.6)**	13.7
Segment Income (Loss)	**(3.5)**	19.2	**149.6**	12.0

Income from equity-accounted investments for the six months ended June 30, 2012 was $156.0 million compared to $0.0 million in the prior year. In January 2012, Paramount closed the sale of 5.0 million of its non-voting Trilogy Energy Corp. ("Trilogy") shares for net cash proceeds of $181.7 million, recognizing a gain of $157.2 million.

The $0.5 million loss from equity-accounted investments for the second quarter of 2012 included equity losses of $0.7 million partially offset by a dilution gain of $0.2 million related to shares issued by Trilogy. Second quarter 2011 income from equity-accounted investments included $0.4 million of equity earnings and a dilution gain of $0.8 million related to shares issued by Trilogy.

General and administrative costs related to the Company’s Strategic Investments business segment increased primarily because of higher staff and office costs related to Cavalier Energy.

Strategic Investments at June 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]	
	June 30, 2012	December 31, 2011	**June 30, 2012**	December 31, 2011
Trilogy [2]	**88.7**	118.3	**450.3**	907.1
MEG	**135.0**	153.8	**135.0**	153.8
MGM Energy	**1.2**	1.7	**9.6**	10.6
Other[3]	**16.5**	5.8	**16.5**	5.8
Total	**241.4**	279.6	**611.4**	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

Cavalier Energy continued to build its management team during the second quarter of 2012. The team's efforts are focused on finalizing the 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 remains on schedule to submit this application in the fourth quarter of 2012 and anticipates first steam commencing 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 a vertical evaluation well at a winter access location at Dunedin in the first quarter before suspending operations due to warm weather. The Company is evaluating further drilling plans for its shale gas lands for the 2012 / 2013 winter drilling season. Exploratory wells adjacent to the Company's lands have been drilled by another operator.

Drilling Subsidiaries

Fox Drilling's two Canadian-based drilling rigs drilled on Company lands in Alberta throughout the second quarter of 2012. Paramount Drilling's rig in the United States drilled under contract to a third party through mid-June.

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

CORPORATE

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Interest	**7.6**	8.3	**14.9**	15.6
Stock-based compensation	**6.2**	(7.5)	**11.8**	0.8
General and administrative	**4.1**	3.6	**7.1**	6.8
Acquisition transaction costs	**–**	1.0	**–**	1.0
Depreciation	**0.1**	0.1	**0.1**	0.2
Foreign exchange	**0.7**	(3.4)	**0.9**	(1.5)
	18.7	2.1	**34.8**	22.9

Second quarter corporate segment costs increased to $18.7 million in 2012 compared to $2.1 million in 2011 mainly due to a $13.7 million increase in stock-based compensation expense and a $4.1 million increase in foreign exchange 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, which resulted in the Company recording a stock-based compensation recovery of $7.5 million for the three months ended June 30, 2011. For further details of this change, readers are referred to Paramount's audited consolidated financial statements for the year ended December 31, 2011.

Paramount's second quarter corporate general and administrative expense per Boe decreased to $2.09 in 2012 from $2.40 in the prior year. For the six months ended June 30, 2012 corporate general and administrative expense was $1.94 per Boe compared to $2.52 per Boe in 2011. The Company has been able to control administrative costs while increasing production.

EXPLORATION AND CAPITAL EXPENDITURES

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Geological and geophysical	**1.7**	1.1	**3.1**	3.1
Drilling, completion and tie-ins	**30.5**	36.1	**123.4**	131.0
Facilities and gathering	**34.2**	17.3	**82.1**	80.5
Exploration and development expenditures(1)	**66.4**	54.5	**208.6**	214.6
Land and property acquisitions	**1.0**	9.4	**3.7**	20.2
Principal Properties	**67.4**	63.9	**212.3**	234.8
Strategic Investments(2)	**7.5**	1.8	**45.5**	18.8
Corporate	**0.1**	–	**0.2**	–
	75.0	65.7	**258.0**	253.6

(1) Exploration and development expenditures for the three and six months ended June 30, 2012 include $1.2 million and $2.8 million of capitalized interest, respectively (2011 all periods-nil).
(2) Strategic Investments for the six months ended June 30, 2012 includes $7.0 million in respect of the purchase of undeveloped land.

Exploration and development expenditures in the second quarter of 2012 were $66.4 million compared to $54.5 million in 2011. Year-to-date exploration and development expenditures in 2012 were $208.6 million compared to $214.6 million in the same period of 2011. Current year drilling and completion costs were focused on new wells at Musreau, Smoky and Resthaven in the Kaybob COU, at Valhalla in the Grande Prairie COU and at Birch in the Northern COU. Facilities and gathering expenditures focused on the design work and procurement of long-lead time items for the new 200 MMcf/d deep cut facility at Musreau and the expansion of gathering and compression capacity to 28 MMcf/d at Valhalla.

The Company received regulatory approval in July 2012 for its wholly-owned 200 MMcf/d deep cut facility at Musreau (the "Musreau Deep Cut Facility") and site preparation work has commenced. The Company has incurred costs of $43.6 million to June 30, 2012 in connection with the expansion and anticipates spending an additional $70 million during the second half of 2012. The Musreau Deep Cut Facility is expected to be commissioned in the second half of 2013 at an estimated total cost of $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 well site equipping costs and reduce ongoing operating costs. The Company is currently finalizing the design of the amine train and plans to begin ordering long lead-time components later in 2012 for a planned start-up during the first half of 2014.

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. Work has commenced on the initial expansion / upgrade with orders being placed for long-lead time equipment and the establishment of a construction camp near the site.

Strategic investments capital expenditures in 2012 include $17.0 million related to drilling the Company's first vertical evaluation shale gas well at Dunedin in Northeast British Columbia, $16.0 million related to the construction of two triple-sized walking drilling rigs and $12.5 million related to Cavalier Energy, including $7.0 million of undeveloped land.

Paramount submitted an insurance claim in the first quarter of 2012 related to the electrical failure at its new Musreau refrigeration facility in the fourth quarter of 2011. The Company is working with insurers to resolve its $6 million claim.

Wells drilled are as follows:

	Three months ended June 30				**Six months ended June 30**			
	2012		2011		**2012**		2011	
(wells drilled)	**Gross**[(1)]	**Net**[(2)]	Gross[(1)]	Net[(2)]	**Gross**[(1)]	**Net**[(2)]	Gross[(1)]	Net[(2)]
Gas	**10**	**8**	8	6	**24**	**18**	23	15
Oil	**–**	**–**	5	2	**1**	**1**	11	5
Oil sands evaluation	**–**	**–**	1	1	**1**	**1**	28	27
Dry and abandoned	**–**	**–**	–	–	**–**	**–**	–	–
Total	**10**	**8**	14	9	**26**	**20**	62	47

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

OUTLOOK

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

Year-to-date exploration and development spending is approximately $210 million. Planned spending of $265 million for the remainder of the year will be focused in the Kaybob Deep Basin development, where $85 million will be invested in the Musreau and Smoky deep cut facilities and drilling will continue in order to build an inventory of wells to feed the expansions. By year-end 2012, Paramount expects to have an inventory of approximately 34 wells awaiting the commissioning of these new facilities.

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

Sales volumes are expected to increase during the remainder of the year as new wells are brought-on production and Paramount's working interest share of volumes produced through available capacity in the Kaybob COU increases. The Company expects its 2012 exit rate will be approximately 26,000 Boe/d and that sales volumes thereafter will range between 25,000 Boe/d and 27,000 Boe/d until the Musreau Deep Cut Facility is fully commissioned in the second half of 2013. Sales volumes are expected to more than double once the Musreau Deep Cut Facility and the Smoky Deep Cut Facility are fully operational in 2014.

LIQUIDITY AND CAPITAL RESOURCES

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

	June 30, 2012	December 31, 2011	Change %
Working capital deficit[1]	**63.9**	82.0	(22)
Credit facility	**38.9**	61.4	(37)
Senior Notes[2]	**370.0**	370.0	–
Net debt[3]	**472.8**	513.4	(8)
Share capital	**812.8**	810.8	–
Accumulated earnings (deficit)	**20.9**	(103.6)	120
Reserves	**104.0**	116.7	(11)
Total Capital	**1,410.5**	1,337.3	5

[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 (June 30, 2012 – $nil, December 31, 2011 – $5.9 million).

[2] Excludes unamortized issue premiums and financing costs.

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

Working Capital

Paramount's working capital deficit at June 30, 2012 was $63.9 million compared to $82.0 million at December 31, 2011. The working capital deficit at June 30, 2012 included $82.4 million of accounts payable and accrued liabilities, $32.2 million of accounts receivable, $26.8 million in demand facility debt and $11.0 million of cash and cash equivalents. The working capital deficit decreased from year-end largely due to proceeds from the sale of 5.0 million Trilogy shares, the sale of non-core petroleum and natural gas properties, including in the United States, and funds flow from operations. These reductions were partially offset by capital spending and credit facility repayments of $22.5 million.

Paramount has realized approximately $295 million in aggregate cash proceeds in 2012 from investment and property dispositions, including the sale 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 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, 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 $10.1 million have been made to June 30, 2012. Unless demanded by the bank, annual scheduled principal repayments on Drilling Rig Loan I are $2.5 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 June 30, 2012, $6.5 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 June 30, 2012 is $51.1 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 six months ended June 30, 2012 was 4.4 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 June 30, 2012, no amounts have been drawn on the Cavalier Facility.

Bank Credit Facility

In the course of renewing its $300 million Existing Facility in the second quarter of 2012, the Company received an unsolicited proposal from one of its lenders to provide an expanded committed credit facility that would replace the Existing Facility.

The Proposed Facility would have a term extending into 2014 and provide additional funding capacity to complete construction of the Musreau deep cut facility and to drill additional wells.

In order to provide sufficient time for Paramount and its lenders to perform due diligence and negotiate the terms of the Proposed Facility, the revolving period and maturity date of the Existing Facility were extended to October 31, 2012 and October 31, 2013, respectively. All other terms of the Existing Facility remain unchanged.

At June 30, 2012, the amount drawn on the Existing Facility was $38.9 million (December 31, 2011 - $61.4 million). Paramount had undrawn letters of credit outstanding at June 30, 2012 totaling $26.2 million that reduce the amount available to the Company.

Share Capital

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

At August 3, 2012, Paramount had 85,572,174 Common Shares and 5,674,550 Paramount Options outstanding, of which 1,775,318 are exercisable.

QUARTERLY INFORMATION

	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales –	**43.2**	46.6	56.2	63.9	52.9	40.4	39.4	38.4
Petroleum and natural gas sales – Discontinued	**3.3**	8.1	7.1	6.6	8.2	6.4	6.6	6.5
Petroleum and natural gas sales	**46.5**	54.7	63.3	70.5	61.1	46.8	46.0	44.9
Funds flow from operations – Continuing	**10.2**	8.9	22.5	29.8	18.7	10.6	18.0	21.1
Funds flow from operations – Discontinued	**1.9**	3.9	3.6	3.0	4.7	3.3	3.3	3.0
Funds flow from operations	**12.1**	12.8	26.1	32.8	23.4	13.9	21.3	24.1
Total per share – diluted ($/share)	**0.15**	0.15	0.33	0.42	0.29	0.19	0.29	0.33
Income (loss) – Continuing	**(30.9)**	125.1	(210.8)	(23.6)	10.8	(32.7)	(107.5)	6.5
Continuing per share – basic ($/share)	**(0.36)**	1.46	(2.55)	(0.30)	0.14	(0.44)	(1.46)	0.09
Continuing per share – diluted ($/share)	**(0.36)**	1.43	(2.55)	(0.30)	(0.04)	(0.44)	(1.46)	0.09
Net Income (loss)	–	124.5	(209.9)	(22.4)	12.2	(11.9)	(106.3)	6.9
per share – basic ($/share)	–	1.46	(2.54)	(0.28)	0.16	(0.16)	(1.44)	0.09
per share – diluted ($/share)	–	1.42	(2.54)	(0.28)	(0.02)	(0.16)	(1.44)	0.09

	2012	2011				2010		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales volumes								
Natural gas (MMcf/d)	**106.2**	88.3	91.2	97.5	77.4	58.5	60.1	62.5
NGLs (Bbl/d)	**1,966**	1,604	1,595	2,024	1,478	938	995	1,045
Oil (Bbl/d)	**1,289**	1,421	1,497	1,425	1,109	1,497	1,413	1,362
Total Continuing (Boe/d)	**20,946**	17,755	18,294	19,704	15,501	12,176	12,436	12,831
Discontinued (Boe/d)	**528**	1,058	929	1,003	1,071	921	1,025	1,136
Total (Boe/d)	**21,474**	18,813	19,223	20,707	16,572	13,097	13,461	13,967
Average realized price								
Natural gas ($/Mcf)	**2.09**	2.77	3.62	4.12	4.36	4.05	4.06	4.03
NGLs ($/Bbl)	**69.76**	78.92	77.98	81.22	82.18	75.96	74.24	58.44
Oil ($/Bbl)	**81.79**	89.97	97.02	82.13	101.72	83.66	78.62	71.02
Continuing ($/Boe)	**22.65**	28.84	33.38	35.23	37.53	36.92	35.22	32.57
Discontinued ($/Boe)	**69.96**	84.20	83.45	72.34	83.77	75.09	70.93	61.94
Total ($/Boe)	**23.82**	31.95	35.80	37.03	40.52	39.67	37.94	34.96

Significant Items Impacting Quarterly Results

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

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

ADVISORIES

FORWARD-LOOKING INFORMATION

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "estimate", "expect", "plan", "intend", "propose", or similar words suggesting future outcomes or an outlook. Forward looking information in this document includes, but is not limited to:

- expected production and sales volumes and the timing thereof;
- planned exploration and development expenditures and strategic investment expenditures and the timing thereof;
- exploration and development potential, plans and strategies and the anticipated costs, timing and results thereof;
- budget allocations and capital spending flexibility;
- availability of facilities to process and transport natural gas production;
- the anticipated costs, scope and timing of proposed new facilities and expansions to existing facilities and the expected capacity and utilization of such facilities;
- the anticipated incremental benefit provided by a deep cut facility over a refrigeration facility;
- the timing of the anticipated development of Paramount's oil sands, carbonate bitumen and shale gas assets;
- ability to fulfill future pipeline transportation commitments;
- the anticipated costs and completion date of the two new triple-sized walking drilling rigs;
- business strategies and objectives;
- sources of and plans for financing;
- the outcome of diligence reviews and negotiations concerning the Proposed Facility, including the size, timing and terms thereof;
- acquisition and disposition plans;
- operating and other costs;
- regulatory applications and the anticipated scope, timing and results thereof;
- expected drilling programs, completions, well tie-ins, facilities construction and expansions and the timing thereof; and
- the outcome and timing of any legal claims, insurance claims, audits, assessments, regulatory matters and proceedings.

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

- future crude oil, bitumen, natural gas and NGLs prices and general economic, business and market conditions;
- the ability of Paramount to obtain required capital to finance its exploration and development activities;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to market its oil, natural gas and NGLs successfully to current and new customers;
- the ability of Paramount to close expected property sales and the timing thereof;
- the ability of Paramount to secure adequate product processing, transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations, including liquids yields;
- the timely receipt of required regulatory approvals;
- expected timelines being met in respect of facility development and construction projects;
- access to capital markets and other sources of funding;
- well economics relative to other projects; and
- currency exchange and interest rates.

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

- fluctuations in crude oil, bitumen, natural gas and NGLs prices, foreign currency exchange rates and interest rates;
- changes to the status or interpretation of laws, regulations or policies;
- changes in environmental laws including emission

- the uncertainty of estimates and projections relating to future revenue, future production, liquids yields, costs and expenses and the timing thereof;
- the ability to secure adequate product processing, transportation and storage;
- the uncertainty of exploration, development and drilling activities;
- operational risks in exploring for, developing and producing crude oil and natural gas, and the timing thereof;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions or unexpected technical difficulties in designing, developing or operating new, expanded or existing facilities including third party facilities;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resource estimates;
- the ability to generate sufficient cash flow from operations and other sources of financing at an acceptable cost to fund exploration, development and operational activities and meet current and future obligations, including costs of anticipated projects; reduction obligations;
- the receipt, timing, and scope of governmental or regulatory approvals;
- changes in economic, business and market conditions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- the effects of weather;
- the timing and cost of future abandonment and reclamation activities;
- cleanup costs or business interruptions due to environmental damage and contamination;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities, including its Annual Information Form.

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

NON-GAAP MEASURES

In this document "Funds flow from operations", "Funds flow from operations - per Boe", "Funds flow from operations per share - diluted", "Netback", "Netback including 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", "Boe/d" and "$/Boe". 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 second quarter of 2012, the value ratio between crude oil and natural gas was approximately 38:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

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

As at	Note	June 30 2012	December 31 2011
ASSETS			
Current assets			
Cash and cash equivalents	17	$ 10,996	$ 29,000
Accounts receivable		32,167	40,181
Risk management	16	2,037	184
Prepaid expenses and other		2,134	2,551
Assets held for sale	3	–	58,038
		47,334	129,954
Deposit		20,132	20,043
Exploration and evaluation	5	420,953	390,742
Property, plant and equipment, net	6	955,271	808,617
Equity-accounted investments	7	96,027	101,543
Investments in securities	8	145,356	153,840
Deferred income tax		88,800	117,548
Goodwill		3,426	3,426
		$ 1,777,299	$ 1,725,713
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	9	$ 26,804	$ 22,842
Accounts payable and accrued liabilities		82,412	136,820
Risk management	16	–	2,787
Liabilities associated with assets held for sale	3	–	13,040
		109,216	175,489
Long-term debt	10	405,051	427,186
Asset retirement obligations	11	313,704	299,202
Deferred income tax		11,683	–
		839,654	901,877
Shareholders' equity			
Share capital	13	812,781	810,781
Accumulated earnings (deficit)		20,905	(103,615)
Reserves	14	103,959	116,670
		937,645	823,836
		$ 1,777,299	$ 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 June 30 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
			(restated see note 4)		(restated see note 4)
Petroleum and natural gas sales		**$ 43,173**	$ 52,937	**$ 89,753**	$ 93,324
Royalties		**(3,342)**	(3,870)	**(7,261)**	(7,531)
Revenue		**39,831**	49,067	**82,492**	85,793
Gain (loss) on financial commodity contracts	16	**7,224**	3,150	**3,641**	(216)
		47,055	52,217	**86,133**	85,577
Expenses					
Operating expense		**15,088**	13,438	**33,878**	26,937
Transportation		**5,687**	5,311	**11,321**	9,402
General and administrative		**5,482**	4,730	**10,144**	8,932
Stock-based compensation	15	**7,618**	(10,602)	**14,654**	717
Depletion and depreciation		**36,790**	32,207	**67,257**	57,396
Exploration and evaluation	5	**3,784**	7,412	**9,296**	16,400
(Gain) loss on sale of property, plant and equipment		**167**	405	**(28,169)**	(2,059)
Interest		**8,007**	8,644	**15,575**	16,273
Accretion of asset retirement obligations		**1,735**	2,279	**3,332**	4,501
Acquisition transaction costs		**–**	1,035	**–**	1,035
Foreign exchange		**705**	(3,394)	**885**	(1,570)
		85,063	61,465	**138,173**	137,964
Income (loss) from equity-accounted investments	3,7	**(523)**	1,233	**156,020**	(40)
Other income		**1,946**	16,889	**3,922**	17,621
Income (loss) from continuing operations before tax		**(36,585)**	8,874	**107,902**	(34,806)
Income tax expense (recovery)	12				
Current		**(59)**	(125)	**49**	33
Deferred		**(5,611)**	(1,811)	**13,554**	(12,947)
		(5,670)	(1,936)	**13,603**	(12,914)
Income (loss) from continuing operations		**(30,915)**	10,810	**94,299**	(21,892)
Income from discontinued operations, net of tax	4	**30,933**	1,402	**30,221**	22,239
Net income		**$ 18**	$ 12,212	**$ 124,520**	$ 347
Other comprehensive income (loss), net of tax	14				
Change in market value of securities		**(11,235)**	(9,645)	**(25,242)**	7,772
Exchange differences on translation of US subsidiaries		**985**	(3,948)	**337**	(3,100)
		(10,250)	(13,593)	**(24,905)**	4,672
Comprehensive income (loss)		**$ (10,232)**	$ (1,381)	**$ 99,615**	$ 5,019
Net income (loss) per common share ($/share)	13				
Basic – continuing operations		**(0.36)**	0.14	**1.10**	(0.29)
Basic – discontinued operations		**0.36**	0.02	**0.36**	0.29
Basic		**0.00**	0.16	**1.46**	0.00
Diluted – continuing operations		**(0.36)**	(0.04)	**1.08**	(0.29)
Diluted – discontinued operations		**0.36**	0.02	**0.35**	0.29
Diluted		**0.00**	(0.02)	**1.43**	0.00

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

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

		Three months ended June 30		Six months ended June 30	
	Note	**2012**	2011	**2012**	2011
Operating activities					
Net income		**$ 18**	$ 12,212	**$ 124,520**	$ 347
Add (deduct)					
Items not involving cash	17	**4,838**	7,437	**(111,886)**	27,142
Dividends from equity-accounted investments		**2,010**	2,535	**4,020**	5,747
Asset retirement obligations settled	11	**(1,115)**	627	**(4,899)**	(4,704)
Current tax related to the sale of U.S. properties		**3,315**	–	**3,931**	–
Change in non-cash working capital		**2,470**	(32,722)	**9,901**	1,409
Cash from (used in) operating activities		**11,536**	(9,911)	**25,587**	29,941
Financing activities					
Net draw (repayment) of drilling rig loan		**2,231**	–	**3,962**	(1,500)
Proceeds from Senior Notes, net of issue costs		**–**	(11)	**–**	70,953
Repayment of debt assumed on acquisitions		**–**	(37,824)	**–**	(37,824)
Net draw (repayment) of revolving long-term debt		**38,907**	89,562	**(22,476)**	89,562
Common shares issued, net of issue costs		**79**	51,447	**897**	53,260
Common shares purchased under stock incentive plan		**(3,052)**	(604)	**(3,052)**	(2,974)
Cash from (used in) financing activities		**38,165**	102,570	**(20,669)**	171,477
Investing activities					
Property, plant and equipment and exploration		**(73,049)**	(64,429)	**(253,739)**	(249,484)
Proceeds on sale of property, plant and equipment		**–**	141	**44,582**	44,257
Proceeds on sale of discontinued operations, net		**66,498**	–	**66,498**	–
Proceeds on sale of investment, net		**–**	8,052	**181,718**	8,402
Corporate acquisitions		**–**	(64,759)	**–**	(64,759)
Investments in securities		**–**	–	**(13,023)**	–
Change in non-cash working capital		**(85,803)**	(60,456)	**(48,462)**	4,689
Cash used in investing activities		**(92,354)**	(181,451)	**(22,426)**	(256,895)
Net decrease		**(42,653)**	(88,792)	**(17,508)**	(55,477)
Foreign exchange on cash and cash equivalents		**(378)**	359	**(496)**	(608)
Cash and cash equivalents, beginning of period		**54,027**	107,007	**29,000**	74,659
Cash and cash equivalents, end of period		**$ 10,996**	$ 18,574	**$ 10,996**	$ 18,574
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)

Six months ended June 30	Note	**2012** Shares (000's)	**2012**	2011 Shares (000's)	2011
Share Capital					
Balance, beginning of period		***85,414***	**$ 810,781**	*75,034*	$ 481,827
Issued		***73***	**2,330**	*1,867*	59,060
Issued on acquisition of ProspEx Resources Ltd.		**–**	**–**	*2,000*	57,280
Change in unvested common shares for stock incentive plan	15	***11***	**(330)**	*65*	(346)
Balance, end of period		***85,498***	**$ 812,781**	*78,966*	$ 597,821
Accumulated Earnings (Deficit)					
Balance, beginning of period			**$ (103,615)**		$ 128,375
Net income			**124,520**		347
Balance, end of period			**$ 20,905**		$ 128,722
Reserves	14				
Balance, beginning of period			**$ 116,670**		$ 71,996
Other comprehensive income (loss)			**(24,905)**		4,672
Contributed surplus			**12,194**		–
Stock-based compensation – investee options			**–**		(2,402)
Balance, end of period			**$ 103,959**		$ 74,266
Total Shareholders' Equity			**$ 937,645**		$ 800,809

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

1. BASIS OF PRESENTATION

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues 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 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 August 8, 2012.

These unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 - Interim Financial Reporting, on a consistent basis with the accounting, estimation and valuation policies as described in the Company's Consolidated Financial Statements as at and for the year ended December 31, 2011. These financial statements are stated in Canadian dollars and have been prepared on a historical cost basis, except for certain financial instruments. Certain information and disclosures normally required to be included in the notes to annual consolidated financial statements have been condensed or omitted. Certain amounts for the three and six months ended June 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 Paramount's Consolidated Financial Statements as at and for the year ended December 31, 2011 for a description of the change in accounting method.

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

These unaudited Interim Condensed Consolidated Financial Statements should be read in conjunction with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2011.

($ 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 June 30, 2012	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 39,831	$ –	$ –	$ –	**$ 39,831**
Gain on financial commodity contracts	7,224	–	–	–	**7,224**
	47,055	–	–	–	**47,055**
Expenses					
Operating expense	15,088	–	–	–	**15,088**
Transportation	5,687	–	–	–	**5,687**
General and administrative	–	1,404	4,078	–	**5,482**
Stock-based compensation	–	1,431	6,187	–	**7,618**
Depletion and depreciation	36,063	1,064	72	(409)	**36,790**
Exploration and evaluation	3,580	204	–	–	**3,784**
Loss on sale of property, plant and equipment	167	–	–	–	**167**
Interest	–	378	7,629	–	**8,007**
Accretion of asset retirement obligations	1,723	12	–	–	**1,735**
Foreign exchange	–	–	705	–	**705**
	62,308	4,493	18,671	(409)	**85,063**
Loss from equity-accounted investments	–	(523)	–	–	**(523)**
Other	860	–	–	–	**860**
Drilling rig revenue	–	5,141	–	(2,089)	**3,052**
Drilling rig expense	–	(3,145)	–	1,179	**(1,966)**
	(14,393)	(3,020)	(18,671)	(501)	**(36,585)**
Inter-segment eliminations	–	(501)	–	501	**–**
Segment loss	$ (14,393)	$ (3,521)	$ (18,671)	$ –	**(36,585)**
Income tax recovery					**5,670**
Income from discontinued operations					**30,933**
Net income					**$ 18**

($ thousands, except as noted)

Three months ended June 30, 2011 (restated see note 4)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 49,067	$ –	$ –	$ –	$ 49,067
Gain on financial commodity contracts	3,150	–	–	–	3,150
	52,217	–	–	–	52,217
Expenses					
Operating expense	13,438	–	–	–	13,438
Transportation	5,311	–	–	–	5,311
General and administrative	–	1,104	3,626	–	4,730
Stock-based compensation	–	(3,094)	(7,508)	–	(10,602)
Depletion and depreciation	31,879	1,139	12	(823)	32,207
Exploration and evaluation	7,245	167	–	–	7,412
Loss on sale of property, plant and equipment	405	–	–	–	405
Interest	–	311	8,333	–	8,644
Accretion of asset retirement obligations	2,264	15	–	–	2,279
Acquisition transaction costs	–	–	1,035	–	1,035
Foreign exchange	–	–	(3,394)	–	(3,394)
	60,542	(358)	2,104	(823)	61,465
Income from equity-accounted investments	–	1,233	–	–	1,233
Other	151	15,565	–	–	15,716
Drilling rig revenue	–	4,468	–	(2,832)	1,636
Drilling rig expense	–	(2,353)	–	1,890	(463)
	(8,174)	19,271	(2,104)	(119)	8,874
Inter-segment eliminations	–	(119)	–	119	–
Segment earnings (loss)	$ (8,174)	$ 19,152	$ (2,104)	$ –	8,874
Income tax recovery					1,936
Income from discontinued operations					1,402
Net income					$ 12,212

Six months ended June 30, 2012	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 82,492	$ –	$ –	$ –	**$ 82,492**
Gain on financial commodity contracts	3,641	–	–	–	**3,641**
	86,133	–	–	–	**86,133**
Expenses					
Operating expense	33,878	–	–	–	**33,878**
Transportation	11,321	–	–	–	**11,321**
General and administrative	–	3,026	7,118	–	**10,144**
Stock-based compensation	–	2,838	11,816	–	**14,654**
Depletion and depreciation	65,765	2,470	138	(1,116)	**67,257**
Exploration and evaluation	8,101	1,195	–	–	**9,296**
Gain on sale of property, plant and equipment	(28,169)	–	–	–	**(28,169)**
Interest	–	699	14,876	–	**15,575**
Accretion of asset retirement obligations	3,310	22	–	–	**3,332**
Foreign exchange	–	18	867	–	**885**
	94,206	10,268	34,815	(1,116)	**138,173**
Income from equity-accounted investments	–	156,020	–	–	**156,020**
Other	1,223	–	–	–	**1,223**
Drilling rig revenue	–	11,656	–	(5,189)	**6,467**
Drilling rig expense	–	(6,282)	–	2,514	**(3,768)**
	(6,850)	151,126	(34,815)	(1,559)	**107,902**
Inter-segment eliminations	–	(1,559)	–	1,559	**–**
Segment earnings (loss)	$ (6,850)	$ 149,567	$ (34,815)	$ –	**107,902**
Income tax expense					**(13,603)**
Income from discontinued operations					**30,221**
Net income					**$ 124,520**

($ thousands, except as noted)

Six months ended June 30, 2011 (restated see note 4)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 85,793	$ –	$ –	$ –	$ 85,793
Loss on financial commodity contracts	(216)	–	–	–	(216)
	85,577	–	–	–	85,577
Expenses					
Operating expense	26,937	–	–	–	26,937
Transportation	9,402	–	–	–	9,402
General and administrative	–	2,149	6,783	–	8,932
Stock-based compensation	–	(62)	779	–	717
Depletion and depreciation	56,492	2,548	193	(1,837)	57,396
Exploration and evaluation	15,416	984	–	–	16,400
Gain on sale of property, plant and equipment	(2,059)	–	–	–	(2,059)
Interest	–	640	15,633	–	16,273
Accretion of asset retirement obligations	4,472	29	–	–	4,501
Acquisition transaction costs	–	–	1,035	–	1,035
Foreign exchange	–	(30)	(1,540)	–	(1,570)
	110,660	6,258	22,883	(1,837)	137,964
Loss from equity-accounted investments	–	(40)	–	–	(40)
Other	1,151	15,566	–	–	16,717
Drilling rig revenue	–	9,952	–	(6,794)	3,158
Drilling rig expense	–	(5,403)	–	3,149	(2,254)
	(23,932)	13,817	(22,883)	(1,808)	(34,806)
Inter-segment eliminations	–	(1,808)	–	1,808	–
Segment earnings (loss)	$ (23,932)	$ 12,009	$ (22,883)	$ –	(34,806)
Income tax recovery					12,914
Income from discontinued operations					22,239
Net income					$ 347

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)**

($ 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 June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Petroleum and natural gas sales	**$ 3,366**	$ 8,163	**$ 11,481**	$ 14,531
Royalties	**(571)**	(1,345)	**(1,945)**	(2,415)
Revenue	**2,795**	6,818	**9,536**	12,116
Expenses				
Operating expense and production tax	**941**	2,239	**3,455**	4,295
Depletion and depreciation	**–**	2,111	**1,398**	4,609
Exploration and evaluation	**(15)**	78	**(341)**	473
Gain on sale of property, plant and equipment	**–**	–	**–**	(37,177)
Accretion of asset retirement obligations	**–**	102	**51**	206
Foreign exchange loss	**–**	–	**–**	2,326
	926	4,530	**4,563**	(25,268)
Other income (expense)	**(12)**	211	**(13)**	165
Income from ordinary activities of discontinued operations before tax	**1,857**	2,499	**4,960**	37,549
Gain on sale of discontinued operations	**50,769**	–	**50,721**	–
Income from discontinued operations before tax	**52,626**	2,499	**55,681**	37,549
Income tax expense – discontinued operations				
Current	**3,315**	–	**3,931**	–
Deferred	**18,378**	1,097	**21,529**	15,310
	21,693	1,097	**25,460**	15,310
Income from discontinued operations	**$ 30,933**	$ 1,402	**$ 30,221**	$ 22,239

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Operating	**$ 7,836**	$ 3,030	**$ 11,450**	$ 5,023
Investing	**66,344**	(504)	**65,501**	38,258
Cash flow from discontinued operations	**$ 74,180**	$ 2,526	**$ 76,951**	$ 43,281

($ thousands, except as noted)

5. EXPLORATION AND EVALUATION

	Six months ended June 30, 2012	Twelve months ended December 31, 2011
Balance, beginning of period	**$ 390,742**	$ 269,084
Additions	**89,630**	229,347
Transfer to assets held for sale	**–**	(5,052)
Corporate acquisitions	**–**	82,100
Transfers to property, plant and equipment	**(53,428)**	(161,853)
Dry hole	**(395)**	(2,371)
Expired lease costs	**(4,221)**	(18,195)
Dispositions	**(1,429)**	(3,052)
Foreign exchange	**54**	734
Balance, end of period	**$ 420,953**	$ 390,742

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Geological and geophysical	**$ 2,154**	$ 2,034	**$ 4,893**	$ 6,405
Dry hole	**47**	–	**416**	–
Expired lease costs	**1,583**	5,378	**3,987**	9,995
	$ 3,784	$ 7,412	**$ 9,296**	$ 16,400

6. PROPERTY, PLANT AND EQUIPMENT

Six months ended June 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	149,132	15,938	219	**165,289**
Transfer to assets held for sale	(99)	–	–	**(99)**
Transfers from exploration and evaluation	53,428	–	–	**53,428**
Dispositions	(47,880)	–	–	**(47,880)**
Change in asset retirement provision	24,199	–	–	**24,199**
Currency translation differences	499	47	1	**547**
Cost, June 30, 2012	**1,645,386**	**67,456**	**20,163**	**1,733,005**
Accumulated depletion, depreciation, and write-downs				
Balance, December 31, 2011	$ (696,630)	$ (13,899)	$ (18,375)	**$ (728,904)**
Depletion and depreciation	(67,306)	(2,458)	(151)	**(69,915)**
Dispositions	21,359	–	–	**21,359**
Currency translation differences	(249)	(25)	–	**(274)**
Accumulated depletion, depreciation and write-downs, June 30, 2012	(742,826)	(16,382)	(18,526)	**(777,734)**
Net book value, December 31, 2011	769,477	37,572	1,568	**808,617**
Net book value, June 30, 2012	**$ 902,560**	**$ 51,074**	**$ 1,637**	**$ 955,271**

At June 30, 2012, $127.9 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 $2.8 million of capitalized interest for qualifying assets in the construction phase (year ended December 31, 2011 – $3.2 million).

Paramount has filed a $6 million insurance claim related to an electrical equipment failure at one of its facilities in the fourth quarter of 2011. No amount has been recognized in these financial statements in respect of the potential recovery from the claim.

7. EQUITY ACCOUNTED INVESTMENTS

	June 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***	**$ 88,733**	**$ 450,275**	*19,144*	$ 94,062	$ 719,253
MGM Energy Corp. ("MGM Energy")	***43,834***	**1,247**	**9,643**	*43,834*	1,691	10,520
Paxton Corporation ("Paxton")	***1,750***	**3,838**		*1,750*	4,015	
Other		**2,209**			1,775	
		$ 96,027			$ 101,543	

(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 June 30						
	2012				2011		
	Equity loss	**Dilution gain**	**Gain on sale**	**Total**	Equity income (loss)	Dilution gain	Total
Trilogy	**$ (384)**	**$ 166**	**$ –**	**$ (218)**	$ 757	$ 774	$ 1,531
MGM Energy	**(217)**	**–**	**–**	**(217)**	(193)	–	(193)
Paxton	**(88)**	**–**	**–**	**(88)**	(105)	–	(105)
	$ (689)	**$ 166**	**$ –**	**$ (523)**	$ 459	$ 774	$ 1,233

	Six months ended June 30						
	2012				2011		
	Equity income (loss)	**Dilution gain**	**Gain on sale**	**Total**	Equity income (loss)	Dilution gain	Total
Trilogy	**$(1,316)**	**$ 294**	**$157,228**	**$156,206**	$ 173	$ 774	$ 947
MGM Energy	**(445)**	**–**	**–**	**(445)**	(782)	–	(782)
Paxton	**(176)**	**–**	**–**	**(176)**	(205)	–	(205)
Other	**435**	**–**	**–**	**435**	–	–	–
	$(1,502)	**$ 294**	**$157,228**	**$156,020**	$ (814)	$ 774	$ (40)

The following table summarizes the assets, liabilities, revenue and income of Trilogy. The amounts summarized have been derived directly from Trilogy's published financial statements as at and for the six months ended June 30, 2012 and 2011. The amounts presented do not include Paramount's adjustments in applying the equity method of investment accounting. As a result, these amounts cannot be used directly to derive Paramount's equity income and net investment in Trilogy.

As at	**June 30, 2012**	June 30, 2011
Assets	**$ 1,355,818**	$ 1,188,179
Liabilities	**$ 844,860**	$ 651,175
Shares outstanding (thousands)	**116,491**	115,776
Paramount's equity interest	**16%**	21%

Three months ended June 30	**2012**	2011
Revenue	**$ 93,221**	$ 83,829
Net income	**$ 282**	$ 7,872

Six months ended June 30	**2012**	2011
Revenue	**$ 189,721**	$ 157,853
Net income (loss)	**$ (2,721)**	$ 7,661

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 June 30, 2012 at exercise prices ranging from $4.85 to $38.74 per share.

8. INVESTMENTS IN SECURITIES

	June 30, 2012		December 31, 2011	
	Shares (000's)	***Market Value***	*Shares (000's)*	*Market Value*
MEG Energy Corp.	***3,700***	**$ 135,013**	*3,700*	$ 153,809
Other		**10,343**		31
		$ 145,356		$ 153,840

9. DEMAND FACILITIES

	June 30, 2012	December 31, 2011
Drilling Rig Loan I	**$ 20,304**	$ 22,842
Drilling Rig Loan II	**6,500**	–
Cavalier Facility	**–**	–
	$ 26,804	$ 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 $10.1 million have been made to June 30, 2012. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan I are $2.5 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

($ 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 June 30, 2012, $6.5 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 June 30, 2012 is $51.1 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 six months ended June 30, 2012 was 4.4 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 June 30, 2012, no amounts have been drawn on the Cavalier facility.

10. LONG-TERM DEBT

	June 30, 2012	December 31, 2011
Bank credit facility	**$ 38,907**	$ 61,383
8 ¼ percent Senior Notes due 2017	**370,000**	370,000
	408,907	431,383
Unamortized financing costs net of premiums	**(3,856)**	(4,197)
	$ 405,051	$ 427,186

Bank Credit Facility

In the second quarter of 2012, the revolving period and maturity date of the Company's $300 million bank credit facility (the "Existing Facility") were extended to October 31, 2012 and October 31, 2013, respectively. All other terms of the Existing Facility remain unchanged.

At June 30, 2012, the amount drawn on the Existing Facility was $38.9 million (December 31, 2011 - $61.4 million). Paramount had undrawn letters of credit outstanding at June 30, 2012 totaling $26.2 million that reduce the amount available to the Company.

($ thousands, except as noted)

11. ASSET RETIREMENT OBLIGATIONS

	Six months ended June 30, 2012	Twelve months ended December 31, 2011
Asset retirement obligations, beginning of period	**$ 299,202**	$ 241,770
Retirement obligations incurred	**11,242**	23,463
Revisions to estimated retirement costs and discount rates	**12,957**	37,791
Obligations settled	**(4,899)**	(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	**82**	323
Asset retirement obligations, end of period	**$ 313,704**	$ 299,202

Asset retirement obligations at June 30, 2012 were determined using a weighted average risk-free rate of 2.00 percent (December 31, 2011 – 2.25 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 June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Income (loss) from continuing operations before tax	**$ (36,585)**	$ 8,874	**$ 107,902**	$ (34,806)
Effective Canadian statutory income tax rate	**25.1%**	26.6%	**25.1%**	26.6%
Expected income tax expense (recovery)	**$ (9,183)**	$ 2,360	**$ 27,083**	$ (9,258)
Change resulting from:				
Statutory and other rate differences	**692**	(1,052)	**1,278**	(3,717)
Gain on available-for-sale investments	**–**	(2,752)	**–**	(2,752)
Income (loss) from equity-accounted investments	**131**	(328)	**(23,210)**	11
Investment in subsidiaries	**1,875**	–	**1,875**	–
Flow-through share renunciations	**–**	2,453	**1,612**	2,833
Stock-based compensation	**1,835**	(2,902)	**3,454**	(44)
Non-deductible items and other	**(1,020)**	285	**1,511**	13
Income and other tax expense (recovery)	**$ (5,670)**	**$ (1,936)**	**$ 13,603**	**$ (12,914)**

13. SHARE CAPITAL

Weighted Average Common Shares Outstanding

	Three months ended June 30			
	2012		2011	
	Loss from continuing operations	***Shares (000's)***	Income from continuing operations	*Shares (000's)*
Income (loss) from continuing operations - basic	**$ (30,915)**	***85,497***	$ 10,810	*77,126*
Dilutive effect of Paramount Options	**–**	**–**	(13,596)	*2,351*
Loss from continuing operations - diluted	**$ (30,915)**	***85,497***	$ (2,786)	*79,477*

	Six months ended June 30			
	2012		2011	
	Income from continuing operations	***Shares (000's)***	Loss from continuing operations	*Shares (000's)*
Income (loss) from continuing operations - basic	**$ 94,299**	***85,495***	$ (21,892)	*76,143*
Dilutive effect of Paramount Options	**–**	***1,873***	–	–
Income (loss) from continuing operations - diluted	**$ 94,299**	***87,368***	$ (21,892)	*76,143*

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 5.7 million Paramount Options outstanding at June 30, 2012 (June 30, 2011 – 4.8 million), of which 3.3 million (June 30, 2011 – 4.8 million) were anti-dilutive for the six months ended June 30.

14. RESERVES

Reserves at June 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 income (loss)	(25,242)	337	–	**(24,905)**
Stock-based compensation expense	–	–	13,765	**13,765**
Stock options exercised	–	–	(1,571)	**(1,571)**
Balance, June 30, 2012	$ 26,467	$ (494)	$ 77,986	**$ 103,959**

($ thousands, except as noted)

	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 June 30		**Six months ended June 30**	
	2012	2011	**2012**	2011
Unrealized Gain (Loss) on Securities				
Change in market value of securities	**$ (11,236)**	$ 4,748	**$ (25,508)**	$ 24,523
Reclassification of other comprehensive income to earnings	**–**	(15,580)	**–**	(15,580)
Deferred tax	**1**	1,187	**266**	(1,171)
	(11,235)	(9,645)	**(25,242)**	7,772
Translation of Foreign Subsidiaries				
Exchange differences on translation of US subsidiaries	**1,089**	(3,979)	**(113)**	(4,858)
Reclassification of other comprehensive income (loss) to earnings	**(287)**	–	**(114)**	2,326
Deferred tax	**183**	31	**564**	(568)
	985	(3,948)	**337**	(3,100)
Other comprehensive income (loss)	**$ (10,250)**	$ (13,593)	**$ (24,905)**	$ 4,672

15. SHARE-BASED PAYMENTS

Paramount Options

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

	Six months ended June 30, 2012		Twelve months ended December 31, 2011	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		($/share)		($/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	**(80,900)**	**12.90**	(618,850)	10.80
Forfeited	**(52,000)**	**24.11**	(149,000)	17.74
Balance, end of period	**5,674,550**	**$ 20.92**	5,767,450	$ 20.76
Options exercisable, end of period	**1,775,318**	**$ 10.76**	1,832,218	$ 10.66

Stock Incentive Plan

Stock incentive plan shares held in trust	Six months ended June 30, 2012 Shares (000's)		Twelve months ended December 31, 2011 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)	(2,722)	(165)	(2,965)
Balance, end of period	75	$ 749	86	$ 419

Employee Benefit Costs (Recovery)

	Three months ended June 30 2012	2011	Six months ended June 30 2012	2011
Stock option plan	$ 7,309	$ (10,910)	$ 13,767	$ (161)
Stock incentive plan	309	308	887	878
Stock-based compensation expense (recovery)	7,618	(10,602)	14,654	717
Salaries and benefits	3,575	2,936	6,584	5,722
	$ 11,193	$ (7,666)	$ 21,238	$ 6,439

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management financial instruments outstanding at June 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	$ 1,038	July – December 2012
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $91.50/Bbl	999	July – December 2012
			$ 2,037	

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

	Six months ended June 30, 2012	Twelve months December 31, 2011
Fair value, beginning of period	$ (2,603)	$ (693)
Changes in fair value	3,641	(1,699)
Settlements paid (received)	999	(211)
Fair value, end of period	$ 2,037	$ (2,603)

($ thousands, except as noted)

17. CONSOLIDATED STATEMENTS OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Financial commodity contracts	**$ (6,782)**	$ (3,857)	**$ (4,640)**	$ (758)
Stock-based compensation	**7,618**	(10,644)	**14,654**	675
Depletion and depreciation	**36,790**	32,207	**67,257**	57,396
Exploration and evaluation	**1,630**	5,378	**4,403**	9,995
(Gain) loss on sale of property, plant, and equipment	**167**	405	**(28,169)**	(2,059)
Accretion of asset retirement obligations	**1,735**	2,279	**3,332**	4,501
Foreign exchange	**743**	(3,913)	**842**	(2,118)
(Income) loss from equity-accounted investments	**523**	(1,233)	**(156,020)**	40
Deferred income tax	**(5,611)**	(1,811)	**13,554**	(12,947)
Gain loss on sale of investments	**–**	(15,591)	**–**	(15,591)
Discontinued operations	**(32,158)**	4,187	**(27,463)**	(11,955)
Other	**183**	30	**364**	(37)
	$ 4,838	$ 7,437	**$ (111,886)**	$ 27,142

Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Interest paid	**$ 16,717**	$ 17,816	**$ 18,098**	$ 18,006
Current tax paid	**$ –**	$ 45	**$ 653**	$ 45

Components of cash and cash equivalents

	June 30, 2012	December 31, 2011
Cash	**$ 8,997**	$ 15,009
Bankers' acceptances	**1,999**	13,991
	$ 10,996	$ 29,000

Intentionally blank

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

HEAD OFFICE

4700 Bankers Hall West
888 Third Street S.W.
Calgary, Alberta
Canada T2P 5C5
Telephone: (403) 290-3600
Facsimile: (403) 262-7994
www.paramountres.com

CONSULTING ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

BANKERS

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

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")