Paramount resources ltd.

THIRD QUARTER REPORT 2013

THIRD QUARTER OVERVIEW

Principal Properties

- Paramount engaged its independent reserves engineers to complete an updated evaluation of the Company's conventional reserves, effective September 30, 2013, in connection with the renewal of its bank credit facility at the end of November. Proved reserves increased 75 percent from year-end 2012 to 88.9 MMBoe (replacement ratio of eight times) and proved and probable reserves increased 55 percent from year-end 2012 to 134.9 MMBoe (replacement ratio of ten times).
- The Company's 200 MMcf/d deep cut facility at Musreau (the "Musreau Deep Cut Facility") is nearing completion, in-line with budget. Commissioning will commence in December and is expected to span approximately 12 weeks.
- Paramount's behind pipe well inventory in the Kaybob Deep Basin has increased to 61 (47.9 net) wells and advance drilling for the deep cut facilities expansions at Musreau and Smoky continues.
- Based on positive middle-Montney drilling results in the Grande Prairie COU, the Company is planning to drill up to four additional horizontal wells at Karr-Gold Creek during the remainder of 2013.
- Third quarter netbacks increased 47 percent to $28.0 million in 2013 from $19.0 million in 2012, despite the impact of third-party downstream disruptions which curtailed production by approximately 3,600 Boe/d.
- Kaybob COU sales volumes increased 29 percent to 13,176 Boe/d in the third quarter of 2013 compared to 10,225 Boe/d in the same quarter of 2012. Total Company sales volumes in the third quarter of 2013 averaged 20,022 Boe/d compared to 18,712 Boe/d in the third quarter of 2012.

Corporate

- In October 2013, Paramount raised approximately $60 million through the issuance of 1.4 million CEE flow-through Common Shares.
- Paramount is currently working with its lenders on the annual renewal of its $450 million bank credit facility. The Company anticipates that the facility will be renewed before the end of November and the size will be increased based on the progress achieved in the Kaybob Deep Basin development and the significant increases in reserves.

Strategic Investments

- Paramount is currently drilling the horizontal leg of its shale gas evaluation well in the Dunedin area of Northeast British Columbia. Completion operations are expected to follow.
- Tie-in work for the Company's shale gas evaluation well at Patry is substantially complete, and the Company plans to bring the well on production before the end of 2013.

FINANCIAL AND OPERATING HIGHLIGHTS [1][2]

($ millions, except as noted)

	Three months ended September 30			Nine months ended September 30		
	2013	**2012**	**% Change**	**2013**	**2012**	**% Change**
FINANCIAL						
Petroleum and natural gas sales	**53.9**	41.3	31	**174.7**	142.5	23
Funds flow from operations	**13.4**	15.5	(14)	**52.3**	40.4	29
Per share – diluted ($/share)	*0.14*	*0.18*	*(22)*	*0.56*	*0.46*	*22*
Net income (loss)	**(37.6)**	(34.6)	(9)	**(59.4)**	89.9	(166)
Per share – diluted ($/share)	*(0.39)*	*(0.40)*	*3*	*(0.64)*	*1.03*	*(162)*
Exploration and development expenditures	**209.8**	147.7	42	**449.1**	356.3	26
Investments in other entities – market value[3]				**749.8**	656.6	14
Total assets				**2,282.4**	1,903.0	20
Net debt [4]				**1,009.3**	569.1	77
Common shares outstanding (thousands)				**95,351**	87,489	9
OPERATING						
Sales volumes						
Natural gas (MMcf/d)	**100.9**	95.3	6	**107.4**	96.7	11
NGLs (Bbl/d)	**2,535**	1,755	44	**2,441**	1,793	36
Oil (Bbl/d)	**656**	1,081	(39)	**790**	1,756	(55)
Total (Boe/d)	**20,022**	18,712	7	**21,125**	19,663	7
Average realized price						
Natural gas ($/Mcf)	**3.10**	2.58	20	**3.52**	2.46	43
NGLs ($/Bbl)	**78.55**	60.65	30	**74.89**	69.42	8
Oil ($/Bbl)	**100.73**	81.28	24	**89.43**	83.96	7
Total ($/Boe)	**29.27**	24.00	22	**30.29**	26.46	14
Net wells drilled (excl. oil sands evaluation)	**16**	9	78	**32**	28	14
Net oil sands evaluation wells drilled	**—**	—	—	**6**	1	500

CONVENTIONAL RESERVES	Proved			Proved and Probable		
	September 30 2013	December 31 2012		**September 30 2013**	December 31 2012	
Natural gas (Bcf)	**306.2**	201.9	52	**455.6**	323.7	41
NGLs (MBbl)	**37,226**	15,662	138	**58,106**	30,761	89
Light and medium crude oil (MBbl)	**669**	1,540	(57)	**870**	2,128	(59)
Total Conventional (MBoe)	**88,932**	50,857	75	**134,910**	86,842	55
Conventional F&D costs excluding facilities & gathering ($/Boe)	**17.49**	16.82	4	**11.35**	12.18	(7)
Conventional reserves replacement	**799%**	336%		**992%**	599%	

(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. Refer to Paramount's Management's Discussion and Analysis for the three and nine months ended September 30, 2013.
(3) Based on the period-end closing prices of publicly-traded enterprises and the book value of the remaining investments.
(4) Net debt is a non-GAAP measure, it is calculated and defined in the Liquidity and Capital Resources section of Paramount's Management's Discussion and Analysis for the three and nine months ended September 30, 2013.

Forward-Looking Statements and Information

This quarterly report includes forward-looking statements and information that is based on Paramount's current expectations, estimates, projections and assumptions in light of our experience and our perception of historical trends. Actual results may differ materially from those expressed or implied by the forward-looking statements and information. Readers are referred to page 37 for our forward looking statements and other advisories.

REVIEW OF OPERATIONS

	Third Quarter 2013		Second Quarter 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	100.9		107.6		*(6)*
NGLs (Bbl/d)	2,535		2,126		*19*
Oil (Bbl/d)	656		722		*(9)*
Total (Boe/d)	20,022		20,790		*(4)*
Exploration and Development Expenditures ($ millions)(1)					
Exploration, drilling, completions and tie-ins	158		73		*116*
Facilities and gathering	52		21		*148*
	210		94		*123*
	Gross	Net	Gross	Net	
Wells Drilled	19	16	8	6	

(1) Includes amounts not allocated to the individual corporate operating units.

Paramount's Musreau Deep Cut Facility is nearing completion, and the Company is looking forward to December when commissioning of the facility will begin. The Company's production is expected to ramp-up to levels that will exceed 50,000 Boe/d in 2014, with the timing dependent on the completion of expansions to a downstream third-party NGLs fractionation facility in which Paramount has secured long-term firm service capacity and the non-operated Smoky facility. Prior to the start-up of the new facilities, Paramount will continue to focus on maximizing production through available processing capacity and starting-up new liquids-rich Montney formation wells.

Third quarter production was reduced by approximately 3,600 Boe/d as a result of downstream third-party disruptions and capacity constraints ("Third-Party Disruptions"), which included apportionments of NGLs transportation and processing capacity, and downtime and reduced interruptible capacity at third-party natural gas processing facilities. Paramount's production was also impacted by the temporary shut-in of multi-well pads to bring new wells on production.

Kaybob

	Third Quarter 2013		Second Quarter 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	70.6		76.4		*(8)*
NGLs (Bbl/d)	1,380		1,137		*21*
Oil (Bbl/d)	21		33		*(36)*
Total (Boe/d)	13,176		13,901		*(5)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	128		48		*167*
Facilities and gathering	48		20		*140*
	176		68		*159*
	Gross	Net	Gross	Net	
Wells Drilled	15	13	5	4	

Third quarter sales volumes in the Kaybob COU were impacted by lower interruptible natural gas processing capacity and continued Third-Party Disruptions, which together reduced sales volumes by approximately 2,000 Boe/d. As a result, sales volumes averaged 13,176 Boe/d, a decrease of five percent from the second quarter of 2013. Despite lower natural gas sales volumes, NGLs (including condensate) sales volumes increased by 21 percent as the Company was able to bring additional liquids-rich Montney wells on production at restricted rates.

The Third-Party Disruptions that are currently affecting the Company's production are expected to ease over the coming months with the completion of a third-party NGLs pipeline expansion later in 2013 and increased contracted firm-service NGLs fractionation capacity commencing in March 2014. As these bottlenecks are reduced and the Musreau Deep Cut Facility enters service, Paramount will be able to start producing its behind pipe wells and begin to ramp-up production.

Operating expenses have averaged approximately $4.00 per Boe for the Kaybob COU in 2013, and less than $4.00 per Boe within the Musreau area, after accounting for processing income. The 45 MMcf/d Musreau refrigeration facility provides significant savings to the Company through the elimination of third-party processing fees. Per unit operating costs will decrease further following the start-up of the Musreau Deep Cut Facility, as fixed costs will be applied over significantly higher production volumes.

Infrastructure Projects

Construction of the Musreau Deep Cut Facility is nearing completion and the project remains in-line with the original $180 million budget. The site construction team has grown to approximately 175 people, who are focusing on completing mechanical construction and electrical and instrumentation work. Commissioning of the facility will commence in December and is expected to span approximately 12 weeks.

The commissioning process involves testing individual pieces of equipment to ensure they operate to specification and as per design. Piping systems will also be leak tested for integrity and purged. Once the individual components and processes within the facility have been commissioned, test volumes will be circulated throughout the entire facility. At the completion of the commissioning process, sales volumes will be delivered into sales lines in a gradual buildup.

Musreau Deep Cut Facility

Paramount has secured 5,000 Bbl/d of firm-service NGLs fractionation capacity for the month of March 2014, in advance of long-term firm-service fractionation arrangements commencing in April 2014.

Kaybob COU sales volumes are expected to ramp-up to approximately 30,000 Boe/d over the first few months after the startup of the Musreau Deep Cut Facility, as the operations team optimizes the facility's equipment and processes. Initial volumes processed through the new facility will be primarily from leaner Cretaceous wells in which Paramount's working interest generally ranges from 50 percent to 100 percent. As these initial production volumes begin to decline, new 100 percent working interest Montney wells will be brought on production, which will increase liquids production and Paramount's working interest share of sales volumes. Ethane will remain in the gas stream ("$C3^+$ Recovery Mode") until a third-party midstream company completes expansions of its de-ethanization facilities. Ethane recovery ("$C2^+$ Recovery Mode") is expected to commence with the completion of the first phase of the expansion of these facilities in the third quarter of 2014, and increase further with the second phase in the second quarter of 2015.

Major components for the amine processing train, an incremental project at the Musreau Deep Cut Facility site, have been fabricated and are being prepared for delivery. Construction and installation activities will take place during the second and third quarters of 2014 and will not impact the start-up of the Musreau Deep Cut Facility. The amine processing train will treat sour gas at a centralized facility instead of at individual well sites, which will reduce well equipping costs by over $1 million per well and result in significantly lower ongoing well operating costs.

Initial design work has been completed for the condensate stabilizer system expansion that will service the Musreau Deep Cut Facility and Paramount's 45 MMcf/d refrigeration facility at Musreau, and orders are currently being placed for long-lead time components. On-site construction activities will commence in 2014 and the expanded stabilizer system is expected to be operational in the fourth quarter of 2014. On start-up of the Musreau Deep Cut Facility, the Kaybob COU will have condensate stabilization capacity of approximately 8,500 Bbl/d, which will increase to approximately 23,500 Bbl/d when the expanded stabilizer system becomes operational. Until the expansion is completed, Kaybob field condensate production in excess of capacity will be trucked to other Paramount and third-party facilities.

The 200 MMcf/d Smoky deep cut facility expansion (the "Smoky Deep Cut Facility"), in which Paramount is a 20 percent owner, continued in the third quarter with building construction and mechanical work progressing. The electrical contract has been awarded, and all major equipment has now been delivered to the site. Start-up is scheduled for the third quarter of 2014. Paramount was recently advised that the existing Smoky 100 MMcf/d dew-point facility will be shut-down during the second quarter of 2014 to complete its integration with the expansion.

Kaybob Processing Capacity

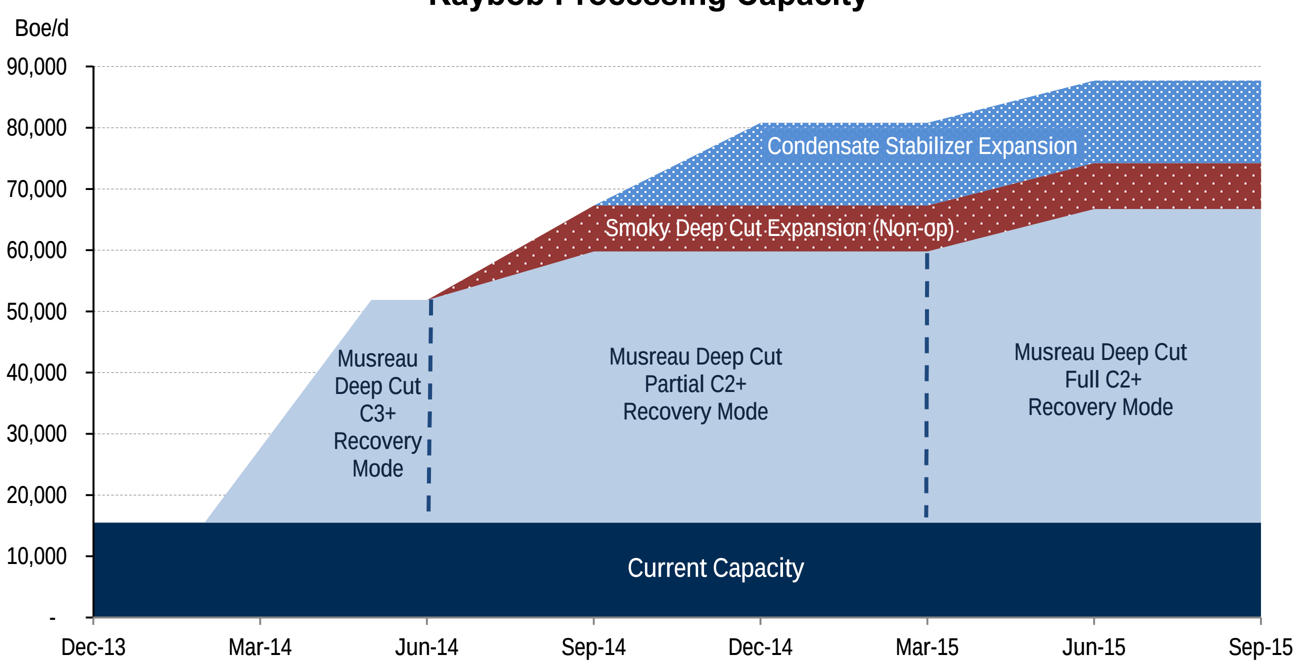
Paramount currently has 79 MMcf/d of net owned and firm-service processing capacity in the Kaybob Deep Basin, which equates to approximately 15,500 Boe/d of potential sales volumes.

Upon completion of the new deep cut facilities and the condensate stabilizer expansion, Paramount expects to have over 300 MMcf/d of net owned and firm-service processing capacity in the Kaybob COU that will provide over 85,000 Boe/d of sales volume capacity. This capacity will be used to process Paramount's production as well as unavoidably commingled third-party volumes for a fee.

Following the completion of these facilities, increases in Paramount's sales volumes will depend upon the Company's working interest in the wells processed through the facilities, the liquids content of the wells brought-on production and the timing of the completion of third-party facility expansions, among other factors. As a result, the Company is not providing guidance with respect to expected average annual sales volumes for 2014 at this time.

The expected ramp-up in Paramount's Kaybob area processing capacity is shown below:

Kaybob Processing Capacity(1)(2)



(1) Aggregate processing capacity of the Kaybob COU's owned and firm service natural gas and condensate processing facilities. These processing capacity estimates are subject to a number of assumptions and risks and should not be construed as projections of Paramount's Kaybob area production volumes at or by any particular date or dates. The Company's net sales volumes in the Kaybob COU will be lower than the capacity shown because of a number of factors including (but not limited to): a) some unavoidably commingled third-party volumes will be processed using Paramount capacity; b) the liquids content of wells will vary; c) production volumes sufficient to fill capacity will not be available in all periods and under certain conditions; and d) during maintenance periods and at other times, the facilities will not operate at design capacity.
(2) Increases in Kaybob processing capacity in the chart above are shown in the quarter in which new facilities and facilities expansions are scheduled to be completed. However, the completion of such facilities may occur at any point during such period and the actual ramp-up will be different than depicted. See the Advisories section of this document.

Paramount is continuing to plan for an additional natural gas processing plant in the Kaybob COU. The NGLs recovery process, capacity and construction timeline for this new plant are currently under review. A decision to proceed with this new facility is also dependent upon the timing of expansions of third-party transportation systems and fractionation facilities and Paramount's ability to secure capacity in such projects.

Kaybob Drilling Activity

The Company drilled 15 (13.3 net) wells in the Kaybob COU in the third quarter, including six (6.0 net) Montney wells and 7 (5.7 net) Falher wells. The Company's two walking drilling rigs each commenced drilling a 10-well Montney pad in the third quarter. To-date the rigs have completed drilling the surface segment for all of the wells and are in the process of drilling the intermediate sections. Drilling of the two pads is expected to be completed in the second quarter of 2014.

Well completion operations resumed in early July after being suspended for most of the second quarter due to breakup, with 15 (12.7 net) Montney and Falher wells being completed during the quarter. Four Montney wells drilled on a pad location over this past winter were completed in July and early August with total combined raw gas test rates of approximately 34 MMcf/d.(1)

The Kaybob COU's drilling program for the remainder of 2013 will primarily focus on liquids-rich Montney wells and is anticipated to utilize four to five drilling rigs. As of November 1, 2013, the Company's behind pipe well inventory in the Kaybob Deep Basin was 61 (47.9 net) wells, including wells previously produced that have been temporarily shut-in due to capacity constraints, with estimated first month deliverability of approximately 300 MMcf/d (230 MMcf/d net) of raw gas. Production from these wells will be processed through the Musreau and Smoky deep cut facilities and Paramount's other Kaybob area capacity.

(1) Test rates represent the average rate of gas-flow during post clean-up production tests having durations of between 7 and 36 hours up the largest choke setting. All wells were stimulated using frac oil and substantially all fluids recovered during the test periods were load fluids. As a result, fluid volumes recovered have not been disclosed. Pressure transient analyses and well-test interpretations have not been carried out for these wells and as such, data should be considered to be preliminary until such analysis or interpretation has been done. Test results are not necessarily indicative of long-term performance or of ultimate recovery.

Grande Prairie

	Third Quarter 2013		Second Quarter 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	18.2		18.6		*(2)*
NGLs (Bbl/d)	805		661		*22*
Oil (Bbl/d)	279		305		*(9)*
Total (Boe/d)	4,115		4,063		*1*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	32		25		*28*
Facilities and gathering	4		—		*100*
	36		25		*44*
	Gross	Net	Gross	Net	
Wells Drilled	4	3	4	3	

Third quarter 2013 sales volumes in the Grande Prairie COU averaged 4,115 Boe/d. Third-Party Disruptions continued to impact operations, reducing sales volumes by approximately 1,400 Boe/d.

Paramount continued its middle Montney program at Karr-Gold Creek in the third quarter, drilling one 100 percent working interest well and completing two 100 percent wells. One new middle Montney formation well was also brought-on production in the quarter. The Company has secured long-term firm-service processing and liquids extraction capacity for Karr-Gold Creek natural gas and NGLs volumes beginning in the second quarter of 2014. The agreement will provide the Company with long-term reliable natural gas processing capacity and access to condensate pipeline capacity that is expected to reduce the trucking of liquids and lower operating costs.

Based on the Company's encouraging middle Montney drilling results and flow rates to date, Paramount is planning to drill four horizontal middle Montney re-entry wells during the remainder of 2013. These wells are scheduled to be completed in the winter drilling season and brought-on production through existing infrastructure.

At Valhalla, the Company plans to continue to optimize its production through available third-party capacity and undertake selective drilling projects to retain lands.

Southern

	Third Quarter 2013	Second Quarter 2013	% Change
Sales Volumes			
Natural gas (MMcf/d)	8.6	9.6	*(10)*
NGLs (Bbl/d)	284	317	*(10)*
Oil (Bbl/d)	356	384	*(7)*
Total (Boe/d)	2,079	2,315	(10)
Exploration and Development Expenditures ($ millions)			
Exploration, drilling, completions and tie-ins	3	—	*100*
Facilities and gathering	—	—	—
	3	—	*100*

Southern COU sales volumes decreased to 2,079 Boe/d in the third quarter of 2013, mainly as a result of Third-Party Disruptions at Harmattan. Activities in the Southern COU for the balance of 2013 will consist primarily of routine maintenance and production optimization programs.

Northern

	Third Quarter 2013	Second Quarter 2013	% Change
Sales Volumes			
Natural gas (MMcf/d)	3.5	3.0	*17*
NGLs (Bbl/d)	66	11	*500*
Oil (Bbl/d)	—	—	—
Total (Boe/d)	652	511	*28*
Exploration and Development Expenditures ($ millions)			
Exploration, drilling, completions and tie-ins	—	—	—
Facilities and gathering	—	—	—
	—	—	—

Third quarter 2013 sales volumes in the Northern COU were similar to the second quarter as production at Birch continued to be impacted by Third-Party Disruptions.

Conventional Reserves Update

In connection with the renewal of its bank credit facility at the end of November, Paramount engaged McDaniel & Associates Consultants Ltd. ("McDaniel"), its independent reserves evaluator, to evaluate the Company's conventional reserves as of September 30, 2013 in accordance with National Instrument 51-101 definitions, standards and procedures. The updated evaluation was undertaken to incorporate the significant progress made by the Company in its Kaybob Deep Basin development and the results of recent drilling activity at Karr-Gold Creek in the Grande Prairie COU.

Paramount's conventional proved reserves at September 30, 2013 increased 75 percent over year-end 2012 to 88.9 MMBoe, after production of 5.8 MMBoe and dispositions of 2.2 MMBoe, resulting in a proved reserves replacement ratio of 799 percent. Conventional proved and probable reserves increased 55 percent over year-end 2012 to 134.9 MMBoe, resulting in a proved and probable reserves replacement ratio of 992 percent.

The Company's working interest reserves and before tax net present value of future net revenues as of September 30, 2013 using forecast prices and costs are as follows:

Conventional Reserves Summary (1)

	Gross Proved and Probable Reserves				Before Tax Net Present Value (3) ($ millions)		
	Natural Gas	Light & Medium Crude Oil	Natural Gas Liquids	Total	Discount Rate		
Reserves Category	(Bcf)	(MBbl)	(MBbl)	(MBoe) (2)	0%	10%	15%
Conventional							
Proved							
Developed Producing	143.9	669	4,427	29,072	524	411	373
Developed Non-producing	35.2	–	11,324	17,189	344	193	153
Undeveloped	127.2	–	21,475	42,670	726	241	124
Total Proved	306.2	669	37,226	88,932	1,594	845	649
Total Probable	149.4	201	20,879	45,978	1,273	698	572
Total Proved and Probable	455.6	870	58,106	134,910	2,867	1,543	1,221

(1) Columns may not add due to rounding.
(2) Refer to the Oil and Gas Measures and Definitions and other advisories in the Advisories section of this document.
(3) The estimated net present values disclosed in this document do not represent fair market value. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of October 1, 2013.

September 30, 2013 reserves include 17.2 MMBoe of proved developed non-producing ("PDNP") reserves, mainly related to wells in the Kaybob COU that have been drilled and completed and will come on-stream once the deep cut facilities expansions are completed. PDNP reserves are reclassified to proved developed producing reserves once the wells are tied-in and brought-on production. Proved undeveloped reserves totaling 42.7 MMBoe are mainly related to locations that are in the process of being drilled, or are expected to be drilled over the next 18 months, in the Kaybob and Grande Prairie COUs.

Future development costs totaling $88 million in respect of the estimated costs to complete the Musreau Deep Cut Facility, the amine processing train and the Smoky Deep Cut Facility were deducted in determining the estimated net present value of future net revenue from Paramount's total proved reserves. All of the future development costs for these projects were deducted from PDNP reserves values.

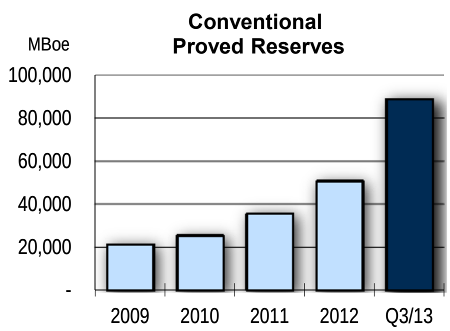
The following table summarizes future development costs deducted in the calculation of future net revenue from conventional reserves:

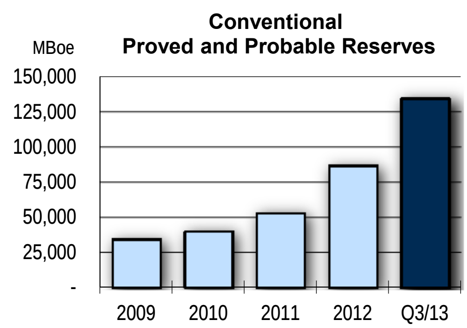
Conventional Reserves					
			Future Development Costs – Undiscounted		
	Total	Before Tax NPV0 (1)	Plants	Wells & Other	Total
	(Mboe)	($MM)	($MM)	($MM)	($MM)
Proved Developed Producing	29,072	524	–	–	–
Proved Developed Non-Producing	17,189	344	88	24	112
Proved Undeveloped	42,670	726	–	582	582
Total Proved	88,932	1,594	88	606	694
Total Probable	45,978	1,273	–	1	1
Total Proved and Probable	134,910	2,867	88	607	695

(1) The estimated net present values disclosed in this document do not represent fair market value. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of October 1, 2013.

Conventional Reserves Reconciliation(1)						
	Proved Reserves			Proved and Probable Reserves		
	Natural Gas	Oil and NGLs (2)	Total	Natural Gas	Oil and NGLs (2)	Total
	(Bcf)	(MBbl)	(MBoe) (3)	(Bcf)	(MBbl)	(MBoe) (3)
January 1, 2013	201.9	17,202	50,857	323.7	32,889	86,842
Extensions & discoveries	120.1	18,849	38,864	188.7	29,836	61,285
Technical revisions	22.9	3,379	7,193	(13.7)	(1,804)	(4,091)
Dispositions	(9.4)	(652)	(2,215)	(13.8)	(1,063)	(3,359)
Production	(29.3)	(882)	(5,767)	(29.3)	(882)	(5,767)
September 30, 2013	306.2	37,895	88,932	455.6	58,976	134,910

(1) Columns and rows may not add due to rounding.
(2) Light and medium crude oil and natural gas liquids.
(3) Refer to the Oil and Gas Measures and Definitions and other advisories in the Advisories section of this document.





Finding and Development Costs – Conventional

Paramount's finding and development ("F&D") costs per barrel are summarized below. The total F&D capital includes costs and changes in future development costs relating to major facilities and gathering system projects.

Nine Months Ended September 30, 2013 Including Major Facilities & Gathering						3-Year Average F&D [3]		
	Costs [1]	FDC Change [1]	Total F&D Capital [1]	Reserves Additions [2]	F&D	2012	2011	3-Year Average
	$MM	$MM	$MM	MMBoe	$/Boe	$/Boe	$/Boe	$/Boe
PROVED								
Kaybob	353.6	314.4	668.0	37.4	17.86	27.35	27.06	22.15
Total Conventional	440.9	444.3	885.3	46.1	19.22	30.02	41.57	25.53
PROVED & PROBABLE								
Kaybob	353.6	158.2	511.7	43.5	11.76	16.29	21.56	14.93
Total Conventional	440.9	287.9	728.8	57.2	12.74	19.56	36.92	18.00

(1) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.
(2) Refer to the Oil and Gas Measures and Definitions in the Advisories section of this document.
(3) The 3-year average is computed using F&D costs for the nine months ended September 30, 2013 and full years for 2012 and 2011. Refer to the Advisories section of this document.

Paramount's F&D costs per barrel, excluding costs and changes in future development costs related to major facilities and gathering system projects are summarized below:

Nine Months Ended September 30, 2013 Excluding Major Facilities & Gathering						3-Year Average F&D [3]		
	Costs [1]	FDC Change [1]	Total F&D Capital [1]	Reserves Additions [2]	F&D	2012	2011	3-Year Average
	$MM	$MM	$MM	MMBoe	$/Boe	$/Boe	$/Boe	$/Boe
PROVED								
Kaybob	257.5	336.7	594.3	37.4	15.89	14.64	17.85	15.78
Total Conventional	338.9	466.6	805.5	46.1	17.49	16.82	27.70	18.70
PROVED & PROBABLE								
Kaybob	257.5	180.5	438.0	43.5	10.07	10.31	13.57	10.58
Total Conventional	338.9	310.2	649.0	57.2	11.35	12.18	24.19	13.06

(1) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.
(2) Refer to the Oil and Gas Measures and Definitions in the Advisories section of this document.
(3) The 3-year average is computed using F&D costs for the nine months ended September 30, 2013 and full years for 2012 and 2011. Refer to the Advisories section of this document.

The Kaybob COU's year-to-date recycle ratio was 2.0 to 1, based on a proved and probable F&D cost (excluding major facilities and gathering costs) of $10.07 per Boe. Paramount anticipates that the Kaybob COU's recycle ratio will increase with the start-up of the Musreau Deep Cut Facility as the increase in liquids yields will generate higher per unit netbacks.

Corporate

In October 2013, Paramount raised approximately $60 million through the issuance of 1.4 million CEE flow-through Common Shares. Proceeds from the offering will be used for the Company's 2013 / 2014 drilling and completion program.

Paramount is currently working with its lenders on the annual renewal of its $450 million bank credit facility. The Company anticipates that the facility will be renewed before the end of November and the size will be increased based on the progress achieved in the Kaybob Deep Basin development and the significant increases in reserves.

Strategic Investments

Shale Gas

Paramount has resumed drilling its shale gas evaluation well in the Dunedin area of Northeast British Columbia following the completion of a road to provide all-season access to the wellsite and other area lands in September. The well has been drilled to a vertical depth of approximately 4,500 meters and logged, and drilling of the horizontal leg of the well is underway. Completion operations are expected to follow.

Tie-in work for the Company's shale gas evaluation well at Patry is substantially complete, and the Company plans to bring the well on production by the end of 2013 to further evaluate performance.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated November 6, 2013, should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the three and nine months ended September 30, 2013 and Paramount's audited Consolidated Financial Statements for the year ended December 31, 2012. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") and is stated in millions of Canadian dollars, unless otherwise noted. The Company's accounting policies have been applied consistently to all periods presented.

This document contains forward-looking information, non-GAAP measures and disclosure of barrels of oil equivalent volumes. Readers are referred to the Advisories section of this document concerning such matters. Certain comparative figures have been reclassified to conform to the current years' presentation. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

ABOUT PARAMOUNT

Paramount is an independent, publicly traded, Canadian corporation that explores for and develops conventional petroleum and natural gas prospects, pursues longer-term non-conventional exploration and pre-development projects and holds investments in other entities. The Company's principal properties are primarily located in Alberta and British Columbia.

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

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

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

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

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

THIRD QUARTER OVERVIEW

Principal Properties

- Paramount engaged its independent reserves engineers to complete an updated evaluation of the Company's conventional reserves, effective September 30, 2013, in connection with the renewal of its bank credit facility at the end of November. Proved reserves increased 75 percent from December 31, 2012 to 88.9 MMBoe and proved and probable reserves increased 55 percent from December 31, 2012 to 134.9 MMBoe.
- The Company's 200 MMcf/d deep cut facility at Musreau (the "Musreau Deep Cut Facility") is nearing completion, in-line with budget. Commissioning will commence in December and is expected to span approximately 12 weeks.
- Paramount's behind pipe well inventory in the Kaybob Deep Basin has increased to 61 (47.9 net) wells and advance drilling for the deep cut facilities expansions at Musreau and Smoky continues.
- The Company is planning to drill up to four additional horizontal wells at Karr-Gold Creek in the Grande Prairie COU during the remainder of 2013.
- Third quarter netbacks increased 47 percent to $28.0 million in 2013 from $19.0 million in 2012, despite the impact of third-party downstream disruptions which curtailed production by approximately 3,600 Boe/d.
- Kaybob COU sales volumes increased 29 percent to 13,176 Boe/d in the third quarter of 2013 compared to 10,225 Boe/d in the same quarter of 2012. Total Company sales volumes in the third quarter of 2013 averaged 20,022 Boe/d compared to 18,712 Boe/d in the third quarter of 2012.

Corporate

- In October 2013, Paramount raised approximately $60 million through the issuance of 1.4 million Canadian Exploration Expense flow-through Common Shares.
- Paramount is currently working with its lenders on the annual renewal of its $450 million bank credit facility. The Company anticipates that the facility will be renewed before the end of November and the size will be increased based on the progress made in the Kaybob Deep Basin development and increases in reserves.

Strategic Investments

- Paramount is currently drilling the horizontal leg of its shale gas evaluation well in the Dunedin area of Northeast British Columbia. Completion operations are expected to follow.
- Tie-in work for the Company's shale gas evaluation well at Patry is substantially complete, and the Company plans to bring the well on production before the end of 2013.

Highlights[(1)]

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
FINANCIAL				
Petroleum and natural gas sales – continuing operations	**53.9**	38.8	**172.9**	122.4
Petroleum and natural gas sales – discontinued operations	**—**	2.5	**1.8**	20.1
Petroleum and natural gas sales	**53.9**	41.3	**174.7**	142.5
Funds flow from operations – continuing operations	**13.4**	15.9	**53.6**	35.0
Funds flow from operations – discontinued operations	**—**	(0.4)	**(1.3)**	5.4
Funds flow from operations	**13.4**	15.5	**52.3**	40.4
per share – diluted ($/share)	***0.14***	*0.18*	***0.56***	*0.46*
Income (loss) from continuing operations	**(37.6)**	(33.5)	**(87.4)**	64.0
per share – basic ($/share)	***(0.39)***	*(0.39)*	***(0.94)***	*0.75*
per share – diluted ($/share)	***(0.39)***	*(0.39)*	***(0.94)***	*0.73*
Net income (loss)	**(37.6)**	(34.6)	**(59.4)**	89.9
per share – basic ($/share)	***(0.39)***	*(0.40)*	***(0.64)***	*1.05*
per share – diluted ($/share)	***(0.39)***	*(0.40)*	***(0.64)***	*1.03*
Exploration and development expenditures	**209.8**	147.7	**449.1**	356.3
Investments in other entities – market value [(2)]			**749.8**	656.6
Total assets			**2,282.4**	1,903.0
Long-term debt			**759.5**	412.8
Net debt			**1,009.3**	569.1
OPERATIONAL				
Sales volumes [(3)]				
Natural gas (MMcf/d)	**100.9**	95.3	**107.4**	96.7
NGLs (Bbl/d)	**2,535**	1,755	**2,441**	1,793
Oil (Bbl/d)	**656**	1,081	**790**	1,756
Total (Boe/d)	**20,022**	18,712	**21,125**	19,663
Net wells drilled (excluding oil sands evaluation)	**16**	9	**32**	28
Net oil sands evaluation wells drilled	**—**	—	**6**	1

CONVENTIONAL RESERVES	Proved		Proved and Probable	
	September 30 2013	December 31 2012	**September 30 2013**	December 31 2012
Natural gas (Bcf)	**306.2**	201.9	**455.6**	323.7
NGLs (MBbl)	**37,226**	15,662	**58,106**	30,761
Light and medium crude oil (MBbl)	**669**	1,540	**870**	2,128
Total Conventional (MBoe)	**88,932**	50,857	**134,910**	86,842
NPV_{10} future net revenue before tax [(4)]	**844.9**	455.9	**1,543.3**	880.3

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Based on the period-end closing prices of publicly-traded enterprises and the book value of the remaining investments.
(3) Amounts include the results of discontinued operations.
(4) The estimated net present values disclosed in this document do not represent fair market value. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of October 1, 2013.

Consolidated Results

Net Income (Loss)

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Principal Properties	**(21.9)**	(18.1)	**(34.2)**	(20.8)
Strategic Investments	**(6.3)**	(6.5)	**(7.6)**	143.1
Corporate	**(18.7)**	(16.1)	**(61.1)**	(50.9)
Income tax recovery (expense)	**9.3**	7.2	**15.5**	(7.4)
Income (loss) from continuing operations	**(37.6)**	(33.5)	**(87.4)**	64.0
Discontinued operations, net of tax	**—**	(1.1)	**28.0**	25.9
Net income (loss)	**(37.6)**	(34.6)	**(59.4)**	89.9

Paramount recorded a loss from continuing operations of $37.6 million for the three months ended September 30, 2013 compared to a loss from continuing operations of $33.5 million in the third quarter of 2012. Significant factors contributing to the change are shown below:

Three months ended September 30	
Loss from continuing operations – 2012	**(33.5)**
• Higher netback primarily due to higher realized prices and higher sales volumes for natural gas and NGLs	8.6
• Lower exploration and evaluation expense mainly due to lower expired lease costs	8.1
• Higher gain on sale of property, plant and equipment due to the sale of properties in the Southern COU	4.0
• Higher income tax recovery	2.1
• Higher depletion and depreciation due to impairment write-downs in 2013	(12.8)
• Lower other income mainly due to a $6.2 million insurance settlement in 2012	(6.3)
• Higher interest expense due to increased debt	(5.2)
• Higher loss on financial commodity contracts	(3.4)
• Other	0.8
Loss from continuing operations – 2013	**(37.6)**

Paramount recorded a loss from continuing operations of $87.4 million for the nine months ended September 30, 2013 compared to income from continuing operations of $64.0 million in the same period of 2012. Significant factors contributing to the change are shown below:

Nine months ended September 30	
Income from continuing operations – 2012	**64.0**
• Higher netback primarily due to higher realized prices and higher sales volumes for natural gas and NGLs	40.7
• Income tax recovery in 2013 compared to an expense in 2012	22.9
• Lower income from equity-accounted investments mainly due to a $157.2 million gain in 2012 on the sale of 5.0 million shares of Trilogy Energy Corp. ("Trilogy")	(151.7)
• Higher depletion and depreciation due to increased production and impairment write-downs in 2013	(29.2)
• Higher interest expense due to increased debt	(15.8)
• Higher exploration and evaluation expense mainly due to increased dry hole costs	(9.6)
• Lower other income mainly due to a $6.2 million insurance settlement in 2012	(8.1)
• Other	(0.6)
Loss from continuing operations – 2013	**(87.4)**

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

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

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

Discontinued operations for the nine months ended September 30, 2013 include the results of the Northern Discontinued Operations. Discontinued operations for the three and nine months ended September 30, 2012 include the results of the Northern Discontinued Operations and Southern Discontinued Operations.

Income from discontinued operations ("IFDO") in the third quarter of 2012 includes a pre-tax loss from ordinary activities of the Northern Discontinued Operations of $1.5 million and a tax recovery of $0.4 million.

IFDO for the nine months ended September 30, 2013 of $28.0 million includes a pre-tax loss of $1.6 million from ordinary activities of the Northern Discontinued Operations, a $39.0 million pre-tax gain on the sale of the Northern Discontinued Operations and tax expense of $9.4 million. IFDO for the nine months ended September 30, 2012 includes a pre-tax loss from ordinary activities of the Northern Discontinued Operations of $5.8 million, pre-tax income from ordinary activities of the Southern Discontinued Operations of $5.0 million, a pre-tax gain of $50.8 million on the sale of the Southern Discontinued Operations, and tax expense of $24.0 million.

Funds Flow from Operations [1] [2]

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Cash from operating activities	**19.7**	42.8	**51.2**	68.4
Change in non-cash working capital	**(11.5)**	(29.4)	**(10.0)**	(39.3)
Geological and geophysical expenses	**2.4**	1.8	**5.8**	6.0
Asset retirement obligations settled	**2.8**	0.3	**5.3**	5.3
Funds flow from operations	**13.4**	15.5	**52.3**	40.4
Funds flow from operations ($/Boe)	**7.28**	9.02	**9.07**	7.50

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Funds flow from operations				
Continuing operations	**13.4**	15.9	**53.6**	35.0
Discontinued operations	**—**	(0.4)	**(1.3)**	5.4
Funds flow from operations	**13.4**	15.5	**52.3**	40.4

Funds flow from operations in the third quarter of 2013 attributable to continuing operations was $13.4 million, $2.5 million lower than the third quarter of 2012. The decrease was primarily due to lower other income, as 2012 included $6.2 million in respect of a business interruption insurance claim, and higher interest expense. The impacts of these reductions were partially offset by higher netbacks due to higher realized prices and sales volumes for natural gas and NGLs.

Funds flow from operations attributable to continuing operations was $53.6 million in the nine months ended September 30, 2013, $18.6 million higher than the comparable period of 2012. The increase in funds flow from operations was primarily because of higher netbacks due to higher realized prices and sales volumes for natural gas and NGLs, the impacts of which were partially offset by higher interest expense and lower other income.

Funds flow from operations attributable to discontinued operations decreased by $6.7 million in the nine months ended September 30, 2013 compared to the same period of 2012 because the 2012 results included funds flow from operations of $6.5 million from the Southern Discontinued Operations, which were sold in May 2012. The Northern Discontinued Operations had negative funds flow from operations in both periods.

Discontinued Operations

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

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

	Three months ended September 30, 2013						Three months ended September 30, 2012					
	CO	DO	Total	CO	DO	Total	CO	DO	Total	CO	DO	Total
	($ millions)			($/Boe except natural gas)[1]			($ millions)			($/Boe except natural gas)[1]		
Natural gas revenue	28.8	—	28.8	3.10	—	3.10	21.5	1.1	22.6	2.58	2.51	2.58
NGLs revenue	18.3	—	18.3	78.55	—	78.55	9.7	0.1	9.8	60.55	79.63	60.65
Oil revenue	6.0	—	6.0	100.73	—	100.73	6.8	1.3	8.1	81.45	80.43	81.28
Royalty and sulphur revenue	0.8	—	0.8	—	—	—	0.8	—	0.8	—	—	—
Petroleum and natural gas sales	53.9	—	53.9	29.27	—	29.27	38.8	2.5	41.3	23.78	27.96	24.00
Royalties	(3.2)	—	(3.2)	(1.77)	—	(1.77)	(2.8)	—	(2.8)	(1.73)	—	(1.62)
Operating expense	(17.0)	—	(17.0)	(9.21)	—	(9.21)	(12.0)	(2.6)	(14.6)	(7.34)	(29.22)	(8.50)
Transportation	(5.7)	—	(5.7)	(3.09)	—	(3.09)	(4.6)	(0.3)	(4.9)	(2.83)	(3.25)	(2.85)
Netback	28.0	—	28.0	15.20	—	15.20	19.4	(0.4)	19.0	11.88	(4.51)	11.03
Financial commodity contract settlements	—	—	—	—	—	—	0.2	—	0.2	0.10	—	0.10
Netback including financial commodity contract settlements	28.0	—	28.0	15.20	—	15.20	19.6	(0.4)	19.2	11.98	(4.51)	11.13
General and administrative	(3.9)	—	(3.9)	(2.12)	—	(2.12)	(4.0)	—	(4.0)	(2.43)	—	(2.30)
Interest	(12.9)	—	(12.9)	(7.00)	—	(7.00)	(7.9)	—	(7.9)	(4.86)	—	(4.60)
Dividends from investments	2.0	—	2.0	1.09	—	1.09	2.0	—	2.0	1.23	—	1.17
Other	0.2	—	0.2	0.11	—	0.11	6.2	—	6.2	3.85	—	3.62
Funds flow from operations	13.4	—	13.4	7.28	—	7.28	15.9	(0.4)	15.5	9.77	(4.51)	9.02
DD&A / Accretion	(47.0)	—	(47.0)				(32.7)	(1.1)	(33.8)			
Gain (loss) on sale of PP&E	4.1	—	4.1				0.1	—	0.1			
Other	(17.4)	—	(17.4)				(24.0)	—	(24.0)			
Income tax (expense) recovery	9.3	—	9.3				7.2	0.4	7.6			
Net loss	(37.6)	—	(37.6)				(33.5)	(1.1)	(34.6)			

[1] Natural gas revenue shown per Mcf.

	Nine months ended September 30, 2013						Nine months ended September 30, 2012					
	CO	DO	Total	CO	DO	Total	CO	DO	Total	CO	DO	Total
	($ millions)			($/Boe except natural gas)[1]			($ millions)			($/Boe except natural gas)[1]		
Natural gas revenue	**102.4**	**0.7**	**103.1**	***3.52***	***2.82***	***3.52***	61.7	3.4	65.1	*2.46*	*2.50*	*2.46*
NGLs revenue	**49.9**	**—**	**49.9**	***74.88***	**—**	***74.89***	33.5	0.6	34.1	*69.37*	*72.55*	*69.42*
Oil revenue	**18.2**	**1.1**	**19.3**	***89.71***	***84.75***	***89.43***	24.2	16.1	40.3	*85.04*	*82.39*	*83.96*
Royalty and sulphur revenue	**2.4**	**—**	**2.4**	**—**	**—**	**—**	3.0	—	3.0	—	—	—
Petroleum and natural gas sales	**172.9**	**1.8**	**174.7**	***30.26***	***32.95***	***30.29***	122.4	20.1	142.5	*24.68*	*46.93*	*26.46*
Royalties	**(8.0)**	**—**	**(8.0)**	***(1.40)***	**—**	***(1.39)***	(9.8)	(2.2)	(12.0)	*(1.99)*	*(4.98)*	*(2.23)*
Operating expense	**(50.8)**	**(2.9)**	**(53.7)**	***(8.90)***	***(52.54)***	***(9.31)***	(40.1)	(11.9)	(52.0)	*(8.08)*	*(27.70)*	*(9.64)*
Transportation	**(15.9)**	**(0.2)**	**(16.1)**	***(2.77)***	***(4.27)***	***(2.79)***	(15.0)	(1.2)	(16.2)	*(3.03)*	*(2.80)*	*(3.01)*
Netback	**98.2**	**(1.3)**	**96.9**	***17.19***	***(23.86)***	***16.80***	57.5	4.8	62.3	*11.58*	*11.45*	*11.58*
Financial commodity contract settlements	**—**	**—**	**—**	**—**	**—**	**—**	(0.8)	—	(0.8)	*(0.16)*	—	*(0.15)*
Netback including financial commodity contract settlements	**98.2**	**(1.3)**	**96.9**	***17.19***	***(23.86)***	***16.80***	56.7	4.8	61.5	*11.42*	*11.45*	*11.43*
General and administrative	**(14.8)**	**—**	**(14.8)**	***(2.60)***	**—**	***(2.57)***	(14.1)	—	(14.1)	*(2.85)*	—	*(2.62)*
Interest	**(38.3)**	**—**	**(38.3)**	***(6.71)***	**—**	***(6.64)***	(23.1)	—	(23.1)	*(4.67)*	—	*(4.29)*
Dividends from investments	**6.0**	**—**	**6.0**	***1.06***	**—**	***1.05***	6.0	—	6.0	*1.22*	—	*1.12*
Other	**2.5**	**—**	**2.5**	***0.44***	**—**	***0.43***	9.5	0.6	10.1	*1.94*	*1.17*	*1.86*
Funds flow from operations	**53.6**	**(1.3)**	**52.3**	***9.38***	***(23.86)***	***9.07***	35.0	5.4	40.4	*7.06*	*12.62*	*7.50*
DD&A / Accretion	**(128.1)**	**(0.3)**	**(128.4)**				(100.3)	(5.5)	(105.8)			
Gain on sale of PP&E	**26.5**	**39.0**	**65.5**				28.2	50.8	79.0			
Other	**(54.9)**	**—**	**(54.9)**				108.5	(0.7)	107.8			
Income tax (expense) recovery	**15.5**	**(9.4)**	**6.1**				(7.4)	(24.1)	(31.5)			
Net income (loss)	**(87.4)**	**28.0**	**(59.4)**				64.0	25.9	89.9			

(1) Natural gas revenue shown per Mcf.

Principal Properties

Netback and Segment Loss – Continuing Operations

	Three months ended September 30				Nine months ended September 30			
	2013		2012		**2013**		2012	
		($/Boe)		*($/Boe)*		***($/Boe)***		*($/Boe)*
Petroleum and natural gas sales	**53.9**	***29.27***	38.8	*23.78*	**172.9**	***30.26***	122.4	*24.68*
Royalties	**(3.2)**	***(1.77)***	(2.8)	*(1.73)*	**(8.0)**	***(1.40)***	(9.8)	*(1.99)*
Operating expense	**(17.0)**	***(9.21)***	(12.0)	*(7.34)*	**(50.8)**	***(8.90)***	(40.1)	*(8.08)*
Transportation	**(5.7)**	***(3.09)***	(4.6)	*(2.83)*	**(15.9)**	***(2.77)***	(15.0)	*(3.03)*
Netback	**28.0**	***15.20***	19.4	*11.88*	**98.2**	***17.19***	57.5	*11.58*
Financial commodity contract settlements	**—**	**—**	0.2	*0.10*	**—**	**—**	(0.8)	*(0.16)*
Netback including financial commodity contract settlements	**28.0**	***15.20***	19.6	*11.98*	**98.2**	***17.19***	56.7	*11.42*
Other principal property items (see below)	**(49.9)**		(37.7)		**(132.4)**		(77.5)	
Segment loss	**(21.9)**		(18.1)		**(34.2)**		(20.8)	

Petroleum and Natural Gas Sales – Continuing Operations

	Three months ended September 30			Nine months ended September 30		
	2013	2012	% Change	**2013**	2012	% Change
Natural gas	**28.8**	21.5	34	**102.4**	61.7	66
NGLs	**18.3**	9.7	89	**49.9**	33.5	49
Oil	**6.0**	6.8	(12)	**18.2**	24.2	(25)
Royalty and sulphur revenue	**0.8**	0.8	–	**2.4**	3.0	(20)
	53.9	38.8	39	**172.9**	122.4	41

Petroleum and natural gas sales in the third quarter of 2013 were $53.9 million, an increase of $15.1 million from the third quarter of 2012. Petroleum and natural gas sales were $172.9 million in the nine months ended September 30, 2013, an increase of $50.5 million compared to the same period in 2012. The increases were primarily due to higher realized prices and higher natural gas and NGLs sales volumes.

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

	Natural gas	NGLs	Oil	Royalty and Sulphur	Total
Three months ended September 30, 2012	21.5	9.7	6.8	0.8	38.8
Effect of changes in prices	4.7	4.2	1.0	–	9.9
Effect of changes in sales volumes	2.6	4.4	(1.8)	–	5.2
Change in royalty and sulphur	–	–	–	–	–
Three months ended September 30, 2013	**28.8**	**18.3**	**6.0**	**0.8**	**53.9**

	Natural gas	NGLs	Oil	Royalty and Sulphur	Total
Nine months ended September 30, 2012	61.7	33.5	24.2	3.0	122.4
Effect of changes in prices	31.1	3.7	1.0	–	35.8
Effect of changes in sales volumes	9.6	12.7	(7.0)	–	15.3
Change in royalty and sulphur	–	–	–	(0.6)	(0.6)
Nine months ended September 30, 2013	**102.4**	**49.9**	**18.2**	**2.4**	**172.9**

Sales Volumes

	Three months ended September 30											
	Natural gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Kaybob	**70.6**	56.0	26	**1,380**	843	64	**21**	55	(62)	**13,176**	10,225	29
Grande Prairie	**18.2**	21.6	(16)	**805**	733	10	**279**	251	11	**4,115**	4,587	(10)
Southern	**8.6**	9.2	(7)	**284**	148	92	**356**	594	(40)	**2,079**	2,270	(8)
Northern	**3.5**	3.8	(8)	**66**	21	214	–	–	–	**652**	663	(2)
Continuing Ops	**100.9**	90.6	11	**2,535**	1,745	45	**656**	900	(27)	**20,022**	17,745	13
Discontinued Ops	–	4.7	(100)	–	10	(100)	–	181	(100)	–	967	(100)
Total	100.9	95.3	6	2,535	1,755	44	656	1,081	(39)	20,022	18,712	7

Third quarter natural gas sales volumes increased 10.3 MMcf/d or 11 percent to 100.9 MMcf/d in 2013 compared to 90.6 MMcf/d in 2012. Third quarter NGLs sales volumes increased 790 Bbl/d or 45 percent to 2,535 Bbl/d in 2013 compared to 1,745 Bbl/d in 2012. Third quarter oil sales volumes decreased 27 percent to 656 Bbl/d in 2013 compared to 900 Bbl/d in 2012. Increases in natural gas and NGLs sales volumes were primarily related to new well production from the Company's 2012 / 2013 drilling program at Musreau within the Kaybob COU, including liquids-rich Montney wells.

The ability of Paramount to maximize production through third-party capacity and owned facilities in the first nine months of 2013 was impacted by various third-party downstream disruptions and capacity constraints ("Third-Party Disruptions"). In addition to apportionments of transportation and processing capacity, the Company's production was also affected by scheduled and unscheduled maintenance at third-party natural gas processing facilities. The trucking of condensate production from well sites, which partially mitigated NGLs pipeline constraints, was also temporarily suspended between May and August due to spring road bans and heavy rainfall. As a result, average sales volumes were curtailed by approximately 3,600 Boe/d during the third quarter of 2013 and by approximately 3,200 Boe/d for the nine months ended September 30, 2013. Third-Party Disruptions primarily impacted production within the Grande Prairie and Kaybob COUs. Paramount's operations were also impacted by the temporary shut-in of multi-well pads to bring new wells on production.

Oil sales volumes decreased mainly due to the sale of properties in the Southern COU.

	Nine months ended September 30											
	Natural gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Kaybob	**74.3**	58.3	27	**1,323**	931	42	**33**	61	(46)	**13,740**	10,710	28
Grande Prairie	**19.4**	20.0	(3)	**801**	662	21	**303**	303	–	**4,338**	4,299	1
Southern	**8.9**	9.9	(10)	**248**	161	54	**410**	674	(39)	**2,141**	2,487	(14)
Northern	**3.9**	3.6	8	**67**	9	644	**–**	–	–	**710**	598	19
Continuing Ops	**106.5**	91.8	16	**2,439**	1,763	38	**746**	1,038	(28)	**20,929**	18,094	16
Discontinued Ops	0.9	4.9	(82)	2	30	(93)	44	718	(94)	196	1,569	(88)
Total	107.4	96.7	11	2,441	1,793	36	790	1,756	(55)	21,125	19,663	7

Natural gas sales volumes increased 14.7 MMcf/d or 16 percent to 106.5 MMcf/d in the nine months ended September 30, 2013 compared to 91.8 MMcf/d in the same period in 2012. NGLs sales volumes increased 676 Bbl/d or 38 percent to 2,439 Bbl/d in the nine months ended September 30, 2013 compared to 1,763 Bbl/d in the same period in 2012. Oil sales volumes decreased 28 percent to 746 Bbl/d in the nine months ended September 30, 2013 compared to 1,038 Bbl/d in the same period in 2012. The increases in natural gas and NGLs sales volumes were primarily related to new well production at Musreau and Smoky within the Kaybob COU. The Company's 45 MMcf/d natural gas refrigeration processing facility at Musreau (the "Musreau Refrig Facility") was re-commissioned in March 2012, allowing the Company to begin producing incremental volumes that had been shut-in because of limited processing capacity.

Oil sales volumes decreased mainly due to the sale of properties in the Southern COU.

The impact of Third-Party Disruptions on Paramount's production is expected to diminish in 2014 as an expansion of a third-party NGLs pipeline is completed, additional NGLs fractionation capacity becomes available, and the Musreau Deep Cut Facility enters service.

Average Realized Prices – Continuing Operations

	Three months ended September 30			Nine months ended September 30		
	2013	2012	% Change	**2013**	2012	% Change
Natural gas ($/Mcf)	**3.10**	2.58	20	**3.52**	2.46	43
NGLs ($/Bbl)	**78.55**	60.55	30	**74.88**	69.37	8
Oil ($/Bbl)	**100.73**	81.45	24	**89.71**	85.04	5
Total ($/Boe)	**29.27**	23.78	23	**30.26**	24.68	23

Paramount's average realized natural gas price during the first nine months of 2013 increased compared to 2012, consistent with increases in benchmark AECO natural gas prices. Paramount's natural gas portfolio primarily consists of sales priced at the Alberta spot 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 Alberta and United States market indexes, adjusted for transportation and quality differentials.

Commodity Prices

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

	Three months ended September 30			Nine months ended September 30		
	2013	2012	% Change	**2013**	2012	% Change
Natural Gas						
AECO (CDN$/GJ)	**2.67**	2.07	29	**3.01**	2.06	46
NYMEX (Henry Hub – US$/MMbtu)	**3.58**	2.83	27	**3.67**	2.60	41
Crude Oil						
Edmonton par (CDN$/Bbl)	**105.17**	84.79	24	**95.57**	87.29	9
West Texas Intermediate (US$/Bbl)	**105.82**	92.22	15	**98.15**	96.21	2
Foreign Exchange						
$CDN / 1 $US	**1.04**	0.99		**1.02**	1.00	

Commodity Price Management

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

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Oil Contracts	**–**	0.2	**–**	(0.8)

At September 30, 2013, Paramount had the following financial commodity contracts outstanding:

Instrument	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $92.43/Bbl	**(0.9)**	January – June 2014
Oil – NYMEX WTI Swap	2,000 Bbl/d	US $91.78/Bbl	**(2.7)**	January – December 2014
			(3.6)	

Royalties – Continuing Operations

	Three months ended September 30				Nine months ended September 30			
	2013	***Rate***	2012	*Rate*	**2013**	***Rate***	2012	*Rate*
Royalties	**3.2**	***6.0%***	2.8	*7.4%*	**8.0**	***4.7%***	9.8	*8.2%*

Third quarter 2013 royalties increased $0.4 million to $3.2 million compared to $2.8 million in the comparable period in 2012. Royalties for the nine months ended September 30, 2013 decreased $1.8 million to $8.0 million compared to $9.8 million in the comparable period in 2012. Royalties for the nine months ended September 30, 2013 decreased primarily as a result of $2.6 million in annual gas cost allowance adjustments for 2012 recorded in the second quarter of 2013, partially offset by the impact of higher revenues. Excluding the impact of the adjustments, Paramount's royalty rate for the first nine months of 2013 decreased to approximately six percent, as a greater proportion of production qualified for Alberta new well royalty incentive programs.

Operating Expense – Continuing Operations

	Three months ended September 30			Nine months ended September 30		
	2013	2012	% Change	**2013**	2012	% Change
Operating expense	**17.0**	12.0	42	**50.8**	40.1	27

Operating expense in the third quarter of 2013 increased $5.0 million or 42 percent compared to the same quarter in 2012. For the nine months ended September 30, 2013, operating expense increased $10.7 million or 27 percent to $50.8 million compared to $40.1 million in the same period in 2012. The increases in operating expense were primarily related to higher production from new wells at Musreau and Smoky within the Kaybob COU, third-party processing fee equalizations relating to prior years, and maintenance programs in the Grande Prairie and Southern COUs. Operating expense per Boe increased to $9.21 in the third quarter of 2013 compared to $7.34 in the same period in 2012 and to $8.90 in the first nine months of 2013 compared to $8.08 in the same period in 2012, primarily due to third-party equalizations.

Operating expenses in the nine months ended September 30, 2013 averaged approximately $4.00 per Boe for the Kaybob COU, and less than $4.00 per Boe within the Musreau area, after accounting for processing income. The Musreau Refrig Facility provides significant savings to the Company through the elimination of third-party processing fees.

Transportation Expense – Continuing Operations

	Three months ended September 30			Nine months ended September 30		
	2013	2012	% Change	**2013**	2012	% Change
Transportation expense	**5.7**	4.6	24	**15.9**	15.0	6

Transportation expense was $5.7 million in the third quarter of 2013, an increase of $1.1 million compared to the same quarter of 2012, due to higher production volumes and the additional cost of trucking condensate production from well sites in 2013. Transportation expense increased $0.9 million in the first nine months of 2013 compared to the same period in 2012. The impact of higher variable transportation costs due to higher sales volumes was partially offset by the expiry of a long-term natural gas transportation agreement in the fourth quarter of 2012, which reduced current year fixed transportation costs. Transportation expense per Boe increased to $3.09 in the third quarter of 2013 compared to $2.83 in the same period in 2012. Transportation expense decreased to $2.77 per Boe in the first nine months of 2013 compared to $3.03 per Boe in the same period in 2012.

Other Principal Property Items

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Commodity contracts – net of settlements	**5.2**	2.0	**3.6**	(2.7)
Depletion and depreciation (excluding impairments)	**31.4**	32.4	**111.4**	95.5
Impairment	**13.8**	–	**13.8**	–
Exploration and evaluation	**2.2**	10.2	**28.2**	17.9
Gain on sale of property, plant and equipment	**(4.1)**	(0.1)	**(26.1)**	(28.2)
Accretion of asset retirement obligations	**1.5**	–	**1.5**	2.9
Other	**(0.1)**	(6.8)	**–**	(7.9)
Total	**49.9**	37.7	**132.4**	77.5

Third quarter depletion and depreciation expense (excluding impairments) decreased to $31.4 million ($17.08 per Boe) in 2013 compared to $32.4 million ($19.83 per Boe) in the same quarter of the prior year. Depletion and depreciation expense (excluding impairments) increased to $111.4 million ($19.50 per Boe) in the nine months ended September 30, 2013 compared to $95.5 million ($19.27 per Boe) in the same period of 2012. Increases in depletion and depreciation expense in the nine months ended September 30, 2013 are mainly due to higher production volumes.

In the third quarter of 2013, the Company recorded a net impairment write-down of $13.8 million related to the Company's petroleum and natural gas assets. This included a $25.7 million impairment write-down in respect of the Northern and Southern COUs, which resulted from a combination of declines in reserves assigned due to well performance and the sale of properties in the Southern COU that had higher recoverable values than their carrying values. The impairment charge was partially offset by an $11.9 million reversal of impairment write-downs previously recognized in the Grande Prairie COU, which resulted from an increase in reserves assigned to that COU.

Exploration and evaluation expense includes the cost of expired undeveloped land leases, geological and geophysical costs and dry hole expense. Exploration and evaluation expense for the nine months ended September 30, 2013 includes expired lease costs of $13.4 million ($12.8 million – 2012) and dry hole expense of $9.7 million ($0.1 million – 2012).

The $26.1 million gain on sale of property, plant and equipment recorded for the nine months ended September 30, 2013 relates primarily to the sale of Paramount's remaining non-operated joint venture operations and lands in North Dakota and the sale of lands in the Ante Creek area of Alberta.

Strategic Investments

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Income (loss) from equity-accounted investments	**(2.2)**	(2.3)	**2.1**	153.8
Drilling rig revenue	**0.4**	0.7	**4.4**	7.2
Drilling rig expense	**(0.3)**	(0.9)	**(2.0)**	(4.7)
General and administrative	**(1.5)**	(1.8)	**(5.3)**	(4.9)
Stock-based compensation	**(1.9)**	(1.4)	**(3.8)**	(4.2)
Interest	**(0.6)**	(0.4)	**(1.7)**	(1.1)
Other	**(0.2)**	(0.4)	**(1.3)**	(3.0)
Segment income (loss)	**(6.3)**	(6.5)	**(7.6)**	143.1

The loss from equity-accounted investments in the third quarter of 2013 includes $2.3 million of equity losses, partially offset by a $0.1 million dilution gain. Income from equity-accounted investments for the third quarter of 2012 included $2.3 million of equity losses.

Income from equity-accounted investments for the nine months ended September 30, 2013 includes $1.5 million of equity earnings and a $0.6 million dilution gain. Income from equity-accounted investments for the nine months ended September 30, 2012 included a $157.2 million gain recognized on the sale of 5.0 million Trilogy shares, $3.8 million of equity losses and a $0.3 million dilution gain.

Year-to-date 2013 general and administrative costs for the Company's Strategic Investments increased from the comparable period in 2012 primarily because of higher staff and office costs related to Cavalier Energy.

Strategic Investments at September 30, 2013 include:

- investments in the shares of Trilogy, MEG Energy Corp. ("MEG"), MGM Energy Corp. ("MGM Energy"), Strategic Oil and Gas Ltd. ("Strategic"), RMP Energy Inc. ("RMP") and other public and private corporations;
- oil sands and carbonate interests owned by Paramount's wholly-owned subsidiary, Cavalier Energy, including oil sands reserves and resources at Hoole, situated within the western portion of the Athabasca Oil Sands region, and carbonate bitumen holdings in Northeast Alberta, including at Saleski;
- prospective shale gas acreage in the Liard and Horn River Basins in Northeast British Columbia and the Northwest Territories; and
- five drilling rigs owned by Paramount's wholly-owned subsidiary Fox Drilling.

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

	Carrying Value		Market Value (1)	
	September 30, 2013	December 31, 2012	**September 30, 2013**	December 31, 2012
Trilogy	**79.6**	82.4	**561.5**	557.3
MEG	**131.5**	112.6	**131.5**	112.6
MGM Energy	**1.7**	2.3	**9.7**	13.5
Strategic	**7.1**	—	**7.1**	—
RMP	**19.3**	—	**19.3**	—
Other (2)	**20.7**	21.4	**20.7**	21.4
Total	**259.9**	218.7	**749.8**	704.8

(1) Based on the period-end closing price of publicly traded investments and the book value of remaining investments.
(2) Includes investments in other public and private corporations.

Cavalier Energy

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

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

Shale Gas

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

Paramount has resumed drilling its shale gas evaluation well in the Dunedin area of Northeast British Columbia following the completion of a road to provide all-season access to the wellsite and other area lands in September. The well has been drilled to a vertical depth of approximately 4,500 meters and logged, and drilling of the horizontal leg of the well is underway. Completion operations are expected to follow.

Fox Drilling

Fox Drilling owns five triple-sized rigs. Two of these are newly constructed walking rigs which are deployed on multi-well pad sites in the Kaybob COU's Deep Basin development and three of these are conventional rigs which have drilled on the Company's lands in Alberta in the first nine months of 2013.

Corporate

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Interest	**12.7**	7.7	**37.8**	22.6
General and administrative	**2.4**	2.1	**9.5**	9.3
Stock-based compensation	**3.6**	6.0	**13.2**	17.8
Depreciation	**0.1**	0.2	**0.3**	0.2
Foreign exchange	**(0.1)**	0.1	**0.3**	1.0
Segment loss	**18.7**	16.1	**61.1**	50.9

The Corporate segment loss increased to $18.7 million in the third quarter of 2013 compared to $16.1 million in the same period in 2012 and to $61.1 million for the nine months ended September 30, 2013 compared to $50.9 million for the same period in 2012. The increases primarily relate to higher interest expense as a result of higher 2013 debt levels.

Paramount's 2013 corporate general and administrative costs were $2.4 million for the third quarter and $9.5 million year-to-date. Corporate general and administrative expense decreased to $1.65 per Boe in the first nine months of 2013 from $1.72 per Boe in the previous year comparable period.

Exploration and Capital Expenditures

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Geological and geophysical	**2.3**	1.5	**5.2**	4.7
Drilling, completion and tie-ins	**155.7**	91.5	**333.7**	214.9
Facilities and gathering	**51.8**	54.7	**110.2**	136.7
Exploration and development expenditures[1]	**209.8**	147.7	**449.1**	356.3
Land and property acquisitions	**1.2**	8.6	**14.7**	12.4
Principal Properties	**211.0**	156.3	**463.8**	368.7
Strategic Investments	**12.0**	10.2	**74.6**	55.7
Corporate	**0.7**	0.2	**4.4**	0.4
	223.7	166.7	**542.8**	424.8

[1] Exploration and development expenditures for the three and nine months ended September 30, 2013 include $3.2 million and $8.1 million of capitalized interest, respectively (2012 - $1.5 million and $4.3 million, respectively).

Exploration and development expenditures in the third quarter of 2013 were $209.8 million compared to $147.7 million in the same period in 2012. Exploration and development expenditures in the first nine months of 2013 were $449.1 million compared to $356.3 million in the same period of 2012. Current year drilling, completion and tie-in costs were focused on new wells at Musreau and Smoky in the Kaybob COU where advance drilling is continuing for the new and expanded deep cut facilities. The Company also drilled and completed wells at Karr-Gold Creek in the Grande Prairie COU. Facilities and gathering expenditures focused on the new and expanded deep cut facilities at Musreau and Smoky.

Strategic investments capital expenditures for the first nine months of 2013 included $42.2 million related to the Company's shale gas drilling activities at Dunedin and Patry in Northeast British Columbia, $16.7

million related to completing the construction of two triple-sized walking drilling rigs, re-certifying an existing rig and rig improvements, and $15.7 million related to front-end engineering and design and other work performed by Cavalier Energy.

Wells drilled are as follows:

	Three months ended September 30				Nine months ended September 30			
	2013		2012		**2013**		2012	
	Gross(1)	**Net**(2)	Gross(1)	Net(2)	**Gross**(1)	**Net**(2)	Gross(1)	Net(2)
Natural gas	**19**	**16**	10	9	**37**	**30**	34	28
Oil	**—**	**—**	—	—	**2**	**2**	—	—
Oil sands evaluation	**—**	**—**	—	—	**6**	**6**	1	1
Total	**19**	**16**	10	9	**45**	**38**	35	29

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

Kaybob Deep Basin Development

Construction of the Musreau Deep Cut Facility is nearing completion and the project remains in-line with the original $180 million budget. The site construction team has grown to approximately 175 people, who are focusing on completing mechanical construction and electrical and instrumentation work. Commissioning of the facility will commence in December and is expected to span approximately 12 weeks.

The commissioning process involves testing individual pieces of equipment to ensure they operate to specification and as per design. Piping systems will also be leak tested for integrity and purged. Once the individual components and processes within the facility have been commissioned, test volumes will be circulated throughout the entire facility. At the completion of the commissioning process, sales volumes will be delivered into sales lines in a gradual buildup.

Paramount has secured 5,000 Bbl/d of firm-service NGLs fractionation capacity for the month of March 2014, in advance of long-term firm-service fractionation arrangements commencing in April 2014.

Kaybob COU sales volumes are expected to ramp-up to approximately 30,000 Boe/d over the first few months after the startup of the Musreau Deep Cut Facility, as the operations team optimizes the facility's equipment and processes. Initial volumes processed through the new facility will be primarily from leaner Cretaceous wells in which Paramount's working interest generally ranges from 50 percent to 100 percent. As these initial production volumes begin to decline, new 100 percent working interest Montney wells will be brought on production, which will increase liquids production and Paramount's working interest share of sales volumes. Ethane will remain in the gas stream until a third-party midstream company completes expansions of its de-ethanization facilities. Ethane recovery is expected to commence with the completion of the first phase of the expansion of these facilities in the third quarter of 2014, and increase further with the second phase in the second quarter of 2015.

Major components for the amine processing train, an incremental project at the Musreau Deep Cut Facility site, have been fabricated and are being prepared for delivery. Construction and installation activities will take place during the second and third quarters of 2014 and will not impact the start-up of the Musreau Deep Cut Facility. The amine processing train will treat sour gas at a centralized facility instead of at individual well sites, which will reduce well equipping costs by over $1 million per well and result in significantly lower ongoing well operating costs.

Initial design work has been completed for the condensate stabilizer system expansion that will service the Musreau Deep Cut Facility and the Musreau Refrig Facility, and orders are currently being placed for long-lead time components. On-site construction activities will commence in 2014 and the expanded stabilizer system is expected to be operational in the fourth quarter of 2014. On start-up of the Musreau Deep Cut Facility, the Kaybob COU will have condensate stabilization capacity of approximately 8,500 Bbl/d, which will increase to approximately 23,500 Bbl/d when the expanded stabilizer system becomes operational. Until the expansion is completed, Kaybob field condensate production in excess of capacity will be trucked to other Paramount and third-party facilities.

The 200 MMcf/d Smoky deep cut facility expansion, in which Paramount is a 20 percent owner, continued in the third quarter with building construction and mechanical work progressing. The electrical contract has been awarded, and all major equipment has now been delivered to the site. Start-up is scheduled for the third quarter of 2014. Paramount was recently advised that the existing Smoky 100 MMcf/d dew-point facility, in which Paramount currently has a 10 percent interest, will be shut-down during the second quarter of 2014 to complete its integration with the expansion.

The Company drilled 15 (13.3 net) wells in the Kaybob COU in the third quarter, including six (6.0 net) Montney wells and 7 (5.7 net) Falher wells. The Company's two walking drilling rigs each commenced drilling a 10-well Montney pad in the third quarter. To-date the rigs have completed drilling the surface segment for all of the wells and are in the process of drilling the intermediate sections. Drilling of the two pads is expected to be completed in the second quarter of 2014.

The Kaybob COU's drilling program for the remainder of 2013 will primarily focus on liquids-rich Montney wells and is anticipated to utilize four to five drilling rigs. As of November 1, 2013, the Company's behind pipe well inventory in the Deep Basin was 61 (47.9 net) wells. Production from these wells will be processed through the Musreau and Smoky deep cut facilities and Paramount's other Kaybob area capacity.

Paramount is continuing to plan for an additional natural gas processing plant in the Kaybob COU. The NGLs recovery process, capacity and construction timeline for this new plant are currently under review. A decision to proceed with this new facility is also dependent upon the timing of expansions of third-party transportation systems and fractionation facilities and Paramount's ability to secure capacity in such projects.

Conventional Reserves Update

In connection with the renewal of its bank credit facility at the end of November, Paramount engaged McDaniel & Associates Consultants Ltd. ("McDaniel"), its independent reserves evaluator, to evaluate the Company's conventional reserves as of September 30, 2013 in accordance with National Instrument 51-101 definitions, standards and procedures. The updated evaluation was undertaken to incorporate the year-to-date activities of the Company in its Kaybob Deep Basin development and the results of recent drilling activity at Karr-Gold Creek in the Grande Prairie COU.

Paramount's conventional proved reserves at September 30, 2013 increased 75 percent over December 31, 2012 to 88.9 MMBoe with a before-tax net present value (discounted at 10 percent) of $845 million. Paramount's conventional proved and probable reserves at September 30, 2013 increased 55 percent over December 31, 2012 to 134.9 MMBoe with a before-tax net present value (discounted at 10 percent) of $1.5 billion.

Outlook

Paramount has expanded its fourth quarter capital program, including the addition of approximately 11 net wells in the Kaybob and Grande Prairie areas and accelerating plans for the completion of the Dunedin shale gas evaluation well. As a result, the Company's total 2013 exploration and development ("E&D") and Strategic Investments capital budget has been increased by $150 million to approximately $800 million, excluding land acquisitions and capitalized interest.

The Company's E&D spending in the fourth quarter will primarily focus on the Kaybob COU's Deep Basin development, including drilling and completing additional wells, and the final stages of construction of the Musreau Deep Cut Facility. Fourth quarter activities will also include drilling and completing middle Montney wells in the Grande Prairie COU. Strategic Investment capital spending for the remainder of 2013 will be directed towards the Company's shale gas evaluation wells in the Liard Basin.

Sales volumes for the remainder of 2013 are expected to be approximately 21,000 Boe/d, unless additional interruptible natural gas processing capacity becomes available.

Upon start-up of the Musreau Deep Cut Facility, Paramount will begin to ramp-up production to achieve levels exceeding 50,000 Boe/d later in 2014, following the completion of expansions to a downstream NGLs fractionation facility in which Paramount has secured long-term firm service capacity and the non-operated Smoky facility.

Liquidity and Capital Resources

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

	September 30, 2013	December 31, 2012	% Change
Adjusted working capital deficit (surplus) [(1)]	**166.1**	(9.3)	NM
Demand facilities	**75.5**	40.7	86
Credit facility	**97.7**	—	100
Senior Notes [(2)]	**670.0**	670.0	—
Net debt [(3)]	**1,009.3**	701.4	44
Share capital	**1,113.2**	921.7	21
Accumulated deficit	**(224.9)**	(165.5)	(36)
Reserves	**102.2**	94.9	8
Total Capital	**1,999.8**	1,552.5	29

[(1)] Adjusted working capital excludes risk management assets and liabilities, demand facilities, assets and liabilities held for sale, and accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (September 30, 2013 – $ nil, December 31, 2012 – $10.8 million).
[(2)] Excludes unamortized issue premiums and financing costs.
[(3)] Net debt excludes the $20 million deposit on account with the CRA, pending resolution of the Company's notices of objection.
NM – Not meaningful

Adjusted Working Capital

Paramount had an adjusted working capital deficit at September 30, 2013 of $166.1 million compared to a surplus of $9.3 million at December 31, 2012. The adjusted working capital deficit at September 30, 2013 included $12.5 million of cash and cash equivalents, $29.4 million of accounts receivable and $211.5 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to capital spending related to the Company's 2013 capital program, partially offset by proceeds from the May 2013 issuance of Common Shares, funds flow from operations and proceeds from the sale of non-core properties.

Paramount expects to fund its 2013 operations, obligations and capital expenditures with funds flow from operations, existing cash and cash equivalents, drawings on its bank credit facilities, proceeds from the sale of non-core assets, proceeds from the October 2013 issuance of Common Shares, and by accessing the capital markets, if required. The Company anticipates that its funds flow from operations will increase in 2014 when the Musreau Deep Cut Facility is brought on-stream.

Demand Facilities

Drilling Rig Facilities

In August 2013, Drilling Rig Loan I and Drilling Rig Loan II were repaid and replaced with a new $57.0 million non-revolving demand loan facility (the "Drilling Rig Facility"). The Drilling Rig Facility was drawn in full at closing and a principal payment of $2.0 million was made in September. In connection with the Drilling Rig Facility, an $8.0 million non-revolving demand loan facility was entered into with the same bank in order to fund the purchase of auxiliary equipment for the drilling rigs (the "Auxiliary Equipment Loan"), which remains undrawn.

Recourse and security for the Drilling Rig Facility and Auxiliary Equipment Loan (collectively, the "Drilling Rig Facilities") is limited to drilling rigs owned by Paramount's wholly-owned subsidiary Fox Drilling and drilling contracts guaranteed by Paramount. Interest on the Drilling Rig Facilities 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. Scheduled principal repayments are $2.0 million in December 2013, $8.0 million annually from 2014 to 2017 and $4.0 million in 2018, with the remaining outstanding balance payable in August 2018.

Cavalier Facility

In 2012, Cavalier Energy entered into a $21.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). In March 2013, the size of the Cavalier Facility was increased to $40.0 million, with all other material terms remaining unchanged. At September 30, 2013, $20.5 million was drawn on the Cavalier Facility.

Bank Credit Facility

Paramount's bank credit facility (the "Facility") was increased in 2013 from $300 million to $450 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $375 million and is available on a revolving basis to November 30, 2013. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due June 30, 2014 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Drilling Rig Facilities and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments.

Paramount is currently working with its lenders on the annual renewal of its $450 million bank credit facility. The Company anticipates that the facility will be renewed before the end of November and the size will be increased based on the progress made in the Kaybob Deep Basin development and increases in reserves.

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

Paramount had undrawn letters of credit outstanding at September 30, 2013 totaling $43.5 million that reduce the amount available to the Company. At September 30, 2013, $97.7 million was drawn on the Facility.

Senior Notes

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

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

Share Capital

In October 2013, Paramount issued 1,115,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("FTS") at a price of $44.00 per share for gross proceeds of $49.1 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued FTS at a price of $44.00 per share to the Company's Chairman and Chief Executive Officer, and President and Chief Operating Officer and/or companies controlled by them for gross proceeds of approximately $10 million, and to certain other directors, officers, and employees of Paramount and other persons for gross proceeds of approximately $1 million. The Company expects to use the proceeds from these offerings to incur Canadian exploration expenses ("CEE") by drilling and/or completing wells on its properties within one or more of the Kaybob, Northeast British Columbia and Grande Prairie areas.

In May 2013, Paramount issued 4,025,000 Common Shares at a price of $37.50 per share for gross proceeds of $150.9 million pursuant to a public offering. Proceeds from this offering were used to fund Paramount's 2013 capital expenditure program, which is primarily focused on drilling on the Company's Deep Basin lands and building and expanding processing facilities within the Kaybob COU.

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

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

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

At November 4, 2013, Paramount had 96,905,624 Common Shares and 5,244,200 Paramount Options outstanding, of which 2,537,750 Paramount Options are exercisable.

Quarterly Information

	2013			2012				2011
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales – CO	**53.9**	59.4	59.5	51.0	38.8	40.5	43.1	50.5
Petroleum and natural gas sales – DO	**—**	—	1.8	3.6	2.5	6.0	11.6	12.8
Petroleum and natural gas sales	**53.9**	59.4	61.3	54.6	41.3	46.5	54.7	63.3
Funds flow from operations – CO	**13.4**	22.3	17.9	16.9	15.9	10.2	8.9	19.0
Funds flow from operations – DO	**—**	—	(1.3)	0.8	(0.4)	1.9	3.9	7.1
Funds flow from operations	**13.4**	22.3	16.6	17.7	15.5	12.1	12.8	26.1
Per share – diluted ($/share)	***0.14***	*0.24*	*0.18*	*0.20*	*0.18*	*0.15*	*0.15*	*0.33*
Income (loss) – CO	**(37.6)**	(22.1)	(27.7)	(128.6)	(33.5)	(29.8)	127.2	(197.8)
Per share – basic ($/share)	***(0.39)***	*(0.24)*	*(0.31)*	*(1.49)*	*(0.39)*	*(0.35)*	*1.49*	*(2.52)*
Per share – diluted ($/share)	***(0.39)***	*(0.24)*	*(0.31)*	*(1.49)*	*(0.39)*	*(0.35)*	*1.45*	*(2.52)*
Net income (loss)	**(37.6)**	(22.1)	0.4	(151.8)	(34.6)	—	124.5	(209.9)
Per share – basic ($/share)	***(0.39)***	*(0.24)*	—	*(1.69)*	*(0.40)*	—	*1.46*	*(2.54)*
Per share – diluted ($/share)	***(0.39)***	*(0.24)*	—	*(1.69)*	*(0.40)*	—	*1.42*	*(2.54)*
Sales volumes								
Natural gas (MMcf/d)	**100.9**	107.6	110.8	99.4	90.6	101.4	83.3	85.5
NGLs (Bbl/d)	**2,535**	2,126	2,655	2,098	1,745	1,957	1,589	1,577
Oil (Bbl/d)	**656**	722	861	948	900	1,064	1,153	1,081
Total Continuing (Boe/d)	**20,022**	20,790	21,985	19,606	17,745	19,904	16,637	16,907
Discontinued (Boe/d)	**—**	—	606	1,068	967	1,570	2,176	2,316
Total (Boe/d)	**20,022**	20,790	22,591	20,674	18,712	21,474	18,813	19,223
Average realized price								
Natural gas ($/Mcf)	**3.10**	3.97	3.48	3.45	2.58	2.08	2.77	3.63
NGLs ($/Bbl)	**78.55**	71.84	73.76	61.14	60.55	69.52	78.96	77.79
Oil ($/Bbl)	**100.73**	85.98	84.32	79.20	81.45	82.74	89.99	97.12
Continuing ($/Boe)	**29.27**	31.41	30.08	28.27	23.78	22.36	28.43	32.47
Discontinued ($/Boe)	**—**	—	32.95	36.61	27.96	42.31	58.51	60.06
Total ($/Boe)	**29.27**	31.41	30.16	28.70	24.00	23.82	31.95	35.80

Significant Items Impacting Quarterly Results

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

- Third quarter 2013 earnings include a $13.8 million net impairment write-down of petroleum and natural gas properties.

- Second quarter 2013 earnings include $16.2 million of exploration expenses and $10.6 million in aggregate gains on the sale of petroleum and natural gas properties.

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

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

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

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

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

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

Change in Accounting Policies

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

Advisories

FORWARD-LOOKING INFORMATION

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

- projected production and sales volumes and growth and the timing thereof (including expected first month production volumes from the Kaybob COU's inventory of behind-pipe wells);
- estimated conventional reserves and the undiscounted and discounted present value of future net revenues therefrom (including the forecasted prices and costs and timing of expected production volumes and future development capital);
- forecast capital expenditures;
- exploration, development, and associated operational plans and strategies (including planned drilling programs, well tie-ins and potential future facility expansions and additions), and the anticipated timing of and/or sources of funding for such activities;
- anticipated increases in the size of the Company's bank credit facility;
- anticipated increases in funds flow from operations;
- projected timeline for constructing, commissioning and/or starting-up new and expanded deep cut natural gas processing and associated facilities, and the Kaybob COU's projected processing capacity following the completion of these deep cut facilities;
- the anticipated date for receiving regulatory approvals for the initial phase of Cavalier Energy's Hoole Grand Rapids oil sands development project;
- the projected availability of third party facilities to process, transport and/or fractionate natural gas and NGLs production, and potential plans to secure additional processing, transportation and/or fractionation capacity; and
- business strategies and objectives.

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

- future oil, bitumen, natural gas, NGLs and other commodity prices;
- royalty rates, taxes and capital, operating, general & administrative and other costs;
- foreign currency exchange rates and interest rates;
- general economic and business conditions;
- the ability of Paramount to obtain the required capital to finance its exploration, development and other operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to secure adequate product processing, transportation, fractionation and storage capacity on acceptable terms;
- the ability of Paramount to market its oil, bitumen, natural gas and NGLs successfully to current and new customers;
- the ability of Paramount and its industry partners to obtain drilling success (including in respect of anticipated production volumes, reserves additions and NGLs yields) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

Although Paramount believes that the expectations reflected in such forward looking information are reasonable, undue reliance should not be placed on them 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 and/or relate (but are not limited) to:

- fluctuations in oil, bitumen, natural gas, NGLs and other commodity prices;
- the uncertainty of estimates and projections relating to future revenue, future production, NGLs yields, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, fractionation and storage capacity on acceptable terms;
- operational risks in exploring for, developing and producing crude oil, bitumen, natural gas and NGLs;
- the ability to generate sufficient cash flow from operations and obtain financing at an acceptable cost to fund planned exploration, development and operational activities and meet current and future obligations (including costs of anticipated new and expanded facilities and other projects and product, processing, transportation, fractionation and similar commitments);
- changes in, or in the interpretation of, laws, regulations or policies (including environmental

- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions or unexpected technical or other difficulties in designing, developing, expanding 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 resources estimates;
- general business, economic and market conditions;
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- changes in foreign currency exchange rates and interest rates;

laws);

- the effects of weather;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; 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, its operations and its financial condition are included in Paramount's most recent Annual Information Form. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

NON-GAAP MEASURES

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

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

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

OIL AND GAS MEASURES AND DEFINITIONS

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

During the third quarter of 2013, the value ratio between crude oil and natural gas was approximately 33:1. 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.

The oil sands bitumen properties owned by Paramount's wholly-owned subsidiary, Cavalier Energy Inc., have not been evaluated subsequent to December 31, 2012 and, as a result, oil sands reserve estimates have not been included in this document. Conventional reserve estimates include nominal amounts of volumes and future net revenues related to Paramount's completed shale gas well. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. In addition, estimates of future net revenue do not represent fair market value.

Finding and Development Costs exclude capital costs and reserve volumes related to shale gas and oil sands properties because the relationship between capital amounts invested and reserve volumes discovered for such properties is not comparable to conventional oil and gas properties.

The reserves replacement disclosure herein was calculated as the net increase in proved and probable reserves estimates from extensions and discoveries, technical revisions and economic factors divided by the Company's total production in the period.

The recycle ratio is calculated by dividing netback per Boe by F&D costs per Boe.

Estimated production from wells that have not yet produced included in the Kaybob COU's behind pipe inventory is based on the Company's 4.9 Bcf type curve for Falher formation wells and 3.7 Bcf type curve for Montney formation wells.

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Balance Sheet

($ thousands)

As at	Note	September 30 2013	December 31 2012
ASSETS		(Unaudited)	
Current assets			
Cash and cash equivalents	17	$ 12,461	$ 146,684
Accounts receivable		29,381	32,790
Prepaid expenses and other		3,526	2,504
Assets held for sale	4	—	12,433
		45,368	194,411
Deposit		20,386	20,234
Exploration and evaluation	5	427,576	405,090
Property, plant and equipment, net	6	1,407,869	1,078,451
Equity-accounted investments	7	87,059	90,977
Investments in securities	8	172,847	127,767
Deferred income tax		118,204	116,901
Goodwill		3,124	3,124
		$ 2,282,433	$ 2,036,955
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	9	$ 75,548	$ 40,703
Accounts payable and accrued liabilities		211,492	183,512
Risk management	16	3,622	—
Liabilities associated with assets held for sale	4	—	470
		290,662	224,685
Long-term debt	10	759,458	660,702
Asset retirement obligations	11	241,895	300,468
		1,292,015	1,185,855
Shareholders' equity			
Share capital	13	1,113,203	921,680
Accumulated deficit		(224,948)	(165,527)
Reserves	14	102,163	94,947
		990,418	851,100
		$ 2,282,433	$ 2,036,955

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

PARAMOUNT RESOURCES LTD.

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

($ thousands, except as noted)

	Note	Three months ended September 30 **2013**	Three months ended September 30 2012 (restated see note 2)	Nine months ended September 30 **2013**	Nine months ended September 30 2012 (restated see note 2)
Petroleum and natural gas sales		**$ 53,924**	$ 38,828	**$ 172,876**	$ 122,380
Royalties		**(3,259)**	(2,829)	**(8,014)**	(9,862)
Revenue		**50,665**	35,999	**164,862**	112,518
Gain (loss) on financial commodity contracts		**(5,215)**	(1,775)	**(3,622)**	1,866
		45,450	34,224	**161,240**	114,384
Expenses					
Operating expense		**16,966**	11,985	**50,823**	40,050
Transportation		**5,686**	4,623	**15,836**	15,031
General and administrative		**3,916**	3,964	**14,837**	14,108
Stock-based compensation	15	**5,543**	7,389	**17,004**	22,043
Depletion and depreciation		**45,566**	32,732	**126,635**	97,397
Exploration and evaluation	5	**2,287**	10,363	**28,891**	19,275
Gain on sale of property, plant and equipment		**(4,098)**	(69)	**(26,505)**	(28,238)
Interest		**13,306**	8,102	**39,473**	23,677
Accretion of asset retirement obligations	11	**1,464**	—	**1,464**	2,899
Foreign exchange		**(205)**	143	**298**	1,028
		90,431	79,232	**268,756**	207,270
Income (loss) from equity-accounted investments	7	**(2,197)**	(2,254)	**2,112**	153,766
Other income		**251**	6,584	**2,450**	10,504
Income (loss) from continuing operations before tax		**(46,927)**	(40,678)	**(102,954)**	71,384
Income tax expense (recovery)	12				
Current		**254**	256	**4,863**	305
Deferred		**(9,541)**	(7,477)	**(20,366)**	7,120
		(9,287)	(7,221)	**(15,503)**	7,425
Income (loss) from continuing operations		**(37,640)**	(33,457)	**(87,451)**	63,959
Income (loss) from discontinued operations, net of tax	2	**—**	(1,161)	**28,030**	25,943
Net income (loss)		**$ (37,640)**	$ (34,618)	**$ (59,421)**	$ 89,902
Other comprehensive income (loss), net of tax	14				
Change in market value of securities		**27,861**	3,687	**22,225**	(21,555)
Exchange differences on translation of US subsidiaries		**—**	(809)	**393**	(471)
		27,861	2,878	**22,618**	(22,026)
Comprehensive income (loss)		**$ (9,779)**	$ (31,740)	**$ (36,803)**	$ 67,876
Net income (loss) per common share ($/share)	13				
Basic – continuing operations		**(0.39)**	(0.39)	**(0.94)**	0.75
Basic – discontinued operations		**—**	(0.01)	**0.30**	0.30
Basic		**(0.39)**	(0.40)	**(0.64)**	1.05
Diluted – continuing operations		**(0.39)**	(0.39)	**(0.94)**	0.73
Diluted – discontinued operations		**—**	(0.01)	**0.30**	0.30
Diluted		**(0.39)**	(0.40)	**(0.64)**	1.03

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

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

($ thousands)

	Note	Three months ended September 30 2013	Three months ended September 30 2012	Nine months ended September 30 2013	Nine months ended September 30 2012
Operating activities					
Net income (loss)		**$ (37,640)**	$ (34,618)	**$ (59,421)**	$ 89,902
Add (deduct):					
Items not involving cash	17	**46,395**	46,364	**95,049**	(65,522)
Dividends from equity-accounted investments		**2,010**	2,010	**6,030**	6,030
Asset retirement obligations settled	11	**(2,841)**	(356)	**(5,257)**	(5,255)
Current tax related to the sale of U.S. assets		**243**	—	**4,790**	3,931
Change in non-cash working capital		**11,519**	29,441	**10,036**	39,342
Cash from operating activities		**19,686**	42,841	**51,227**	68,428
Financing activities					
Net draw (repayment) of drilling rig loans		**(44,228)**	5,731	**(38,766)**	9,693
Net draw of Drilling Rig Facilities		**55,000**	—	**55,000**	—
Draw of Cavalier Facility		**3,730**	—	**18,611**	—
Net draw (repayment) of revolving long-term debt		**97,670**	7,567	**97,670**	(14,909)
Common shares issued, net of issue costs		**510**	55,226	**155,965**	56,123
Common shares purchased under stock incentive plan		**—**	—	**(3,998)**	(3,052)
Cash from financing activities		**112,682**	68,524	**284,482**	47,855
Investing activities					
Property, plant and equipment and exploration		**(221,348)**	(164,942)	**(536,994)**	(418,681)
Proceeds on sale of property, plant and equipment		**6,770**	268	**29,532**	44,850
Proceeds on sale of discontinued operations, net		**—**	—	**9,062**	66,498
Proceeds on sale of investment, net		**—**	—	**—**	181,718
Investments in securities		**—**	—	**(9,000)**	(13,023)
Change in non-cash working capital		**84,935**	52,420	**36,843**	3,958
Cash used in investing activities		**(129,643)**	(112,254)	**(470,557)**	(134,680)
Net increase (decrease)		**2,725**	(889)	**(134,848)**	(18,397)
Foreign exchange on cash and cash equivalents		**(150)**	(338)	**625**	(834)
Cash and cash equivalents, beginning of period		**9,886**	10,996	**146,684**	29,000
Cash and cash equivalents, end of period		**$ 12,461**	$ 9,769	**$ 12,461**	$ 9,769

Supplemental cash flow information 17

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

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

($ thousands, except as noted)

Nine months ended September 30	Note	2013 Shares (000's)	2013	2012 Shares (000's)	2012
Share Capital					
Balance, beginning of period		*89,857*	**$ 921,680**	*85,414*	$ 810,781
Issued		*5,491*	**191,801**	*1,990*	50,724
Change in unvested common shares for stock incentive plan	15	*3*	**(278)**	*11*	(163)
Balance, end of period		*95,351*	**$ 1,113,203**	*87,415*	$ 861,342
Accumulated Deficit					
Balance, beginning of period			**$ (165,527)**		$ (103,615)
Net income (loss)			**(59,421)**		89,902
Balance, end of period			**$ (224,948)**		$ (13,713)
Reserves	14				
Balance, beginning of period			**$ 94,947**		$ 116,670
Other comprehensive income (loss)			**22,618**		(22,026)
Contributed surplus			**(15,402)**		18,794
Balance, end of period			**$ 102,163**		$ 113,438
Total Shareholders' Equity			**$ 990,418**		$ 961,067

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

1. BASIS OF PRESENTATION

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

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

These unaudited Interim Condensed Consolidated Financial Statements (the "Interim Financial Statements") were authorized for issuance by the Audit Committee of Paramount's Board of Directors on November 6, 2013.

These Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 ─ *Interim Financial Reporting* on a consistent basis with the accounting, estimation and valuation policies described in the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2012 (the "Annual Financial Statements"), except as described below. These Interim Financial Statements are stated in Canadian dollars and have been prepared on a historical cost basis, except for certain financial instruments. Certain information and disclosures normally required to be included in the notes to Annual Financial Statements have been condensed or omitted. Certain amounts for the three and nine months ended September 30, 2012 have been restated to exclude amounts related to discontinued operations, refer to note 2.

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

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

Change in Accounting Policies

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

($ thousands, except as noted)

2. DISCONTINUED OPERATIONS

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

In May 2012, Paramount's wholly-owned subsidiary, Summit Resources Inc. ("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 the income (loss) from discontinued operations are presented below:

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Petroleum and natural gas sales	**$ —**	$ 2,496	**$ 1,796**	$ 20,178
Royalties	**—**	33	**(24)**	(2,140)
Revenue	**—**	2,529	**1,772**	18,038
Expenses				
Operating expense and production tax	**—**	2,642	**2,841**	11,910
Transportation	**—**	291	**233**	1,204
Depletion and depreciation	**—**	1,100	**267**	5,090
Exploration and evaluation	**—**	44	**29**	86
Loss on sale of property, plant and equipment	**—**	—	**—**	48
Accretion of asset retirement obligations	**—**	—	**—**	484
	—	4,077	**3,370**	18,822
Other expense	**—**	—	**—**	(13)
Loss from ordinary activities of discontinued operations before tax	**—**	(1,548)	**(1,598)**	(797)
Gain on sale of discontinued operations	**—**	—	**38,985**	50,769
Income (loss) from discontinued operations before tax	**—**	(1,548)	**37,387**	49,972
Income tax expense (recovery) – discontinued operations				
Current	**—**	—	**—**	3,931
Deferred	**—**	(387)	**9,357**	20,098
	—	(387)	**9,357**	24,029
Income (loss) from discontinued operations	**$ —**	$ (1,161)	**$ 28,030**	$ 25,943

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Operating	**$ —**	$ 95	**$ (926)**	$ 10,857
Investing	**—**	—	**9,062**	65,501
Cash flow from discontinued operations	**$ —**	$ 95	**$ 8,136**	$ 76,358

($ thousands, except as noted)

3. SEGMENTED INFORMATION

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

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

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

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

Three months ended September 30, 2013	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 50,665	$ —	$ —	$ —	**$ 50,665**
Loss on financial commodity contracts	(5,215)	—	—	—	**(5,215)**
	45,450	—	—	—	**45,450**
Expenses					
Operating expense and transportation	22,652	—	—	—	**22,652**
General and administrative	—	1,490	2,426	—	**3,916**
Stock-based compensation	—	1,911	3,632	—	**5,543**
Depletion and depreciation	45,267	3,246	94	(3,041)	**45,566**
Exploration and evaluation	2,202	85	—	—	**2,287**
Gain on sale of property, plant and equipment	(4,098)	—	—	—	**(4,098)**
Interest	—	603	12,703	—	**13,306**
Accretion of asset retirement obligations	1,456	8	—	—	**1,464**
Foreign exchange	—	—	(205)	—	**(205)**
	67,479	7,343	18,650	(3,041)	**90,431**
Loss from equity-accounted investments	—	(2,197)	—	—	**(2,197)**
Other	94	—	—	—	**94**
Drilling rig revenue	—	12,951	—	(12,524)	**427**
Drilling rig expense	—	(6,168)	—	5,898	**(270)**
	(21,935)	(2,757)	(18,650)	(3,585)	**(46,927)**
Inter-segment eliminations	—	(3,585)	—	3,585	**—**
Segment loss	$ (21,935)	$ (6,342)	$ (18,650)	$ —	**(46,927)**
Income tax recovery					**9,287**
Net loss					**$ (37,640)**

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

Three months ended September 30, 2012 (restated see note 2)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 35,999	$ —	$ —	$ —	$ 35,999
Loss on financial commodity contracts	(1,775)	—	—	—	(1,775)
	34,224	—	—	—	34,224
Expenses					
Operating expense and transportation	16,608	—	—	—	16,608
General and administrative	—	1,826	2,138	—	3,964
Stock-based compensation	—	1,411	5,978	—	7,389
Depletion and depreciation	32,375	1,121	96	(860)	32,732
Exploration and evaluation	10,185	178	—	—	10,363
Gain on sale of property, plant and equipment	(69)	—	—	—	(69)
Interest	—	381	7,721	—	8,102
Foreign exchange	—	—	143	—	143
	59,099	4,917	16,076	(860)	79,232
Loss from equity-accounted investments	—	(2,254)	—	—	(2,254)
Other	6,744	—	—	—	6,744
Drilling rig revenue	—	4,873	—	(4,148)	725
Drilling rig expense	—	(2,490)	—	1,605	(885)
	(18,131)	(4,788)	(16,076)	(1,683)	(40,678)
Inter-segment eliminations	—	(1,683)	—	1,683	—
Segment loss	$ (18,131)	$ (6,471)	$ (16,076)	$ —	(40,678)
Income tax recovery					7,221
Loss from discontinued operations, net of tax					(1,161)
Net loss					$ (34,618)

Nine months ended September 30, 2013	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 164,862	$ —	$ —	$ —	**$ 164,862**
Loss on financial commodity contracts	(3,622)	—	—	—	**(3,622)**
	161,240	—	—	—	**161,240**
Expenses					
Operating expense and transportation	66,659	—	—	—	**66,659**
General and administrative	—	5,315	9,522	—	**14,837**
Stock-based compensation	—	3,767	13,237	—	**17,004**
Depletion and depreciation	125,251	7,383	271	(6,270)	**126,635**
Exploration and evaluation	28,218	673	—	—	**28,891**
Gain on sale of property, plant and equipment	(26,092)	(413)	—	—	**(26,505)**
Interest	—	1,693	37,780	—	**39,473**
Accretion of asset retirement obligations	1,456	8	—	—	**1,464**
Foreign exchange	—	—	298	—	**298**
	195,492	18,426	61,108	(6,270)	**268,756**
Income from equity-accounted investments	—	2,112	—	—	**2,112**
Other	12	—	—	—	**12**
Drilling rig revenue	—	30,804	—	(26,369)	**4,435**
Drilling rig expense	—	(14,256)	—	12,259	**(1,997)**
	(34,240)	234	(61,108)	(7,840)	**(102,954)**
Inter-segment eliminations	—	(7,840)	—	7,840	**—**
Segment loss	$ (34,240)	$ (7,606)	$ (61,108)	$ —	**(102,954)**
Income tax recovery					**15,503**
Income from discontinued operations, net of tax					**28,030**
Net loss					**$ (59,421)**

($ thousands, except as noted)

Nine months ended September 30, 2012 (restated see note 2)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 112,518	$ —	$ —	$ —	$ 112,518
Gain on financial commodity contracts	1,866	—	—	—	1,866
	114,384	—	—	—	114,384
Expenses					
Operating expense and transportation	55,081	—	—	—	55,081
General and administrative	—	4,852	9,256	—	14,108
Stock-based compensation	—	4,249	17,794	—	22,043
Depletion and depreciation	95,548	3,591	234	(1,976)	97,397
Exploration and evaluation	17,902	1,373	—	—	19,275
Gain on sale of property, plant and equipment	(28,238)	—	—	—	(28,238)
Interest	—	1,080	22,597	—	23,677
Accretion of asset retirement obligations	2,877	22	—	—	2,899
Foreign exchange	—	18	1,010	—	1,028
	143,170	15,185	50,891	(1,976)	207,270
Income from equity-accounted investments	—	153,766	—	—	153,766
Other	7,965	—	—	—	7,965
Drilling rig revenue	—	16,529	—	(9,337)	7,192
Drilling rig expense	—	(8,772)	—	4,119	(4,653)
	(20,821)	146,338	(50,891)	(3,242)	71,384
Inter-segment eliminations	—	(3,242)	—	3,242	—
Segment earnings (loss)	$ (20,821)	$ 143,096	$ (50,891)	$ —	71,384
Income tax expense					(7,425)
Income from discontinued operations, net of tax					25,943
Net income					$ 89,902

4. ASSETS HELD FOR SALE

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

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

($ thousands, except as noted)

5. EXPLORATION AND EVALUATION

	Nine months ended September 30, 2013	Twelve months ended December 31, 2012
Balance, beginning of period	**$ 405,090**	$ 390,742
Additions	**153,885**	166,214
Transfer to assets held for sale	**—**	(12,270)
Transfers to property, plant and equipment	**(98,540)**	(111,416)
Dry hole	**(9,554)**	(6,842)
Expired lease costs	**(13,396)**	(18,550)
Dispositions	**(9,877)**	(2,548)
Foreign exchange	**(32)**	(240)
Balance, end of period	**$ 427,576**	$ 405,090

Exploration and Evaluation Expense

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Geological and geophysical	**$ 2,396**	$ 1,763	**$ 5,796**	$ 6,395
Dry hole	**1,713**	20	**9,699**	95
Expired lease costs	**(1,822)**	8,580	**13,396**	12,785
	$ 2,287	$ 10,363	**$ 28,891**	$ 19,275

6. PROPERTY, PLANT AND EQUIPMENT

Nine months ended September 30, 2013	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2012	$ 1,960,833	$ 84,100	$ 20,374	**$ 2,065,307**
Additions	372,962	16,582	4,407	**393,951**
Transfers from exploration and evaluation	98,540	—	—	**98,540**
Dispositions	(124,762)	—	(455)	**(125,217)**
Change in asset retirement provision	(7,646)	—	—	**(7,646)**
Currency translation differences	10	—	20	**30**
Cost, September 30, 2013	**2,299,937**	**100,682**	**24,346**	**2,424,965**
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2012	$ (949,699)	$ (18,420)	$(18,737)	**$ (986,856)**
Depletion and depreciation	(112,032)	(7,367)	(288)	**(119,687)**
Write-downs	(13,767)	—	—	**(13,767)**
Dispositions	103,225	—	—	**103,225**
Currency translation differences	2	—	(13)	**(11)**
Accumulated depletion, depreciation and write-downs, September 30, 2013	**(972,271)**	**(25,787)**	**(19,038)**	**(1,017,096)**
Net book value, December 31, 2012	1,011,134	65,680	1,637	**1,078,451**
Net book value, September 30, 2013	**$ 1,327,666**	**$ 74,895**	**$ 5,308**	**$ 1,407,869**

Depletion and depreciation expense for the three and nine months ended September 30, 2013 includes a net impairment write-down of $13.8 million related to the Company's petroleum and natural gas assets, comprised of write-downs totaling $25.7 million in respect of the Northern and Southern CGUs and an impairment reversal of $11.9 million in respect of the Grande Prairie CGU. These properties are included within the Principal Properties business segment.

The impairment write-downs in the Northern and Southern CGUs were recorded because the carrying value of properties exceeded their expected discounted cash flows from the production of estimated proved and probable reserves. The impairment resulted from a combination of declines in reserves assigned due to well performance and the sales of properties in the Southern CGU that had higher recoverable values than their carrying values.

The reversal of impairment write-downs previously recorded in the Grande Prairie CGU resulted from an increase in reserves assigned to the CGU. The reversal was recorded to the extent that expected discounted cash flows from the production of estimated proved and probable reserves exceeded the carrying value of the properties.

The recoverable amount was estimated on a fair value less costs to sell basis using a discounted cash flow method, which is an approach commonly employed by market participants to value oil and gas properties. Cash flows were projected over the expected remaining life of each CGU's reserves, at an after-tax discount rate of eight percent at September 30, 2013. The forecast prices used to determine the recoverable amount reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and quality:

(Average for the period)	2013 (Q4)	2014	2015	2016	2017	2018-2027	Thereafter
Natural Gas							
AECO ($/MMBtu)	3.20	3.60	4.05	4.35	4.75	5.00 - 6.10	+2%/yr
Henry Hub (US$/MMBtu)	3.80	4.05	4.50	4.85	5.25	5.55 - 6.80	+2%/yr
Crude Oil							
Edmonton Light ($/Bbl)	98.00	94.00	93.40	92.60	94.40	96.30 - 115.10	+2%/yr
WTI (US$/Bbl)	100.00	95.00	94.40	93.60	95.50	97.40 - 116.40	+2%/yr

7. EQUITY ACCOUNTED INVESTMENTS

	September 30, 2013			December 31, 2012		
	Shares (000's)	**Carrying Value**	**Market Value[1]**	_Shares (000's)_	Carrying Value	Market Value[1]
Trilogy Energy Corp. ("Trilogy")	_19,144_	**$ 79,557**	**$ 561,503**	_19,144_	$ 82,419	$ 557,292
MGM Energy Corp.	_54,147_	**1,714**	**9,747**	_54,147_	2,299	13,537
Paxton Corporation	_1,750_	**3,307**		_1,750_	3,687	
Other		**2,481**			2,572	
		$ 87,059			$ 90,977	

[1] Based on the period-end trading price.

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

Three months ended September 30	2013			2012			
	Equity loss	**Dilution gain**	**Total**	Equity income (loss)	Dilution gain	Gain on sale	Total
Trilogy	**$(1,887)**	**$ 134**	**$(1,753)**	$ (2,254)	$ —	$ —	$ (2,254)
MGM Energy Corp.	**(260)**	**3**	**(257)**	(299)	—	—	(299)
Paxton Corporation	**(96)**	**—**	**(96)**	(62)	—	—	(62)
Other	**(91)**	**—**	**(91)**	361	—	—	361
	$(2,334)	**$ 137**	**$(2,197)**	$ (2,254)	$ —	$ —	$ (2,254)

Nine months ended September 30	2013			2012			
	Equity income (loss)	**Dilution gain**	**Total**	Equity income (loss)	Dilution gain	Gain on sale	Total
Trilogy	**$ 2,548**	**$ 621**	**$ 3,169**	$ (3,570)	$ 294	$157,228	$153,952
MGM Energy Corp.	**(588)**	**3**	**(585)**	(744)	—	—	(744)
Paxton Corporation	**(381)**	**—**	**(381)**	(238)	—	—	(238)
Other	**(91)**	**—**	**(91)**	796	—	—	796
	$ 1,488	**$ 624**	**$ 2,112**	$ (3,756)	$ 294	$157,228	$153,766

The following table summarizes the assets, liabilities, revenue and net income (loss) of Trilogy. The amounts have been derived directly from Trilogy's published financial statements as at and for the three and nine months ended September 30, 2013 and 2012. The amounts presented do not include Paramount's adjustments in applying the equity method of investment accounting. As a result, these amounts cannot be used directly to derive Paramount's equity income and net investment in Trilogy.

As at	**September 30, 2013**	September 30, 2012
Assets	**$ 1,543,399**	$ 1,364,815
Liabilities	**$ 1,054,400**	$ 873,047
Shares outstanding (thousands)	**118,053**	116,494
Paramount's equity interest	**16%**	16%

Three months ended September 30	**2013**	2012
Revenue	**$ 117,384**	$ 88,187
Net income (loss)	**$ (9,454)**	$ (11,094)

Nine months ended September 30	**2013**	2012
Revenue	**$ 379,843**	$ 277,908
Net income (loss)	**$ 20,207**	$ (13,815)

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

Trilogy had 5.9 million stock options outstanding (1.4 million exercisable) at September 30, 2013 at exercise prices ranging from $4.85 to $38.74 per share.

8. INVESTMENTS IN SECURITIES

	September 30, 2013		December 31, 2012	
	Shares (000's)	*Market Value*	*Shares (000's)*	*Market Value*
MEG Energy Corp.	*3,700*	**$ 131,498**	*3,700*	$ 112,628
Strategic Oil & Gas Ltd.	*7,200*	**7,056**	—	—
RMP Energy Inc.	*3,400*	**19,312**	—	—
Other		**14,981**		15,139
		$ 172,847		$ 127,767

9. DEMAND FACILITIES

	September 30, 2013	December 31, 2012
Drilling Rig Facilities	**$ 55,000**	$ —
Drilling Rig Loan I	**—**	17,766
Drilling Rig Loan II	**—**	21,000
Cavalier Facility	**20,548**	1,937
	$ 75,548	$ 40,703

Drilling Rig Loans

In August 2013, Drilling Rig Loan I and Drilling Rig Loan II were repaid and replaced with a new $57.0 million non-revolving demand loan facility (the "Drilling Rig Facility"). The Drilling Rig Facility was drawn in full at closing and a principal payment of $2.0 million was made in September. In connection with the Drilling Rig Facility, an $8.0 million non-revolving demand loan facility was entered into with the same bank in order to fund the purchase of auxiliary equipment for the drilling rigs (the "Auxiliary Equipment Loan"), which remains undrawn.

Recourse and security for the Drilling Rig Facility and the Auxiliary Equipment Loan (collectively, the "Drilling Rig Facilities") is limited to drilling rigs owned by Paramount's wholly-owned subsidiary Fox Drilling Inc. and drilling contracts guaranteed by Paramount. Interest on the Drilling Rig Facilities 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. Scheduled principal repayments are $2.0 million in December 2013, $8.0 million annually from 2014 to 2017 and $4.0 million in 2018, with the remaining outstanding balance payable in August 2018.

Cavalier Facility

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

($ thousands, except as noted)

10. LONG-TERM DEBT

	September 30, 2013	December 31, 2012
Bank credit facility	$ 97,670	$ —
8¼% Senior Notes due 2017	370,000	370,000
7⅝% Senior Notes due 2019	300,000	300,000
	767,670	670,000
Unamortized financing costs, net of premiums	(8,212)	(9,298)
	$ 759,458	$ 660,702

Bank Credit Facility

Paramount's bank credit facility (the "Facility") was increased in 2013 from $300 million to $450 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $375 million and is available on a revolving basis to November 30, 2013. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due June 30, 2014 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the Drilling Rig Facilities and the Cavalier Facility. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments.

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

Paramount had undrawn letters of credit outstanding at September 30, 2013 totaling $43.5 million that reduce the amount available to the Company.

($ thousands, except as noted)

11. ASSET RETIREMENT OBLIGATIONS

	Nine months ended September 30, 2013	Twelve months ended December 31, 2012
Asset retirement obligations, beginning of period	**$ 300,468**	$ 299,202
Retirement obligations incurred	**18,133**	14,626
Revisions to estimated retirement costs and discount rates	**(25,601)**	441
Obligations settled	**(5,257)**	(8,002)
Disposal of properties	**(47,594)**	(8,500)
Accretion expense - continuing operations	**1,464**	2,899
Accretion expense - discontinued operations	**—**	484
Transfer to liabilities associated with assets held for sale	**—**	(470)
Other	**282**	(212)
Asset retirement obligations, end of period	**$ 241,895**	$ 300,468

Asset retirement obligations at September 30, 2013 were determined using a weighted average risk-free rate of 2.75 percent (December 31, 2012 - 2.00 percent) and an inflation rate of 2.00 percent (December 31, 2012 - 2.00 percent). These obligations will be settled over the useful lives of the assets, which extend up to 39 years.

12. INCOME TAX

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Income (loss) from continuing operations before tax	**$ (46,927)**	$ (40,678)	**$ (102,954)**	$ 71,384
Effective Canadian statutory income tax rate	**25.0%**	25.1%	**25.0%**	25.1%
Expected income tax expense (recovery)	**$ (11,732)**	$ (10,210)	**$ (25,739)**	$ 17,917
Change resulting from:				
Statutory and other rate differences	**478**	(2,366)	**2,454**	(1,089)
(Income) loss from equity-accounted investments	**549**	660	**(528)**	(22,550)
Investment in subsidiaries	**(311)**	(361)	**1,398**	1,514
Flow-through share renunciations	**—**	1,435	**3,618**	3,047
Stock-based compensation	**1,338**	1,806	**3,772**	5,260
Non-deductible items and other	**391**	1,815	**(478)**	3,326
Income tax expense (recovery)	**$ (9,287)**	$ (7,221)	**$ (15,503)**	$ 7,425

13. SHARE CAPITAL

In May 2013, Paramount issued 4,025,000 Class A common shares ("Common Shares") at a price of $37.50 per share for gross proceeds of $150.9 million pursuant to a public offering.

At September 30, 2013, 95,351,529 Common Shares were outstanding, net of 71,495 Common Shares held in trust under the stock incentive program.

In October 2013, Paramount issued 1,115,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("FTS") at a price of $44.00 per share for gross proceeds of $49.1 million, pursuant to a public offering. Concurrent with the public offering, Paramount issued FTS at a price of $44.00 per share to the Company's Chairman and Chief Executive Officer and President and Chief Operating Officer and/or companies controlled by them for gross proceeds of approximately $10 million, and to certain other directors, officers, and employees of Paramount and other persons for gross proceeds of approximately $1 million.

Weighted Average Common Shares Outstanding

Three months ended September 30	**2013**		2012	
	Shares (000's)	**Loss from continuing operations**	*Shares (000's)*	Loss from continuing operations
Loss from continuing operations – basic	*95,324*	**$ (37,640)**	*85,694*	$ (33,457)
Dilutive effect of Paramount options	—	**—**	—	—
Loss from continuing operations – diluted	*95,324*	**$ (37,640)**	*85,694*	$ (33,457)

Nine months ended September 30	**2013**		2012	
	Shares (000's)	**Loss from continuing operations**	*Shares (000's)*	Income from continuing operations
Income (loss) from continuing operations – basic	*92,727*	**$ (87,451)**	*85,553*	$ 63,959
Dilutive effect of Paramount options	—	**—**	*1,839*	—
Income (loss) from continuing operations – diluted	*92,727*	**$ (87,451)**	*87,392*	$ 63,959

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 5.3 million Paramount Options outstanding at September 30, 2013 (September 30, 2012 – 5.5 million), of which 5.3 million (September 30, 2012 – 2.5 million) were anti-dilutive for the nine months ended September 30, 2013.

14. RESERVES

Reserves at September 30, 2013 include unrealized gains and losses related to changes in the market value of the Company's investments in securities and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

($ thousands, except as noted)

	Unrealized gains (losses) on securities	Translation of foreign subsidiaries	Contributed surplus	Total reserves
Balance, December 31, 2012	$ 8,879	$ (393)	$ 86,461	**$ 94,947**
Other comprehensive income	22,225	393	—	**22,618**
Stock-based compensation	—	—	18,770	**18,770**
Stock options exercised	—	—	(34,172)	**(34,172)**
Balance, September 30, 2013	**$ 31,104**	**$ —**	**$ 71,059**	**$ 102,163**

Other Comprehensive Income	**Three months ended September 30**		**Nine months ended September 30**	
	2013	2012	**2013**	2012
Unrealized gain (loss) on securities				
Change in market value of securities	**$ 27,861**	$ 3,688	**$ 22,324**	$ (21,820)
Deferred tax	**—**	(1)	**(99)**	265
	27,861	3,687	**22,225**	(21,555)
Translation of foreign subsidiaries				
Exchange differences on translation of US subsidiaries	**—**	(532)	**(587)**	(644)
Reclassification of other comprehensive income (loss) to earnings	**—**	—	**980**	(114)
Deferred tax	**—**	(277)	**—**	287
	—	(809)	**393**	(471)
Other comprehensive income (loss)	**$ 27,861**	$ 2,878	**$ 22,618**	$ (22,026)

15. SHARE-BASED PAYMENTS

Paramount Options

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

	Nine months ended September 30, 2013		Twelve months ended December 31, 2012	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		($/share)		($/share)
Balance, beginning of period	**6,667,850**	**$ 23.58**	5,767,450	$ 20.76
Granted	**285,000**	**34.71**	1,340,000	34.01
Exercised	**(1,466,150)**	**7.81**	(258,600)	11.13
Forfeited	**(145,000)**	**31.86**	(171,000)	28.15
Expired	**—**	**—**	(10,000)	40.09
Balance, end of period	**5,341,700**	**$ 28.28**	6,667,850	$ 23.58
Options exercisable, end of period	**1,399,234**	**$ 21.19**	2,862,134	$ 14.42

Stock Incentive Plan

Stock incentive plan shares held in trust	Nine months ended September 30, 2013 Shares (000's)		Twelve months ended December 31, 2012 Shares (000's)	
Balance, beginning of period	*75*	**$ 416**	*86*	$ 419
Shares purchased	*113*	**3,998**	*124*	3,052
Change in vested and unvested shares	*(116)*	**(3,720)**	*(135)*	(3,055)
Balance, end of period	*72*	**$ 694**	*75*	$ 416

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management financial instruments outstanding at September 30, 2013 are as follows:

Instrument	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil - NYMEX WTI Swap	1,000 Bbl/d	US$92.43/Bbl	**$ (957)**	January - June 2014
Oil - NYMEX WTI Swap	2,000 Bbl/d	US$91.78/Bbl	**(2,665)**	January - December 2014
			$ (3,622)	

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

	Nine months ended September 30, 2013	Twelve months ended December 31, 2012
Fair value, beginning of period	**$ —**	$ (2,603)
Changes in fair value	**(3,622)**	2,487
Settlements paid	**—**	116
Fair value, end of period	**$ (3,622)**	$ —

17. CONSOLIDATED STATEMENTS OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

	Three months ended September 30 **2013**	2012	Nine months ended September 30 **2013**	2012
Financial commodity contracts	**$ 5,215**	$ 1,944	**$ 3,622**	$ (2,696)
Stock-based compensation	**5,543**	7,389	**17,004**	22,043
Depletion and depreciation	**45,566**	32,732	**126,635**	97,397
Exploration and evaluation	**(109)**	8,600	**23,095**	12,880
Gain on sale of property, plant, and equipment	**(4,098)**	(69)	**(26,505)**	(28,238)
Accretion of asset retirement obligations	**1,464**	—	**1,464**	2,899
Foreign exchange	**(229)**	73	**378**	915
(Income) loss from equity-accounted investments	**2,197**	2,254	**(2,112)**	(153,766)
Deferred income tax	**(9,541)**	(7,477)	**(20,366)**	7,120
Discontinued operations	**—**	747	**(29,361)**	(24,611)
Other	**387**	171	**1,195**	535
	$ 46,395	$ 46,364	**$ 95,049**	$ (65,522)

($ thousands, except as noted)

Supplemental cash flow information

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Interest paid	**$ 2,627**	$ 1,855	**$ 33,480**	$ 19,953
Current tax paid	**$ 1,260**	$ 665	**$ 6,526**	$ 1,318

Components of cash and cash equivalents

	September 30, 2013	December 31, 2012
Cash	**$ 12,461**	$ 4,575
Cash equivalents	**—**	142,109
	$ 12,461	$ 146,684

CORPORATE INFORMATION

OFFICERS

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

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

B. K. Lee
Chief Financial Officer

E. M. Shier
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G. W. P. McMillan
Corporate Operating Officer

D. S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

P. G. Tahmazian
Vice President, Midstream

P. R. Kinvig
Controller

L. A. Friesen
Assistant Corporate Secretary

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Calgary, Alberta

J. H. T. Riddell
President and Chief Operating Officer
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Bryn Athyn, Pennsylvania

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Syosset, New York

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

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

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

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REGISTRAR AND TRANSFER AGENT

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
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