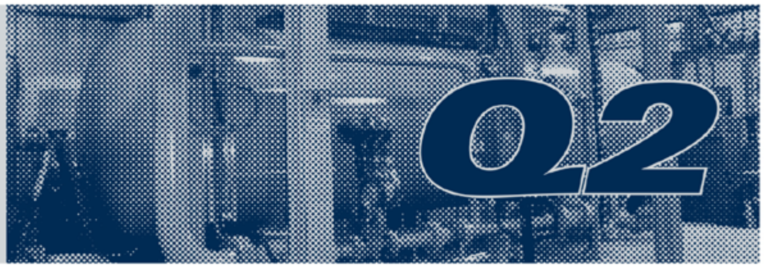
Paramount resources ltd.

SECOND QUARTER REPORT 2013



SECOND QUARTER OVERVIEW

Principal Properties

- The final stages of construction of the Company's wholly-owned 200 MMcf/d deep cut facility at Musreau (the "Musreau Deep Cut Facility") will be completed over the next few months and the project remains in-line with budget. Commissioning of the major components will begin in the fourth quarter of 2013.
- Advance drilling for the deep cut facility expansions at Musreau and Smoky continued. Paramount currently has an inventory of 45 (37.2 net) wells with estimated first month deliverability exceeding 250 MMcf/d (200 MMcf/d net) of raw gas.
- The Company achieved significant reductions in drilling time with its walking drilling rigs on its latest pads, drilling Montney wells in Musreau in less than 30 days compared to approximately 45 days for Montney wells drilled in 2012.
- Based on positive middle-Montney drilling results at Karr-Gold Creek in the Grande Prairie COU, the Company is planning to drill up to five additional horizontal wells during the remainder of 2013.
- Second quarter netbacks increased 80 percent to $37.8 million in 2013 from $21.0 million in 2012, despite the impact of third-party downstream disruptions and spring road bans which curtailed production by approximately 4,000 Boe/d, including the temporary shut-in of high liquids content Montney wells.
- Kaybob COU sales volumes increased 14 percent to 13,901 Boe/d in the second quarter of 2013 compared to 12,236 Boe/d in 2012. Total Company sales volumes in the second quarter of 2013 averaged 20,790 Boe/d compared to 21,474 Boe/d in 2012.
- Kaybob COU operating expenses have averaged approximately $4.00 per Boe in 2013, and less than $4.00 per Boe within the Musreau area, after accounting for processing income.
- Paramount continued to rationalize its non-core assets, including the disposition of its Ante Creek property, to focus on the opportunities that generate the best returns.

Corporate

- Paramount's bank credit facility (the "Facility") has been increased by $150 million to $450 million. The Facility was undrawn at June 30, 2013.
- The Company raised $150.9 million through the issuance of 4.0 million common shares in May 2013.

Strategic Investments

- Drilling operations at the Company's shale gas exploratory well in Dunedin will resume in September following the completion of an all-season access road. The Company's shale gas exploratory well at Patry is expected to be tied-in later in the year.
- Paramount's wholly-owned subsidiary, Cavalier Energy Inc., continued with front-end engineering and design work for the first phase of the Hoole Grande Rapids project, funded with Cavalier's own credit facility.
- Fox Drilling's five rigs are fully deployed on the Company's lands in the Deep Basin.

FINANCIAL AND OPERATING HIGHLIGHTS(1)(2)

($ millions, except as noted)

	Three months ended June 30			Six months ended June 30		
	2013	2012	% Change	2013	2012	% Change
Financial						
Petroleum and natural gas sales	59.4	46.5	28	120.8	101.2	19
Funds flow from operations	22.3	12.1	84	38.8	25.0	55
Per share – diluted ($/share)	*0.24*	*0.15*	*60*	*0.42*	*0.28*	*50*
Net income (loss)	(22.1)	–	(100)	(21.8)	124.5	(118)
Per share – basic ($/share)	*(0.24)*	–		*(0.24)*	*1.46*	
Per share – diluted ($/share)	*(0.24)*	–		*(0.24)*	*1.43*	
Exploration and development expenditures	94.0	66.4	42	239.2	208.6	15
Investments in other entities – market value(3)				759.1	611.4	24
Total assets				2,084.4	1,777.3	17
Net debt(4)				803.3	472.8	70
Common shares outstanding (thousands)				95,375	85,498	12
Operating						
Sales volumes						
Natural gas (MMcf/d)	107.6	106.2	1	110.6	97.4	14
NGLs (Bbl/d)	2,126	1,973	8	2,392	1,813	32
Oil (Bbl/d)	722	1,808	(60)	859	2,097	(59)
Total (Boe/d)	20,790	21,474	(3)	21,685	20,144	8
Average realized price						
Natural gas ($/Mcf)	3.97	2.09	90	3.71	2.40	55
NGLs ($/Bbl)	71.84	69.63	3	72.90	73.71	(1)
Oil ($/Bbl)	85.98	78.65	9	85.05	84.66	–
Total ($/Boe)	31.41	23.82	32	30.76	27.62	11
Net wells drilled (excluding oil sands evaluation)	6	8	(25)	15	19	(21)
Net oil sands evaluation wells drilled	–	–	–	6	1	500

(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas definitions in the Advisories section of this document.
(2) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the three and six months ended June 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 six months ended June 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 30 for our forward looking statements and other advisories.

REVIEW OF OPERATIONS

	Second Quarter 2013		First Quarter [1] 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	107.6		113.6		*(5)*
NGLs (Bbl/d)	2,126		2,662		*(20)*
Oil (Bbl/d)	722		998		*(28)*
Total (Boe/d)	20,790		22,591		*(8)*
Netbacks ($ millions)[2]		*($/Boe)* [3]		*($/Boe)* [3]	*% Change in $mm*
Natural gas revenue	38.9	*3.97*	35.4	*3.47*	*10*
NGLs revenue	13.9	*71.84*	17.7	*73.78*	*(21)*
Oil revenue	5.6	*85.98*	7.6	*84.37*	*(26)*
Royalty and sulphur revenue	1.0	*—*	0.6	*—*	*67*
Petroleum and natural gas sales	59.4	*31.41*	61.3	*30.16*	*(3)*
Royalties	(0.4)	*(0.22)*	(4.3)	*(2.15)*	*(91)*
Operating expense	(16.0)	*(8.46)*	(20.7)	*(10.18)*	*(23)*
Transportation	(5.2)	*(2.74)*	(5.2)	*(2.55)*	*—*
Netback	37.8	*19.99*	31.1	*15.28*	*22*
Financial commodity contract settlements	—	—	—	—	—
Netback incl. financial commodity contract settlements	37.8	*19.99*	31.1	*15.28*	*22*

(1) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the three and six months ended June 30, 2013.
(2) Readers are referred to the advisories concerning non-GAAP measures and oil and gas definitions in the Advisories section of this document.
(3) Natural gas revenue shown per Mcf.

Paramount continued to make good progress on its large-scale projects in the Kaybob Deep Basin in the second quarter, with the Musreau Deep Cut Facility taking shape and the inventory of pre-drilled wells that will feed the facility continuing to grow. 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 downstream third-party NGLs fractionation facilities in which Paramount has secured long-term firm service capacity. Liquids yields from wells drilled in the richer areas of Paramount's Deep Basin holdings are higher than initially anticipated. Sales volumes from a Montney well brought-on by the Company in this area averaged approximately 3 MMcf/d of natural gas and 900 Bbl/d of NGLs over its first 21 days of production, after recovering completion fluids. This well was produced at restricted rates due to liquids handling constraints.

The adverse impact of third-party downstream disruptions and capacity constraints ("Third-Party Disruptions") increased in the second quarter of 2013. In addition to apportionments of NGLs processing and transportation capacity, the Company's production was also effected 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 temporarily suspended as a result of spring road bans and recent heavy rainfall. As a result, sales volumes were curtailed by approximately 4,000 Boe/d, including the temporary shut-in of high liquids content Montney wells.

Oil sales volumes decreased 28 percent to 722 Bbl/d in the second quarter of 2013 compared to 998 Bbl/d in the first quarter, primarily because of first quarter property dispositions.

The Company's netback increased 22 percent in the second quarter of 2013 compared to the first quarter of 2013, mainly due to lower operating expenses and royalties and higher natural gas prices. Operating expenses decreased because of the sale of the higher cost Cameron Hills / Bistcho area in the Northern COU. Royalties decreased primarily because of annual gas cost allowance adjustments for 2012.

Kaybob

	Second Quarter 2013		First Quarter 2013		*% Change*
Sales Volumes					
Natural gas (MMcf/d)	76.4		75.9		*1*
NGLs (Bbl/d)	1,137		1,454		*(22)*
Oil (Bbl/d)	33		45		*(27)*
Total (Boe/d)	13,901		14,156		*(2)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	48		82		*(41)*
Facilities and gathering	20		35		*(43)*
	68		117		*(42)*
	Gross	Net	Gross	Net	
Wells Drilled	5	4.0	8	5.9	

Kaybob COU second quarter 2013 sales volumes averaged 13,901 Boe/d, a decrease of two percent compared to the first quarter of 2013. After achieving record Kaybob COU production of approximately 16,000 Boe/d in March and April, production was impacted by Third-Party Disruptions, spring road bans and recent heavy rainfall that limited the Company's ability to flow liquids-rich Montney wells.

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 are expected to further decrease following the start-up of the Musreau Deep Cut Facility, as fixed costs will be applied over significantly higher production volumes.

Kaybob COU production will continue to be impacted by apportionments of downstream third-party NGLs pipeline capacity until the fourth quarter, when system expansions are scheduled to be completed. Kaybob COU production will increase significantly once the Musreau Deep Cut Facility is brought on-stream.

Infrastructure Projects

The final stages of construction of the Musreau Deep Cut Facility will be completed over the next few months and the project remains in-line with the original $180 million budget. Approximately 100 people are working on-site completing various facets of construction and installing equipment and instrumentation. All of the major equipment has been delivered and set in place, buildings are being erected and piping to connect the components is being welded into place. The last of the major contracts, electrical and instrumentation, have been awarded and site work has commenced.

Commissioning of the major components of the Musreau Deep Cut Facility will begin in the fourth quarter of 2013. The commissioning process, expected to span two to three months, involves testing individual pieces of equipment to ensure they operate to specification and testing control loops to ensure components and valves operate in a coordinated fashion as per design. Piping will also be pressure tested for structural integrity and then 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 is continuing to pursue a variety of alternatives to secure NGLs fractionation capacity so that the Musreau Deep Cut Facility can be operated at full capacity, including the extraction of ethane, for the period between the start-up of the facility and the commencement of long-term firm-service fractionation arrangements in April 2014.

The design of the amine processing train (the "Amine Train"), an incremental project to be constructed at the Musreau Deep Cut Facility site, is nearing completion and the total estimated cost remains at $50 million. The Amine Train will provide the capability to treat sour gas at a centralized facility instead of at individual well sites, which will decrease well equipping costs by over $1 million per well and result in significantly lower ongoing well operating costs. Construction of the Amine Train project will take place over the winter months and start-up is scheduled for the first half of 2014. Activities related to the construction and commissioning of the Amine Train will not impact the start-up of the Musreau Deep Cut Facility.

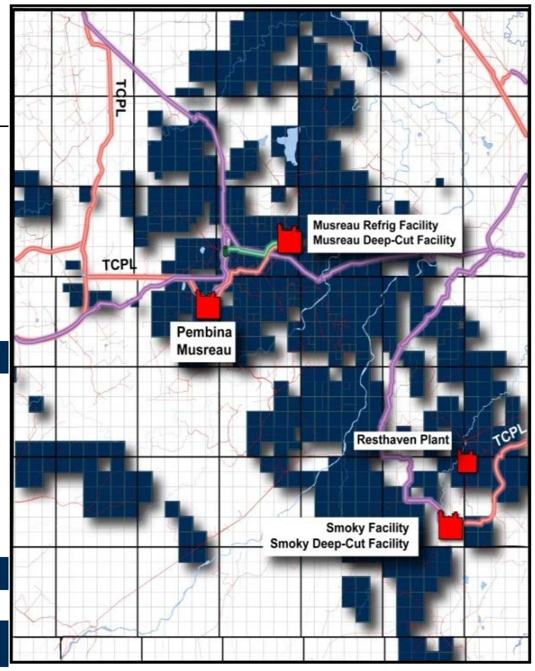
Paramount is also continuing its design process for an expansion to the condensate stabilizer system servicing the Company's Musreau facilities as a result of higher than expected condensate yields from the Company's Montney wells. The expansion is now being designed to provide an incremental 15,000 Bbl/d of condensate stabilization capacity, 25 percent higher than initially planned, and is expected to be completed in 2014 at a cost of approximately $35 million.

The deep cut expansion of the non-operated processing facility at Smoky continued in the second quarter, with major equipment being set on foundations, piping installation commencing and interior steel assembly underway. The expansion is scheduled to start-up in the third quarter of 2014.

Kaybob Processing Capacity

Upon completion of the Musreau and Smoky deep cut facilities and the condensate stabilizer expansion, Paramount expects to have 309 MMcf/d of net owned and third-party firm-service processing capacity in the Kaybob Deep Basin which will yield over 85,000 Boe/d of sales volumes. This capacity will be used to process Paramount’s production as well as unavoidably commingled third-party volumes for a fee. Paramount currently has 79 MMcf/d of net owned and firm-service processing capacity in the Kaybob Deep Basin and up to 14 MMcf/d of interruptible processing capacity. The Company’s current owned and firm-service processing capacity and capacity under construction in the Kaybob Deep Basin is shown below:

	Gross Raw Gas Capacity	Net Paramount Raw Gas Capacity	Net Paramount Sales Capacity(i)
	(MMcf/d)	(MMcf/d)	(Boe/d)
Current Processing Capacity			
Musreau Refrig Facility	45	45	8,500
Resthaven Facility	20	10	2,000
Smoky Facility	100	10	2,500
Kakwa Facility	40	4	700
Firm Contracted Capacity	10	10	1,800
Current Capacity	*215*	*79*	*15,500*
Capacity Under Construction			
Musreau Deep Cut Facility	200	200	50,000
Musreau Condensate Stabilizer Expansion	—	—	15,000
Smoky Deep Cut Facility	200	30	7,500
Capacity Under Construction	*400*	*230*	*72,500*
Projected Total	615	309	88,000



(i) Please refer to the heading ‘Estimated Net Sales Capacity’ in the Advisories section of this document for further information.

Paramount is continuing to plan for an additional natural gas processing plant within the Kaybob COU. The NGLs recovery process, plant capacity and timing for construction are currently under review and will, in part, depend on NGLs fractionation capacity expansions and takeaway agreements.

Kaybob Drilling Activity

Paramount has approximately 235 (200 net) sections of Montney rights in the Kaybob COU. In June 2013, the Company received regulatory approval to increase well densities on a portion of its Montney lands at Musreau and now has a contiguous block of 36 sections approved for up to five wells per section. Densities of ten or more wells per section are anticipated to be required to fully recover the resources in place.

Paramount continues to focus its Kaybob Deep Basin drilling program in the northern portion of its Musreau property, where condensate yields have exceeded expectations. The Company drilled five (4.0 net) wells in the Kaybob COU in the second quarter. One of these wells is part of a five well pad in Musreau where four Montney wells and one Falher well are being drilled by one of the Company’s walking rigs. Drilling of all five wells on this pad is expected to be finished by mid-August. The second walking rig is currently drilling on a four well pad in Musreau, including two Montney wells and two Falher wells, all of which are scheduled to be complete by mid-August. When drilling is finished on these two pads, the walking rigs will move to two 10-well pads that will exclusively target the Montney formation. Paramount has achieved significant reductions in drilling days on its latest pads, with Montney wells being drilled in less than 30 days, compared to approximately 45 days for Montney wells drilled in 2012.

Completion operations resumed in early July after being suspended for most of the second quarter due to breakup. 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]

[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.

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 of the Company's drilling rigs. As of July 31, 2013, the Company's behind pipe well inventory in the Kaybob Deep Basin was 45 (37.2 net) wells, with estimated first month deliverability exceeding 250 MMcf/d (200 MMcf/d net) of raw gas.

Grande Prairie

	Second Quarter 2013		First Quarter 2013		*% Change*
Sales Volumes					
Natural gas (MMcf/d)	18.6		21.5		*(13)*
NGLs (Bbl/d)	661		938		*(30)*
Oil (Bbl/d)	305		324		*(6)*
Total (Boe/d)	4,063		4,844		*(16)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	25		22		*14*
Facilities and gathering	—		1		*(100)*
	25		23		*9*
	Gross	Net	Gross	Net	
Wells Drilled	4	2.6	2	0.6	

Second quarter 2013 sales volumes in the Grande Prairie COU averaged 4,063 Boe/d, a decrease of 16 percent from the first quarter. Third-Party Disruptions increased in the second quarter, impacting sales volumes at times by up to 2,500 Boe/d. The Company continues to mitigate the impact of disruptions by routing volumes to other third-party facilities with available capacity.

At Karr-Gold Creek, the Company continued its middle Montney program. A well drilled in the first quarter was completed and brought-on production in early May, averaging 5.1 MMcf/d of natural gas over its first 30 days of production. Following the recovery of load fluids, the well produced an average of 3.5 MMcf/d of natural gas, 320 Bbl/d of field condensate and 74 Bbl/d of NGLs in June 2013. Two additional 100 percent working interest middle Montney horizontal wells are scheduled to be brought on later in the year. Based on the encouraging results and flow rates, Paramount is planning to drill up to five additional horizontal middle Montney wells during the remainder of 2013. Some of these wells will be re-entry projects using existing wellbores from previously drilled lower Montney wells.

Positive results from the Company's wells and offsetting industry wells have confirmed that the middle Montney trend extends from the Kaybob area northwest onto the Company's 165 (125 net) sections of Montney rights at Karr-Gold Creek. To support further growth, the Company is in the preliminary stages of planning for an expansion of its compression and dehydration facilities and is evaluating alternatives to secure additional long-term processing and transportation capacity.

At Valhalla, Third-Party Disruptions are impacting Paramount's ability to flow wells and add new production. The Company is currently pursuing opportunities to obtain long-term capacity at downstream facilities in an effort to increase production and reduce downtime.

In May 2013, Paramount completed the sale of the majority of its holdings in the Ante Creek area of Alberta in exchange for $13.5 million in shares of RMP Energy Inc.

Southern

	Second Quarter 2013		First Quarter 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	9.6		8.4		*14*
NGLs (Bbl/d)	317		142		*123*
Oil (Bbl/d)	384		492		*(22)*
Total (Boe/d)	2,315		2,028		*14*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	—		3		*(100)*
Facilities and gathering	—		—		—
	—		3		*(100)*
	Gross	Net	Gross	Net	
Wells Drilled	—	—	1	1.0	

Southern COU sales volumes increased 14 percent to 2,315 Boe/d in the second quarter of 2013 compared to 2,028 Boe/d in the first quarter, mainly as a result of a new liquids-rich well that was brought-on at Harmattan in April 2013.

In the first quarter of 2013, Paramount sold its remaining US properties for US$21.8 million. The Company continues to rationalize its non-core assets. Activities for the Southern COU's remaining properties for the balance of 2013 consist primarily of routine maintenance and production optimization programs.

Northern

	Second Quarter 2013		First Quarter [(1)] 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	3.0		7.8		*(62)*
NGLs (Bbl/d)	11		128		*(91)*
Oil (Bbl/d)	—		137		*(100)*
Total (Boe/d)	511		1,563		*(67)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	—		1		*(100)*
Facilities and gathering	—		1		*(100)*
	—		2		*(100)*
	Gross	Net	Gross	Net	
Wells Drilled	—	—	1	1.0	

(1) Amounts include the results of discontinued operations. Refer to Paramount's Management's Discussion and Analysis for the three and six months ended June 30, 2013.

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. Average sales volumes for these properties were approximately 600 Boe/d in the first quarter of 2013.

Sales volumes in the Northern COU decreased to 511 Boe/d in the second quarter of 2013 as a result of the sale of the Bistcho / Cameron Hills properties and a production disruption at Birch due to high line pressure in a downstream third-party pipeline.

Corporate

Paramount's bank credit facility has been increased by $150 million to $450 million. The Facility was undrawn at June 30, 2013. Paramount anticipates further increases in the size of its Facility as its reserves base grows with the continued execution of its Deep Basin development program.

In May 2013, the Company raised $150.9 million through the issuance of 4.0 million common shares.

Strategic Investments

Shale Gas

Paramount is constructing a road in the Dunedin area of Northeast British Columbia to provide all-season access to its shale gas evaluation wellsite and its other lands in the area. The road is expected to be completed in September 2013, at which time drilling will resume to complete the horizontal leg of the Dunedin evaluation well. Completion operations are expected to follow in the winter of 2013 / 2014.

Tie-in work for the shale gas exploratory well at Patry is scheduled to commence in September 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 August 7, 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 six months ended June 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 production or revenue, 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.

Second Quarter Overview

Principal Properties

- The final stages of construction of the Company's wholly-owned 200 MMcf/d deep cut facility at Musreau (the "Musreau Deep Cut Facility") will be completed over the next few months and the project remains in-line with budget. Commissioning of the major components will begin in the fourth quarter of 2013.
- Advance drilling for the deep cut facility expansions at Musreau and Smoky continued. Paramount currently has an inventory of 45 (37.2 net) wells drilled and awaiting the start-up of the facilities.
- The Company achieved significant reductions in drilling time with its walking drilling rigs on its latest pads, drilling Montney wells in Musreau in less than 30 days compared to approximately 45 days for Montney wells drilled by the Company in 2012.
- Based on positive middle-Montney drilling results at Karr-Gold Creek in the Grande Prairie COU, the Company is planning to drill up to five additional horizontal wells during the remainder of 2013.
- Second quarter netbacks increased 80 percent to $37.8 million in 2013 from $21.0 million in the second quarter of 2012 mainly due to higher natural gas prices. The impact of third-party downstream disruptions and spring road bans curtailed production by approximately 4,000 Boe/d during the second quarter of 2013, including the temporary shut-in of high liquids content Montney wells.
- Kaybob COU sales volumes increased 14 percent to 13,901 Boe/d in the second quarter of 2013 compared to 12,236 Boe/d in the second quarter of 2012. Total Company sales volumes in the second quarter of 2013 averaged 20,790 Boe/d compared to 21,474 Boe/d in the second quarter of 2012.
- Kaybob COU operating expenses for the six months ended June 30, 2013 averaged approximately $4.00 per Boe, and less than $4.00 per Boe within the Musreau area, after accounting for processing income.
- Paramount continued to dispose of non-core assets, including the disposition of its Ante Creek property, to focus on the opportunities that generate the best returns.

Corporate

- Paramount's bank credit facility (the "Facility") has been increased by $150 million to $450 million. The Facility was undrawn at June 30, 2013.
- The Company raised $150.9 million through the issuance of 4.0 million Class A Common Shares ("Common Shares") in May 2013.

Strategic Investments

- Drilling operations at the Company's shale gas exploratory well in Dunedin will resume in September following the completion of an all-season access road. The Company's shale gas exploratory well at Patry is expected to be tied-in later in the year.
- Cavalier Energy continued with front-end engineering and design work for the first phase of the Hoole Grande Rapids project. These activities are being funded with Cavalier Energy's credit facility.
- Fox Drilling's five rigs are fully deployed on the Company's lands in the Deep Basin.

Highlights[(1)]

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
FINANCIAL				
Petroleum and natural gas sales – continuing operations	59.4	40.5	119.0	83.6
Petroleum and natural gas sales – discontinued operations	—	6.0	1.8	17.6
Petroleum and natural gas sales	59.4	46.5	120.8	101.2
Funds flow from operations – continuing operations	22.3	10.2	40.1	19.1
Funds flow from operations – discontinued operations	—	1.9	(1.3)	5.9
Funds flow from operations	22.3	12.1	38.8	25.0
per share – diluted ($/share)	*0.24*	*0.15*	*0.42*	*0.28*
Income (loss) from continuing operations	(22.1)	(29.8)	(49.8)	97.4
per share – basic ($/share)	*(0.24)*	*(0.35)*	*(0.55)*	*1.14*
per share – diluted ($/share)	*(0.24)*	*(0.35)*	*(0.55)*	*1.12*
Net income (loss)	(22.1)	—	(21.8)	124.5
per share – basic ($/share)	*(0.24)*	—	*(0.24)*	*1.46*
per share – diluted ($/share)	*(0.24)*	—	*(0.24)*	*1.43*
Exploration and development expenditures	94.0	66.4	239.2	208.6
Investments in other entities – market value [(2)]			759.1	611.4
Total assets			2,084.4	1,777.3
Long-term debt			661.4	405.1
Net debt			803.3	472.8
OPERATIONAL				
Sales volumes [(3)]				
Natural gas (MMcf/d)	107.6	106.2	110.6	97.4
NGLs (Bbl/d)	2,126	1,973	2,392	1,813
Oil (Bbl/d)	722	1,808	859	2,097
Total (Boe/d)	20,790	21,474	21,685	20,144
Net wells drilled (excluding oil sands evaluation)	6	8	15	19
Net oil sands evaluation wells drilled	—	—	6	1
FUNDS FLOW FROM OPERATIONS ($/Boe) [(3)]				
Petroleum and natural gas sales	31.41	23.82	30.76	27.62
Royalties	(0.22)	(2.00)	(1.22)	(2.51)
Operating expense and production tax	(8.46)	(8.20)	(9.35)	(10.18)
Transportation	(2.74)	(2.90)	(2.64)	(3.09)
Netback	19.99	10.72	17.55	11.84
Financial commodity contract settlements	—	0.23	—	(0.27)
Netback including financial commodity contract settlements	19.99	10.95	17.55	11.57
General and administrative – corporate	(2.16)	(2.09)	(1.81)	(1.94)
General and administrative – strategic investments	(0.96)	(0.71)	(0.97)	(0.83)
Interest	(6.84)	(4.01)	(6.47)	(4.15)
Dividends from investments	1.06	1.03	1.02	1.10
Other	0.67	1.01	0.58	1.05
Funds flow from operations	11.76	6.18	9.90	6.80

(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.

Consolidated Results

Net Income (Loss)

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Principal Properties	(4.1)	(12.9)	(12.3)	(2.7)
Strategic Investments	(1.2)	(3.5)	(1.2)	149.6
Corporate	(22.4)	(18.7)	(42.5)	(34.8)
Income tax recovery (expense)	5.6	5.3	6.2	(14.7)
Income (loss) from continuing operations	(22.1)	(29.8)	(49.8)	97.4
Discontinued operations, net of tax	—	29.8	28.0	27.1
Net income (loss)	(22.1)	—	(21.8)	124.5

Paramount recorded a loss from continuing operations of $22.1 million for the three months ended June 30, 2013 compared to a loss from continuing operations of $29.8 million in the second quarter of 2012. Significant factors contributing to the change are shown below:

Three months ended June 30	
Loss from continuing operations – 2012	(29.8)
• Higher netback primarily due to a 91 percent increase in realized natural gas prices	18.7
• Higher gains on the sale of property, plant and equipment related to continuing operations	10.8
• Higher income from equity-accounted investments	3.3
• Higher exploration and evaluation expense mainly due to increased expired lease costs	(12.5)
• Lower gains on financial commodity contracts	(5.6)
• Higher interest expense due to increased debt	(5.3)
• Higher depletion and depreciation due to higher production from continuing operations	(3.4)
• Other	1.7
Loss from continuing operations – 2013	(22.1)

Paramount recorded a loss from continuing operations of $49.8 million for the six months ended June 30, 2013 compared to income from continuing operations of $97.4 million in the same period of 2012. Significant factors contributing to the change are shown below:

Six months ended June 30	
Income from continuing operations – 2012	97.4
• 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 exploration and evaluation expense mainly due to increased expired lease costs	(17.7)
• Higher depletion and depreciation mainly due to higher production from continuing operations	(16.4)
• Higher interest expense due to increased debt	(10.6)
• Lower gains on the sale of property, plant and equipment related to continuing operations	(5.8)
• Higher netback primarily due to a 56 percent increase in realized natural gas prices and higher production	32.0
• Income tax recovery in 2013 compared to an expense in 2012	20.9
• Other	2.1
Loss from continuing operations – 2013	(49.8)

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

Income from discontinued operations ("IFDO") in the second quarter of 2012 includes a pre-tax loss from ordinary operations of the Northern Discontinued Operations of $1.5 million, pre-tax income from ordinary operations of the Southern Discontinued Operations of $1.9 million, a pre-tax gain of $50.8 million on the sale of the Southern Discontinued Operations, and tax expense of $21.3 million.

IFDO for the six months ended June 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 six months ended June 30, 2012 includes a pre-tax loss from ordinary operations of the Northern Discontinued Operations of $4.2 million, pre-tax income from ordinary operations 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 $24.4 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 June 30		Six months ended June 30	
	2013	2012	2013	2012
Cash from operating activities	8.4	11.5	31.5	25.6
Change in non-cash working capital	11.3	(2.5)	1.5	(9.9)
Geological and geophysical expenses	1.9	2.0	3.4	4.4
Asset retirement obligations settled	0.7	1.1	2.4	4.9
Funds flow from operations	22.3	12.1	38.8	25.0
Funds flow from operations ($/Boe)	11.76	6.18	9.90	6.80

[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 June 30		Six months ended June 30	
	2013	2012	2013	2012
Funds flow from operations				
Continuing operations	22.3	10.2	40.1	19.1
Discontinued operations	—	1.9	(1.3)	5.9
Funds flow from operations	22.3	12.1	38.8	25.0

Funds flow from operations in the second quarter of 2013 attributable to continuing operations was $22.3 million, $12.1 million higher than the second quarter of 2012. Funds flow from operations attributable to continuing operations was $40.1 million in the six months ended June 30, 2013, $21.0 million higher than the comparable period of 2012. The increases in funds flow from operations are primarily because of higher netbacks due to higher realized prices for natural gas and higher natural gas and NGLs sales volumes, the impacts of which were partially offset by higher interest expense.

Funds flow from operations attributable to discontinued operations decreased by $7.2 million in the six months ended June 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 as a result of scheduled seasonal maintenance programs.

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 June 30, 2013						Three months ended June 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	38.9	—	38.9	3.97	—	3.97	19.2	1.1	20.3	2.08	2.23	2.09
NGLs revenue	13.9	—	13.9	71.84	—	71.84	12.4	0.1	12.5	69.52	81.43	69.63
Oil revenue	5.6	—	5.6	85.98	—	85.98	8.0	4.8	12.8	82.74	72.77	78.65
Royalty and sulphur revenue	1.0	—	1.0	—	—	—	0.9	—	0.9	—	—	—
Petroleum and natural gas sales	59.4	—	59.4	31.41	—	31.41	40.5	6.0	46.5	22.36	42.31	23.82
Royalties	(0.4)	—	(0.4)	(0.22)	—	(0.22)	(3.2)	(0.6)	(3.8)	(1.78)	(4.87)	(2.00)
Operating expense	(16.0)	—	(16.0)	(8.46)	—	(8.46)	(13.0)	(3.0)	(16.0)	(7.17)	(21.39)	(8.20)
Transportation	(5.2)	—	(5.2)	(2.74)	—	(2.74)	(5.2)	(0.5)	(5.7)	(2.89)	(3.23)	(2.90)
Netback	37.8	—	37.8	19.99	—	19.99	19.1	1.9	21.0	10.52	12.82	10.72
Financial commodity contract settlements	—	—	—	—	—	—	0.4	—	0.4	0.24	—	0.23
Netback including financial commodity contract settlements	37.8	—	37.8	19.99	—	19.99	19.5	1.9	21.4	10.76	12.82	10.95
General and administrative	(5.9)	—	(5.9)	(3.12)	—	(3.12)	(5.5)	—	(5.5)	(3.03)	—	(2.80)
Interest	(12.9)	—	(12.9)	(6.84)	—	(6.84)	(7.8)	—	(7.8)	(4.32)	—	(4.01)
Dividends from investments	2.0	—	2.0	1.06	—	1.06	2.0	—	2.0	1.11	—	1.03
Other	1.3	—	1.3	0.67	—	0.67	2.0	—	2.0	1.08	—	1.01
Funds flow from operations	22.3	—	22.3	11.76	—	11.76	10.2	1.9	12.1	5.60	12.82	6.18
DD&A / Accretion	(39.0)	—	(39.0)				(37.1)	(1.4)	(38.5)			
Gain (loss) on sale of PP&E	10.6	—	10.6				(0.2)	50.8	50.6			
Other	(21.6)	—	(21.6)				(8.0)	(0.2)	(8.2)			
Income tax (expense) recovery	5.6	—	5.6				5.3	(21.3)	(16.0)			
Net Income (loss)	(22.1)	—	(22.1)				(29.8)	29.8	—			

[1] Natural gas revenue shown per Mcf.

	Six months ended June 30, 2013						Six months ended June 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	73.7	0.7	74.4	*3.73*	*2.82*	*3.71*	40.2	2.3	42.5	*2.39*	*2.50*	*2.40*
NGLs revenue	31.5	—	31.5	*72.90*	—	*72.90*	23.8	0.5	24.3	*73.75*	*71.66*	*73.71*
Oil revenue	12.2	1.1	13.3	*85.08*	*84.75*	*85.05*	17.5	14.8	32.3	*86.51*	*82.57*	*84.66*
Royalty and sulphur revenue	1.6	—	1.6	—	—	—	2.1	—	2.1	—	—	—
Petroleum and natural gas sales	119.0	1.8	120.8	*30.73*	*32.95*	*30.76*	83.6	17.6	101.2	*25.13*	*51.90*	*27.62*
Royalties	(4.8)	—	(4.8)	*(1.23)*	—	*(1.22)*	(7.0)	(2.2)	(9.2)	*(2.11)*	*(6.38)*	*(2.51)*
Operating expense	(33.9)	(2.9)	(36.8)	*(8.75)*	*(52.54)*	*(9.35)*	(28.1)	(9.3)	(37.4)	*(8.44)*	*(27.21)*	*(10.18)*
Transportation	(10.2)	(0.2)	(10.4)	*(2.62)*	*(4.27)*	*(2.64)*	(10.4)	(0.9)	(11.3)	*(3.13)*	*(2.68)*	*(3.09)*
Netback	70.1	(1.3)	68.8	*18.13*	*(23.86)*	*17.55*	38.1	5.2	43.3	*11.45*	*15.63*	*11.84*
Financial commodity contract settlements	—	—	—	—	—	—	(1.0)	—	(1.0)	*(0.30)*	—	*(0.27)*
Netback including financial commodity contract settlements	70.1	(1.3)	68.8	*18.13*	*(23.86)*	*17.55*	37.1	5.2	42.3	*11.15*	*15.63*	*11.57*
General and administrative	(10.9)	—	(10.9)	*(2.82)*	—	*(2.78)*	(10.1)	—	(10.1)	*(3.05)*	—	*(2.77)*
Interest	(25.4)	—	(25.4)	*(6.56)*	—	*(6.47)*	(15.2)	—	(15.2)	*(4.58)*	—	*(4.15)*
Dividends from investments	4.0	—	4.0	*1.04*	—	*1.02*	4.0	—	4.0	*1.21*	—	*1.10*
Other	2.3	—	2.3	*0.59*	—	*0.58*	3.3	0.7	4.0	*1.01*	*1.47*	*1.05*
Funds flow from operations	40.1	(1.3)	38.8	*10.38*	*(23.86)*	*9.90*	19.1	5.9	25.0	*5.74*	*17.10*	*6.80*
DD&A / Accretion	(81.1)	(0.3)	(81.4)				(67.6)	(4.4)	(72.0)			
Gain on sale of PP&E	22.4	39.0	61.4				28.2	50.8	79.0			
Other	(37.4)	—	(37.4)				132.3	(0.7)	131.6			
Income tax (expense) recovery	6.2	(9.4)	(3.2)				(14.6)	(24.5)	(39.1)			
Net Income (loss)	(49.8)	28.0	(21.8)				97.4	27.1	124.5			

[1] Natural gas revenue shown per Mcf.

Principal Properties

Netback and Segment Loss – Continuing Operations

	Three months ended June 30				Six months ended June 30			
	2013		2012		2013		2012	
		($/Boe)		*($/Boe)*		*($/Boe)*		*($/Boe)*
Petroleum and natural gas sales	59.4	*31.41*	40.5	*22.36*	119.0	*30.73*	83.6	*25.13*
Royalties	(0.4)	*(0.22)*	(3.2)	*(1.78)*	(4.8)	*(1.23)*	(7.0)	*(2.11)*
Operating expense	(16.0)	*(8.46)*	(13.0)	*(7.17)*	(33.9)	*(8.75)*	(28.1)	*(8.44)*
Transportation	(5.2)	*(2.74)*	(5.2)	*(2.89)*	(10.2)	*(2.62)*	(10.4)	*(3.13)*
Netback	37.8	*19.99*	19.1	*10.52*	70.1	*18.13*	38.1	*11.45*
Financial commodity contract settlements	—	—	0.4	*0.24*	—	—	(1.0)	*(0.30)*
Netback including financial commodity contract settlements	37.8	*19.99*	19.5	*10.76*	70.1	*18.13*	37.1	*11.15*
Other principal property items (see below)	(41.9)		(32.4)		(82.4)		(39.8)	
Segment loss	(4.1)		(12.9)		(12.3)		(2.7)	

Petroleum and Natural Gas Sales – Continuing Operations

	Three months ended June 30			Six months ended June 30		
	2013	2012	% Change	2013	2012	% Change
Natural gas	38.9	19.2	103	73.7	40.2	83
NGLs	13.9	12.4	12	31.5	23.8	32
Oil	5.6	8.0	(30)	12.2	17.5	(30)
Royalty and sulphur revenue	1.0	0.9	11	1.6	2.1	(24)
	59.4	40.5	47	119.0	83.6	42

Petroleum and natural gas sales in the second quarter of 2013 were $59.4 million, an increase of $18.9 million from the second quarter of 2012. Petroleum and natural gas sales were $119.0 million in the six months ended June 30, 2013, an increase of $35.4 million compared to the same period in 2012. The increases were primarily due to higher realized prices for natural gas and higher natural gas and NGLs sales volumes, partially offset by lower oil sales volumes.

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

	Natural gas	NGLs	Oil	Royalty and Sulphur	Total
Three months ended June 30, 2012	19.2	12.4	8.0	0.9	40.5
Effect of changes in prices	18.5	0.4	0.2	—	19.1
Effect of changes in sales volumes	1.2	1.1	(2.6)	—	(0.3)
Change in royalty and sulphur	—	—	—	0.1	0.1
Three months ended June 30, 2013	38.9	13.9	5.6	1.0	59.4

	Natural gas	NGLs	Oil	Royalty and Sulphur	Total
Six months ended June 30, 2012	40.2	23.8	17.5	2.1	83.6
Effect of changes in prices	25.7	(0.9)	(0.1)	—	24.7
Effect of changes in sales volumes	7.8	8.6	(5.2)	—	11.2
Change in royalty and sulphur	—	—	—	(0.5)	(0.5)
Six months ended June 30, 2013	73.7	31.5	12.2	1.6	119.0

Sales Volumes

	Three months ended June 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	76.4	66.3	15	1,137	1,132	—	33	61	(46)	13,901	12,236	14
Grande Prairie	18.6	21.5	(13)	661	658	—	305	269	13	4,063	4,514	(10)
Southern	9.6	9.8	(2)	317	162	96	384	731	(47)	2,315	2,531	(9)
Northern	3.0	3.8	(21)	11	5	120	—	3	(100)	511	623	(18)
Continuing Ops	107.6	101.4	6	2,126	1,957	9	722	1,064	(32)	20,790	19,904	4
Discontinued Ops	—	4.8	(100)	—	16	(100)	—	744	(100)	—	1,570	(100)
Total	107.6	106.2	1	2,126	1,973	8	722	1,808	(60)	20,790	21,474	(3)

Second quarter natural gas sales volumes increased 6.2 MMcf/d or six percent to 107.6 MMcf/d in 2013 compared to 101.4 MMcf/d in 2012. Second quarter NGLs sales volumes increased 169 Bbl/d or nine percent to 2,126 Bbl/d in 2013 compared to 1,957 Bbl/d in 2012. Second quarter oil sales volumes decreased 32 percent to 722 Bbl/d in 2013 compared to 1,064 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 half of 2013 has been impacted by various third-party downstream disruptions and capacity constraints ("Third-Party Disruptions"). In addition to apportionments of NGLs processing and transportation capacity, the Company's production was also effected 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 due to spring road bans and recent heavy rainfall. As a result, sales volumes were curtailed by approximately 4,000 Boe/d during the second quarter of 2013 and by approximately 3,000 Boe/d for the six months ended June 30, 2013. Third-Party Disruptions primarily impacted production within the Grande Prairie and Kaybob COUs.

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

	Six months ended June 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	76.2	59.5	28	1,294	976	33	39	63	(38)	14,028	10,956	28
Grande Prairie	20.0	19.2	4	799	627	27	314	330	(5)	4,452	4,153	7
Southern	9.0	10.3	(13)	230	165	39	438	715	(39)	2,172	2,595	(16)
Northern	4.0	3.4	18	66	5	NM	—	—	—	732	568	29
Continuing Ops	109.2	92.4	18	2,389	1,773	35	791	1,108	(29)	21,384	18,272	17
Discontinued Ops	1.4	5.0	(72)	3	40	(93)	68	989	(93)	301	1,872	(84)
Total	110.6	97.4	14	2,392	1,813	32	859	2,097	(59)	21,685	20,144	8

NM – Not meaningful

Natural gas sales volumes increased 16.8 MMcf/d or 18 percent to 109.2 MMcf/d in the six months ended June 30, 2013 compared to 92.4 MMcf/d in the same period in 2012. NGLs sales volumes increased 616 Bbl/d or 35 percent to 2,389 Bbl/d in the six months ended June 30, 2013 compared to 1,773 Bbl/d in the same period in 2012. Oil sales volumes decreased 29 percent to 791 Bbl/d in the six months ended June 30, 2013 compared to 1,108 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 the lack of processing capacity. New well production at Harmattan within the Southern COU and at Birch within the Northern COU also contributed to the increase.

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

Kaybob COU production will continue to be impacted by apportionments of downstream third-party NGLs pipeline capacity until the fourth quarter, when system expansions are scheduled to be completed.

Kaybob COU production is expected to increase further once the Musreau Deep Cut Facility is brought on-stream.

Average Realized Prices – Continuing Operations

	Three months ended June 30			Six months ended June 30		
	2013	2012	% Change	2013	2012	% Change
Natural gas ($/Mcf)	3.97	2.08	91	3.73	2.39	56
NGLs ($/Bbl)	71.84	69.52	3	72.90	73.75	(1)
Oil ($/Bbl)	85.98	82.74	4	85.08	86.51	(2)
Total ($/Boe)	31.41	22.36	40	30.73	25.13	22

Paramount's average realized natural gas prices in the first half 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, Eastern Canadian market, and California market and is sold in a combination of daily and monthly contracts.

Paramount's Canadian oil and NGLs sales portfolio primarily consists of sales priced relative to 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 June 30			Six months ended June 30		
	2013	2012	% Change	2013	2012	% Change
Natural gas						
AECO (Cdn$/GJ)	3.40	1.74	95	3.16	2.06	53
NYMEX (Henry Hub US$/MMbtu)	4.09	2.22	84	3.40	2.48	37
Crude Oil						
Edmonton par (Cdn$/Bbl)	92.94	84.39	10	90.77	88.54	3
West Texas Intermediate (US$/Bbl)	94.29	93.49	1	94.32	98.21	(4)
Foreign Exchange						
$Cdn / 1 $US	1.02	1.01		1.02	1.01	

Commodity Price Management

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

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Oil Contracts	—	0.4	—	(1.0)

At June 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	0.2	January – June 2014
Oil – NYMEX WTI Swap	2,000 Bbl/d	US $91.78/Bbl	1.4	January – December 2014
			1.6	

Royalties – Continuing Operations

	Three months ended June 30				Six months ended June 30			
	2013	*Rate*	2012	*Rate*	2013	*Rate*	2012	*Rate*
Royalties	0.4	*0.7%*	3.2	*8.1%*	4.8	*4.1%*	7.0	*8.6%*

Second quarter 2013 royalties decreased $2.8 million to $0.4 million compared to $3.2 million in the comparable period in 2012. Royalties for the first half of 2013 decreased $2.2 million to $4.8 million compared to $7.0 million in the comparable period in 2012. Royalties for the first half of 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 half 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 June 30			Six months ended June 30		
	2013	2012	% Change	2013	2012	% Change
Operating expense	16.0	13.0	23	33.9	28.1	21

Operating expense in the second quarter of 2013 increased $3.0 million or 23 percent compared to the same quarter in 2012. Operating expense increased $5.8 million or 21 percent to $33.9 million in the first half of 2013 compared to $28.1 million in the same period in 2012. The increases in operating expense were primarily related to higher production from new wells at Musreau, Resthaven and Smoky within the Kaybob COU and maintenance programs in the Southern and Grande Prairie COUs. Operating expenses in the first half of 2013 have 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 June 30			Six months ended June 30		
	2013	2012	% Change	2013	2012	% Change
Transportation expense	5.2	5.2	–	10.2	10.4	(2)

Transportation expense of $5.2 million in the second quarter of 2013 remained consistent with the same quarter of 2012. Transportation expense decreased $0.2 million in the first half of 2013, despite a 17 percent increase in sales volumes. The impact of higher variable transportation costs due to higher sales volumes was more than 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 decreased to $2.74 in the second quarter of 2013 compared to $2.89 in the same period in 2012.

Transportation expense decreased to $2.62 per Boe in the first half of 2013 compared to $3.13 per Boe in the same period in 2012.

Other Principal Property Items

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Commodity contracts – net of settlements	(1.6)	(6.8)	(1.6)	(4.6)
Depletion and depreciation	38.5	34.9	80.0	63.2
Exploration and evaluation	15.7	3.5	26.0	7.7
(Gain) loss on sale of property, plant and equipment	(10.2)	0.2	(22.0)	(28.2)
Accretion of asset retirement obligations	—	1.5	—	2.9
Other	(0.5)	(0.9)	—	(1.2)
Total	41.9	32.4	82.4	39.8

Second quarter depletion and depreciation expense increased to $38.5 million ($20.35 per Boe) in 2013 compared to $34.9 million ($19.27 per Boe) in the prior year. Depletion and depreciation expense increased to $80.0 million ($20.66 per Boe) in the six months ended June 30, 2013 compared to $63.2 million ($19.00 per Boe) in the same period of 2012. Increases in depletion and depreciation expense are due to higher production volumes and depletion rates in the six months ended June 30, 2013.

Exploration and evaluation expense includes the cost of expired undeveloped land leases, geological and geophysical costs and dry hole expense. Second quarter 2013 exploration and evaluation expense includes expired lease costs of $8.5 million ($1.8 million – 2012) and dry hole expense of $5.9 million ($ nil – 2012). Exploration and evaluation expense for the six months ended June 30, 2013 includes expired lease costs of $15.2 million ($4.2 million – 2012) and dry hole expense of $8.0 million ($0.1 million – 2012).

The $22.0 million gain on sale of property, plant and equipment recorded for the six months ended June 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 June 30		Six months ended June 30	
	2013	2012	2013	2012
Income (loss) from equity-accounted investments	2.8	(0.5)	4.3	156.0
Drilling rig revenue	1.4	3.1	4.0	6.5
Drilling rig expense	(0.7)	(2.0)	(1.7)	(3.8)
General and administrative	(1.8)	(1.4)	(3.8)	(3.0)
Stock-based compensation	(1.9)	(1.4)	(1.8)	(2.8)
Interest	(0.5)	(0.4)	(1.1)	(0.7)
Other	(0.5)	(0.9)	(1.1)	(2.6)
Segment Income (Loss)	(1.2)	(3.5)	(1.2)	149.6

Income from equity-accounted investments in the second quarter of 2013 includes $2.5 million of equity earnings and a $0.3 million dilution gain. Income from equity-accounted investments for the three months ended June 30, 2012 included $0.7 million of equity losses and a $0.2 million dilution gain.

Income from equity-accounted investments for the six months ended June 30, 2013 includes $3.8 million of equity earnings and a $0.5 million dilution gain. Income from equity-accounted investments for the six months ended June 30, 2012 included a $157.2 million gain recognized on the sale of 5.0 million Trilogy shares, $1.5 million of equity losses and a $0.3 million dilution gain.

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

Strategic Investments at June 30, 2013 include:

- investments in the shares of Trilogy, MEG Energy Corp. ("MEG"), 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]	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Trilogy	83.3	82.4	601.1	557.3
MEG	106.7	112.6	106.7	112.6
MGM Energy	2.0	2.3	11.4	13.5
Strategic	8.3	—	8.3	—
RMP	14.4	—	14.4	—
Other[2]	17.2	21.4	17.2	21.4
Total	231.9	218.7	759.1	704.8

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

Cavalier Energy

In the first half 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 drilling 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

The Company re-commenced drilling operations on its initial shale gas evaluation well at Dunedin in Northeast British Columbia in February 2013. Drilling activities at the well-site have been suspended due to warm weather, pending completion of an all-season road that will provide access to the well and Paramount's other lands in the area. The road is expected to be completed in September 2013, at which time drilling will resume in order to complete the horizontal leg of the Dunedin evaluation well. Completion operations are expected to follow in the winter of 2013 / 2014.

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 shale gas well at Patry is scheduled to commence in September and the Company plans to bring the well on production by the end of 2013 to further evaluate performance.

Fox Drilling

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

Corporate

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Interest	12.8	7.6	25.1	14.9
General and administrative	4.1	4.1	7.1	7.1
Stock-based compensation	4.4	6.2	9.6	11.8
Depreciation	0.1	0.1	0.2	0.1
Foreign exchange	1.0	0.7	0.5	0.9
	22.4	18.7	42.5	34.8

Corporate segment costs increased to $22.4 million in the second quarter of 2013 compared to $18.7 million in the same period in 2012 and to $42.5 million for the six months ended June 30, 2013 compared to $34.8 million for the same period in 2012. The increases primarily relate to higher interest expense as a result of higher debt levels.

Paramount's corporate general and administrative costs in 2013 remained at $4.1 million for the second quarter and $7.1 million year-to-date. Corporate general and administrative expense in the second quarter of 2013 was $2.16 per Boe, compared to $2.09 per Boe in the second quarter of 2012.

Exploration and Capital Expenditures

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Geological and geophysical	1.3	1.7	2.8	3.1
Drilling, completion and tie-ins	71.4	30.5	178.0	123.4
Facilities and gathering	21.3	34.2	58.4	82.1
Exploration and development expenditures[1]	94.0	66.4	239.2	208.6
Land and property acquisitions	12.6	1.0	13.5	3.7
Principal Properties	106.6	67.4	252.7	212.3
Strategic Investments	14.5	7.5	62.6	45.5
Corporate	0.1	0.1	3.7	0.2
	121.2	75.0	319.0	258.0

(1) Exploration and development expenditures for the three and six months ended June 30, 2013 include $2.7 million and $5.0 million of capitalized interest, respectively (2012 - $1.2 million and $2.8 million, respectively).

Exploration and development expenditures in the second quarter of 2013 were $94.0 million compared to $66.4 million in the same period in 2012. Exploration and development expenditures in the first half of 2013 were $239.2 million compared to $208.6 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 deep cut facilities expansions. The Company also drilled and completed wells at Karr-Gold Creek in the Grande Prairie COU. Facilities and gathering expenditures focused on the deep cut facility expansions at Musreau and Smoky.

Strategic investments capital expenditures for the first half of 2013 included $34.9 million related to the Company's shale gas drilling activities at Dunedin and Patry in Northeast British Columbia, $14.7 million related to completing the construction of two triple-sized walking drilling rigs and re-certifying an existing rig, and $13.0 million related to front-end engineering and design and other work performed by Cavalier Energy.

Wells drilled are as follows:

	Three months ended June 30				Six months ended June 30			
	2013		2012		2013		2012	
	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]	Gross[1]	Net[2]
Gas	8	6	10	8	18	13	24	18
Oil	—	—	—	—	2	2	1	1
Oil sands evaluation	—	—	—	—	6	6	1	1
Total	8	6	10	8	26	21	26	20

(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

The final stages of construction of the Musreau Deep Cut Facility will be completed over the next few months and the project remains in-line with the original $180 million budget. Approximately 100 people are working on-site completing various facets of construction and installing equipment and instrumentation. All of the major equipment has been delivered and set in place, buildings are being erected and piping to connect the components is being welded into place. The last of the major contracts, electrical and instrumentation, have been awarded and site work has commenced.

Commissioning of the major components of the Musreau Deep Cut Facility will begin in the fourth quarter of 2013. The commissioning process, expected to span two to three months, involves testing individual pieces of equipment to ensure they operate to specification and testing control loops to ensure components and valves operate in a coordinated fashion as per design. Piping will also be pressure tested for structural integrity and then 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 is continuing to pursue a variety of alternatives to secure NGLs fractionation capacity so that the Musreau Deep Cut Facility can be operated at full capacity, including the extraction of ethane, for the period between the start-up of the facility and the commencement of long-term firm-service fractionation arrangements in April 2014.

The design of the amine processing train (the "Amine Train"), an incremental project to be constructed at the Musreau Deep Cut Facility site, is nearing completion and the total estimated cost remains at $50 million. The Amine Train will provide the capability to treat sour gas at a centralized facility instead of at individual well sites, which will decrease well equipping costs by over $1 million per well and result in significantly lower ongoing well operating costs. Construction of the Amine Train project will take place over the winter months and start-up is scheduled for the first half of 2014. Activities related to the construction and commissioning of the Amine Train will not impact the start-up of the Musreau Deep Cut Facility.

Paramount is also continuing its design process for an expansion to the condensate stabilizer system servicing the Company's Musreau facilities as a result of higher than expected condensate yields from the Company's Montney wells. The expansion is now being designed to provide an incremental 15,000 Bbl/d of condensate stabilization capacity, 25 percent higher than initially planned, and is expected to be completed in 2014 at a cost of approximately $35 million.

The deep cut expansion of the non-operated processing facility at Smoky continued in the second quarter, with major equipment being set on foundations, piping installation commencing and interior steel assembly underway. The expansion is scheduled to start-up in the third quarter of 2014.

Paramount continues to focus its Kaybob Deep Basin drilling program in the northern portion of its Musreau property, where condensate yields have exceeded expectations. The Company drilled 13 (9.9 net) wells in the Kaybob COU in the first half of 2013. One of these wells is part of a five well pad in Musreau where four Montney wells and one Falher well are being drilled by one of the Company's walking rigs. Drilling of all five wells on this pad is expected to be finished by mid-August. The second walking rig is currently drilling on a four well pad in Musreau, including two Montney wells and two Falher wells, all of which are scheduled to be complete by mid-August. When drilling is finished on these two pads, the walking rigs will move to two 10-well pads that will exclusively target the Montney formation.

Outlook

As a result of continued drilling success in Paramount's Deep Basin lands and higher than expected liquids yields from Montney formation wells, the Company has increased its total 2013 exploration and development ("E&D") and Strategic Investments budget by $100 million to approximately $650 million, excluding land acquisitions and capitalized interest.

The Company's 2013 E&D spending is primarily focused on the Kaybob COU's Deep Basin development, including completing construction of the Musreau Deep Cut Facility and drilling wells to feed the new facility. The Company is also active drilling middle Montney wells at Karr-Gold Creek in the Grande Prairie COU. Strategic Investment capital spending is being directed towards shale gas exploration activities in the Liard Basin and continued front-end engineering and design work for the initial phase of the Hoole Grand Rapids development within Cavalier Energy.

Sales volumes are expected to range between 21,000 Boe/d and 25,000 Boe/d, depending upon the availability of downstream NGLs transportation and processing capacity, until the expansion of a third-party NGLs pipeline is completed, additional NGLs fractionation capacity is available and the Musreau Deep Cut Facility is on-stream.

Upon start-up of the Musreau Deep Cut Facility, the Company will have owned and firm-service contracted natural gas processing capacity of 279 MMcf/d, which will increase to 309 MMcf/d with the expansion of the non-operated processing facility at Smoky in the second half of 2014. Corporate production is expected to ramp up in 2014 to over 50,000 Boe/d, with the timing dependent on the completion of downstream NGLs fractionation facilities expansions in which Paramount has secured long-term firm service capacity.

Liquidity and Capital Resources

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

	June 30, 2013	December 31, 2012	% Change
Adjusted working capital deficit (surplus)[1]	72.3	(9.3)	877
Demand facilities	61.0	40.7	50
Credit facility	–	–	–
Senior Notes[2]	670.0	670.0	–
Net debt[3]	803.3	701.4	15
Share capital	1,111.5	921.7	21
Accumulated deficit	(187.3)	(165.5)	(13)
Reserves	69.3	94.9	(27)
Total Capital	1,796.8	1,552.5	16

[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 (June 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.

Adjusted Working Capital

Paramount had an adjusted working capital deficit at June 30, 2013 of $72.3 million compared to a surplus of $9.3 million at December 31, 2012. The adjusted working capital deficit at June 30, 2013 included $9.9 million of cash and cash equivalents, $38.2 million of accounts receivable and $122.9 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 and by accessing the capital markets, if required. The Company anticipates that its funds flow from operations will increase when the Musreau Deep Cut Facility is brought on-stream.

Demand Facilities

Drilling Rig Loans

In 2009, Paramount entered into a $30.4 million non-revolving demand loan facility with a Canadian bank ("Drilling Rig Loan I"). The loan was drawn in full at closing and aggregate principal payments of $15.2 million have been made to June 30, 2013. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan I are $2.5 million for the remainder of 2013, with the remaining outstanding balance payable in 2014.

In 2012, Paramount entered into a new $30.0 million non-revolving demand loan facility with the same Canadian bank to partially fund the construction of two new triple-sized walking rigs ("Drilling Rig Loan II"). During 2013, an additional $9.0 million was drawn and a $1.0 million principal payment was made on Drilling Rig Loan II. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan II are $2.5 million for the remainder of 2013, $6.2 million in 2014, $6.3 million in each of 2015 and 2016, with the remainder due in 2017.

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.

Bank Credit Facility

Paramount's bank credit 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 Loans 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. Increases in the credit limit under Tranche A reduce the credit limit under Tranche B by an equivalent amount.

At June 30, 2013, no amounts were drawn on the Facility (December 31, 2012 - $nil). Paramount had undrawn letters of credit outstanding at June 30, 2013 totalling $46.0 million that reduce the amount available to the Company.

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

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

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

At August 2, 2013, Paramount had 95,379,524 Common Shares and 5,485,200 Paramount Options outstanding, of which 1,444,484 Paramount Options are exercisable.

Quarterly Information

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales – CO	59.4	59.5	51.0	38.8	40.5	43.1	50.5	57.8
Petroleum and natural gas sales – DO	—	1.8	3.6	2.5	6.0	11.6	12.8	12.7
Petroleum and natural gas sales	59.4	61.3	54.6	41.3	46.5	54.7	63.3	70.5
Funds flow from operations – CO	22.3	17.9	16.9	15.9	10.2	8.9	19.0	26.7
Funds flow from operations – DO	—	(1.3)	0.8	(0.4)	1.9	3.9	7.1	6.1
Funds flow from operations	22.3	16.6	17.7	15.5	12.1	12.8	26.1	32.8
Total per share – diluted ($/share)	0.24	0.18	0.20	0.18	0.15	0.15	0.33	0.42
Income (loss) – CO	(22.1)	(27.7)	(128.6)	(33.5)	(29.8)	127.2	(197.8)	(24.0)
Per share – basic ($/share)	(0.24)	(0.31)	(1.49)	(0.39)	(0.35)	1.49	(2.52)	(0.30)
Per share – diluted ($/share)	(0.24)	(0.31)	(1.49)	(0.39)	(0.35)	1.45	(2.52)	(0.30)
Net income (loss)	(22.1)	0.4	(151.8)	(34.6)	—	124.5	(209.9)	(22.4)
Per share – basic ($/share)	(0.24)	—	(1.69)	(0.40)	—	1.46	(2.54)	(0.28)
Per share – diluted ($/share)	(0.24)	—	(1.69)	(0.40)	—	1.42	(2.54)	(0.28)
Sales volumes								
Natural gas (MMcf/d)	107.6	110.8	99.4	90.6	101.4	83.3	85.5	90.9
NGLs (Bbl/d)	2,126	2,655	2,098	1,745	1,957	1,589	1,577	1,998
Oil (Bbl/d)	722	861	948	900	1,064	1,153	1,081	938
Total Continuing (Boe/d)	20,790	21,985	19,606	17,745	19,904	16,637	16,907	18,096
Discontinued (Boe/d)	—	606	1,068	967	1,570	2,176	2,316	2,611
Total (Boe/d)	20,790	22,591	20,674	18,712	21,474	18,813	19,223	20,707
Average realized price								
Natural gas ($/Mcf)	3.97	3.48	3.45	2.58	2.08	2.77	3.63	4.13
NGLs ($/Bbl)	71.84	73.76	61.14	60.55	69.52	78.96	77.79	81.50
Oil ($/Bbl)	85.98	84.32	79.20	81.45	82.74	89.99	97.12	83.85
Continuing ($/Boe)	31.41	30.08	28.27	23.78	22.36	28.43	32.47	34.73
Discontinued ($/Boe)	—	32.95	36.61	27.96	42.31	58.51	60.06	53.06
Total ($/Boe)	31.41	30.16	28.70	24.00	23.82	31.95	35.80	37.03

Significant Items Impacting Quarterly Results

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

- 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.

- Third quarter 2011 earnings include $14.6 million of stock-based compensation expense, a decrease of $15.4 million in gains on the sale of securities and an increase of $8.3 million in depletion and depreciation.

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*, and IAS 28 – *Investments in Associates and Joint Ventures*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on 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);
- 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;
- the projected availability of third party facilities to process, transport and/or fractionate natural gas and NGLs production, and potential plans to secure
- projected timelines for constructing, commissioning and/or starting-up new and expanded deep cut gas processing and associated facilities, and the Kaybob COU's projected processing capacity following the completion of these deep cut facilities;
- anticipated further increases in the size of the Company's credit facility;
- the anticipated date for receiving regulatory approvals for the initial phase of Cavalier Energy's Hoole Grand Rapids oil sands development project; and
- business strategies and objectives

additional processing, transportation and/or fractionation capacity;

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;
- changes in foreign currency exchange rates and interest rates;
- 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 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 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 laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- 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;
- potential lawsuits and regulatory actions; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities, including its Annual Information Form.

The foregoing list of risks is not exhaustive. Additional information concerning these and other factors which could impact Paramount, 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 Management's Discussion and Analysis 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 second quarter of 2013, the value ratio between crude oil and natural gas was approximately 22:1. 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 Kaybob COU's estimated behind pipe production 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.

Estimated Net Sales Capacity

The term "Estimated Net Sales Capacity" means the estimated volumes of saleable natural gas and NGLs (expressed on a combined basis in Boe/d) that would result from the processing of the associated quantities of raw gas set out in the "Net POU" column in the processing capacity table. These volumes will include working interest partner volumes that are commingled with Paramount's. These estimates are subject to certain assumptions and should not be construed as projections of Paramount's Kaybob area production volumes at or by any particular date or dates as these volumes will depend on, and be subject to, a number of factors and contingencies as set out elsewhere in this Advisories section.

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

As at	Note	June 30 2013 (Unaudited)	December 31 2012
ASSETS			
Current assets			
Cash and cash equivalents	17	$ 9,886	$ 146,684
Accounts receivable		38,209	32,790
Risk management	16	1,594	—
Prepaid expenses and other		2,522	2,504
Assets held for sale	4	—	12,433
		52,211	194,411
Deposit		20,335	20,234
Exploration and evaluation	5	464,503	405,090
Property, plant and equipment, net	6	1,203,875	1,078,451
Equity-accounted investments	7	91,266	90,977
Investments in securities	8	140,667	127,767
Deferred income tax		108,402	116,901
Goodwill		3,124	3,124
		$ 2,084,383	$ 2,036,955
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	9	$ 61,046	$ 40,703
Accounts payable and accrued liabilities		122,944	183,512
Liabilities associated with assets held for sale	4	—	470
		183,990	224,685
Long-term debt	10	661,401	660,702
Asset retirement obligations	11	245,468	300,468
		1,090,859	1,185,855
Shareholders' equity			
Share capital	13	1,111,486	921,680
Accumulated deficit		(187,308)	(165,527)
Reserves	14	69,346	94,947
		993,524	851,100
		$ 2,084,383	$ 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 June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
			(restated see note 2)		(restated see note 2)
Petroleum and natural gas sales		$ 59,428	$ 40,504	$ 118,952	$ 83,552
Royalties		(415)	(3,219)	(4,755)	(7,033)
Revenue		59,013	37,285	114,197	76,519
Gain on financial commodity contracts		1,594	7,224	1,594	3,641
		60,607	44,509	115,791	80,160
Expenses					
Operating expense		16,008	12,978	33,856	28,065
Transportation		5,192	5,227	10,150	10,408
General and administrative		5,903	5,482	10,920	10,144
Stock-based compensation	15	6,365	7,618	11,461	14,654
Depletion and depreciation		39,015	35,595	81,068	64,665
Exploration and evaluation	5	16,249	3,751	26,604	8,912
(Gain) loss on sale of property, plant and equipment		(10,611)	167	(22,407)	(28,169)
Interest		13,327	8,007	26,168	15,575
Accretion of asset retirement obligations		—	1,507	—	2,899
Foreign exchange		964	705	504	885
		92,412	81,037	178,324	128,038
Income (loss) from equity-accounted investments	7	2,807	(523)	4,309	156,020
Other income		1,278	1,946	2,198	3,920
Income (loss) from continuing operations before tax		(27,720)	(35,105)	(56,026)	112,062
Income tax expense (recovery)	12				
Current		316	(59)	4,609	49
Deferred		(5,897)	(5,240)	(10,824)	14,597
		(5,581)	(5,299)	(6,215)	14,646
Income (loss) from continuing operations		(22,139)	(29,806)	(49,811)	97,416
Income from discontinued operations, net of tax	2	—	29,824	28,030	27,104
Net income (loss)		$ (22,139)	$ 18	$ (21,781)	$ 124,520
Other comprehensive income (loss), net of tax	14				
Change in market value of securities		(13,222)	(11,235)	(5,635)	(25,242)
Exchange differences on translation of US subsidiaries		980	985	393	337
		(12,242)	(10,250)	(5,242)	(24,905)
Comprehensive income (loss)		$ (34,381)	$ (10,232)	$ (27,023)	$ 99,615
Net income (loss) per common share ($/share)	13				
Basic – continuing operations		(0.24)	(0.35)	(0.55)	1.14
Basic – discontinued operations		—	0.35	0.31	0.32
Basic		(0.24)	0.00	(0.24)	1.46
Diluted – continuing operations		(0.24)	(0.35)	(0.55)	1.12
Diluted – discontinued operations		—	0.35	0.31	0.31
Diluted		(0.24)	0.00	(0.24)	1.43

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 June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Operating activities					
Net income (loss)		$ (22,139)	$ 18	$ (21,781)	$ 124,520
Add (deduct)					
Items not involving cash	17	40,237	4,838	48,654	(111,886)
Dividends from equity-accounted investments		2,010	2,010	4,020	4,020
Asset retirement obligations settled	11	(696)	(1,115)	(2,416)	(4,899)
Current tax related to the sale of U.S. assets		274	3,315	4,547	3,931
Change in non-cash working capital		(11,326)	2,470	(1,483)	9,901
Cash from operating activities		8,360	11,536	31,541	25,587
Financing activities					
Net draw of demand loans		6,928	2,231	20,343	3,962
Net draw (repayment) of revolving long-term debt		—	38,907	—	(22,476)
Common shares issued, net of issue costs		153,842	79	155,455	897
Common shares purchased under stock incentive plan		(3,998)	(3,052)	(3,998)	(3,052)
Cash from (used in) financing activities		156,772	38,165	171,800	(20,669)
Investing activities					
Property, plant and equipment and exploration		(119,412)	(73,049)	(315,646)	(253,739)
Proceeds on sale of property, plant and equipment		1,119	—	22,762	44,582
Proceeds on sale of discontinued operations, net		—	66,498	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		(85,517)	(85,803)	(48,092)	(48,462)
Cash used in investing activities		(203,810)	(92,354)	(340,914)	(22,426)
Net decrease		(38,678)	(42,653)	(137,573)	(17,508)
Foreign exchange on cash and cash equivalents		592	(378)	775	(496)
Cash and cash equivalents, beginning of period		47,972	54,027	146,684	29,000
Cash and cash equivalents, end of period		$ 9,886	$ 10,996	$ 9,886	$ 10,996
Supplemental cash flow information	17				

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

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

($ thousands, except as noted)

Six months ended June 30	Note	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		*5,444*	190,280	*73*	2,330
Change in unvested common shares for stock incentive plan	15	*3*	(474)	*11*	(330)
Balance, end of period		*95,304*	$ 1,111,486	*85,498*	$ 812,781
Accumulated Earnings (Deficit)					
Balance, beginning of period			$ (165,527)		$ (103,615)
Net income (loss)			(21,781)		124,520
Balance, end of period			$ (187,308)		$ 20,905
Reserves	14				
Balance, beginning of period			$ 94,947		$ 116,670
Other comprehensive loss			(5,242)		(24,905)
Contributed surplus			(20,359)		12,194
Balance, end of period			$ 69,346		$ 103,959
Total Shareholders' Equity			$ 993,524		$ 937,645

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 August 7, 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 six months ended June 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 Summit Resources, Inc. ("Summit"), 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*, and IAS 28 – *Investments in Associates and Joint Ventures*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on 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, 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 from discontinued operations are presented below:

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Petroleum and natural gas sales	$ —	$ 6,035	$ 1,796	$ 17,682
Royalties	—	(695)	(24)	(2,173)
Revenue	—	5,340	1,772	15,509
Expenses				
Operating expense and production tax	—	3,049	2,841	9,268
Transportation	—	460	233	913
Depletion and depreciation	—	1,197	267	3,990
Exploration and evaluation	—	18	29	42
Loss on sale of property, plant and equipment	—	—	—	48
Accretion of asset retirement obligations	—	228	—	484
	—	4,952	3,370	14,745
Other expense	—	(12)	—	(13)
Income (loss) from ordinary activities of discontinued operations before tax	—	376	(1,598)	751
Gain on sale of discontinued operations	—	50,769	38,985	50,769
Income from discontinued operations before tax	—	51,145	37,387	51,520
Income tax expense – discontinued operations				
Current	—	3,315	—	3,931
Deferred	—	18,006	9,357	20,485
	—	21,321	9,357	24,416
Income from discontinued operations	$ —	$ 29,824	$ 28,030	$ 27,104

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Operating	$ —	$ 5,694	$ (926)	$ 10,762
Investing	—	66,344	9,062	65,501
Cash flow from discontinued operations	$ —	$ 72,038	$ 8,136	$ 76,263

($ 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 production or revenue, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation, including oil sands and carbonate resources held by Paramount's wholly-owned subsidiary, Cavalier Energy, and prospective shale gas acreage; and (iii) drilling rigs owned by 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 June 30, 2013	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 59,013	$ —	$ —	$ —	$ 59,013
Gain on financial commodity contracts	1,594	—	—	—	1,594
	60,607	—	—	—	60,607
Expenses					
Operating expense	16,008	—	—	—	16,008
Transportation	5,192	—	—	—	5,192
General and administrative	—	1,814	4,089	—	5,903
Stock-based compensation	—	1,925	4,440	—	6,365
Depletion and depreciation	38,498	2,569	89	(2,141)	39,015
Exploration and evaluation	15,747	502	—	—	16,249
Gain on sale of property, plant and equipment	(10,198)	(413)	—	—	(10,611)
Interest	—	529	12,798	—	13,327
Foreign exchange	—	—	964	—	964
	65,247	6,926	22,380	(2,141)	92,412
Income from equity-accounted investments	—	2,807	—	—	2,807
Other	558	—	—	—	558
Drilling rig revenue	—	10,607	—	(9,165)	1,442
Drilling rig expense	—	(4,986)	—	4,264	(722)
	(4,082)	1,502	(22,380)	(2,760)	(27,720)
Inter-segment eliminations	—	(2,760)	—	2,760	—
Segment loss	$ (4,082)	$ (1,258)	$ (22,380)	$ —	(27,720)
Income tax recovery					5,581
Net loss					$ (22,139)

($ thousands, except as noted)

Three months ended June 30, 2012 (restated see note 2)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 37,285	$ —	$ —	$ —	$ 37,285
Gain on financial commodity contracts	7,224	—	—	—	7,224
	44,509	—	—	—	44,509
Expenses					
Operating expense	12,978	—	—	—	12,978
Transportation	5,227	—	—	—	5,227
General and administrative	—	1,404	4,078	—	5,482
Stock-based compensation	—	1,431	6,187	—	7,618
Depletion and depreciation	34,868	1,064	72	(409)	35,595
Exploration and evaluation	3,547	204	—	—	3,751
Loss on sale of property, plant and equipment	167	—	—	—	167
Interest	—	378	7,629	—	8,007
Accretion of asset retirement obligations	1,495	12	—	—	1,507
Foreign exchange	—	—	705	—	705
	58,282	4,493	18,671	(409)	81,037
Loss from equity-accounted investments	—	(523)	—	—	(523)
Other	860	—	—	—	860
Drilling rig revenue	—	5,141	—	(2,089)	3,052
Drilling rig expense	—	(3,145)	—	1,179	(1,966)
	(12,913)	(3,020)	(18,671)	(501)	(35,105)
Inter-segment eliminations	—	(501)	—	501	—
Segment loss	$ (12,913)	$ (3,521)	$ (18,671)	$ —	(35,105)
Income tax recovery					5,299
Income from discontinued operations, net of tax					29,824
Net income					$ 18

Six months ended June 30, 2013	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 114,197	$ —	$ —	$ —	$ 114,197
Gain on financial commodity contracts	1,594	—	—	—	1,594
	115,791	—	—	—	115,791
Expenses					
Operating expense	33,856	—	—	—	33,856
Transportation	10,150	—	—	—	10,150
General and administrative	—	3,825	7,095	—	10,920
Stock-based compensation	—	1,856	9,605	—	11,461
Depletion and depreciation	79,983	4,137	177	(3,229)	81,068
Exploration and evaluation	26,016	588	—	—	26,604
Gain on sale of property, plant and equipment	(21,994)	(413)	—	—	(22,407)
Interest	—	1,091	25,077	—	26,168
Foreign exchange	—	—	504	—	504
	128,011	11,084	42,458	(3,229)	178,324
Income from equity-accounted investments	—	4,309	—	—	4,309
Other	(84)	—	—	—	(84)
Drilling rig revenue	—	17,854	—	(13,846)	4,008
Drilling rig expense	—	(8,088)	—	6,362	(1,726)
	(12,304)	2,991	(42,458)	(4,255)	(56,026)
Inter-segment eliminations	—	(4,255)	—	4,255	—
Segment loss	$ (12,304)	$ (1,264)	$ (42,458)	$ —	(56,026)
Income tax recovery					6,215
Income from discontinued operations, net of tax					28,030
Net loss					$ (21,781)

($ thousands, except as noted)

Six months ended June 30, 2012 (restated see note 2)	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 76,519	$ —	$ —	$ —	$ 76,519
Gain on financial commodity contracts	3,641	—	—	—	3,641
	80,160	—	—	—	80,160
Expenses					
Operating expense	28,065	—	—	—	28,065
Transportation	10,408	—	—	—	10,408
General and administrative	—	3,026	7,118	—	10,144
Stock-based compensation	—	2,838	11,816	—	14,654
Depletion and depreciation	63,173	2,470	138	(1,116)	64,665
Exploration and evaluation	7,717	1,195	—	—	8,912
Gain on sale of property, plant and equipment	(28,169)	—	—	—	(28,169)
Interest	—	699	14,876	—	15,575
Accretion of asset retirement obligations	2,877	22	—	—	2,899
Foreign exchange	—	18	867	—	885
	84,071	10,268	34,815	(1,116)	128,038
Income from equity-accounted investments	—	156,020	—	—	156,020
Other	1,221	—	—	—	1,221
Drilling rig revenue	—	11,656	—	(5,189)	6,467
Drilling rig expense	—	(6,282)	—	2,514	(3,768)
	(2,690)	151,126	(34,815)	(1,559)	112,062
Inter-segment eliminations	—	(1,559)	—	1,559	—
Segment earnings (loss)	$ (2,690)	$ 149,567	$ (34,815)	$ —	112,062
Income tax expense					(14,646)
Income from discontinued operations, net of tax					27,104
Net income					$ 124,520

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

	Six months ended June 30, 2013	Twelve months ended December 31, 2012
Balance, beginning of period	$ 405,090	$ 390,742
Additions	119,088	166,214
Transfer to assets held for sale	—	(12,270)
Transfers to property, plant and equipment	(32,638)	(111,416)
Dry hole	(7,901)	(6,842)
Expired lease costs	(15,219)	(18,550)
Dispositions	(3,884)	(2,548)
Foreign exchange	(33)	(240)
Balance, end of period	$ 464,503	$ 405,090

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Geological and geophysical	$ 1,876	$ 1,918	$ 3,399	$ 4,632
Dry hole	5,884	32	7,986	75
Expired lease costs	8,489	1,801	15,219	4,205
	$ 16,249	$ 3,751	$ 26,604	$ 8,912

6. PROPERTY, PLANT AND EQUIPMENT

Six months ended June 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	185,198	14,588	3,675	203,461
Transfers from exploration and evaluation	32,638	—	—	32,638
Dispositions	(106,667)	—	(455)	(107,122)
Change in asset retirement provision	(11,648)	—	—	(11,648)
Currency translation differences	23	—	19	42
Cost, June 30, 2013	2,060,377	98,688	23,613	2,182,678
Accumulated depletion, depreciation, and write-downs				
Balance, December 31, 2012	$ (949,699)	$ (18,420)	$(18,737)	$ (986,856)
Depletion and depreciation	(80,298)	(4,125)	(188)	(84,611)
Dispositions	92,678	(2)	—	92,676
Currency translation differences	—	—	(12)	(12)
Accumulated depletion, depreciation and write-downs, June 30, 2013	(937,319)	(22,547)	(18,937)	(978,803)
Net book value, December 31, 2012	1,011,134	65,680	1,637	1,078,451
Net book value, June 30, 2013	$ 1,123,058	$ 76,141	$ 4,676	$ 1,203,875

7. EQUITY ACCOUNTED INVESTMENTS

	June 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*	$ 83,320	$ 601,132	*19,144*	$ 82,419	$ 557,292
MGM Energy Corp.	*54,147*	1,971	11,371	*54,147*	2,299	13,537
Paxton Corporation	*1,750*	3,403		*1,750*	3,687	
Other		2,572			2,572	
		$ 91,266			$ 90,977	

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

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

	Three months ended June 30						
	2013			2012			
	Equity income (loss)	Dilution gain	Total	Equity loss	Dilution gain	Gain on sale	Total
Trilogy	$ 2,899	$ 302	$ 3,201	$ (384)	$ 166	$ —	$ (218)
MGM Energy Corp.	(257)	—	(257)	(217)	—	—	(217)
Paxton Corporation	(137)	—	(137)	(88)	—	—	(88)
	$ 2,505	$ 302	$ 2,807	$ (689)	$ 166	$ —	$ (523)

	Six months ended June 30						
	2013			2012			
	Equity income (loss)	Dilution gain	Total	Equity income (loss)	Dilution gain	Gain on sale	Total
Trilogy	$ 4,433	$ 488	$ 4,921	$ (1,316)	$ 294	$157,228	$156,206
MGM Energy Corp.	(328)	—	(328)	(445)	—	—	(445)
Paxton Corporation	(284)	—	(284)	(176)	—	—	(176)
Other	—	—	—	435	—	—	435
	$ 3,821	$ 488	$ 4,309	$ (1,502)	$ 294	$157,228	$156,020

The following table summarizes the assets, liabilities, revenue and net income of Trilogy. The amounts have been derived directly from Trilogy's published financial statements as at and for the three and six months ended June 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	June 30, 2013	June 30, 2012
Assets	$ 1,509,213	$ 1,355,818
Liabilities	$ 1,005,048	$ 844,860
Shares outstanding (thousands)	117,841	116,491
Paramount's equity interest	16%	16%

Three months ended June 30	2013	2012
Revenue	$ 138,337	$ 93,221
Net income	$ 20,017	$ 282

Six months ended June 30	2013	2012
Revenue	$ 262,460	$ 189,721
Net income (loss)	$ 29,661	$ (2,721)

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 6.1 million stock options outstanding (1.6 million exercisable) at June 30, 2013 at exercise prices ranging from $4.85 to $38.74 per share.

8. INVESTMENTS IN SECURITIES

	June 30, 2013		December 31, 2012	
	Shares (000's)	*Market Value*	*Shares (000's)*	*Market Value*
MEG Energy Corp.	*3,700*	$ 106,671	*3,700*	$ 112,628
Strategic Oil & Gas Ltd.	*7,200*	8,280	—	—
RMP Energy Inc.	*3,400*	14,382	—	—
Other		11,334		15,139
		$ 140,667		$ 127,767

9. DEMAND FACILITIES

	June 30, 2013	December 31, 2012
Drilling Rig Loan I	$ 15,228	$ 17,766
Drilling Rig Loan II	29,000	21,000
Cavalier Facility	16,818	1,937
	$ 61,046	$ 40,703

Drilling Rig Loans

In 2009, Paramount entered into a $30.4 million non-revolving demand loan facility with a Canadian bank ("Drilling Rig Loan I"). The loan was drawn in full at closing and aggregate principal payments of $15.2 million have been made to June 30, 2013. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan I are $2.5 million for the remainder of 2013, with the remaining outstanding balance payable in 2014.

In 2012, Paramount entered into a new $30.0 million non-revolving demand loan facility with the same Canadian bank to partially fund the construction of two new triple-sized walking rigs ("Drilling Rig Loan

($ thousands, except as noted)

II"). During 2013, an additional $9.0 million was drawn and a $1.0 million principal payment was made on Drilling Rig Loan II. Unless demanded by the bank, scheduled principal repayments on Drilling Rig Loan II are $2.5 million for the remainder of 2013, $6.2 million in 2014, $6.3 million in each of 2015 and 2016, with the remainder due in 2017.

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.

10. LONG-TERM DEBT

	June 30, 2013	December 31, 2012
Bank credit facility	$ —	$ —
8 ¼ % Senior Notes due 2017	370,000	370,000
7 ⅝ % Senior Notes due 2019	300,000	300,000
	670,000	670,000
Unamortized financing costs, net of premiums	(8,599)	(9,298)
	$ 661,401	$ 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 Loans 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. Increases in the credit limit under Tranche A reduce the credit limit under Tranche B by an equivalent amount.

At June 30, 2013, no amounts were drawn on the Facility (December 31, 2012 - $ nil). Paramount had undrawn letters of credit outstanding at June 30, 2013 totaling $46.0 million that reduce the amount available to the Company.

($ thousands, except as noted)

11. ASSET RETIREMENT OBLIGATIONS

	Six months ended June 30, 2013	Twelve months ended December 31, 2012
Asset retirement obligations, beginning of period	$ 300,468	$ 299,202
Retirement obligations incurred	5,724	14,626
Revisions to estimated retirement costs and discount rates	(17,182)	441
Obligations settled	(2,416)	(8,002)
Disposal of properties	(41,406)	(8,500)
Accretion expense - continuing operations	—	2,899
Accretion expense - discontinued operations	—	484
Transfer to liabilities associated with assets held for sale	—	(470)
Other	280	(212)
Asset retirement obligations, end of period	$ 245,468	$ 300,468

Asset retirement obligations at June 30, 2013 were determined using a weighted average risk-free rate of 2.50 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 June 30		Six months ended June 30	
	2013	2012	2013	2012
Income (loss) from continuing operations before tax	$ (27,720)	$ (35,105)	$ (56,026)	$ 112,062
Effective Canadian statutory income tax rate	25.0%	25.1%	25.0%	25.1%
Expected income tax expense (recovery)	$ (6,930)	$ (8,811)	$ (14,007)	$ 28,128
Change resulting from:				
Statutory and other rate differences	241	691	1,976	1,276
(Income) loss from equity-accounted investments	(703)	131	(1,075)	(23,210)
Investment in subsidiaries	382	1,875	1,709	1,875
Flow-through share renunciations	—	—	3,618	1,612
Stock-based compensation	1,497	1,835	2,434	3,454
Non-deductible items and other	(68)	(1,020)	(870)	1,511
Income tax expense (recovery)	$ (5,581)	$ (5,299)	$ (6,215)	$ 14,646

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 June 30, 2013, 95,303,929 Common Shares were outstanding, net of 71,495 Common Shares held in trust under the stock incentive program.

Weighted Average Common Shares Outstanding

	Three months ended June 30			
	2013		2012	
	Shares (000's)	Loss from continuing operations	*Shares (000's)*	Loss from continuing operations
Loss from continuing operations – basic	*92,826*	$ (22,139)	*85,497*	$ (29,806)
Dilutive effect of Paramount options	—	—	—	—
Loss from continuing operations – diluted	*92,826*	$ (22,139)	*85,497*	$ (29,806)

	Six months ended June 30			
	2013		2012	
	Shares (000's)	Loss from continuing operations	*Shares (000's)*	Income from continuing operations
Income (loss) from continuing operations – basic	*91,407*	$ (49,811)	*85,495*	$ 97,416
Dilutive effect of Paramount options	—	—	*1,873*	—
Income (loss) from continuing operations – diluted	*91,407*	$ (49,811)	*87,368*	$ 97,416

Outstanding Paramount Options can be exchanged for the Company's Common Shares in accordance with the terms of the stock option plan. As a result, they are considered potentially dilutive and are included in the calculation of Paramount's diluted per share calculations when they are dilutive to income from continuing operations. The Company had 5.5 million Paramount Options outstanding at June 30, 2013 (June 30, 2012 - 5.7 million), of which 5.5 million (June 30, 2012 - 3.3 million) were anti-dilutive for the six months ended June 30.

14. RESERVES

Reserves at June 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:

	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 (loss)	(5,536)	393	—	(5,143)
Stock-based compensation	—	—	12,805	12,805
Stock options exercised	—	—	(33,164)	(33,164)
Deferred tax	(99)	—	—	(99)
Balance, June 30, 2013	$ 3,244	$ —	$ 66,102	$ 69,346

Other Comprehensive Income	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Unrealized gain (loss) on securities				
Change in market value of securities	$ (13,123)	$ (11,236)	$ (5,536)	$ (25,508)
Deferred tax	(99)	1	(99)	266
	(13,222)	(11,235)	(5,635)	(25,242)
Translation of foreign subsidiaries				
Exchange differences on translation of US subsidiaries	—	1,089	(587)	(113)
Reclassification of other comprehensive income (loss) to earnings	980	(287)	980	(114)
Deferred tax	—	183	—	564
	980	985	393	337
Other comprehensive loss	$ (12,242)	$ (10,250)	$ (5,242)	$ (24,905)

15. SHARE-BASED PAYMENTS

Paramount Options

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

	Six months ended June 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	260,000	34.77	1,340,000	34.01
Exercised	(1,418,550)	7.71	(258,600)	11.13
Forfeited	(20,000)	35.73	(171,000)	28.15
Expired	—	—	(10,000)	40.09
Balance, end of period	5,489,300	$ 28.17	6,667,850	$ 23.58
Options exercisable, end of period	1,443,084	$ 20.96	2,862,134	$ 14.42

Stock Incentive Plan	Six months ended June 30, 2013		Twelve months ended December 31, 2012	
Stock incentive plan shares held in trust	*Shares (000's)*		*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)*	(3,525)	*(135)*	(3,055)
Balance, end of period	*72*	$ 889	*75*	$ 416

($ thousands, except as noted)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management financial instruments outstanding at June 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	$ 215	January - June 2014
Oil - NYMEX WTI Swap	2,000 Bbl/d	US$91.78/Bbl	1,379	January - December 2014
			$ 1,594	

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

	Six months ended June 30, 2013	Twelve months ended December 31, 2012
Fair value, beginning of period	$ —	$ (2,603)
Changes in fair value	1,594	2,487
Settlement paid	—	116
Fair value, end of period	$ 1,594	$ —

17. CONSOLIDATED STATEMENTS OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Financial commodity contracts	$ (1,594)	$ (6,782)	$ (1,594)	$ (4,640)
Stock-based compensation	6,365	7,618	11,461	14,654
Depletion and depreciation	39,015	35,595	81,068	64,665
Exploration and evaluation	14,373	1,833	23,205	4,280
(Gain) loss on sale of property, plant, and equipment	(10,611)	167	(22,407)	(28,169)
Accretion of asset retirement obligations	—	1,507	—	2,899
Foreign exchange	979	743	607	842
(Income) loss from equity-accounted investments	(2,807)	523	(4,309)	(156,020)
Deferred income tax	(5,897)	(5,240)	(10,824)	14,597
Discontinued operations	—	(31,311)	(29,361)	(25,359)
Other	414	185	808	365
	$ 40,237	$ 4,838	$ 48,654	$ (111,886)

Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Interest paid	$ 29,060	$ 16,717	$ 30,853	$ 18,098
Current tax paid	$ 5,266	$ —	$ 5,266	$ 653

Components of cash and cash equivalents

	June 30, 2013	December 31, 2012
Cash	$ 9,886	$ 4,575
Cash equivalents	—	142,109
	$ 9,886	$ 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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Calgary, Alberta

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T. E. Claugus (4)
President, GMT Capital Corp.
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D. Jungé C.F.A. (2) (4)
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Bryn Athyn, Pennsylvania

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Knott Partners, L.P.
Syosset, New York

S. L. Riddell Rose
President and Chief Executive Officer
Perpetual Energy Inc.
Calgary, Alberta

J. B. Roy (1) (2) (3) (4)
Independent Businessman
Calgary, Alberta

B. M. Wylie (2)
Business Executive
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(1) Member of Audit Committee
(2) Member of Environmental, Health and Safety Committee
(3) Member of Compensation Committee
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