FIRST QUARTER OVERVIEW

Oil and Gas Operations

- Construction of Paramount's wholly-owned 200 MMcf/d Musreau Deep Cut Facility is complete and the final stages of commissioning are underway. The expected total cost of the facility remains in-line with the original budget at approximately $190 million.
- First quarter sales volumes averaged 21,028 Boe/d. Sales volumes will begin to ramp-up after the Musreau Deep Cut Facility starts up in June.
- Paramount's sales volumes are expected to reach approximately 50,000 Boe/d in 2014 and increase to approximately 70,000 Boe/d in 2015. NGLs volumes are projected to increase from 15 percent of total sales volumes in the first quarter to approximately 40 percent by the end of the year.
- The Company's first quarter netback increased 72 percent to $55.7 million in 2014 from $32.4 million in 2013, driven mainly by higher realized natural gas prices. Paramount's first quarter 2014 gas production remained unhedged, enabling the Company to capture strong winter pricing, including significant increases in daily spot prices.
- First quarter drilling activities in the Kaybob area were focused on two 10-well Montney pads and one 5-well Montney pad on the northern portion of the Company's lands, where liquids yields are anticipated to be the highest. Drilling operations are expected to be finished on all 25 wells by the end of July, with completion and tie-in operations to follow.
- In March 2014, Paramount closed the sale of coal bed methane properties producing approximately 6 MMcf/d in the Chain-Delia area of Alberta for $11.7 million in common shares of a TSX-Venture Exchange listed Company.

Strategic Investments

- In April 2014, Paramount entered into an agreement with MGM Energy Corp. ("MGM Energy") to acquire all of the shares of MGM Energy that it does not already own (the "Arrangement"). All shareholders of MGM Energy other than Paramount would receive one Common Share of Paramount for every 300 shares of MGM Energy. The Arrangement is subject to MGM Energy shareholder and court approvals. It is anticipated that Paramount would issue approximately 1.1 million Common Shares to MGM Energy shareholders under the arrangement.
- Shale gas exploration drilling operations at Dunedin in northeast British Columbia have been suspended due to spring break-up and are scheduled to resume in the winter of 2014 / 2015.

FINANCIAL AND OPERATING HIGHLIGHTS [(1)]

($ millions, except as noted)

Three months ended March 31	2014	2013 [(2)]	% Change
FINANCIAL			
Petroleum and natural gas sales	**86.2**	61.3	41
Funds flow from operations	**33.5**	16.6	102
Per share – diluted ($/share)	*0.34*	*0.18*	
Net income (loss)	**(8.9)**	0.4	NM
Per share – diluted ($/share)	*(0.09)*	—	
Exploration and development expenditures	**173.2**	145.2	19
Investments in other entities – market value [(3)]	**718.5**	719.6	—
Total assets	**2,614.6**	2,076.5	26
Net debt	**1,273.7**	857.9	48
Common shares outstanding (thousands)	**97,532**	90,130	8
OPERATING			
Sales volumes			
Natural gas (MMcf/d)	**104.7**	113.6	(8)
NGLs (Bbl/d)	**3,079**	2,662	16
Oil (Bbl/d)	**500**	998	(50)
Total (Boe/d)	**21,028**	22,591	(7)
Average realized price			
Natural gas ($/Mcf)	**6.04**	3.47	74
NGLs ($/Bbl)	**86.97**	73.78	18
Oil ($/Bbl)	**96.56**	84.37	14
Total ($/Boe)	**45.56**	30.16	51
Operating expense ($/Boe)	**9.75**	10.18	(4)
Netback ($/Boe)	**29.40**	15.28	92
Net Wells (excluding oil sands evaluation)	**12**	9	33
Net oil sands evaluation wells	**—**	6	(100)

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.
(2) Amounts include the results of discontinued operations. Refer to Management's Discussion and Analysis for the three months ended March 31, 2014.
(3) Based on the period-end closing prices of publicly-traded enterprises and the book value of the remaining investments.
NM – Not meaningful

Forward-Looking Statements and Information

This document includes forward-looking statements and information that is based on Paramount's current expectations, estimates, projections and assumptions. Actual results may differ materially from those expressed or implied by the forward-looking statements and information. Readers are referred to the forward-looking statements and other advisories contained at the end of Paramount's Management's Discussion and Analysis for the three months ended March 31, 2014 contained herein which also includes supplemental advisories related to additional information included in this document.

REVIEW OF OPERATIONS

	First Quarter 2014		Fourth Quarter 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	104.7		102.5		*2*
NGLs (Bbl/d)	3,079		2,668		*15*
Oil (Bbl/d)	500		536		*(7)*
Total (Boe/d)	21,028		20,290		*4*
Netback ($ millions) [(1)]		***($/Boe)*** [(2)]		*($/Boe)* [(2)]	*% Change in $mm*
Natural gas revenue	56.9	***6.04***	35.1	*3.73*	*62*
NGLs revenue	24.1	***86.97***	18.2	*74.30*	*32*
Oil revenue	4.3	***96.56***	3.9	*78.92*	*10*
Royalty and sulphur revenue	0.9	—	0.6	–	*50*
Petroleum and natural gas sales	86.2	***45.56***	57.8	*30.99*	*49*
Royalties	(5.6)	***(2.97)***	(2.8)	*(1.50)*	*100*
Operating expense	(18.4)	***(9.75)***	(19.0)	*(10.19)*	*(3)*
Transportation	(6.5)	***(3.44)***	(6.7)	*(3.60)*	*(3)*
Netback	55.7	***29.40***	29.3	*15.70*	*90*

(1) Readers are referred to the advisories concerning non-GAAP measures and Oil and Gas Measures and Definitions in the Advisories section of this document.

(2) Natural gas revenue shown per Mcf.

Paramount's first quarter 2014 netback increased 90 percent compared to the fourth quarter of 2013 to $55.7 million, driven mainly by higher realized natural gas prices. The Company's natural gas production remained unhedged in the first quarter and was sold on the spot market through a combination of monthly and daily contracts, which enabled Paramount to capture strong winter pricing, including significant increases in daily spot prices. Netback per Boe increased 87 percent to $29.40 in the first quarter versus $15.70 in the fourth quarter of 2013.

Sales volumes in the first quarter increased four percent from the fourth quarter of 2013 to average 21,028 Boe/d, as increases in Grande Prairie and Kaybob COU production more than offset lower production in the Southern COU following the March 2014 sale of coal bed methane properties. NGLs sales volumes increased 15 percent to 3,079 Bbl/d, including 2,186 Bbl/d of condensate, as new liquids-rich middle-Montney formation wells were brought on-stream in the Grande Prairie COU.

First sales from the 200 MMcf/d Musreau Deep Cut Facility are expected to commence in June, once final commissioning work has been completed. This incremental gas processing capacity will enable the Company to begin ramping-up production from its significant inventory of constrained and behind-pipe wells over the coming months.

Paramount expects to more than double production to reach 50,000 Boe/d in 2014 and more than triple production to approximately 70,000 Boe/d in 2015 as remaining third-party downstream NGLs expansions are completed and new wells are brought on production. NGLs volumes are projected to increase from 15 percent of total production in the first quarter of 2014 to approximately 40 percent by the end of 2014. Paramount's per-unit operating costs are expected to decrease following the start-up of the Musreau Deep Cut Facility, as lower-cost Musreau area volumes will comprise a greater proportion of the Company's overall production.

Kaybob

	First Quarter 2014		Fourth Quarter 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	71.9		67.2		7
NGLs (Bbl/d)	1,360		1,520		(11)
Oil (Bbl/d)	20		19		5
Total (Boe/d)	13,368		12,736		5
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	66		89		(25)
Facilities and gathering	45		47		(4)
	111		136		(18)
	Gross	Net	Gross	Net	
Wells Drilled	5	5	3	3	

First quarter 2014 sales volumes in the Kaybob COU increased five percent to 13,368 Boe/d, as the Company was able to secure incremental interruptible processing capacity in advance of the start-up of the Musreau Deep Cut Facility. NGLs sales volumes decreased in the first quarter as a result of the temporary shut-in of liquids-rich Montney production while adjacent pad wells were being prepared for production.

Musreau Deep Cut Facility

Construction of the Musreau Deep Cut Facility is complete and the final stages of commissioning are underway. The expected total cost of the facility remains at approximately $190 million, in-line with the original budget.

First sales from the Musreau Deep Cut Facility are expected to commence in June. Kaybob COU sales volumes will ramp-up over the first few months following start-up of the facility, as equipment and processes are optimized. Initial volumes processed will mainly be from leaner Cretaceous wells in which Paramount's working interest generally ranges from 50 percent to 100 percent. As these initial production volumes decline, new 100 percent working interest Montney wells will be brought on production, which will increase liquids production and Paramount's working interest share of sales volumes.

Until third-party de-ethanization capacity is available, the Musreau Deep Cut Facility will be operated at warmer temperatures, resulting in most of the ethane remaining in the gas stream ("$C3^+$ Recovery Mode"). Ethane recovery ("$C2^+$ Recovery Mode") is expected to commence on completion of the first phase of expansions to third-party facilities in late-2014, and increase further when the second phase of that expansion becomes operational in mid-2015. Paramount's NGLs sales volumes will be lower during $C3^{+}$ Recovery Mode as compared to $C2^{+}$ Recovery Mode, but these impacts will be mostly offset by higher natural gas sales with the ethane remaining in the gas stream, which will increase both the sales value and sales volume of natural gas.

On start-up of the Musreau Deep Cut Facility, the Kaybob COU will have condensate stabilization capacity of approximately 8,500 Bbl/d, which will increase to approximately 23,500 Bbl/d in the fourth quarter of 2014 when the Company completes a 15,000 Bbl/d expansion of the condensate stabilization system (the "Stabilizer Expansion"). Until the Stabilizer Expansion is completed, Kaybob field condensate production in excess of capacity will be trucked to other Paramount and third-party facilities for processing. Long lead-time components have been ordered and site work has commenced for the Stabilizer Expansion, which is expected to cost approximately $45 million.

Site work has also commenced for the amine processing train at the Musreau Deep Cut Facility site, which will provide the capability to treat sour gas production at the facility instead of at well sites. The addition of the amine processing train will reduce equipping costs per well by over $1 million and result in lower ongoing well operating costs. This project is expected to be completed in the fourth quarter of 2014 at a cost of approximately $45 million.

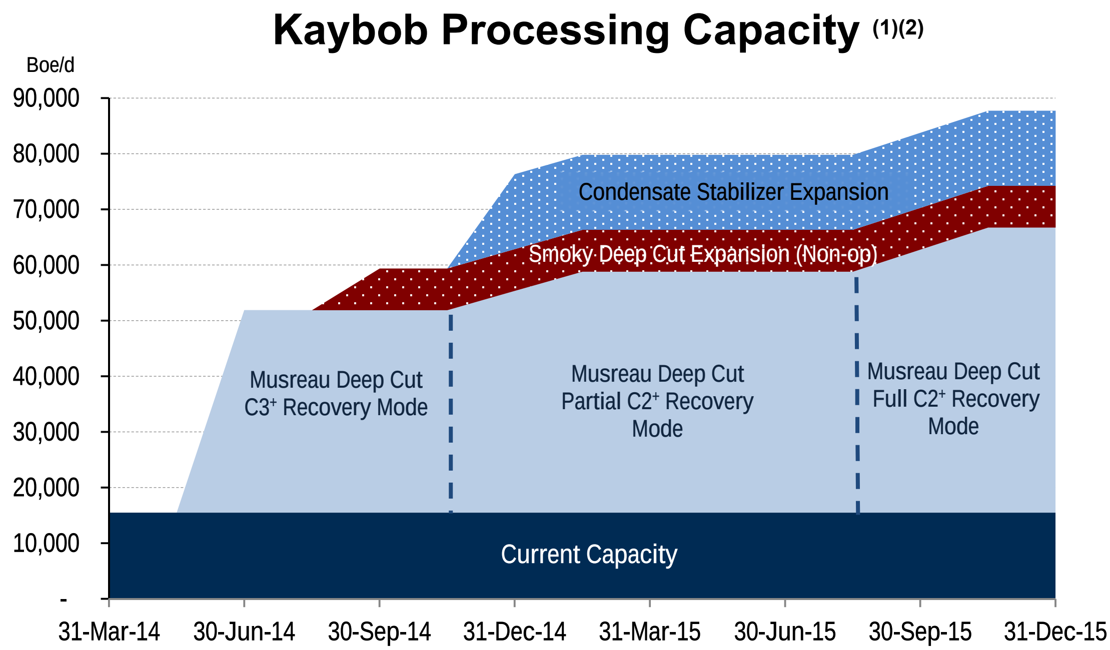
Smoky Deep Cut Facility

The deep cut expansion of the non-operated Smoky natural gas processing facility (the "Smoky Deep Cut Facility") is scheduled to start-up in the third quarter of 2014. The Company will have a 20 percent interest in the Smoky Deep Cut Facility, which will initially have a working capacity of 200 MMcf/d (40 MMcf/d net), increasing to 300 MMcf/d (60 MMcf/d net) through the later installation of an incremental 100 MMcf/d of compression. Paramount has been advised that the existing Smoky 100 MMcf/d (10 MMcf/d net) dew-point facility will be shut down for approximately 10 weeks beginning in June to complete the integration of the new expansion.

Kaybob Processing Capacity

Following the completion of the Musreau Deep Cut Facility, the Stabilizer Expansion and the Smoky Deep Cut Facility expansion in 2014, the Company's net owned and firm service contracted natural gas and NGLs processing capacities will increase to over 300 MMcf/d in the Kaybob COU, providing over 85,000 Boe/d of gross sales volume capacity. This capacity will be used to process Paramount's production as well as unavoidably commingled third-party volumes for a fee.

The elements and estimated timing of additional Kaybob area processing capacity are shown below and are based on the expectation that the first phase of the third-party de-ethanization expansion is completed in late-2014 as currently planned:



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

The Company is continuing to advance the planning of additional natural gas processing facilities in its Deep Basin core area. Paramount currently anticipates construction of refrigeration facilities, each of which would have a processing capacity of 100 MMcf/d, in order to shorten the time from project commencement to first sales gas. To ensure access to downstream NGLs transportation and fractionation for future natural gas processing facilities, Paramount has secured capacity in further expansions to third-party NGLs transportation and fractionation systems that are expected to come on-stream beginning in mid-2016.

Kaybob Wells

First quarter drilling activities were focused on two 10-well Montney pads and one 5-well Montney pad, all of which are located in the northern portion of the Company's Musreau area lands, where liquids yields are expected to be the highest. Drilling operations are expected to be finished on all 25 wells by the end of July, with completion operations to follow. The first wells will be brought-on later in 2014, with all 25 wells expected to be producing in 2015.

Following the completion of drilling operations on the two 10-well pads, Paramount's two walking rigs will move onto new multi-well pads in Musreau, consisting of up to six wells per pad.

Grande Prairie

	First Quarter 2014		Fourth Quarter 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	22.4		21.6		*4*
NGLs (Bbl/d)	1,466		833		*76*
Oil (Bbl/d)	363		378		*(4)*
Total (Boe/d)	5,553		4,816		*15*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	42		33		*27*
Facilities and gathering	9		11		*(18)*
	51		44		*16*
	Gross	Net	Gross	Net	
Wells Drilled	7	6	4	2	

Grande Prairie COU sales volumes increased 15 percent to average 5,553 Boe/d in the first quarter of 2014, as production from new liquids-rich middle-Montney wells at Karr-Gold Creek more than offset lower production at Valhalla. Capacity constraints at third-party processing facilities continued to impact Grande Prairie's operations in the quarter, constraining sales volumes by approximately 1,400 Boe/d, mainly at Valhalla.

The Company has secured long-term firm service natural gas processing and liquids transportation capacity for Karr-Gold Creek production volumes, which is expected to commence in the third quarter of 2014 once third-party pipeline expansions have been completed. This capacity will enable the Grande Prairie COU to produce its Karr-Gold Creek area wells more consistently and should lower per-unit operating costs. Expansions to Paramount's liquids handling facilities and gathering systems in the Karr-Gold Creek area were completed in the first quarter of 2014, reducing bottlenecks and providing additional takeaway capacity for new middle-Montney wells being brought-on in 2014.

In the first quarter of 2014, Paramount drilled 5 (5.0 net) horizontal middle-Montney wells and completed 4 (3.0 net) wells at Karr-Gold Creek. During the remainder of 2014, the Company plans to complete and tie-in the wells drilled in the first quarter and drill an additional 2 (2.0 net) wells at Karr-Gold Creek to further delineate its middle-Montney holdings.

The Grande Prairie COU's capital program for the balance of 2014 includes up to 7 (6.5 net) additional operated and non-operated wells.

Southern and Northern

	First Quarter 2014		Fourth Quarter 2013		% Change
Sales Volumes					
Natural gas (MMcf/d)	10.4		13.7		*(24)*
NGLs (Bbl/d)	253		315		*(20)*
Oil (Bbl/d)	117		139		*(16)*
Total (Boe/d)	2,107		2,738		*(23)*
Exploration and Development Expenditures ($ millions)					
Exploration, drilling, completions and tie-ins	11		1		
Facilities and gathering	—		—		
	11		1		
	Gross	Net	Gross	Net	
Wells Drilled	1	1	—	—	

First quarter 2014 sales volumes for the Northern and Southern COUs averaged 2,107 Boe/d. In early-March 2014, Paramount closed the sale of coal bed methane properties producing approximately 6 MMcf/d in the Chain-Delia area of southern Alberta for $11.7 million in common shares of Marquee Energy Ltd., a TSX Venture Exchange listed company.

The Southern COU drilled a 100% working interest well at Medicine River in the first quarter and plans to drill up to four additional wells in 2014.

Paramount plans to drill up to an additional four wells at Birch in the second half of 2014, two of which are expected to be completed and tied-in by the end of the year.

STRATEGIC INVESTMENTS

SHALE GAS

Paramount has suspended operations to recover liner materials lodged in the wellbore of the Dunedin d-57-D shale gas exploration well due to spring break-up. Drilling operations have also been suspended for the season at the Dunedin d-71-G well, which was drilled to the first intermediate casing point prior to break-up. The Company plans to resume shale gas exploration activities in the winter of 2014 / 2015.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated May 7, 2014, should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") as at and for the three months ended March 31, 2014 and Paramount's audited Consolidated Financial Statements for the year ended December 31, 2013. Financial data included in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") 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 certain oil and gas measures. Readers are referred to the Advisories section of this document concerning such matters. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

ABOUT PARAMOUNT

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

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

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

- the Kaybob COU, which includes properties in west central Alberta;
- the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta;
- the Southern COU, which includes properties in southern Alberta; and
- the Northern COU, which includes properties in northern Alberta and northeast British Columbia.

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

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

Highlights[1]

Three months ended March 31	2014	2013	% Change
FINANCIAL			
Petroleum and natural gas sales – continuing operations	**86.2**	59.5	45
Petroleum and natural gas sales – discontinued operations	**—**	1.8	(100)
Petroleum and natural gas sales	**86.2**	61.3	41
Funds flow from operations – continuing operations	**33.5**	17.9	87
Funds flow from operations – discontinued operations	**—**	(1.3)	100
Funds flow from operations	**33.5**	16.6	102
per share – basic and diluted ($/share)	***0.34***	*0.18*	
Loss from continuing operations	**(8.9)**	(27.7)	(68)
per share – basic and diluted ($/share)	***(0.09)***	*(0.31)*	
Net income (loss)	**(8.9)**	0.4	NM
per share – basic and diluted ($/share)	***(0.09)***	—	
Exploration and development expenditures	**173.2**	145.2	19
Investments in other entities – market value [2]	**718.5**	719.6	—
Total assets	**2,614.6**	2,076.5	26
Long-term debt	**1,026.7**	661.0	55
Net debt	**1,273.7**	857.9	48
OPERATIONAL			
Sales volumes [3]			
Natural gas (MMcf/d)	**104.7**	113.6	(8)
NGLs (Bbl/d)	**3,079**	2,662	16
Oil (Bbl/d)	**500**	998	(50)
Total (Boe/d)	**21,028**	22,591	(7)
Net wells drilled (excluding oil sands evaluation)	**12**	9	33
Net oil sands evaluation wells drilled	**—**	6	(100)
FUNDS FLOW FROM OPERATIONS ($/Boe) [3]			
Petroleum and natural gas sales	**45.56**	30.16	51
Royalties	**(2.97)**	(2.15)	38
Operating expense	**(9.75)**	(10.18)	(4)
Transportation	**(3.44)**	(2.55)	35
Netback	**29.40**	15.28	92
Financial commodity contract settlements	**(1.04)**	—	(100)
Netback including commodity contract settlements	**28.36**	15.28	86
General and administrative – corporate	**(2.51)**	(1.48)	70
General and administrative – strategic investments	**(1.13)**	(0.99)	14
Interest	**(8.01)**	(6.13)	31
Dividends from investments	**1.06**	0.99	7
Other	**(0.08)**	0.49	(116)
Funds flow from operations	**17.69**	8.16	117

(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 investments and the book value of the remaining investments.
(3) Amounts for the three months ended March 31, 2013 include the results of discontinued operations.

NM – Not meaningful

Consolidated Results

Net Income (Loss)

Three months ended March 31	2014	2013
Principal Properties	**18.6**	(8.2)
Strategic Investments	**(1.2)**	–
Corporate	**(24.9)**	(20.1)
Income tax (expense) recovery	**(1.4)**	0.6
Loss from continuing operations	**(8.9)**	(27.7)
Income from discontinued operations, net of tax	**–**	28.1
Net income (loss)	**(8.9)**	0.4

Paramount recorded a loss from continuing operations of $8.9 million for the three months ended March 31, 2014 compared to a loss from continuing operations of $27.7 million in the first quarter of 2013. Significant factors contributing to the change are shown below:

Three months ended March 31	
Loss from continuing operations – 2013	**(27.7)**
• Higher netback primarily due to higher realized prices	23.3
• Higher gains recognized on the sale of property, plant and equipment	5.8
• Lower exploration and evaluation expense due to lower dry hole and expired lease costs	2.3
• Higher interest expense due to increased debt	(2.8)
• Loss on financial commodity contracts in 2014	(2.3)
• Income tax expense in 2014 compared to a recovery in 2013	(2.0)
• Higher general and administrative expense	(1.9)
• Higher accretion of asset retirement obligations	(1.5)
• Other	(2.1)
Loss from continuing operations – 2014	**(8.9)**

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 proceeds of $9.1 million. Income from discontinued operations for the three months ended March 31, 2013 of $28.1 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 properties and tax expense of $9.3 million. These properties were included in the Company's Principal Properties business segment.

Funds Flow from Operations [1]

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

Three months ended March 31 [2]	**2014**	2013
Cash from operating activities	**39.6**	23.2
Change in non-cash working capital	**(10.4)**	(9.8)
Geological and geophysical expenses	**2.2**	1.5
Asset retirement obligations settled	**2.1**	1.7
Funds flow from operations	**33.5**	16.6
Funds flow from operations ($/Boe)	**17.69**	8.16

[1] Refer to the advisories concerning non-GAAP measures in the Advisories section of this document.
[2] Amounts for the three months ended March 31, 2013 include the results of discontinued operations.

Three months ended March 31	**2014**	2013
Funds flow from operations		
Continuing operations	**33.5**	17.9
Discontinued operations	**–**	(1.3)
Funds flow from operations	**33.5**	16.6

Funds flow from operations for the three months ended March 31, 2014 attributable to continuing operations was $33.5 million, $15.6 million higher than the first quarter of 2013. Significant factors contributing to the change are shown below:

Three months ended March 31	
Funds flow from continuing operations – 2013	**17.9**
• Higher netback primarily due to higher realized prices	23.3
• Higher interest due to increased debt	(2.7)
• Payments on financial commodity contracts in 2014	(2.0)
• Higher general and administrative expense	(1.9)
• Lower other income	(1.2)
• Other	0.1
Funds flow from continuing operations – 2014	**33.5**

Principal Properties

The Principal Properties section of this Management's Discussion and Analysis provides an analysis of the results of the Company's continuing operations and therefore excludes results of the Northern Discontinued Operations. A summary of the results of the Northern Discontinued Operations is included in the Discontinued Operations section of this document.

Netback and Segment Income (Loss) – Continuing Operations

Three months ended March 31	**2014**		2013	
		($/Boe) [1]		*($/Boe)* [1]
Natural gas	**56.9**	***6.04***	34.7	*3.48*
NGLs	**24.1**	***86.97***	17.7	*73.76*
Oil	**4.3**	***96.56***	6.5	*84.32*
Royalty and sulphur revenue	**0.9**	**–**	0.6	–
Petroleum and natural gas sales	**86.2**	***45.56***	59.5	*30.08*
Royalties	**(5.6)**	***(2.97)***	(4.3)	*(2.19)*
Operating expense	**(18.4)**	***(9.75)***	(17.8)	*(9.02)*
Transportation	**(6.5)**	***(3.44)***	(5.0)	*(2.51)*
Netback	**55.7**	***29.40***	32.4	*16.36*
Financial commodity contract settlements	**(2.0)**	***(1.04)***	–	–
Netback including commodity contract settlements	**53.7**	***28.36***	32.4	*16.36*
Other principal property items (see below)	**(35.1)**		(40.6)	
Segment income (loss)	**18.6**		(8.2)	

[1] Natural gas revenue shown per Mcf.

Petroleum and natural gas sales were $86.2 million in the first quarter of 2014, an increase of $26.7 million from the first quarter of 2013, primarily due to higher realized prices and higher NGLs sales volumes, partially offset by lower natural gas and 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 March 31, 2013	34.7	17.7	6.5	0.6	59.5
Effect of changes in prices	24.2	3.7	0.6	–	28.5
Effect of changes in sales volumes	(2.0)	2.7	(2.8)	–	(2.1)
Change in royalty and sulphur revenue	–	–	–	0.3	0.3
Three months ended March 31, 2014	**56.9**	**24.1**	**4.3**	**0.9**	**86.2**

Sales Volumes

Three months ended March 31	Natural Gas (MMcf/d)			NGLs (Bbl/d)			Oil (Bbl/d)			Total (Boe/d)		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Kaybob	**71.9**	75.9	(5)	**1,360**	1,454	(6)	**20**	45	(56)	**13,368**	14,156	(6)
Grande Prairie	**22.4**	21.5	4	**1,466**	938	56	**363**	324	12	**5,553**	4,844	15
Southern	**6.8**	8.4	(19)	**198**	142	39	**117**	492	(76)	**1,455**	2,028	(28)
Northern	**3.6**	5.0	(28)	**55**	121	(55)	**–**	–	–	**652**	957	(32)
Continuing Ops	**104.7**	110.8	(6)	**3,079**	2,655	16	**500**	861	(42)	**21,028**	21,985	(4)
Discontinued Ops	–	2.8	(100)	–	7	(100)	–	137	(100)	–	606	(100)
Total	104.7	113.6	(8)	3,079	2,662	16	500	998	(50)	21,028	22,591	(7)

First quarter natural gas sales volumes decreased 6.1 MMcf/d or six percent to 104.7 MMcf/d in 2014 compared to 110.8 MMcf/d in the same period in 2013. The decrease in natural gas sales volumes was primarily due to third-party processing facility constraints at Musreau within the Kaybob COU and at Valhalla in the Grande Prairie COU and the sale of the Chain area properties in Southern Alberta, partially offset by new well production at Karr-Gold Creek within the Grande Prairie COU.

First quarter NGLs sales volumes increased 424 Bbl/d or 16 percent to 3,079 Bbl/d in 2014 compared to 2,655 Bbl/d in the same period in 2013. The increase in NGLs sales volumes was primarily related to new Montney formation wells brought-on production at Karr-Gold Creek. The addition of new Montney wells to the Company’s production has resulted in condensate volumes comprising 71 percent of total NGLs sales volumes in the first quarter of 2014 compared to 58 percent in the first quarter of 2013.

First quarter oil sales volumes decreased 42 percent to 500 Bbl/d in 2014 compared to 861 Bbl/d in 2013. The decrease in oil sales volumes is primarily due to the sale of properties in the Southern COU in 2013.

In the first quarter of 2014, Paramount’s production within the Kaybob COU continued to be constrained by available owned and contracted natural gas processing capacity, pending completion of the new and expanded deep cut facilities at Musreau and Smoky. The constraints are expected to abate in 2014 following startup of the 200 MMcf/d Musreau deep cut facility (the "Musreau Deep Cut Facility") and the completion of expansions to third-party downstream NGLs facilities, which will allow the Company to bring wells on production that have been shut-in on a temporary basis awaiting additional processing capacity.

Average Realized Prices – Continuing Operations

Three months ended March 31	2014	2013	% Change
Natural gas ($/Mcf)	**6.04**	3.48	74
NGLs ($/Bbl)	**86.97**	73.76	18
Oil ($/Bbl)	**96.56**	84.32	15
Total ($/Boe)	**45.56**	30.08	51

North America experienced an unusually cold and prolonged winter in 2013 / 2014 which resulted in increased demand for natural gas and a significant increase in market prices. Paramount’s average realized natural gas price increased 74 percent in the first quarter of 2014 compared to the first quarter of 2013, consistent with increases in benchmark AECO natural gas prices. Paramount’s natural gas portfolio primarily consists of sales priced at the Alberta spot market and California market and is sold in a combination of daily and monthly contracts.

Paramount's NGLs and oil sales portfolio primarily consists of sales priced relative to Alberta and United States market indexes, adjusted for transportation and quality differentials.

Commodity Prices

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

Three months ended March 31	2014	2013	% Change
Natural Gas			
AECO daily spot (CAD$/GJ)	**5.63**	3.08	83
AECO monthly index (CAD$/GJ)	**4.51**	2.92	54
NYMEX (Henry Hub – US$/MMbtu)	**4.73**	3.34	42
Crude Oil			
Edmonton par (CAD$/Bbl)	**100.18**	88.65	13
West Texas Intermediate (US$/Bbl)	**98.68**	94.35	5
Foreign Exchange			
$CAD / 1 $US	**1.10**	1.01	9

Commodity Price Management

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

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

Three months ended March 31	2014	2013
Oil Contracts	**2.0**	–

At March 31, 2014, Paramount had the following financial commodity contracts outstanding:

Instrument	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $92.43/Bbl	**(0.9)**	April – June 2014
Oil – NYMEX WTI Swap	2,000 Bbl/d	US $91.78/Bbl	**(3.6)**	April – December 2014
Natural Gas – AECO Swap	20,000 GJ/d	CAD$4.45/GJ	**0.2**	April – October 2014
			(4.3)	

Royalties – Continuing Operations

Three months ended March 31	2014	Rate	2013	Rate
Royalties	**5.6**	**6.6%**	4.3	7.3%

First quarter royalties increased $1.3 million to $5.6 million in 2014 compared to $4.3 million in the same period in 2013, primarily due to an increase in natural gas and NGLs revenue, partially offset by lower royalty rates. The royalty rate decreased during the first quarter of 2014 mainly due to a greater proportion of production qualifying for Alberta new well royalty incentive programs.

Operating Expense – Continuing Operations

Three months ended March 31	2014	2013	% Change
Operating expense	18.4	17.8	3

Operating expense in the first quarter of 2014 increased by $0.6 million or three percent compared to the same quarter in 2013. The increase is primarily related to higher operating costs in the Kaybob and Grande Prairie COUs as a result of increased snow removal and road maintenance costs due to heavy snowfall and severe weather conditions in the first quarter of 2014 and higher costs associated with production from new Montney formation wells which require additional liquids handling and sweetening at wellsites. These increases were partially offset by the impact of property dispositions in the Southern COU and lower production in the Northern COU. Paramount's per-unit operating costs are expected to decrease following the start-up of the Musreau Deep Cut Facility, as lower-cost Musreau area volumes will comprise a greater proportion of the Company's overall production.

Transportation – Continuing Operations

Three months ended March 31	2014	2013	% Change
Transportation	6.5	5.0	30

Transportation expense was $6.5 million in the first quarter of 2014, an increase of $1.5 million compared to the first quarter of 2013 primarily due to additional costs as a result of trucking condensate volumes from well sites and increased firm-service natural gas transportation costs related to incremental capacity contracted for the Musreau Deep Cut Facility. Paramount is incurring incremental trucking costs on a short-term basis in order to produce new liquids-rich wells that would otherwise be shut-in until the new facilities are completed. Transportation per Boe was $3.44 in the first quarter of 2014 compared to $2.51 per Boe in the first quarter of 2013.

Other Principal Property Items – Continuing Operations

Three months ended March 31	2014	2013
Commodity contracts – net of settlements	0.4	–
Depletion and depreciation	42.4	41.5
Exploration and evaluation	7.9	10.3
Gain on sale of property, plant and equipment	(17.6)	(11.8)
Accretion of asset retirement obligations	1.5	–
Other	0.5	0.6
Total	35.1	40.6

First quarter depletion and depreciation expense increased to $42.4 million ($22.40 per Boe) in 2014 compared to $41.5 million ($20.97 per Boe) for the same quarter in 2013.

First quarter 2014 exploration and evaluation expense includes expired undeveloped land lease costs of $5.5 million (2013 – $6.7 million), geological and geophysical costs of $2.2 million (2013 – $1.5 million) and dry hole expense of $0.4 million (2013 – $2.1 million).

The first quarter 2014 gain on sale of property, plant and equipment primarily relates to the sale of coal bed methane properties in the Chain-Delia area within the Southern COU in exchange for $11.7 million in shares of Marquee Energy Ltd. ("Marquee").

Discontinued Operations

Results of the Northern Discontinued Operations have been presented as discontinued operations for the three months ended March 31, 2013.

The following table reconciles Paramount's loss from continuing operations, income from discontinued operations and net income for the three months ended March 31, 2013:

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

Three months ended March 31, 2013	CO	DO	Total	CO	DO	Total
		($ millions)			($/Boe except natural gas) (1)	
Natural gas revenue	34.7	0.7	35.4	*3.48*	*2.82*	*3.47*
NGLs revenue	17.7	—	17.7	*73.76*	—	*73.78*
Oil revenue	6.5	1.1	7.6	*84.32*	*84.75*	*84.37*
Royalty and sulphur revenue	0.6	—	0.6	—	—	—
Petroleum and natural gas sales	59.5	1.8	61.3	*30.08*	*32.95*	*30.16*
Royalties	(4.3)	—	(4.3)	*(2.19)*	—	*(2.15)*
Operating expense	(17.8)	(2.9)	(20.7)	*(9.02)*	*(52.54)*	*(10.18)*
Transportation	(5.0)	(0.2)	(5.2)	*(2.51)*	*(4.27)*	*(2.55)*
Netback	32.4	(1.3)	31.1	*16.36*	*(23.86)*	*15.28*
General and administrative	(5.0)	—	(5.0)	*(2.54)*	—	*(2.47)*
Interest	(12.5)	—	(12.5)	*(6.29)*	—	*(6.13)*
Dividends from investments	2.0	—	2.0	*1.02*	—	*0.99*
Other	1.0	—	1.0	*0.50*	—	*0.49*
Funds flow from operations	17.9	(1.3)	16.6	*9.05*	*(23.86)*	*8.16*
Depletion, depreciation and accretion	(42.1)	(0.2)	(42.3)			
Gain on sale of property, plant and equipment	11.8	39.0	50.8			
Stock-based compensation	(5.1)	—	(5.1)			
Income from equity-accounted investments	1.5	—	1.5			
Other	(12.3)	—	(12.3)			
Income tax (expense) recovery	0.6	(9.4)	(8.8)			
Net income (loss)	(27.7)	28.1	0.4			

(1) Natural gas revenue shown per Mcf.

Strategic Investments

Three months ended March 31	**2014**	2013
Income from equity–accounted investments	**2.0**	1.5
Drilling rig revenue	**—**	2.6
Drilling rig expense	**—**	(1.0)
General and administrative	**(2.1)**	(2.0)
Stock-based compensation	**(1.6)**	0.1
Interest	**(0.7)**	(0.6)
Other	**1.2**	(0.6)
Segment income (loss)	**(1.2)**	—

Strategic Investments at March 31, 2014 include:

- investments in the shares of Trilogy Energy Corp. ("Trilogy"), MEG Energy Corp. ("MEG"), MGM Energy Corp. ("MGM Energy"), Marquee, RMP Energy Inc. ("RMP Energy"), Strategic Oil & Gas Ltd. ("Strategic") 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.

Investments

Paramount holds investments in a number of publicly-traded and private corporations as part of its portfolio of strategic investments. The Company's investments in the shares of Trilogy and MGM Energy were principally obtained in the course of the spin-out of the entities from Paramount. Investments in the shares of most other entities, including MEG, were received as consideration for properties sold to the entities. Paramount's investments are summarized as follows:

	Carrying Value		Market Value (1)	
	March 31, 2014	December 31, 2013	**March 31, 2014**	December 31, 2013
Trilogy	**97.7**	97.4	**519.0**	528.4
MEG	**138.2**	113.3	**138.2**	113.3
MGM Energy	**0.9**	1.2	**8.4**	8.7
Other (2)	**52.9**	38.1	**52.9**	38.1
Total	**289.7**	250.0	**718.5**	688.5

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

In April 2014, Paramount entered into an agreement with MGM Energy to acquire all of the common shares of MGM Energy that it does not already own (the "Arrangement"). Under the terms of the Arrangement, all shareholders of MGM Energy other than Paramount would receive one Common Share of Paramount for every 300 common shares of MGM Energy. The Arrangement is subject to MGM Energy shareholder and court approvals. A meeting of MGM Energy's shareholders has been scheduled for June 10, 2014 to consider the Arrangement. It is anticipated that Paramount would issue approximately 1.1 million Common Shares to MGM shareholders under the Arrangement.

Cavalier Energy

In November 2012, Cavalier Energy submitted regulatory applications for the initial 10,000 Bbl/d phase of its Hoole Grand Rapids development ("Hoole Grand Rapids Phase 1"). 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 will be received by mid-2014 and is continuing to evaluate funding alternatives. Cavalier Energy's current activities are being funded with drawings on its $40 million credit facility.

Shale Gas

Paramount has suspended operations to recover liner materials lodged in the wellbore of the Dunedin d-57-D shale gas exploration well due to spring break-up. Drilling operations have also been suspended for the season at the Dunedin d-71-G well, which was drilled to the first intermediate casing point prior to break-up. The Company plans to resume shale gas exploration activities in the winter of 2014 / 2015.

Corporate

Three months ended March 31	2014	2013
Interest	**15.0**	12.3
General and administrative	**4.7**	3.0
Stock-based compensation	**5.0**	5.2
Depreciation	**0.2**	0.1
Foreign exchange	**0.1**	(0.5)
Other	**(0.1)**	—
Segment loss	**24.9**	20.1

The first quarter Corporate segment loss increased to $24.9 million in 2014 compared to $20.1 million in the same period of 2013, primarily as a result of higher interest expense and higher general and administrative expenses.

Exploration and Capital Expenditures

Three months ended March 31	2014	2013
Geological and geophysical	**2.0**	1.5
Drilling, completion and tie-ins	**117.0**	106.6
Facilities and gathering	**54.2**	37.1
Exploration and development expenditures [(1)]	**173.2**	145.2
Land and property acquisitions	**2.3**	0.9
Principal Properties	**175.5**	146.1
Strategic Investments [(2)]	**23.1**	48.1
Corporate	**0.2**	3.6
	198.8	197.8

[(1)] Exploration and development expenditures include $4.3 million of capitalized interest (2013 - $2.2 million).
[(2)] Strategic Investments include $0.2 million of capitalized interest (2013 - $0.1 million).

Exploration and development expenditures in the first quarter of 2014 were $173.2 million compared to $145.2 million in the same period of 2013. Current quarter drilling, completion and tie-in costs were focused on new wells at Musreau, Smoky and Resthaven in the Kaybob COU and at Karr-Gold Creek in the Grande Prairie COU. Facilities and gathering expenditures focused on the new and expanded deep cut facilities at Musreau and Smoky and expansions to liquids handling facilities and gathering systems at Karr-Gold Creek.

Strategic investments capital expenditures for the first quarter of 2014 included $21.1 million related to the Company's exploratory shale gas drilling activities at Dunedin in Northeast British Columbia.

Wells drilled were as follows:

Three months ended March 31	2014		2013	
	Gross [(1)]	Net [(2)]	Gross [(1)]	Net [(2)]
Natural gas	11	11	10	7
Oil	2	1	2	2
Oil sands evaluation	–	–	6	6
Total	13	12	18	15

(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

Musreau Deep Cut Facility

Construction of the Musreau Deep Cut Facility is complete and the final stages of commissioning are underway. The expected total cost of the facility remains at approximately $190 million, in-line with the original budget.

First sales from the Musreau Deep Cut Facility are expected to commence in June. Kaybob COU sales volumes will ramp-up over the first few months following start-up of the facility, as equipment and processes are optimized. Initial volumes processed will mainly be from leaner Cretaceous wells in which Paramount's working interest generally ranges from 50 percent to 100 percent. As these initial production volumes decline, new 100 percent working interest Montney wells will be brought on production, which will increase liquids production and Paramount's working interest share of sales volumes.

Until third-party de-ethanization capacity is available, the Musreau Deep Cut Facility will be operated at warmer temperatures, resulting in most of the ethane remaining in the gas stream ("$C3^+$ Recovery Mode"). Ethane recovery ("$C2^+$ Recovery Mode") is expected to commence on completion of the first phase of expansions to third-party facilities in late-2014, and increase further when the second phase of that expansion becomes operational in mid-2015. Paramount's NGLs sales volumes will be lower during $C3^+$ Recovery Mode as compared to $C2^+$ Recovery Mode, but these impacts will be mostly offset by higher natural gas sales with the ethane remaining in the gas stream, which will increase both the sales value and sales volume of natural gas.

On start-up of the Musreau Deep Cut Facility, the Kaybob COU will have condensate stabilization capacity of approximately 8,500 Bbl/d, which will increase to approximately 23,500 Bbl/d in the fourth quarter of 2014 when the Company completes a 15,000 Bbl/d expansion of the condensate stabilization system (the "Stabilizer Expansion"). Until the Stabilizer Expansion is completed, Kaybob field condensate production in excess of capacity will be trucked to other Paramount and third-party facilities for processing. Long lead-time components have been ordered and site work has commenced for the Stabilizer Expansion, which is expected to cost approximately $45 million.

Site work has also commenced for the amine processing train at the Musreau Deep Cut Facility site, which will provide the capability to treat sour gas production at the facility instead of at well sites. The addition of the amine processing train will reduce equipping costs per well by over $1 million and result in lower ongoing well operating costs. This project is expected to be completed in the fourth quarter of 2014 at a cost of approximately $45 million.

The Company is continuing to advance the planning of additional natural gas processing facilities in its Deep Basin core area. Paramount currently anticipates constructing refrigeration facilities, each of which would have a processing capacity of 100 MMcf/d, in order to shorten the time from project commencement to first sales gas. To ensure access to downstream NGLs transportation and fractionation for future natural gas processing facilities, Paramount has secured capacity in further expansions to third-party NGLs transportation and fractionation systems that are expected to come on-stream beginning in mid-2016.

Smoky Deep Cut Facility

The deep cut expansion of the non-operated Smoky natural gas processing facility (the "Smoky Deep Cut Facility") is scheduled to start-up in the third quarter of 2014. The Company will have a 20 percent interest in the Smoky Deep Cut Facility, which will initially have a working capacity of 200 MMcf/d (40 MMcf/d net), increasing to 300 MMcf/d (60 MMcf/d net) through the later installation of an incremental 100 MMcf/d of compression. Paramount has been advised that the existing Smoky 100 MMcf/d (10 MMcf/d net) dew-point facility will be shut down for approximately 10 weeks beginning in June to complete the integration of the new expansion.

Kaybob Wells

First quarter drilling activities were focused on two 10-well Montney pads and one 5-well Montney pad, all of which are located in the northern portion of the Company's Musreau area lands, where liquids yields are expected to be the highest. Drilling operations are expected to be finished on all 25 wells by the end of July, with completion operations to follow. The first wells will be brought-on later in 2014, with all 25 wells expected to be producing in 2015.

Following the completion of drilling operations on the two 10-well pads, Paramount's two walking rigs will move onto new multi-well pads in Musreau consisting of up to six wells per pad.

Outlook

Paramount's 2014 capital budget for exploration and development ("E&D") and Strategic Investments remains at $650 million, excluding land acquisitions and capitalized interest. E&D spending will continue to focus on the Company's Deep Basin developments, including drilling and completing wells in the Kaybob area and at Karr-Gold Creek, and the completion of new deep cut facilities and related infrastructure. Shale gas exploration activities in the Liard Basin are substantially complete for this winter season.

Paramount will begin to ramp-up production as the Musreau Deep Cut Facility starts up, additional components of the Company's Kaybob area infrastructure are completed and third-party de-ethanization capacity becomes available. Sales volumes are expected to reach approximately 50,000 Boe/d in 2014 and increase to approximately 70,000 Boe/d in 2015, depending upon the availability of downstream third-party de-ethanization capacity.

Despite achieving sales volumes of approximately 25,000 Boe/d in April 2014, second quarter sales volumes are expected to average between 17,500 Boe/d and 20,000 Boe/d. The Company's production will be impacted later in the quarter by a scheduled third-party plant outage in the Grande Prairie COU, as well as outages in the Kaybob COU resulting from the integration of the non-operated Smoky deep cut facility expansion and final commissioning activities for the Musreau Deep Cut Facility. Production will ramp-up significantly in the third quarter following the start-up of the Musreau Deep Cut Facility.

Liquidity and Capital Resources

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

	March 31, 2014	December 31, 2013	% Change
Adjusted working capital deficit (1)	**161.0**	151.8	6
Demand facilities	**77.2**	75.6	2
Credit facility	**215.5**	71.8	200
Senior Notes (2)	**820.0**	820.0	–
Net debt (3)	**1,273.7**	1,119.2	14
Share capital	**1,187.8**	1,169.2	2
Accumulated deficit	**(233.5)**	(224.6)	(4)
Reserves	**111.1**	87.6	27
Total Capital	**2,339.1**	2,151.4	9

(1) Adjusted working capital excludes accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (March 31, 2014 – nil, December 31, 2013 – $9.5 million), risk management assets and liabilities, and demand facilities.
(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.

Paramount had an adjusted working capital deficit at March 31, 2014 of $161.0 million compared to a deficit of $151.8 million at December 31, 2013. The adjusted working capital deficit at March 31, 2014 included $16.1 million of cash and cash equivalents, $41.2 million of accounts receivable and $220.9 million of accounts payable and accrued liabilities. The change in adjusted working capital is primarily due to capital spending related to the Company's 2014 capital program, partially offset by drawings on credit facilities, funds flow from operations, and proceeds from the sale of investments and non-core properties.

Paramount expects to fund its 2014 operations, obligations and capital expenditures with funds flow from operations, drawings on its bank credit facilities, existing cash and cash equivalents and by accessing the capital markets, if required. As production constraints within the Kaybob COU begin to abate in 2014, funds flow from operations is expected to increase as a result of higher sales volumes.

Demand Facilities

Drilling Rig Facilities

Fox Drilling's demand loan facilities (the "Drilling Rig Facilities") include a $57.0 million non-revolving facility used to fund the construction of drilling rigs and an $8.0 non-revolving facility used to fund the purchase of auxiliary equipment for the rigs (the "Auxiliary Equipment Loan"). In the first quarter of 2014, $1.0 million was drawn on the Auxiliary Equipment Loan portion of the Drilling Rig Facilities and aggregate payments of $2.0 million were made on the Drilling Rig Facilities, resulting in a net balance of $52.0 million outstanding at March 31, 2014.

Cavalier Facility

Cavalier Energy has a $40.0 million demand loan facility with a syndicate of Canadian banks (the "Cavalier Facility"). In the first quarter of 2014, $2.6 million was drawn on the Cavalier Facility, resulting in $25.2 million being outstanding at March 31, 2014.

Bank Credit Facility

Paramount's $600 million bank credit facility (the "Facility") is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $500 million and is available on a revolving basis to November 30, 2014. 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 $100 million and is due November 30, 2014 in the event the due date is not earlier extended. As at March 31, 2014, $215.5 million was drawn on Tranche A and Tranche B was undrawn.

Paramount had undrawn letters of credit outstanding at March 31, 2014 totaling $43.6 million that reduce the amount available to the Company.

Share Capital

In October 2013, Paramount issued 1,360,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses (the "FTS") at a price of $44.00 per share. As of March 31, 2014, the Company has incurred sufficient qualifying expenditures to satisfy commitments associated with the FTS issued in 2013.

At May 5, 2014, Paramount had 97,868,324 Common Shares and 5,839,500 Paramount Options outstanding, of which 1,606,550 Paramount Options are exercisable.

Quarterly Information

	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales – CO	**86.2**	57.8	53.9	59.5	59.5	51.0	38.8	40.5
Petroleum and natural gas sales – DO	—	—	—	—	1.8	3.6	2.5	6.0
Petroleum and natural gas sales	**86.2**	57.8	53.9	59.5	61.3	54.6	41.3	46.5
Funds flow from operations – CO	**33.5**	18.3	13.4	22.3	17.9	16.9	15.9	10.2
Funds flow from operations – DO	—	—	—	—	(1.3)	0.8	(0.4)	1.9
Funds flow from operations	**33.5**	18.3	13.4	22.3	16.6	17.7	15.5	12.1
Per share – basic and diluted ($/share)	*0.34*	*0.19*	*0.14*	*0.24*	*0.18*	*0.20*	*0.18*	*0.15*
Income (loss) – CO	**(8.9)**	0.3	(37.6)	(22.1)	(27.7)	(128.6)	(33.5)	(29.8)
Per share – basic and diluted ($/share)	***(0.09)***	—	*(0.39)*	*(0.24)*	*(0.31)*	*(1.49)*	*(0.39)*	*(0.35)*
Net income (loss)	**(8.9)**	0.3	(37.6)	(22.1)	0.3	(151.8)	(34.6)	—
Per share – basic and diluted ($/share)	***(0.09)***	—	*(0.39)*	*(0.24)*	—	*(1.69)*	*(0.40)*	—
Sales volumes								
Natural gas (MMcf/d)	**104.7**	102.5	100.9	107.6	110.8	99.4	90.6	101.4
NGLs (Bbl/d)	**3,079**	2,668	2,535	2,126	2,655	2,098	1,745	1,957
Oil (Bbl/d)	**500**	536	656	722	861	947	900	1,064
Total Continuing Operations (Boe/d)	**21,028**	20,290	20,022	20,790	21,985	19,606	17,745	19,904
Discontinued Operations (Boe/d)	—	—	—	—	606	1,068	967	1,570
Total (Boe/d)	**21,028**	20,290	20,022	20,790	22,591	20,674	18,712	21,474
Average realized price								
Natural gas ($/Mcf)	**6.04**	3.73	3.10	3.97	3.48	3.45	2.58	2.08
NGLs ($/Bbl)	**86.97**	74.30	78.55	71.84	73.76	61.14	60.55	69.52
Oil ($/Bbl)	**96.56**	78.92	100.73	85.98	84.32	79.20	81.45	82.74
Continuing Operations ($/Boe)	**45.56**	30.99	29.27	31.41	30.08	28.27	23.78	22.36
Discontinued Operations ($/Boe)	—	—	—	—	32.95	36.61	27.96	42.31
Total ($/Boe)	**45.56**	30.99	29.27	31.41	30.16	28.70	24.00	23.82

Significant Items Impacting Quarterly Results

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

- First quarter 2014 earnings include $17.6 million in aggregate gains on the sale of petroleum and natural gas properties.
- Fourth quarter 2013 earnings include a $25.1 million dilution gain on the Company's investment in Trilogy as a result of common shares issued by Trilogy during the quarter and a $7.3 million net impairment reversal of petroleum and natural gas properties.
- Third quarter 2013 earnings include a $13.8 million net impairment write-down of petroleum and natural gas properties.

- Second quarter 2013 earnings include $16.2 million of exploration expenses and $10.6 million in aggregate gains on the sale of petroleum and natural gas properties.
- First quarter 2013 earnings include $50.8 million in aggregate gains on the sale of petroleum and natural gas properties, partially offset by higher depletion and depreciation due to higher sales volumes.
- Fourth quarter 2012 earnings include a $135.6 million write-down of petroleum and natural gas properties and goodwill, and $6.5 million in dry hole charges.
- Third quarter 2012 earnings includes $6.2 million in respect of a business interruption insurance settlement related to an electrical equipment failure at the Musreau refrigeration 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.

Change in Accounting Policies

Effective January 1, 2014, the Company adopted IFRIC 21 – *Levies*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on adoption of this standard.

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", "will", "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 the growth and the timing thereof;
- forecast capital expenditures;
- exploration, development, and associated operational plans and strategies (including planned drilling programs, well tie-ins and potential future facility expansions and additions), and the anticipated timing of and/or sources of funding for such activities;
- anticipated increases in funds flow from operations;
- projected timelines for, and anticipated costs of, constructing, commissioning and/or starting-up new and expanded deep cut natural gas processing and associated facilities; and the Kaybob COU’s processing capacity following the completion of the deep cut facilities;
- anticipated decreases in capital and operating costs;
- the projected availability of third party processing, transportation, fractionation, de-ethanization and other facilities;
- 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.

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 and 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, de-ethanization 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 is reasonable, undue reliance should not be placed on it as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking information is based on 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. The material risks and uncertainties include, 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, de-ethanization 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);
- industry wide processing, pipeline, de-ethanization, and fractionation infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resource 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, de-ethanization, 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;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and

- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "RISK FACTORS" in Paramount's current 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", "Netback", "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 and transportation costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. **Net Debt** is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the liquidity and capital resources section of the Company's Management's Discussion and Analysis for the period for the calculation of Net Debt and **Adjusted Working Capital. Exploration and development expenditures** refer to capital expenditures and geological and geophysical costs incurred by the Company's COUs (excluding land and acquisitions). The exploration and development expenditure measure provides management and investors with information regarding the Company's Principal Property spending on drilling and infrastructure projects, separate from land acquisition activity. **Investments in other entities – market value** reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG Energy, MGM Energy, Marquee, Strategic 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 first quarter of 2014, the value ratio between crude oil and natural gas was approximately 16:1. This value ratio is significantly different from the energy equivalency ratio of 6:1. Using a 6:1 ratio would be misleading as an indication of value.

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

As at	Note	March 31 2014	December 31 2013
ASSETS		**(Unaudited)**	
Current assets			
Cash and cash equivalents		**$ 16,117**	$ 10,703
Accounts receivable		**41,212**	39,300
Prepaid expenses and other		**2,650**	2,252
		59,979	52,255
Deposit		**20,488**	20,437
Exploration and evaluation	4	**488,314**	429,911
Property, plant and equipment, net	5	**1,645,729**	1,573,011
Equity-accounted investments	6	**104,285**	104,314
Investments in securities	7	**185,447**	145,661
Deferred income tax		**107,273**	119,090
Goodwill		**3,124**	3,124
		$ 2,614,639	$ 2,447,803
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Demand facilities	8	**$ 77,155**	$ 75,550
Accounts payable and accrued liabilities		**220,941**	213,581
Risk management	15	**4,334**	3,972
		302,430	293,103
Long-term debt	9	**1,026,699**	882,603
Asset retirement obligations	10	**220,144**	239,853
		1,549,273	1,415,559
Shareholders' equity			
Share capital	11	**1,187,764**	1,169,178
Accumulated deficit		**(233,496)**	(224,612)
Reserves	12	**111,098**	87,678
		1,065,366	1,032,244
		$ 2,614,639	$ 2,447,803

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)

Three months ended March 31	Note	2014	2013
Petroleum and natural gas sales		$ 86,218	$ 59,524
Royalties		(5,628)	(4,341)
Revenue		80,590	55,183
Loss on financial commodity contracts	15	(2,333)	—
		78,257	55,183
Expenses			
Operating expense		18,448	17,848
Transportation		6,498	4,958
General and administrative		6,889	5,017
Stock-based compensation	13	6,558	5,096
Depletion and depreciation		42,718	42,053
Exploration and evaluation	4	8,101	10,355
Gain on sale of property, plant and equipment		(17,572)	(11,796)
Interest		15,609	12,840
Accretion of asset retirement obligations		1,549	—
Foreign exchange		91	(460)
		88,889	85,911
Income from equity-accounted investments	6	1,981	1,502
Other income		1,151	920
Loss from continuing operations before tax		(7,500)	(28,306)
Income tax expense (recovery)	14		
Current		82	4,293
Deferred		1,302	(4,927)
		1,384	(634)
Loss from continuing operations		(8,884)	(27,672)
Income from discontinued operations, net of tax	3	—	28,030
Net income (loss)		$ (8,884)	$ 358
Other comprehensive income, net of tax	12		
Change in market value of securities		28,614	7,587
Exchange differences on translation of US subsidiaries		—	(587)
		28,614	7,000
Comprehensive income		$ 19,730	$ 7,358
Net income (loss) per common share ($/share)	11		
Basic – continuing operations		$ (0.09)	$ (0.31)
Basic – discontinued operations		—	0.31
Basic		(0.09)	—
Diluted – continuing operations		(0.09)	(0.31)
Diluted – discontinued operations		—	0.31
Diluted		$ (0.09)	$ —

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

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

($ thousands)

Three months ended March 31	Note	2014	2013
Operating activities			
Net income (loss)		$ (8,884)	$ 358
Add (deduct):			
Items not involving cash	16	38,145	8,417
Dividends from equity-accounted investments		2,010	2,010
Asset retirement obligations settled	10	(2,047)	(1,720)
Current tax related to the sale of U.S. properties		—	4,273
Change in non-cash working capital		10,390	9,843
Cash from operating activities		39,614	23,181
Financing activities			
Net draw of demand facilities	8	1,605	13,415
Net draw of revolving long-term debt	9	143,649	—
Common shares issued, net of issue costs		7,661	1,613
Cash from financing activities		152,915	15,028
Investing activities			
Property, plant and equipment and exploration		(196,593)	(196,234)
Proceeds on sale of property, plant and equipment		3,929	21,643
Proceeds on sale of discontinued operations, net		—	9,062
Proceeds on sale of investment, net		6,443	—
Investments in securities		—	(9,000)
Change in non-cash working capital		(1,083)	37,425
Cash used in investing activities		(187,304)	(137,104)
Net increase (decrease)		5,225	(98,895)
Foreign exchange on cash and cash equivalents		189	183
Cash and cash equivalents, beginning of period		10,703	146,684
Cash and cash equivalents, end of period		$ 16,117	$ 47,972
Supplemental cash flow information	16		

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

PARAMOUNT RESOURCES LTD.

Interim Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

($ thousands, except as noted)

Three months ended March 31	Note	2014 Shares (000's)	2014	2013 Shares (000's)	2013
Share Capital					
Balance, beginning of period		*96,993*	**$ 1,169,178**	*89,857*	$ 921,680
Issued		*539*	**18,391**	*198*	6,209
Change in unvested common shares for stock incentive plan	11	—	**195**	—	166
Balance, end of period		*97,532*	**$ 1,187,764**	*90,055*	$ 928,055
Accumulated Deficit					
Balance, beginning of period			**$ (224,612)**		$ (165,527)
Net income (loss)			**(8,884)**		358
Balance, end of period			**$ (233,496)**		$ (165,169)
Reserves	12				
Balance, beginning of period			**$ 87,678**		$ 94,947
Other comprehensive income			**28,614**		7,000
Change in contributed surplus			**(5,194)**		1,682
Balance, end of period			**$ 111,098**		$ 103,629
Total Shareholders' Equity			**$ 1,065,366**		$ 866,515

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. The Company'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 a 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. The consolidated group includes the following wholly-owned subsidiaries: Paramount Resources, a partnership, Fox Drilling Inc. ("Fox Drilling") and Cavalier Energy Inc. ("Cavalier Energy"). Paramount also holds a 15 percent equity interest in Trilogy Energy Corp. ("Trilogy"), which is accounted for under the equity method of investment accounting along with certain other investees. 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.

These unaudited Interim Condensed Consolidated Financial Statements as at and for the three months ended March 31, 2014 (the "Interim Financial Statements"), were authorized for issuance by the Audit Committee of Paramount's Board of Directors on May 7, 2014.

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, 2013 (the "Annual Financial Statements"). These Interim Financial Statements are stated in Canadian dollars and have been prepared on a historical cost basis, except for certain financial instruments. Certain information and disclosures normally required to be included in the notes to Annual Financial Statements prepared in accordance with International Financial Reporting Standards have been condensed or omitted.

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

Change in Accounting Policies

Effective January 1, 2014, the Company adopted IFRIC 21 – *Levies*. There has been no impact on the recognized assets, liabilities, or comprehensive income of the Company on adoption of this standard.

($ thousands, except as noted)

2. SEGMENTED INFORMATION

Three months ended March 31, 2014	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 80,590	$ —	$ —	$ —	$ 80,590
Loss on financial commodity contracts	(2,333)	—	—	—	(2,333)
	78,257	—	—	—	78,257
Expenses					
Operating expense and transportation	24,946	—	—	—	24,946
General and administrative	—	2,143	4,746	—	6,889
Stock-based compensation	—	1,558	5,000	—	6,558
Depletion and depreciation	42,421	2,947	171	(2,821)	42,718
Exploration and evaluation	7,938	163	—	—	8,101
Gain on sale of property, plant and equipment	(17,572)	—	—	—	(17,572)
Interest	—	653	14,956	—	15,609
Accretion of asset retirement obligations	1,539	10	—	—	1,549
Foreign exchange	—	—	91	—	91
	59,272	7,474	24,964	(2,821)	88,889
Income from equity-accounted investments	—	1,981	—	—	1,981
Other	(387)	1,486	56	—	1,155
Drilling rig revenue	—	12,323	—	(12,323)	—
Drilling rig expense	—	(6,072)	—	6,068	(4)
	18,598	2,244	(24,908)	(3,434)	(7,500)
Inter-segment eliminations	—	(3,434)	—	3,434	—
Segment income (loss)	$ 18,598	$ (1,190)	$ (24,908)	$ —	(7,500)
Income tax expense					(1,384)
Net loss					$ (8,884)

Three months ended March 31, 2013	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 55,183	$ —	$ —	$ —	$ 55,183
Expenses					
Operating expense and transportation	22,806	—	—	—	22,806
General and administrative	—	2,011	3,006	—	5,017
Stock-based compensation	—	(69)	5,165	—	5,096
Depletion and depreciation	41,485	1,568	88	(1,088)	42,053
Exploration and evaluation	10,269	86	—	—	10,355
Gain on sale of property, plant and equipment	(11,796)	—	—	—	(11,796)
Interest	—	561	12,279	—	12,840
Foreign exchange	—	—	(460)	—	(460)
	62,764	4,157	20,078	(1,088)	85,911
Income from equity-accounted investments	—	1,502	—	—	1,502
Other	(641)	—	—	—	(641)
Drilling rig revenue	—	7,246	—	(4,680)	2,566
Drilling rig expense	—	(3,102)	—	2,097	(1,005)
	(8,222)	1,489	(20,078)	(1,495)	(28,306)
Inter-segment eliminations	—	(1,495)	—	1,495	—
Segment loss	$ (8,222)	$ (6)	$ (20,078)	$ —	(28,306)
Income tax recovery					634
Income from discontinued operations, net of tax					28,030
Net income					$ 358

($ thousands, except as noted)

3. 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. These properties were included in the Company's Principal Properties business segment. Amounts related to these properties for the three months ended March 31, 2013 have been classified as discontinued operations and are excluded from the results of the Company's continuing operations.

Details of the income from discontinued operations are presented below:

Three months ended	**March 31, 2013**
Petroleum and natural gas sales	$ 1,796
Royalties	(24)
Revenue	1,772
Expenses	
Operating expense	2,841
Transportation	233
Depletion and depreciation	267
Exploration and evaluation	29
	3,370
Loss from ordinary activities of discontinued operations before tax	(1,598)
Gain on sale of discontinued operations	38,985
Income from discontinued operations before tax	37,387
Deferred income tax expense – discontinued operations	9,357
Income from discontinued operations	$ 28,030

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

Three months ended	**March 31, 2013**
Operating	$ (926)
Investing	9,062
Cash flow from discontinued operations	$ 8,136

($ thousands, except as noted)

4. EXPLORATION AND EVALUATION

	Three months ended March 31, 2014	Twelve months ended December 31, 2013
Balance, beginning of period	**$ 429,911**	$ 405,090
Additions	**66,081**	203,642
Transfers to property, plant and equipment	**(678)**	(137,355)
Dry hole	**(364)**	(13,862)
Expired lease costs	**(5,522)**	(14,429)
Dispositions	**(1,114)**	(13,143)
Foreign exchange	**—**	(32)
Balance, end of period	**$ 488,314**	$ 429,911

Exploration and Evaluation Expense

Three months ended March 31	**2014**	2013
Geological and geophysical	**$ 2,215**	$ 1,523
Dry hole	**364**	2,102
Expired lease costs	**5,522**	6,730
	$ 8,101	$ 10,355

5. PROPERTY, PLANT AND EQUIPMENT

Three months ended March 31, 2014	**Petroleum & natural gas assets**	**Drilling rigs**	**Other**	**Total**
Cost				
Balance, December 31, 2013	$ 2,489,356	$ 101,517	$ 27,173	**$ 2,618,046**
Additions	133,628	800	61	**134,489**
Transfers from exploration and evaluation	678	—	—	**678**
Dispositions	(120,885)	—	—	**(120,885)**
Change in asset retirement provision	9,326	—	—	**9,326**
Cost, March 31, 2014	**2,512,103**	**102,317**	**27,234**	**2,641,654**
Accumulated depletion, depreciation and write-downs				
Balance, December 31, 2013	$ (997,486)	$ (27,802)	$ (19,747)	**$ (1,045,035)**
Depletion and depreciation	(42,700)	(2,901)	(216)	**(45,817)**
Dispositions	94,927	—	—	**94,927**
Accumulated depletion, depreciation and write-downs, March 31, 2014	**(945,259)**	**(30,703)**	**(19,963)**	**(995,925)**
Net book value, December 31, 2013	1,491,870	73,715	7,426	**1,573,011**
Net book value, March 31, 2014	**$ 1,566,844**	**$ 71,614**	**$ 7,271**	**$ 1,645,729**

In the first quarter of 2014, the Company sold its properties in the Chain-Delia area of Alberta in exchange for $11.7 million in common shares of Marquee Energy Ltd. ("Marquee").

6. EQUITY ACCOUNTED INVESTMENTS

As at	March 31, 2014			December 31, 2013		
	Shares (000's)	**Carrying Value**	**Market Value (1)**	*Shares (000's)*	Carrying Value	Market Value (1)
Trilogy	*19,144*	**$ 97,714**	**$ 519,003**	*19,144*	$ 97,391	$ 528,383
MGM Energy Corp.	*54,147*	**947**	**8,393**	*54,147*	1,212	8,664
Other		**5,624**			5,711	
		$104,285			$104,314	

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

Income from equity-accounted investments is comprised of the following:

Three months ended March 31	2014	2013
Equity earnings	**$ 1,955**	$ 1,316
Dilution gain	**26**	186
	$ 1,981	$ 1,502

The following tables summarize the assets, liabilities, equity, revenue and income of Trilogy and Paramount's investment in Trilogy:

As at March 31	2014	2013
Current assets	**$ 80,890**	$ 82,212
Non-current assets (1)	**1,601,620**	1,470,424
Current liabilities	**(226,275)**	(204,629)
Non-current liabilities	**(780,283)**	(821,326)
Equity	**$ 675,952**	$ 526,681
Multiply by: Paramount's equity interest	**15.3%**	16.4%
Paramount's proportionate share of equity	**$ 103,393**	$ 86,179
Less: share of share-based compensation recorded in equity of Trilogy	**(5,679)**	(4,050)
Carrying value of Paramount's investment	**$ 97,714**	$ 82,129

(1) Includes adjustments to Trilogy's carrying values required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in the open market in prior years. Excluding such adjustments, Trilogy's non-current assets as at March 31, 2014 totaled $1,595,569 (2013 – $1,434,643) and equity totaled $669,901 (2013 – $490,900).

Three months ended March 31	2014	2013
Revenue	**$ 138,362**	$ 124,123
Comprehensive income (1)	**15,086**	9,380
Paramount's share of Trilogy's comprehensive income	**$ 2,308**	$ 1,535

(1) Includes amortization of the adjustments to Trilogy's non-current assets required in the application of the equity method of investment accounting for shares of Trilogy purchased by the Company in the open market in prior years. Excluding such adjustments, Trilogy's comprehensive income for the three months ended March 31, 2014 was $17,386 (2013 – $9,644).

Trilogy had 7.0 million stock options outstanding (2.4 million exercisable) at March 31, 2014 at exercise prices ranging from $4.85 to $38.74 per share.

7. INVESTMENTS IN SECURITIES

As at	March 31, 2014		December 31, 2013	
	Shares (000's)	*Market Value*	*Shares (000's)*	*Market Value*
MEG Energy Corp.	*3,700*	**$ 138,232**	*3,700*	$ 113,257
Other(1)		**47,215**		32,404
		$ 185,447		$ 145,661

(1) Includes investments in Marquee, RMP Energy Inc., Strategic Oil & Gas Ltd., and other public and private corporations.

8. DEMAND FACILITIES

As at	March 31, 2014	December 31, 2013
Drilling Rig Facilities	**$ 51,960**	$ 53,000
Cavalier Facility	**25,195**	22,550
	$ 77,155	$ 75,550

9. LONG-TERM DEBT

As at	March 31, 2014	December 31, 2013
Bank credit facility	**$ 215,475**	$ 71,826
8¼% Senior Notes due 2017	**370,000**	370,000
7⅝% Senior Notes due 2019	**450,000**	450,000
	1,035,475	891,826
Unamortized financing costs, net of premiums	**(8,776)**	(9,223)
	$ 1,026,699	$ 882,603

Bank Credit Facility

Paramount's bank credit facility (the "Facility") has a credit limit of $600 million, which is available in two tranches. The first tranche ("Tranche A") has a credit limit and lender commitments of $500 million and is available on a revolving basis to November 30, 2014. 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 $100 million and is due November 30, 2014 in the event the due date is not earlier extended.

As at March 31, 2014, $215.5 million was drawn on Tranche A and Tranche B was undrawn. Paramount had undrawn letters of credit outstanding at March 31, 2014 totaling $43.6 million that reduce the amount available to the Company.

10. ASSET RETIREMENT OBLIGATIONS

	Three months ended March 31, 2014	Twelve months ended December 31, 2013
Asset retirement obligations, beginning of period	**$ 239,853**	$ 300,468
Retirement obligations incurred	**2,376**	35,749
Revisions to estimated retirement costs and discount rates	**7,452**	(45,321)
Obligations settled	**(2,047)**	(6,336)
Dispositions	**(29,039)**	(48,087)
Accretion expense	**1,549**	3,099
Other	**—**	281
Asset retirement obligations, end of period	**$ 220,144**	$ 239,853

Asset retirement obligations at March 31, 2014 were determined using a weighted average risk-free rate of 2.75 percent (December 31, 2013 – 3.00 percent) and an inflation rate of 2.00 percent (December 31, 2013 – 2.00 percent).

11. SHARE CAPITAL

At March 31, 2014, 97,531,879 (December 31, 2013 – 96,993,129) Class A Common Shares ("Common Shares") of the Company were outstanding, net of 71,495 (December 31, 2013 – 71,495) Common Shares held in trust under the stock incentive plan.

Loss per Weighted Average Common Share

Three months ended March 31	**2014**		2013	
	Wtd. Avg. Shares (000's)	**Loss from continuing operations**	*Wtd. Avg. Shares (000's)*	Loss from continuing operations
Loss from continuing operations – basic	*97,303*	**$ (8,884)**	*89,972*	$ (27,672)
Dilutive effect of Paramount options	**—**	**—**	—	—
Loss from continuing operations – diluted	*97,303*	**$ (8,884)**	*89,972*	$ (27,672)

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 6.1 million Paramount Options outstanding at March 31, 2014 (March 31, 2013 – 6.6 million) of which 6.1 million (March 31, 2013 – 6.6 million) were anti-dilutive.

12. RESERVES

Reserves at March 31, 2014 include unrealized gains and losses related to changes in the market value of the Company's investments in securities and contributed surplus amounts in respect of Paramount Options and Cavalier Options. The changes in reserves are as follows:

($ thousands, except as noted)

	Unrealized gains on securities	Contributed surplus	Total
Balance, December 31, 2013	$ 12,787	$ 74,891	**$ 87,678**
Other comprehensive income	28,614	—	**28,614**
Stock-based compensation	—	5,536	**5,536**
Stock options exercised	—	(10,730)	**(10,730)**
Balance, March 31, 2014	**$ 41,401**	**$ 69,697**	**$ 111,098**

Other Comprehensive Income

Three months ended March 31	**2014**	2013
Unrealized gain on securities		
Change in market value of securities	**$ 30,130**	$ 7,587
Reclassification of other comprehensive income to earnings	**(1,037)**	—
Deferred tax	**(479)**	—
	28,614	7,587
Translation of foreign subsidiaries		
Exchange differences on translation of US subsidiaries	**—**	(682)
Reclassification of other comprehensive income to earnings	**—**	95
	—	(587)
Other comprehensive income	**$ 28,614**	$ 7,000

13. SHARE-BASED COMPENSATION

Paramount Options

Changes in outstanding Paramount Options are as follows:

	Three months ended March 31, 2014		Twelve months ended December 31, 2013	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		($/share)		($/share)
Balance, beginning of period	**6,632,200**	**$ 31.20**	6,667,850	$ 23.58
Granted	**60,000**	**41.37**	1,865,000	37.37
Exercised	**(538,750)**	**14.23**	(1,747,650)	8.66
Forfeited	**(49,000)**	**34.23**	(153,000)	31.98
Balance, end of period	**6,104,450**	**$ 32.77**	6,632,200	$ 31.20
Options exercisable, end of period	**1,871,500**	**$ 27.06**	2,407,250	$ 24.21

Stock Incentive Plan – Shares Held in Trust

	Three months ended March 31, 2014		Twelve months ended December 31, 2013	
	Shares (000's)		_Shares (000's)_	
Balance, beginning of period	_72_	**$ 500**	_75_	$ 416
Shares purchased	—	—	_113_	3,998
Change in vested and unvested shares	—	**(195)**	_(116)_	(3,914)
Balance, end of period	_72_	**$ 305**	_72_	$ 500

14. INCOME TAX

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

Three months ended March 31	**2014**	2013
Loss from continuing operations before tax	**$ (7,500)**	$ (28,306)
Effective Canadian statutory income tax rate	**25.0%**	25.0%
Expected income tax recovery	**$ (1,875)**	$ (7,076)
Effect on income taxes of:		
Statutory and other rate differences	**19**	1,735
Income from equity-accounted investments	**(495)**	(372)
Investment in subsidiaries	**—**	1,327
Flow-through share renunciations	**2,617**	3,618
Stock-based compensation	**1,294**	937
Non-deductible items and other	**(176)**	(803)
Income tax recovery	**$ 1,384**	$ (634)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management financial instruments outstanding at March 31, 2014 are as follows:

Instruments	**Total Notional**	**Average Fixed Price**	**Fair Value**	**Remaining Term**
Oil - NYMEX WTI Swap	1,000 Bbl/d	US$92.43/Bbl	**$ (951)**	April - June 2014
Oil - NYMEX WTI Swap	2,000 Bbl/d	US$91.78/Bbl	**(3,623)**	April - December 2014
Natural Gas - AECO Swap	20,000 GJ/d	CAD$4.45/GJ	**240**	April - October 2014
			$ (4,334)	

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

	Three months ended March 31, 2014	Twelve months ended December 31, 2013
Fair value, beginning of period	**$ (3,972)**	$ —
Changes in fair value	**(2,333)**	(3,972)
Settlements paid	**1,971**	—
Fair value, end of period	**$ (4,334)**	$ (3,972)

($ thousands, except as noted)

16. CONSOLIDATED STATEMENT OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

Three months ended March 31	2014	2013
Financial commodity contracts	$ 362	$ —
Stock-based compensation	6,558	5,096
Depletion and depreciation	42,718	42,053
Exploration and evaluation	5,886	8,832
Gain on sale of property, plant, and equipment	(17,572)	(11,796)
Accretion of asset retirement obligations	1,549	—
Foreign exchange	297	(372)
Income from equity-accounted investments	(1,981)	(1,502)
Deferred income tax	1,302	(4,927)
Discontinued operations	—	(29,361)
Other	(974)	394
	$ 38,145	$ 8,417

Supplemental cash flow information

Three months ended March 31	2014	2013
Interest paid	$ 4,072	$ 1,793
Current tax paid	$ 502	$ —

17. SUBSEQUENT EVENT

In April 2014, Paramount entered into an agreement with MGM Energy Corp. ("MGM Energy") to acquire all of the common shares of MGM Energy that it does not already own (the "Arrangement"). Under the terms of the Arrangement, all shareholders of MGM Energy other than Paramount would receive one Common Share of Paramount for every 300 common shares of MGM Energy. The Arrangement is subject to MGM Energy shareholder and court approvals. A meeting of MGM Energy's shareholders has been scheduled for June 10, 2014 to consider the Arrangement.

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
V.P. Midstream

P. R. Kinvig
V.P. Finance and Controller

L. A. Friesen
Assistant Corporate Secretary

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Calgary, Alberta

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Calgary, Alberta

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Independent Businessman
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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
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Chief Executive Officer
Perpetual Energy Inc.
Calgary, Alberta

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

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

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

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Canadian Imperial Bank of Commerce
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Canadian Western Bank
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REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
("POU")