Paramount resources ltd.

2010 first quarter report

FINANCIAL AND OPERATING HIGHLIGHTS[1]

($ millions, except as noted)

Three Months Ended	**March 31, 2010**	March 31, 2009	Change %
Financial			
Petroleum and natural gas sales	**48.9**	40.2	22
Funds flow from operations	**21.6**	17.6	23
Per share – diluted ($/share)	**0.30**	0.27	11
Net loss	**(14.5)**	(23.7)	(39)
Per share – diluted ($/share)	**(0.20)**	(0.36)	(44)
Exploration and development capital expenditures	**66.8**	55.5	20
Investments - market value	**341.1**	256.2	33
Total assets	**1,133.0**	1,139.0	(1)
Net debt	**117.2**	143.0	(18)
Common shares outstanding (thousands)	**72,342**	66,125	9
Operating			
Sales volumes			
Natural gas (MMcf/d)	**50.2**	51.1	(2)
Oil and NGLs (Bbl/d)	**3,514**	3,398	3
Total (Boe/d)	**11,875**	11,912	-
Gas weighting	**70%**	71%	(1)
Average realized price			
Natural gas ($/Mcf)	**5.59**	5.73	(2)
Oil and NGLs ($/Bbl)	**74.78**	45.38	65
Net wells drilled	**67**	16	319

(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.

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FIRST QUARTER 2010 OVERVIEW

- Funds flow from operations in the first quarter of 2010 increased by $4.0 million from the first quarter of 2009 due primarily to the impact of a higher netback partially offset by lower settlements of financial commodity contracts.

Principal Properties

- Netback before settlements of financial commodity contracts increased by $14.2 million to $23.7 million in the first quarter of 2010 due primarily to higher sales prices and lower operating costs.

- The Kaybob COU drilled five (2.0 net) wells and brought six (3.7 net) wells on production in the quarter. During 2009 and 2010, Paramount has drilled four (2.7 net) horizontal wells in the deep basin at Kaybob, with per well production rates of up to 8.3 MMcf/d (4.2 MMcf/d net) during the first month of production.

- The Grande Prairie COU drilled five (4.8 net) wells and acquired two (1.8 net) producing wells. Sour gas facility compression at Karr-Gold Creek was doubled to 8 MMcf/d of raw gas capacity. Over the past two years, Paramount has drilled eight (8.0 net) Montney horizontal wells at Karr-Gold Creek, with per well stabilized test rates of up to 13.4 MMcf/d. For more detailed information on the Kaybob and Grande Prairie horizontal wells refer to Paramount’s review of operations.

- The Northern COU drilled and completed five (4.9 net) wells in the Cameron Hills area. Production from one of the wells is anticipated in the fourth quarter, the remaining four wells were suspended.

- The Southern COU drilled nine (9.0 net) coal bed methane wells, which are expected to be tied-in later in the year, at the completion of the 17 well drilling program. The Southern COU also drilled one (1.0 net) Mannville formation well.

- In the United States Paramount operates through Summit Resources Inc. (“Summit”), a wholly owned subsidiary. In April 2010, Summit entered into a joint development agreement with a United States focused exploration and development company that has significant operations and experience in the Bakken play in North Dakota. Under the agreement, which covers approximately 39,900 net acres of Summit's undeveloped North Dakota lands, the U.S. company has committed to carry out a multiple well Bakken horizontal drilling program using multi-stage fracture technology in order to earn an undivided 50 percent of Summit's interests in these lands (19,950 net acres). Paramount anticipates that with successful results Summit will be in a position to pursue a significant ongoing drilling and development program in the Bakken play in North Dakota.

Strategic Investments

- Paramount completed a 45 well delineation program on its 100 percent owned Hoole Bitumen lease. An updated independent oil sands resource evaluation, incorporating the recent drilling results, is anticipated to be completed during the second quarter.
- In May 2010, Paramount agreed to acquire the remaining Class A Shares in Redcliffe Exploration Inc. (“Redcliffe”) in a transaction valuing Redcliffe at $68.5 million.

Corporate

- Paramount renewed its credit facility in April 2010, with the borrowing base and lender commitments remaining at $125 million.

- In April 2010, the Company received approval for a normal course issuer bid expiring in April 2011, under which Paramount may acquire up to 3,626,476 common shares.

- Corporate general and administrative costs decreased 31 percent to $2.7 million from $3.9 million in the first quarter of 2009.

REVIEW OF OPERATIONS

Paramount's average daily sales volumes by Corporate Operating Unit ("COU") for the three months ended March 31, 2010 and 2009 are summarized below:

	Q1 2010			Q1 2009			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**18.5**	**498**	**3,586**	17.7	553	3,500	0.8	(55)	86
Grande Prairie	**9.9**	**1,103**	**2,751**	7.8	795	2,102	2.1	308	649
Northern	**12.8**	**487**	**2,614**	14.0	336	2,660	(1.2)	151	(46)
Southern	**9.0**	**1,426**	**2,924**	11.6	1,714	3,650	(2.6)	(288)	(726)
Total	**50.2**	**3,514**	**11,875**	51.1	3,398	11,912	(0.9)	116	(37)

Kaybob

First quarter sales volumes for the Kaybob COU increased to 3,586 Boe/d, consisting of 18.5 MMcf/d of natural gas and 498 Bbl/d of oil and NGLs. The increase was mainly due to the completion and tie-in of wells drilled in prior quarters in Smoky, Resthaven, and Musreau, partially offset by natural production declines.

Capital expenditures for the quarter were approximately $23 million, excluding land and drilling royalty credits. Activities included drilling five (2.0 net) wells in the quarter, of which one (0.3 net) well was brought on production in early April 2010. The remaining four (1.7 net) wells are expected to be brought on production later this year, subject to commodity prices and lease accessibility. During the quarter, four (2.2 net) wells drilled in prior quarters were completed and brought on production and two (1.5 net) additional wells were recompleted and brought on production. In addition, one (1.0 net) well drilled in late 2009 was completed and brought on production in early April. The Company currently anticipates drilling three (1.8 net) wells during the remainder of the year in addition to growing production by continuing completion and tie-in activities.

The Kaybob COU continues to focus on reducing per-well costs and increasing reserve recoveries. These efforts include drilling three (1.5 net) wells in the first quarter from existing leases, significantly reducing per well lease construction, equipping and tie-in costs. Further savings and per well reserves additions are anticipated as the Company plans to drill an additional two (1.0 net) wells later this year from existing leases and moves to drilling more back-to-back wells from single leases, drilling more horizontal wells, and performing larger multi-stage fracture stimulations.

In February 2010, regulations were changed to permit drilling of up to four wells per pool per section in the Kaybob COU core properties. This revised regulation allows Paramount to drill up to 1,000 (600 net) wells without making regulatory applications to increase well density.

Initial results from the Paramount operated horizontal wells drilled to date in the Smoky, Resthaven and Musreau area are very encouraging. Over the past two winters Paramount has drilled three horizontal Dunvegan wells of which two have been brought on production and one horizontal Falher well, which is awaiting completion. The second horizontal Dunvegan well was recently completed with a 14 stage fracture stimulation and flow tested at 10.3 MMcf/d at a flowing pressure of 20.8 MPa. During the first month of production this well was restricted due to surface facility constraints at average daily rate of 8.3 MMcf/d at a flowing pressure of 16.8 MPa. The remaining two wells will be completed with 18 and 19 stage fracture stimulations in the second quarter. The horizontal wells have averaged 35 Bbl of NGLs per MMcf of natural gas. All four of these wells qualify for significant Natural Gas Deep Drilling Program royalty adjustments valued at an average of approximately $3 million per well, in addition to the qualifying for the Drilling Royalty Credit and New Well Royalty Reduction programs.

The following table summarizes Paramount operated horizontal wells drilled by the Kaybob COU in 2009 and 2010.

	Formation	Working Interest (%)	Measured Depth (m)	Horizontal Length (m)	Fracture stages in wellbore	Gross Initial Production Rate [(1)] (MMcf/d)	Flowing Pressure (MPa)	Est. Gross Drilling & Completion Cost ($million)
1	Dunvegan	50	4,000	1,200	6	5.4	9.0	6.3
2	Dunvegan	50	4,200	1,250	14	8.3	16.8	8.3
3	Dunvegan	100	4,000	1,250	19	Awaiting Completion		8.3
4	Falher	67	4,100	1,000	18	Awaiting Completion		8.6

(1) Average daily rate for first month of production.

To date, Paramount has identified in excess of 50 additional horizontal Dunvegan and Falher locations on its lands in the Kaybob COU and believes that there are other tight gas reservoirs in the area that can be effectively developed with horizontal drilling. Given the encouraging results to date, the Company anticipates drilling additional horizontal wells starting in the fourth quarter of this year.

Grande Prairie

Grande Prairie COU first quarter sales volumes were 2,751 Boe/d, an increase of 31 percent from the prior year. Increased liquids rich gas production at Karr-Gold Creek and oil production at Crooked Creek more than offset natural declines at Mirage and other areas.

Total capital expenditures in the Grande Prairie COU for the first quarter were approximately $32 million, excluding land, acquisitions, and drilling credits. At Karr-Gold Creek, two (2.0 net) horizontal Montney sour gas wells and one (1.0 net) horizontal sweet Nikanassin well were drilled and completed. In addition, one (1.0 net) Montney well drilled in late 2009 was completed early in the quarter.

The newest Montney sour gas wells at Karr-Gold Creek have not commenced production due to facility capacity constraints however, they have flow tested at stabilized rates between 10 and 14 MMcf/d.

Karr-Gold Creek production increased in March as two (2.0 net) Montney wells drilled in prior years were brought on production at restricted rates following the addition of 4 MMcf/d of raw gas facility compression in late February. Based on the strong results to date, field gathering systems and an additional 20 MMcf/d of new raw gas capacity are currently being constructed, which are expected to be on stream this winter.

During the quarter Paramount paid $8.1 million to acquire a sweet gas and liquids facility with approximately 3.2 MMcf/d of throughput capacity, mineral rights, and two (1.8 net) producing wellbores with approximately 2 MMcf/d of sweet gas and 40 Boe/d of NGL/condensate production in the Karr-Gold Creek area. Approximately 500 Mcf/d of the sweet gas provides stable and secure fuel gas for Paramount's sour gas compression facilities. This acquisition also provides a tie-in point for nearby Nikanassin gas discovered by Paramount in 2009.

In total Paramount has drilled and completed seven (7.0 net) operated horizontal Montney gas wells in the Karr–Gold Creek area since 2008, and is currently drilling one (1.0 net) well through spring break up. As technology has evolved, Paramount has refined its drilling, completions and stimulations and expects per unit finding and development costs to decrease and well performance to improve. Five of the seven existing Montney wells qualify for the Natural Gas Deep Drilling Program royalty adjustments valued at approximately $4 million per well in addition to qualifying for the Drilling Royalty Credit and New Well Royalty Reduction programs.

The following table summarizes the test results and capital costs for Montney horizontal wells at Karr-Gold Creek drilled over the last two years.

	Working Interest (%)	Measured Depth (m)	Horizontal Length (m)	Fracture stages in wellbore	Stabilized Test Rates[1] (MMcf/d)	Stabilized Sandface Flowing Pressure (MPa)	Est. Gross Drilling & Completion Cost ($million)
1	100	3,700	625	7	1.5	6.1	5.8 [2]
2	100	3,500	550	6	3.8	8.3	5.2 [2]
3	100	3,800	800	7	1.8	8.3	6.8
4	100	4,800	1,600	16	13.3	23.0	6.4
5	100	4,600	1,100	16	10.6	21.0	6.7
6	100	4,950	1,700	22	13.4	23.1	6.4
7	100	4,200	1,300	17	9.6	21.0	6.0
8	100	4,600	1,625	26	Awaiting Completion		6.4

(1) Stabilized test rates through 2 3/8" tubing.
(2) Re-entry wells include the cost to drill the original well to re-entry depth.

The first three wells tested at lower rates as Paramount was working to optimize drilling and completion techniques. More recently different fracture treatments were used substantially improving well performance, as demonstrated by well 4 which has produced 0.5 Bcf of sales gas, 25 MBoe of condensate and 12 MBoe of NGLs in 5 months of production. The wells average approximately 55 Bbl of NGLs and condensate per MMcf of natural gas. Well 4 shows minimal decline and is producing at restricted rates of approximately 4 MMcf/d due to capacity constraints. Test rates and flowing pressures for wells 5 through 7 are similar to well 4 and their performance is anticipated to be as good as, or better than well 4.

Paramount has applied for and obtained a holding in the Karr-Gold Creek area to produce two or more gas wells per spacing unit. Approximately 104 locations have been identified for multi-well pads, including a 100 percent working interest in 54 of the most prospective sections on this Montney Fairway.

The first Nikanassin formation horizontal "proof of concept" well drilled in the quarter at Karr-Gold Creek is anticipated to be on production early in the fourth quarter. In addition to the Nikanassin completion in this wellbore, a conventional deep basin gas reservoir was discovered and completed.

At Valhalla, two (1.8 net) horizontal Montney formation wells were drilled during the quarter. One well was tied in and came on production in early April at restricted rates of approximately 4 MMcf/d. The second well was completed in early April and is expected to come on production in the fourth quarter, once a regional gas gathering system is constructed in the western Valhalla area. Both wells exceeded Paramount's expectations during production testing and support a larger, more aggressive development program in this area.

Northern

First quarter sales volumes in the Northern COU decreased to 2,614 Boe/d from 2,660 Boe/d in 2009, primarily due to normal declines. The prior year included a longer Bistcho plant turnaround which also impacted volumes.

First quarter capital expenditures for the Northern COU were approximately $11 million and related to drilling and completing five (4.9 net) wells in the Cameron Hills area. Production from one of the wells is expected in the fourth quarter subject to regulatory approval, and the remaining wells were suspended. Three other wells originally planned for the Cameron Hills area will not be drilled during 2010.

The Northern COU's 2010 capital program is substantially complete with minimal expenditures planned for the remainder of the year as the properties are predominately accessible only during winter.

Southern

Southern COU sales volumes decreased 20 percent to 2,924 Boe/d consisting of 9.0 MMcf/d of natural gas and 1,426 Bbl/d of crude oil and NGLs. The decrease was due to natural gas declines in Alberta and oil production declines in the United States.

The Southern COU drilled nine (9.0 net) coal bed methane wells during the quarter. Subject to gas prices, an additional eight wells are planned following break-up with all completions and tie-ins to be performed during the second half of 2010 to reduce per well costs. The Southern COU also drilled one (1.0 net) Mannville formation well in the Chain area with an anticipated tie-in following break-up.

In April 2010, Summit entered into a joint development agreement with a United States focused exploration and development company that has significant operations and experience in the Bakken play in North Dakota. Under the agreement, which covers approximately 39,900 net acres of Summit's undeveloped North Dakota lands, the U.S. company has committed to carry out a multiple well Bakken horizontal drilling program using multi-stage fracture technology in order to earn an undivided 50 percent of Summit's interests in these lands (19,950 net acres). Paramount anticipates that with successful results Summit will be in a position to pursue a significant ongoing drilling and development program in the Bakken play in North Dakota.

Hoole

In the first quarter Paramount completed a 45 well delineation program on its 100 percent owned Hoole Bitumen Lease. The Company has now drilled a total of 59 bitumen evaluation wells including 30 cored Grand Rapid formation wells. Five of the wells drilled this quarter were cased for future use as water testing wells, including one that was flow-tested to determine water source quality and deliverability. In addition to the drilling program, Paramount began collecting baseline environmental information needed for a commercial application. The Company has requested an updated independent oil sands evaluation incorporating the recent drilling results, which is anticipated to be completed during the second quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated May 11, 2010, should be read in conjunction with the unaudited Interim Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the three months ended March 31, 2010 and Paramount's audited Consolidated Financial Statements and MD&A for the year ended December 31, 2009. Information included in this MD&A is presented in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada. Certain comparative figures have been reclassified to conform to the current year's presentation.

This document contains forward-looking information, non-GAAP measures and disclosures of barrels of oil equivalent volumes. Readers are referred to the "Advisories" heading in 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.

Paramount is an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of petroleum and natural gas. Management's strategy is to maintain a balanced portfolio of opportunities, to grow reserves and production in Paramount's Principal Properties while maintaining a large inventory of undeveloped acreage, and to selectively pursue higher risk/higher return prospects.

Paramount has spun-out three public entities: (i) Paramount Energy Trust in February, 2003; (ii) Trilogy Energy Trust, now Trilogy Energy Corp. ("Trilogy"), in April, 2005; and (iii) MGM Energy Corp. ("MGM Energy") in January, 2007. Paramount continues to hold investments in the securities of Trilogy and MGM Energy in its portfolio of Strategic Investments.

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

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

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

Strategic Investments include investments in other entities and development stage assets where there is no near-term expectation of production, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation. The three rigs owned by Fox Drilling Inc. ("Fox Drilling") and Paramount Drilling U.S. L.L.C. ("Paramount Drilling") are included in Strategic Investments.

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

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

FIRST QUARTER HIGHLIGHTS[1]

Three months ended March 31	2010	2009
FINANCIAL		
Petroleum and natural gas sales	**48.9**	40.2
Funds flow from operations	**21.6**	17.6
per share - diluted ($/share)	**0.30**	0.27
Net loss	**(14.5)**	(23.7)
per share - basic and diluted ($/share)	**(0.20)**	(0.36)
Exploration and development expenditures	**66.8**	55.5
Investments – market value	**341.1**	256.2
Total assets	**1,133.0**	1,139.0
Long-term debt	**90.9**	138.2
Net debt	**117.2**	143.0
OPERATIONAL		
Sales volumes		
Natural gas (MMcf/d)	**50.2**	51.1
Oil and NGLs (Bbl/d)	**3,514**	3,398
Total (Boe/d)	**11,875**	11,912
Net wells drilled	**67**	16
FUNDS FLOW FROM OPERATIONS PER BOE ($/Boe)		
Petroleum and natural gas sales	**45.75**	37.53
Royalties	**(6.51)**	(5.05)
Operating expense and production tax	**(13.22)**	(20.09)
Transportation	**(3.82)**	(3.50)
Netback	**22.20**	8.89
Hedging settlements	**1.16**	10.41
Netback including hedging settlements	**23.36**	19.30
General and administrative	**(3.13)**	(4.24)
Interest	**(2.50)**	(2.42)
Distributions from investments	**3.83**	5.30
Asset retirement obligation expenditures	**(1.07)**	(1.54)
Other	**(0.31)**	–
	20.18	16.40

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FIRST QUARTER 2010 OVERVIEW

Principal Properties

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- In the United States Paramount operates through Summit Resources Inc. ("Summit"), a wholly owned subsidiary. In April 2010, Summit entered into a joint development agreement with a United States focused exploration and development company that has significant operations and experience in the Bakken play in North Dakota. Under the agreement, which covers approximately 39,900 net acres of Summit's undeveloped North Dakota lands, the U.S. company has committed to carry out a multiple well Bakken horizontal drilling program using multi-stage fracture technology in order to earn an undivided 50 percent of Summit's interests in these lands (19,950 net acres). Paramount anticipates that with successful results Summit will be in a position to pursue a significant ongoing drilling and development program in the Bakken play in North Dakota.

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- In May 2010, Paramount agreed to acquire the remaining Class A Shares in Redcliffe Exploration Inc. ("Redcliffe") in a transaction valuing Redcliffe at $68.5 million.

Corporate

- Paramount renewed its credit facility in April 2010, with the borrowing base and lender commitments remaining at $125 million.

- In April 2010, the Company received approval for a normal course issuer bid ("NCIB") expiring in April 2011, under which Paramount may acquire up to 3,626,476 common shares.

- Corporate general and administrative costs decreased 31 percent to $2.7 million from $3.9 million in the first quarter of 2009.

Net Earnings (Loss)

	Q1 2010	Q1 2009
Principal Properties	**(15.7)**	(21.3)
Strategic Investments	**5.5**	(5.2)
Corporate	**(9.8)**	(6.1)
Income and other tax recovery	**5.5**	8.9
Net Earnings (Loss)	**(14.5)**	(23.7)

- The first quarter 2010 net loss of $14.5 million compared to a net loss of $23.7 million in the first quarter of 2009. The current year loss includes: (i) a lower Principal Properties loss due to higher realized prices, gains due to increases in the fair value of financial commodity contracts and lower operating expenses, partially offset by higher depletion, depreciation and accretion expenses and higher dry hole expenses; (ii) higher Strategic Investment earnings primarily related to the Trilogy investment; and (iii) higher Corporate costs due to higher stock-based compensation expenses.

Funds Flow From Operations

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

	Q1 2010	Q1 2009
Cash from operating activities	**17.7**	18.2
Change in operating non-cash working capital	**3.9**	(0.6)
Funds flow from operations	**21.6**	17.6
Funds flow from operations ($/Boe)	**20.18**	16.40

- Funds flow from operations in the first quarter of 2010 increased by $4.0 million from the first quarter of 2009 due primarily to the impact of higher realized commodity prices and lower operating costs, partially offset by lower hedging settlements.

Principal Properties

Netback and Segment Loss

	Q1 2010		Q1 2009	
		($/boe)		($/boe)
Petroleum and natural gas sales	**48.9**	**45.75**	40.2	37.53
Royalties	**(7.0)**	**(6.51)**	(5.4)	(5.05)
Operating expense and production tax	**(14.1)**	**(13.22)**	(21.5)	(20.09)
Transportation	**(4.1)**	**(3.82)**	(3.8)	(3.50)
Netback	**23.7**	**22.20**	9.5	8.89
Settlements of financial commodity contracts	**1.2**	**1.16**	11.2	10.41
Netback including settlements of financial commodity contracts	**24.9**	**23.36**	20.7	19.30
Other Principal Property items (see below)	**(40.6)**		(42.0)	
Segment loss	**(15.7)**		(21.3)	

Petroleum and Natural Gas Sales

	Q1 2010	Q1 2009	% Change
Natural gas sales	25.2	26.3	(4)
Oil and NGLs sales	23.7	13.9	71
Total	48.9	40.2	22

Petroleum and natural gas sales in the first quarter of 2010 were $48.9 million, an increase of 22 percent from the first quarter of 2009, primarily due to the impact of higher oil and NGLs sales prices.

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

	Natural gas	Oil and NGLs	Total
Three months ended March 31, 2009	26.3	13.9	40.2
Effect of changes in prices	(0.6)	9.3	8.7
Effect of changes in sales volumes	(0.5)	0.5	–
Three months ended March 31, 2010	**25.2**	**23.7**	**48.9**

Sales Volumes

	Q1 2010			Q1 2009			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**18.5**	**498**	**3,586**	17.7	553	3,500	0.8	(55)	86
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Total	**50.2**	**3,514**	**11,875**	51.1	3,398	11,912	(0.9)	116	(37)

Natural gas sales volumes decreased to 50.2 MMcf/d in the first quarter of 2010 compared to 51.1 MMcf/d in the first quarter of 2009. The decrease was primarily a result of normal production declines across the Company's properties, partially offset by production from new wells in the Grande Prairie and Kaybob COUs.

Crude oil and NGLs sales volumes increased to 3,514 Bbl/d in the first quarter of 2010 compared to 3,398 Bbl/d in the first quarter of 2009, primarily as a result of crude oil production increases at Crooked Creek in the Grande Prairie COU and a shorter plant turnaround during 2010 at Bistcho in the Northern COU, partially offset by production declines at the Southern COU's North Dakota properties.

Average Realized Prices

	Q1 2010	Q1 2009	% Change
Natural gas ($/Mcf)	5.59	5.73	(2)
Oil and NGLs ($/Bbl)	74.78	45.38	65
Total ($/Boe)	45.75	37.53	22

Commodity Prices

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

	Q1 2010	Q1 2009	% Change
Natural Gas			
AECO (Cdn$/GJ)	**5.08**	5.34	(5)
New York Mercantile Exchange (Henry Hub Close) (US$/MMbtu)	**5.29**	4.89	8
Crude Oil			
Edmonton par (Cdn$/Bbl)	**80.31**	48.23	67
West Texas Intermediate (US$/Bbl)	**78.79**	43.16	83
Foreign Exchange			
Cdn$/US$	**1.04**	1.25	(17)

Commodity Price Management

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

Receipts from the settlements of financial commodity contracts were as follows:

	Q1 2010	Q1 2009
Gas contracts	**1.2**	11.2

At March 31, 2010, Paramount's outstanding natural gas financial contracts are summarized as follows:

Instruments	**Total Notional**	**Average Fixed Price**	**Fair Value**	**Remaining Term**
Gas – AECO Sales	30,000 GJ/d	Fixed - CAD$5.53/GJ	**12.1**	April 2010 – October 2010
Gas – AECO Purchases	(15,000) GJ/d	Fixed - CAD$3.87/GJ	**(0.7)**	April 2010 – October 2010
			11.4	

Paramount has a long-term physical contract expiring in January of 2011, to sell 3,400 GJ/d of natural gas at $2.73/GJ plus an escalation factor. At March 31, 2010 the fair value of the contract was a loss of $1.0 million.

Royalties

	Q1 2010	Q1 2009	% Change
Natural gas	**1.9**	2.1	(10)
Oil and NGLs	**5.1**	3.3	55
Total	**7.0**	5.4	30
Royalty rate (%)	**14.2%**	13.5%	

Natural gas royalties decreased by 10 percent in the first quarter of 2010 compared to the first quarter of 2009 primarily due to lower revenue. Oil and NGLs royalties increased 55 percent compared to the prior year due primarily to higher revenue.

Operating Expense and Production Tax

	Q1 2010	Q1 2009	% Change
Operating expense	**13.5**	21.0	(36)
Production tax	**0.6**	0.5	20
Total	**14.1**	21.5	(34)

Operating expenses decreased by $7.5 million in the first quarter of 2010 compared to the first quarter of 2009, primarily due to lower current year costs in the Northern COU resulting from prior year major maintenance at Cameron Hills, a larger prior year plant turnaround at Bistcho and well suspension activities in 2009 at Liard and Bovie. Operating costs were also lower at various properties due to lower production volumes. First quarter 2010 production tax in the United States increased by $0.1 million due to increased oil and NGLs prices.

Transportation Expense

	Q1 2010	Q1 2009	% Change
Transportation expense	**4.1**	3.8	8

Transportation expense increased to $4.1 million in the first quarter of 2010 compared to $3.8 million in the first quarter of 2009, primarily as a result of increased tolls. Transportation costs include the expenses of shipping natural gas to sales points in California and the United States East coast.

Other Principal Property Items

	Q1 2010	Q1 2009
Depletion, depreciation and accretion	**39.3**	30.7
Exploration and dry hole expenses	**11.2**	1.1
Loss on sale of property, plant and equipment	**–**	0.3
Commodity contracts – net of settlements	**(9.3)**	9.8
Other	**(0.6)**	0.1
Total	**40.6**	42.0

Depletion, depreciation, and accretion increased to $39.3 million or $36.82 per Boe in the first quarter of 2010 compared to $30.7 million or $28.59 per Boe in the first quarter of 2009. The increase in the per unit depletion rate is primarily due to a change in the pricing methodology used to estimate proved reserves, which was adopted in the fourth quarter of 2009. The depletion rate has also been impacted by high finding and development costs in recent years.

Exploration and dry hole expenses include $8.2 million of costs related to suspended wells drilled in the first quarter of 2010 at Cameron Hills in the Northern COU.

Strategic Investments

	Q1 2010	Q1 2009
Income (loss) from investments	**8.7**	(4.0)
Drilling operations, net	**(0.6)**	(0.6)
Stock-based compensation	**(2.1)**	–
Other expenses	**(0.5)**	(0.6)
Segment Earnings (Loss)	**5.5**	(5.2)

Strategic Investments at March 31, 2010 include the following:

- investments in Trilogy, MEG Energy Corp. ("MEG Energy"), MGM Energy, NuLoch Resources Inc.("NuLoch"), Paxton Corporation ("Paxton") and Redcliffe;
- oil sands resources at Hoole, situated within the western portion of the Athabasca Oil Sands region, and carbonate bitumen holdings in Northeast Alberta;
- shale gas holdings in the Horn River and Liard Basins; and
- three drilling rigs operated by Paramount's wholly-owned subsidiaries: Fox Drilling in Canada and Paramount Drilling in the United States.

First quarter income from investments in 2010 includes $4.6 million of equity earnings and a dilution gain of $4.1 million. The prior year comparable period includes $2.5 million of equity losses and a dilution loss of $1.5 million.

During the first quarter of 2010, Paramount participated in Trilogy's distribution reinvestment plan ("DRIP"), acquiring an additional 0.1 million units.

On February 5, 2010, Trilogy Energy Trust converted from an income trust to a corporation, named Trilogy Energy Corp., through a business combination with a private company. Paramount's 24.1 million Trilogy units (as of February 5, 2010) were converted into 12.8 million common shares of Trilogy Energy Corp., which are pledged as security for Paramount's US Senior Notes, and 11.3 million non-voting shares of Trilogy Energy Corp. The non-voting shares convert to common shares on a one-for-one basis if: i) beneficial ownership of the non-voting shares are transferred to any person that is not related to or affiliated with Paramount; or ii) Trilogy exercises its right to convert the non-voting shares to common shares. As a result of the conversion, Paramount recognized a dilution gain of $4.1 million. As of March 31, 2010 the Company owned 21.0 percent of Trilogy's equity and approximately 15 percent of its voting shares.

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

	Carrying Value		**Market Value[1]**	
	March 31, 2010	December 31, 2009	**March 31, 2010**	December 31, 2009
Trilogy	**113.1**	104.5	**206.0**	206.1
MEG Energy	**101.8**	101.8	**101.8**	101.8
MGM Energy	**5.6**	5.9	**8.5**	12.5
Other[2]	**24.8**	22.4	**24.8**	22.5
Total	**245.3**	234.6	**341.1**	342.9

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

Corporate

	Q1 2010	Q1 2009
General and administrative	**2.7**	3.9
Stock-based compensation	**5.6**	0.3
Depletion and depreciation	**0.2**	0.2
Interest and financing charges	**2.4**	2.6
Foreign exchange	**(1.2)**	(0.8)
Other (income) expense	**0.1**	(0.1)
Corporate costs	**9.8**	6.1

First quarter corporate segment net costs increased $3.7 million to $9.8 million in 2010, compared to $6.1 million in the prior year, primarily due to higher stock-based compensation charges. General and administrative costs decreased primarily due to higher overhead recoveries.

Capital Expenditures

	Q1 2010	Q1 2009
Geological and geophysical	**2.9**	1.3
Drilling and completions	**48.1**	37.2
Production equipment and facilities	**15.8**	17.0
Exploration and development expenditures	**66.8**	55.5
Land and property acquisitions	**13.0**	1.2
Proceeds on dispositions and other	**–**	(0.2)
Principal Properties	**79.8**	56.5
Strategic Investments	**11.0**	7.2
Net capital expenditures	**90.8**	63.7

First quarter exploration and development expenditures were $66.8 million in 2010 compared to $55.5 million in 2009. Current year expenditures were reduced by $3.0 million as a result of the Alberta Drilling Royalty Credit program.

Exploration and development expenditures in the first quarter of 2010 focused on drilling and facility expansion at the Karr-Gold Creek deep gas project in the Grande Prairie COU and drilling Deep Basin wells in the Smoky, Musreau and Resthaven areas in the Kaybob COU. Other expenditures included drilling at Cameron Hills in the Northern COU and drilling coal bed methane wells at Chain in the Southern COU.

During the first quarter of 2010 Paramount acquired a sweet gas and liquids facility with approximately 3.2 MMcf/d of throughput at the Karr-Gold Creek area in the Grande Prairie COU for $8.1 million. In addition to the facilities and infrastructure, mineral rights and two producing wellbores were acquired with approximately 2 MMcf/d of sweet gas and 40 Boe/d of NGL/condensate production.

First quarter Strategic Investments capital expenditures of $11.0 million relate to 45 delineation wells drilled in the Hoole area, where an oil sands evaluation program has been substantially completed for 2010. Other ongoing activities related to this project include collection of baseline environmental information required for a commercial application and the completion of an updated independent oil sands resource evaluation, which is expected in the second quarter.

Wells drilled are as follows:

(wells drilled)	Q1 2010		Q1 2009	
	Gross[1]	Net[2]	Gross[1]	Net[2]
Gas	19	16	13	8
Oil	2	2	1	1
Oil sands evaluation	45	45	7	7
Dry and abandoned	4	4	-	-
Total	70	67	21	16

[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.

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, and acquiring or disposing of assets.

	March 31, 2010	December 31, 2009	Change
Working capital deficit (surplus)[1]	25.6	(43.5)	69.1
US Senior Notes (excluding unamortized financing fees)	91.6	94.4	(2.8)
Net debt	117.2	50.9	66.3
Share capital	393.5	393.1	0.4
Contributed surplus	3.0	2.9	0.1
Retained earnings	359.4	373.7	(14.3)
Accumulated other comprehensive income	5.0	3.2	1.8
Total Capital	878.1	823.8	54.3

(1) Excludes risk management assets and liabilities and stock-based compensation liabilities.

Working Capital

Paramount's working capital deficit at March 31, 2010 was $25.6 million compared to a surplus of $43.5 million at December 31, 2009. Working capital at March 31, 2010 includes $56.2 million of cash and cash equivalents and $84.8 million of accounts payable and accrued liabilities, primarily related to the 2010 capital program. The decrease in working capital is primarily due to capital spending, partially offset by funds flow from operations. A principal payment of $1.0 million was made on the drilling rig loan in March 2010.

Paramount expects to finance its 2010 operations, contractual obligations, and capital expenditures from existing cash and cash equivalents, from funds flow from operations, and from borrowing capacity.

Bank Credit Facility

Subsequent to March 31, 2010, Paramount renewed its credit facility. Both the borrowing base and lender commitments are $125 million. The credit facility is available on a revolving basis to April 30, 2011 and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for an additional year, at which time the facility would be due and payable. As of March 31, 2010, no balance was drawn on the credit facility. Paramount had undrawn letters of credit outstanding at March 31, 2010 of $16.1 million that reduce the amount available to the Company under the credit facility.

US Senior Notes

At March 31, 2010 the outstanding balance of Paramount's 8.5% US Senior Notes remains at US$90.2 million ($91.6 million).

Share Capital

In April 2010, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a NCIB commencing April 13, 2010 for a twelve month period. Under the NCIB, Paramount is permitted to purchase for cancellation up to 3,626,476 Common Shares. No shares have been purchased to May 10, 2010.

At May 10, 2010, Paramount had 72,541,524 Common Shares and 4,204,700 Stock Options outstanding (903,034 exercisable).

Quarterly Information

	2010		2009				2008	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	**48.9**	45.0	36.3	40.2	40.2	54.7	83.5	102.9
Funds flow from operations	**21.6**	18.8	10.2	13.7	17.6	68.2	40.9	46.3
per share - diluted ($/share)	**0.30**	0.27	0.15	0.21	0.27	1.01	0.60	0.68
Net earnings (loss)	**(14.5)**	(46.4)	(25.2)	(2.6)	(23.7)	(150.5)	103.9	(31.9)
per share - basic & diluted ($/share)	**(0.20)**	(0.67)	(0.38)	(0.04)	(0.36)	(2.23)	1.53	(0.47)
Sales volumes								
Natural gas (MMcf/d)	**50.2**	47.0	49.9	59.1	51.1	53.4	57.3	67.7
Oil and NGLs (Bbl/d)	**3,514**	3,673	3,733	3,512	3,398	3,298	3,657	3,611
Total (Boe/d)	**11,875**	11,514	12,046	13,362	11,912	12,202	13,206	14,895
Average realized price								
Natural gas ($/Mcf)	**5.59**	4.85	3.24	4.03	5.73	7.43	8.65	10.54
Oil and NGLs ($/Bbl)	**74.78**	71.00	62.33	57.83	45.38	60.04	112.64	115.55

Significant Items Impacting Quarterly Results

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

- First quarter 2010 earnings include $8.2 million of dry hole expenses and $7.7 million of stock-based compensation charges.
- Fourth quarter 2009 earnings include $24.3 million of dry hole expenses related to suspended exploratory well costs and a $14.9 million write-down of petroleum and natural gas properties.
- Third quarter 2009 earnings include higher stock-based compensation charges, and lower earnings from Strategic Investments.

- Second quarter 2009 earnings include increased future income tax recoveries and lower operating expenses.
- First quarter 2009 earnings include lower Corporate costs and Strategic Investment losses.
- Fourth quarter 2008 earnings include a $50.7 million write-down of petroleum and natural gas properties and goodwill and a $96.9 million investment impairment provision.
- Third quarter 2008 earnings include $79.6 million of mark-to-market gains on financial commodity contracts and $29.8 million of equity investment income.
- Second quarter 2008 earnings include $5.9 million of equity investment losses and mark-to-market losses of $56.4 million on financial commodity contracts.

Significant Equity Investee

The following table summarizes the assets, liabilities and results of operations of Trilogy. The amounts summarized have been derived directly from Trilogy's financial statements as at and for the three months ended March 31, 2010 and 2009, and do not include Paramount's adjustments when applying the equity method of investment accounting. As a result, the amounts included in the table below cannot be used to derive Paramount's equity income and net investment in Trilogy.

	Trilogy	
As at March 31	**2010**	2009
Current assets	**60.1**	60.3
Long term assets	**946.0**	889.0
Current liabilities	**86.1**	72.5
Long term liabilities	**444.9**	457.4
Equity	**475.1**	419.4
Three months ended March 31	**2010**	2009
Revenue	**88.3**	60.6
Expenses	**61.6**	62.3
Tax expense (recovery)	**11.3**	(7.6)
Net earnings (loss)	**15.4**	5.9
Shares / Units outstanding, end of period (thousands)	**114,998**	98,250
Paramount's equity interest in Trilogy, end of period[1]	**21.0%**	23.6%

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

Trilogy had 4.6 million stock options outstanding (1.0 million exercisable) at March 31, 2010 at exercise prices ranging from $4.85 to $12.88 per unit.

Outlook

Paramount's 2010 exploration and development budget remains at $130 million, excluding land purchases and acquisitions. The Company has flexibility within its current capital plan to increase or decrease spending, depending upon future economic conditions, among other factors. First quarter production of 11,875 Boe/d is consistent with expectations and Paramount continues to forecast annual average production of approximately 13,000 Boe/d.

Subsequent Event

In May, Paramount announced that it had entered into an agreement with Redcliffe to acquire the remaining 82 percent of the issued and outstanding Class A Shares of Redcliffe not already owned for cash consideration of $0.42 per Redcliffe Class A Share, after conversion of all outstanding Class B Shares to Class A Share on a 10-for-1 basis. The purchase price values Redcliffe at approximately $68.5 million, including assumption of Redcliffe's estimated net debt of approximately $12.5 million at closing. The transaction is subject to Redcliffe shareholder approval.

The transaction will solidify Paramount's significant Peace River Arch lands targeting the Montney and Nikanassin formations at Karr-Gold Creek and will add to Paramount's inventory of high quality liquids-rich gas prospects.

The acquired assets include:

- approximately 115,000 (65,000 net) acres of undeveloped land, valued at $30 million by Paramount, of which 48,000 (24,000 net) acres is in proximity to Paramount's Karr-Gold Creek project;
- approximately 850 Boe/d of production; and
- proved plus probable reserves of 3.35 MMBoe consisting of 2.05 MMBoe of gas and 1.30 MMBbl of oil and NGLs, at December 31, 2009.

Future Accounting Changes

International Financial Reporting Standards

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converted to International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Primary elements of the Company's transition process include:

Project Management

A steering committee has been established to monitor the transition and a project team has been assembled to research, analyze and implement the transition to IFRS. Paramount's steering committee consists of senior members of management whose responsibilities include the approval of policy recommendations where alternatives are permitted. The project team is continuing to analyze policy changes and disclosure requirements and is actively participating in IFRS peer working groups and attending training courses.

Diagnostic

A diagnostic that identified key differences between existing Canadian GAAP and IFRS, as they relate to the Company, was completed in 2008.

Research and Policy Design

The project team has prepared Company specific draft accounting position papers based on the research conducted, and is engaged in on-going discussions with the Company's auditors.

Through the diagnostic, the Company identified property plant and equipment as one key difference, among others. Although Paramount follows the successful efforts method of accounting for oil and gas operations, the transition to IFRS will require certain policy, process and disclosure changes, including impairment testing levels and exploration phase accounting. The project team has completed the preliminary determination of its cash generating units, which will impact impairment. Prior year's impairments and depreciation may be required to be calculated on a retroactive basis and be reversed in certain circumstances.

Other significant differences include, but are not limited to, accounting for stock-based compensation, translating the monetary balances of foreign subsidiaries denominated in foreign currencies and accounting for available-for-sale investments in private companies carried at cost.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* provides certain exceptions and exemptions that issuers can elect to adopt at the date of transitions to IFRS. The Company does not expect to apply IFRS 3 *Business Combinations* retrospectively to past business combinations. Paramount does not expect to apply IAS 21 *The Effects of Changes in Foreign Exchange Rates* to cumulative translation differences that existed at the date of transition. Paramount continues to evaluate other relevant alternatives available under the adoption standard.

Implementation

This phase includes employee and stakeholder training, approval and implementation of accounting policy changes, implementation of new and changed processes, implementation and testing of new systems and controls as well as the preparation of an opening IFRS balance sheet. This phase will be the focus for 2010 and will include the following key activities:

- Testing and implementation of IFRS information system modifications. The modifications have been tested in a test environment and will be incorporated into systems in the second quarter of 2010, enabling the Company to generate IFRS balances in parallel with Canadian GAAP balances.
- The determination of Paramount's IFRS policy choices and IFRS 1 elections will be substantially completed in the second half of 2010.
- Preparing the opening balance sheet and the reconciliation from Canadian GAAP to IFRS. Quantification of IFRS impacts on the opening IFRS balance sheet will be completed in the latter half of 2010.
- Drafting IFRS financial statement disclosures. A preliminary draft of Paramount's IFRS disclosure will be completed in the second half of 2010.
- As the IFRS accounting policies and processes are determined, corresponding changes to internal controls over financial reporting and disclosure controls procedures will be made to ensure controls remain effective.

Business Activities

Paramount is a reserves-based borrower and changes to the carrying value of its assets are not expected to have a significant impact on the Company's debt structure or agreements. Paramount's renewed credit facility agreement incorporates provisions regarding changes in accounting policies, including the adoption of IFRS.

Advisories

Forward-looking Information

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information in this document includes references to:

- expected production volumes;
- planned exploration and development budget;
- budget allocations and capital spending flexibility;
- planned per well cost reduction and improved reserve recovery in the Kaybob COU;
- planned improved reserve recovery and well performance in the Grande Prairie COU;
- capital structure and the flexibility to change future business plans;
- expected future plans relating to the North Dakota properties;
- expected drilling programs, well tie-ins, facility expansions, completions, and the timing thereof;
- planned timing of the Hoole and resource evaluation; and
- the agreement to acquire Redcliffe, including obtaining the necessary Redcliffe shareholder approval.

Forward-looking information is based on a number of assumptions. In addition to any other assumptions identified in this document, assumptions have been made regarding: future oil and gas prices remaining economic and provisions for contingencies being adequate. Assumptions have also been made relating to production levels from existing wells and exploration and development plans based on management's experience, historical trends, current conditions and anticipated future developments.

Undue reliance should not be placed on forward-looking information. Forward-looking information is based on 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 and gas prices, foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- the ability to secure adequate product processing, transportation and storage;
- the uncertainty of exploration, development and drilling;
- operational risks in exploring for, developing and producing crude oil and natural gas, and the timing thereof;
- the ability to obtain equipment, services, supplies and personnel in a timely manner;
- potential disruption or unexpected technical difficulties in designing, developing or operating new or existing facilities;
- risks and uncertainties involving the geology of oil and gas deposits;
- the ability to generate sufficient cash flow from operations and other sources of financing at an acceptable cost to meet current and future obligations;
- changes to the status or interpretation of laws, regulations or policies;
- the timing of governmental or regulatory approvals;
- changes in general business and economic conditions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- failure to obtain necessary Redcliffe shareholder approval; and
- the effects of weather.

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

Non-GAAP Measures

In this document "Funds flow from operations", "Funds flow from operations - per Boe", "Funds flow from operations per share - diluted", "Netback", "Netback including settlements of financial commodity contracts", "Net Debt" and "Investments – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by GAAP. They are used to assist management in measuring the Company's ability to finance capital programs and meet financial obligations. Funds flow from operations refers to cash flows from operating activities before net changes in operating working capital. Netback equals petroleum and natural gas sales less royalties, operating costs, production taxes and transportation costs. Refer to the calculation of Net Debt in the liquidity and capital resources section of this document. Investments – market value includes Paramount's publicly traded investments in Trilogy, MGM Energy, Nuloch, Redcliffe and others valued at the period-end closing trading price and the book value of the remaining investments.

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 disclosure 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.

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

As at	March 31 2010	December 31 2009
ASSETS		
Current assets		
Cash and cash equivalents	**$ 56,195**	$ 93,238
Accounts receivable	**28,187**	23,488
Risk management assets (Note 9)	**11,411**	2,187
Prepaid expenses and other	**3,198**	2,301
	98,991	121,214
Property, plant and equipment, net	**759,832**	716,235
Investments (Note 3)	**245,340**	234,586
Future income taxes	**28,847**	29,940
	$ 1,133,010	$ 1,101,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Drilling rig loan (Note 4)	**$ 28,380**	$ 29,380
Accounts payable and accrued liabilities	**84,843**	46,162
Current portion of stock-based compensation liability (Note 8)	**13,451**	11,441
	126,674	86,983
Long-term debt (Note 5)	**90,923**	93,655
Asset retirement obligations (Note 6)	**105,425**	103,462
Stock-based compensation liability (Note 8)	**6,302**	3,771
Future income taxes	**42,742**	41,194
	372,066	329,065
Shareholders' equity		
Share capital (Note 7)	**393,519**	393,087
Contributed surplus	**3,014**	2,890
Retained earnings	**359,399**	373,745
Accumulated other comprehensive income	**5,012**	3,188
	760,944	772,910
	$ 1,133,010	$ 1,101,975

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.

Consolidated Statement of Loss (Unaudited)

($ thousands, except as noted)

Three Months Ended March 31	2010	2009
Revenue		
Petroleum and natural gas sales	$ 48,895	$ 40,232
Gain on financial commodity contracts (Note 9)	10,465	1,350
Royalties	(6,956)	(5,418)
	52,404	36,164
Expenses		
Operating expense and production tax	14,127	21,534
Transportation	4,086	3,747
General and administrative	3,342	4,550
Stock-based compensation	7,747	250
Depletion, depreciation and accretion	39,609	30,926
Exploration	3,054	1,144
Dry hole expenses	8,150	–
Loss on sale of property, plant and equipment	–	282
Interest and financing charges	2,673	2,593
Foreign exchange	(1,187)	(775)
	81,601	64,251
Income (loss) from investments (Note 3)	8,671	(3,970)
Other income (loss)	598	(527)
Loss before tax	(19,928)	(32,584)
Income and other tax expense (recovery)		
Current and other	3	(519)
Future	(5,468)	(8,380)
	(5,465)	(8,899)
Net loss	$ (14,463)	$ (23,685)
Net loss per common share ($/share) (Note 7)		
Basic and diluted	$ (0.20)	$ (0.36)

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.

Consolidated Statement of Cash Flows (Unaudited)

($ thousands)

Three Months Ended March 31	2010	2009
Operating activities		
Net loss	$ (14,463)	$ (23,685)
Add (deduct)		
Items not involving cash (Note 10)	25,974	41,777
Asset retirement obligation expenditures	(1,143)	(1,654)
Exploration and dry hole expenses	11,204	1,144
	21,572	17,582
Change in non-cash working capital	(3,940)	600
Cash from operating activities	17,632	18,182
Financing activities		
Drilling rig loan repayments	(1,000)	–
Net draw of revolving long-term debt	–	25,523
Settlement of foreign exchange contract	–	12,205
Common shares issued	2,119	–
Common shares repurchased (Note 7)	–	(4,219)
Cash from financing activities	1,119	33,509
Investing activities		
Expenditures on property, plant and equipment and exploration	(90,781)	(63,907)
Proceeds on sale of property, plant and equipment	–	169
Purchase of investments	(2,573)	(4,518)
Change in non-cash working capital	37,560	(5,157)
Cash used in investing activities	(55,794)	(73,413)
Net decrease in cash and cash equivalents	(37,043)	(21,722)
Cash and cash equivalents, beginning of period	93,238	54,131
Cash and cash equivalents, end of period	$ 56,195	$ 32,409

Supplemental cash flow information (Note 10)

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.

Consolidated Statement of Shareholders' Equity (Unaudited)

($ thousands, except as noted)

Three Months Ended March 31	2010			2009		
Share Capital	**Shares (000's)**			Shares (000's)		
Balance, beginning of period	**72,058**	**$**	**393,087**	66,741	$	302,727
Issued	**284**		**4,791**	–		–
Tax effect of flow-through share renunciations	**–**		**(4,497)**	–		–
Common shares repurchased	**–**		**–**	(616)		(2,815)
Change in unvested common shares for stock incentive plan	**–**		**138**	–		401
Balance, end of period	**72,342**	**$**	**393,519**	66,125	$	300,313
Contributed Surplus						
Balance, beginning of period		**$**	**2,890**		$	2,398
Stock-based compensation expense on investees' options			**124**			9
Balance, end of period		**$**	**3,014**		$	2,407
Retained Earnings						
Balance, beginning of period		**$**	**373,745**		$	473,362
Common shares repurchased			**–**			(1,404)
Change in value of unvested common shares for stock incentive plan			**117**			(325)
Net loss			**(14,463)**			(23,685)
Balance, end of period		**$**	**359,399**		$	447,948
Accumulated Other Comprehensive Income (Loss)						
Balance, beginning of period		**$**	**3,188**		$	–
Other comprehensive income (loss), net of tax			**1,824**			(118)
Balance, end of period		**$**	**5,012**		$	(118)
Total Shareholders' Equity		**$**	**760,944**		$	750,550

See the accompanying notes to these Interim Consolidated Financial Statements.

Consolidated Statement of Comprehensive Loss (Unaudited)

($ thousands)

Three Months Ended March 31	2010	2009
Net loss	**$ (14,463)**	$ (23,685)
Other comprehensive income (loss), net of tax		
Change in unrealized gain (loss) on available-for-sale investments	**1,824**	(118)
Comprehensive loss	**$ (12,639)**	$ (23,803)

See the accompanying notes to these Interim Consolidated Financial Statements.

1. Basis of Presentation

The unaudited Interim Consolidated Financial Statements include the accounts of Paramount Resources Ltd. and its subsidiaries ("Paramount" or the "Company"), are stated in Canadian dollars, and have been prepared in accordance with Canadian Generally Accepted Accounting Principles using accounting policies and methods of application that are consistent with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2009. Paramount conducts its business through two business segments: Principal Properties and Strategic Investments.

Certain information and disclosures normally required to be included in notes to annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited Interim Consolidated Financial Statements should be read in conjunction with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2009.

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

2. Segmented Information

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

- **Principal Properties:** Principal properties consist of: (i) the Kaybob Corporate Operating Unit ("COU"), which includes properties in West Central Alberta; (ii) the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta; (iii) the Northern COU, which includes properties in Northern Alberta, the Northwest Territories and Northeast British Columbia; and (iv) the Southern COU, which includes properties in Southern Alberta, Saskatchewan, Montana and North Dakota.
- **Strategic Investments:** Strategic Investments include investments in other entities, including affiliates, and development stage assets where there is no near-term expectation of production, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation. The three rigs owned by Fox Drilling Inc. and Paramount Drilling U.S. L.L.C are included in Strategic Investments.
- **Corporate:** Corporate is comprised of income and expense items, including general and administrative expense and interest expense that have not been specifically allocated to Principal Properties or Strategic Investments.

($ thousands, except as noted)

Three Months Ended March 31, 2010	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue					
Petroleum and natural gas sales, net of royalties	$ 41,939	$ –	$ –	$ –	**$ 41,939**
Gain on financial commodity contracts	10,465	–	–	–	**10,465**
	52,404	–	–	–	**52,404**
Expenses					
Operating expense, production tax and transportation	18,213	–	–	–	**18,213**
General and administrative	–	631	2,711	–	**3,342**
Stock-based compensation	–	2,095	5,652	–	**7,747**
Depletion, depreciation and accretion	39,348	1,047	171	(957)	**39,609**
Exploration and dry hole	11,167	37	–	–	**11,204**
Interest and financing charges	–	312	2,361	–	**2,673**
Foreign exchange	–	–	(1,187)	–	**(1,187)**
	68,728	4,122	9,708	(957)	**81,601**
Income from investments	–	8,671	–	–	**8,671**
Interest and other income (expense)	662	–	(49)	–	**613**
Drilling rig revenue	–	3,330	–	(3,330)	–
Drilling rig expense	–	(1,988)	–	1,973	**(15)**
	(15,662)	5,891	(9,757)	(400)	**(19,928)**
Inter-segment eliminations	–	(400)	–	400	**–**
Segment earnings (loss)	$ (15,662)	$ 5,491	$ (9,757)	$ –	**(19,928)**
Income and other tax recovery					**(5,465)**
Net loss					**$ (14,463)**

Three Months Ended March 31, 2009	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue					
Petroleum and natural gas sales, net of royalties	$ 34,814	$ –	$ –	$ –	$ 34,814
Gain on financial commodity contracts	1,350	–	–	–	1,350
	36,164	–	–	–	36,164
Expenses					
Operating expense, production tax and transportation	25,281	–	–	–	25,281
General and administrative	–	603	3,947	–	4,550
Stock-based compensation	–	–	250	–	250
Depletion, depreciation and accretion	30,657	34	235	–	30,926
Exploration and dry hole	1,144	–	–	–	1,144
Loss on sale of property, plant and equipment	282	–	–	–	282
Interest and financing charges	–	–	2,593	–	2,593
Foreign exchange	–	–	(775)	–	(775)
	57,364	637	6,250	–	64,251
Loss from investments	–	(3,970)	–	–	(3,970)
Interest and other income (expense)	(100)	–	150	–	50
Drilling rig revenue	–	377	–	(377)	–
Drilling rig expense	–	(954)	–	377	(577)
Segment loss	$ (21,300)	$ (5,184)	$ (6,100)	$ –	(32,584)
Income and other tax recovery					(8,899)
Net loss					$ (23,685)

3. Investments

	March 31, 2010 (Shares) (000's)	March 31, 2010	December 31, 2009 (Shares/Units) (000's)	December 31, 2009
Equity accounted investments:				
Trilogy Energy Corp. ("Trilogy")	**24,144**	**$ 113,146**	23,995	$ 104,472
MGM Energy Corp. ("MGM Energy")	**43,834**	**5,625**	43,834	5,876
Paxton Corporation	**1,750**	**4,527**	1,750	4,574
Other		**3,197**		4,280
		126,495		119,202
Available-for-sale investments:				
MEG Energy Corp.	**3,700**	**101,750**	3,700	101,750
NuLoch Resources Inc.	**6,579**	**9,803**	6,579	5,921
Redcliffe Exploration Inc. ("Redcliffe")	**22,939**	**6,802**	19,667	7,210
Other		**490**		503
		$ 245,340		$ 234,586

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

Three Months Ended March 31	**2010** Equity income (loss)	**2010** Dilution gain (loss)	**2010** Total	2009 Equity loss	2009 Dilution loss	2009 Total
Equity accounted investments:						
Trilogy	**$ 4,903**	**$ 4,109**	**$ 9,012**	$ (2,090)	$ –	$ (2,090)
MGM Energy	**(255)**	**(39)**	**(294)**	(300)	(1,500)	(1,800)
Paxton Corporation	**(47)**	**–**	**(47)**	(80)	–	(80)
	$ 4,601	**$ 4,070**	**$ 8,671**	$ (2,470)	$ (1,500)	$ (3,970)

In January 2010, Paramount participated in Trilogy Energy Trust's distribution reinvestment plan ("DRIP"), acquiring an additional 0.1 million units (first quarter 2009 – 0.9 million units) for $1.2 million.

On February 5, 2010, Trilogy Energy Trust converted from an income trust to a corporation, named Trilogy Energy Corp., through a business combination with a private company. Paramount's 24.1 million Trilogy Energy Trust units (as of February 5, 2010) were converted into 12.8 million common shares of Trilogy Energy Corp., which are pledged as security for Paramount's US Senior Notes, and 11.3 million non-voting shares of Trilogy Energy Corp. The non-voting shares convert to common shares on a one-for-one basis if: i) beneficial ownership of the non-voting shares are transferred to any person that is not related to or affiliated with Paramount; or ii) Trilogy exercises its right to convert the non-voting shares to common shares. As a result of the conversion, Paramount recognized a dilution gain of $4.1 million. Following the DRIP and conversion, Paramount owned approximately 21 percent of Trilogy's equity (21.7 percent at December 31, 2009) and approximately 15 percent of its voting shares.

In the first quarter of 2010, the Company purchased an additional 3.3 million Class A shares of Redcliffe for $1.4 million. As of March 31, 2010, Paramount owned 19.4 percent of Redcliffe's outstanding Class A shares and 3.8 percent of Redcliffe's outstanding Class B shares.

($ thousands, except as noted)

4. Drilling Rig Loan

At March 31, 2010, $28.4 million was outstanding on the drilling rig loan. Unless demanded by the bank, the remaining annual scheduled principal repayments are as follows: 2010 - $1.5 million; 2011 - $4.0 million; 2012 - $5.1 million; 2013 - $5.1 million and 2014 - $12.7 million.

5. Long-Term Debt

	March 31, 2010	December 31, 2009
Canadian Dollar Denominated Debt		
Bank credit facility	**$ –**	$ –
U.S. Dollar Denominated Debt		
8 1/2 percent US Senior Notes due 2013 (US$90.2 million)	**91,598**	94,394
	91,598	94,394
Unamortized debt financing costs	**(675)**	(739)
	$ 90,923	$ 93,655

Bank Credit Facility

Subsequent to March 31, 2010, Paramount renewed its credit facility. Both the borrowing base and lender commitments are $125 million. The credit facility is available on a revolving basis to April 30, 2011 and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for an additional year, at which time the facility would be due and payable. At March 31, 2010, the amount available under the credit facility has been reduced by $16.1 million for outstanding undrawn letters of credit.

6. Asset Retirement Obligations

	Three Months Ended March 31, 2010	Twelve Months Ended December 31, 2009
Asset retirement obligations, beginning of period	**$ 103,462**	$ 87,237
Disposal of properties	**(66)**	(88)
Liabilities incurred	**1,108**	2,693
Revision in estimated costs of abandonment	**–**	9,334
Liabilities settled	**(1,143)**	(4,050)
Accretion expense	**2,170**	8,603
Foreign exchange	**(106)**	(267)
Asset retirement obligations, end of period	**$ 105,425**	$ 103,462

7. Share Capital

Normal Course Issuer Bid

In November 2008, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a Normal Course Issuer Bid ("NCIB"), commencing November 20, 2008 for a twelve month period. Under the NCIB, Paramount was permitted to purchase for cancellation up to 3,387,456 Common Shares. During the first quarter of 2009, Paramount purchased 615,600 Common Shares under the NCIB for $4.2 million, of which $2.8 million was charged to share capital and $1.4 million was charged to retained earnings.

In April 2010, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a normal course issuer bid (the "2010 NCIB") commencing April 13, 2010 for a twelve month period. Under the 2010 NCIB, Paramount is permitted to purchase for cancellation up to 3,626,476 Common Shares.

At March 31, 2010, Paramount has incurred sufficient qualifying expenditures to satisfy its commitment associated with the flow-through shares issued in October 2009.

Weighted Average Shares Outstanding

(thousands of Common Shares)	**Three Months Ended March 31, 2010**	Three Months Ended March 31, 2009
Weighted average Common Shares outstanding – Basic	**72,225**	66,258
Dilutive effect of stock options	**–**	–
Weighted average Common Shares outstanding – Diluted	**72,225**	66,258

8. Stock-based Compensation

Paramount Options

	Three Months Ended March 31, 2010		Year Ended December 31, 2009	
	Weighted Average Exercise Price	**Number**	Weighted Average Exercise Price	Number
	($ / share)		($ / share)	
Balance, beginning of period	**$ 8.61**	**4,571,500**	$ 14.48	6,117,700
Granted	**–**	**–**	9.73	2,344,000
Exercised	**7.68**	**(283,800)**	7.89	(121,500)
Cancelled or surrendered	**8.65**	**(33,500)**	18.86	(3,768,700)
Balance, end of period	**$ 8.67**	**4,254,200**	$ 8.61	4,571,500
Options exercisable, end of period	**$ 7.46**	**925,034**	$ 7.51	1,208,834

($ thousands, except as noted)

9. Financial Instruments and Risk Management

Risk management financial instruments outstanding at March 31, 2010 are as follows:

Instruments	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Gas – AECO Sales	30,000 GJ/d	Fixed – CAD $5.53/GJ	**$ 12,138**	April 2010 - October 2010
Gas – AECO Purchases	(15,000) GJ/d	Fixed – CAD $3.87/GJ	**(727)**	April 2010 - October 2010
Total			**$ 11,411**	

The changes in fair values of risk management assets and liabilities are as follows:

	2010			2009		
	Three Months Ended March 31, 2010			Year Ended December 31, 2009		
	Commodity	**Foreign Exchange**	**Total**	Commodity	Foreign Exchange	Total
Fair value, beginning of period	**$ 2,187**	**$ –**	**$ 2,187**	$ 9,807	$ 9,883	$ 19,690
Changes in fair value	**10,465**	**–**	**10,465**	5,277	2,322	7,599
Settlements (received)	**(1,241)**	**–**	**(1,241)**	(12,897)	(12,205)	(25,102)
Fair value, end of period	**$ 11,411**	**$ –**	**$ 11,411**	$ 2,187	$ –	$ 2,187

Paramount has an outstanding commitment to sell 3,400 GJ/d of natural gas at $2.73/GJ plus an escalation factor to 2011, which has a fair value loss of $1.0 million at March 31, 2010 (December 31, 2009 – loss of $4.1 million). The Company has designated this contract as normal sales exception, and as a result, does not recognize the fair value of the contract in the Consolidated Financial Statements.

10. Consolidated Statement of Cash Flows – Selected Information

Items not involving cash

Three Months Ended March 31	**2010**	2009
Financial commodity contracts	**$ (9,224)**	$ 9,807
Stock-based compensation	**7,747**	228
Depletion, depreciation and accretion	**39,609**	30,926
Loss on sale of property, plant and equipment	**–**	282
Foreign exchange	**(2,186)**	(897)
Distributions in excess of equity earnings and dilution	**–**	9,648
Equity earnings in excess of distributions	**(4,574)**	–
Future income tax	**(5,468)**	(8,380)
Other	**70**	163
	$ 25,974	$ 41,777

Supplemental cash flow information

Three Months Ended March 31	**2010**	2009
Interest paid	**$ 4,719**	$ 4,760
Current and other tax paid	**$ 662**	$ 98

($ thousands, except as noted)

Components of cash and cash equivalents

	March 31, 2010	December 31, 2009
Cash	**$ 20,957**	$ 23,250
Cash equivalents	**35,238**	69,988
	$ 56,195	$ 93,238

11. Subsequent Event

In May, Paramount announced that it had entered into an agreement with Redcliffe to acquire the remaining 82 percent of the issued and outstanding Class A Shares of Redcliffe not already owned for cash consideration of $0.42 per Redcliffe Class A Share, after conversion of all outstanding Class B Shares of Redcliffe to Class A Shares on a 10-for-1 basis. The purchase price values Redcliffe at approximately $68.5 million, including assumption of Redcliffe's estimated net debt of approximately $12.5 million at closing. The transaction is subject to Redcliffe shareholder approval.

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CORPORATE INFORMATION

OFFICERS

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

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

B. K. Lee
Chief Financial Officer

E. M. Shier
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G.W. P. McMillan
Corporate Operating Officer

D.S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

P.R. Kinvig
Controller

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

C. H. Riddell [3]
Chairman of the Board and Chief Executive Officer
Paramount Resources Ltd.
Calgary, Alberta

J. H.T. Riddell
President and Chief Operating Officer
Paramount Resources Ltd.
Calgary, Alberta

J. C. Gorman [1][4]
Retired
Calgary, Alberta

D. Jungé C.F.A. [4]
Chairman, Chief Executive Officer and President,
Pitcairn Trust Company
Bryn Athyn, Pennsylvania

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

W.B. MacInnes, Q.C. [1] [2] [3] [4]
Retired
Calgary, Alberta

V. S. A. Riddell
Business Executive
Calgary, Alberta

S. L. Riddell Rose
President and Chief Executive Officer
Paramount Energy Operating Corp. [5]
Calgary, Alberta

J.B. Roy [1] [2] [3] [4]
Independent Businessman
Calgary, Alberta

A.S. Thomson [1] [4]
Retired
Sidney, British Columbia

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
[5] Paramount Energy Operating Corp. is a wholly owned subsidiary of Paramount Energy Trust

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The Toronto Stock Exchange (“POU”)