

Total Wells	77	109	-29%
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(1) Cash flow from operations is a non-GAAP term that represents net earnings adjusted for non-cash items, dry hole costs and geological and geophysical costs. The Company considers cash flow from operations a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future growth through capital investment and to repay debt.

(2) Net debt is equal to the sum of accounts payable and accrued liabilities, shareholder loan, bank loans, drilling rig indebtedness and mortgage, less current assets.

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Review of Operations

Significant Events

- In February 2003, Paramount Energy Trust units were dividended to shareholders and began trading as PMT.UN on the Toronto Stock Exchange.
- In March 2003, Paramount concluded the transaction to transfer the remaining producing properties in Northeast Alberta to the Trust. The properties transferred to the Trust averaged 97 MMcf/d of gas production (16,167 BOE/d) in 2002.
- Paramount's property rationalization program resulted in agreements to sell 16.1 MMcf/d and 1,436 Bbl/d (4,119 BOE/d) for proceeds of \$ 89 million.
- Cameron Hills oil development was completed and oil production from the area commenced in April 2003.

Kaybob

In the Kaybob operating area, Paramount drilled 12 (8.4 net) wells and participated in an additional 6 (2.8 net) non-operated wells in the first quarter of 2003. This drilling program resulted in 11.7 net cased wells; 5.6 net producing gas and oil wells, 3.3 net completed and non-producing wells and 2.9 net cased wells waiting on completion. Paramount's drilling and completion interests vary due to the conversion of farm-out interests after the drilling operations are completed. Drilling and completion operations planned for April were suspended prematurely due to an early spring breakup, resulting in the three wells not being completed.

First quarter capital spending is estimated to be \$17.5 million versus a budgeted amount of \$18.0 million. Production was added at all of the major producing properties. Given a dry summer it is anticipated that some production from the uncompleted wells may be added prior to next winter.

First quarter 2003 natural gas and crude oil/natural gas liquid production forecasts were 90.8 MMcf/d and 2,109 Bbl/d (17,242 BOE/d) and compared closely to the actual production rate of 87.1 MMcf/d and 2,404 Bbl/d (16,920 BOE/d). The natural gas production for the quarter is 4 percent under forecast due to three wells being completed for oil versus natural gas. Oil and natural gas liquids production is 14 percent over forecast due to the unexpected oil completions and higher liquids production from the Kakwa property.

Annual production targets for Kaybob in 2003 are 90 MMcf/d and 2,200 Bbl/d of oil and natural gas liquids (17,200 BOE/d).

Sturgeon Lake / Mirage

In the Sturgeon Lake / Mirage operating unit, Paramount drilled 3.3 net wells, and re-completed 8.2 net existing wells. This program added new reserves of 10.1 BCFeq. Pipeline and facility construction is proceeding with 25 percent of the new reserves already on production, and the remainder to be producing by the third quarter of 2003.

The Mirage field saw the most activity with three re-completions in uphole Cretaceous zones, and a new well drilled for Cretaceous production. This activity resulted in production additions of 2 MMcf/d. Sturgeon Lake South, which was acquired over the last two years, had four re-completions of existing wells, with one already on production at 35 Bbl/d. The Goose River area had one re-completion and a new well drilled. These will be tied-in by the third quarter 2003. The Valhalla region had three successful wells drilled and will be tied-in after spring break up.

The forecasted average production rates for the year for Sturgeon Lake/Mirage are 15 MMcf/d of natural gas and 2,200 Bbl/d crude oil and natural gas liquids (4,700 BOE/d). We had some unforeseen downtime at Sturgeon Lake through the first quarter and we have production which is being capacity limited at a third party facility. This decrease is more than offset by increased volumes at Mirage and Valhalla with better than expected results.

Northwest Alberta

In Northwest Alberta and Cameron Hills NWT Paramount participated in the drilling of 22 (20.2 net) wells in the first quarter of 2003. Completions were attempted on 19 net wells with 8.3 net 2003 new drills proceeding to tie-in during the first quarter. No additional drilling is forecast in Northwest Alberta for the remainder of the year due to seasonal access. However, seismic programs conducted in the first quarter are expected to firm up drilling locations for the first quarter of 2004.

New wells drilled in the first quarter increased production by 11.5 MMcf/d of raw gas production and 500 Bbls/d of oil. Initial deliverability of the new wells in Haro and Bistcho exceeded the available capacity at their respective processing facilities. Declining throughput at those facilities during the year is expected to provide the necessary capacity required to fully exploit the deliverability of the new drills.

An estimated \$30 million net was expended during the first quarter conducting the drilling, completion, and tie-in operations outlined above. Included in this expenditure is \$5 million for an oil pipeline connecting the Bistcho Lake facility to Zama in addition to \$5 million for construction of an oil battery at Cameron Hills, NWT. Additional production was brought onstream in the first quarter through the tie-in of wells drilled in previous years.

Oil production from Cameron Hills commenced on April 7, 2003. Operational challenges associated with startup of the newly constructed Cameron Hills oil battery have delayed achieving the 1,500 Bbls/d target until mid May.

N.E. B.C / Liard

In February 2003 Paramount re-completed the b-83-K/94-O-14 well (100% WI) that was originally drilled in March 2002. The well was brought on stream on March 26 at 2.3 MMcf/d. Also in 2003 Paramount (100% WI) drilled an exploration test at McKay Lakes, K-36. This well was drilled to test a Mattson sub-crop play concept. The well reached total depth at 800 meters and was abandoned due to the Mattson reservoir interval being wet.

Paramount participated in the Chevron et al Liard 2K-29 (I-40) Nahanni well as to a 2.76 percent working interest. The well flowed at 30 MMcf/d from the Nahanni on production test and is slated to be brought on production at around 20 MMcf/d at the end of April.

Southern Alberta / Saskatchewan / Montana / North Dakota

Production through the first quarter from the Southern Operating Unit averaged 10.8 MMcf/d and 2,974 Bbls/d. No new production or reserves additions were made in the Southern Operating Area in the first quarter.

The Southern Operating Unit continued the process of consolidation and focus in the first quarter of 2003. This process will see the Southern Operating Unit divest of smaller interest and non-operated / non-core properties and pursue the growth of fewer, higher interest core properties. This process will conclude in the second quarter of 2003 and see the Southern Operating Area move from having in excess of 75 individual properties down to seven or eight core properties.

Exploration

In late 2002 Paramount agreed to farm out to Anadarko Canada Ltd. its interest in two Federal Exploration Licenses in the Arrowhead/West Bovie Area in exchange for Anadarko drilling five deep and three shallow exploration wells. Two of the wells were suspended prior to reaching their objectives due to spring break up. These wells will resume drilling next season when access conditions permit. Of the remaining wells, three are classified as gas discoveries (two deep and one shallow). Two wells discovered hydrocarbons but require further evaluation and one shallow well was abandoned. In light of these discoveries Anadarko, on behalf of itself and Paramount, has submitted to the NEB six Significant Discovery applications that will hold lands associated with the discoveries made to date.

In 2002 Paramount agreed to farm out to Anadarko Canada Ltd. its interest in Federal Exploration License 380 in the Liard Area in exchange for Anadarko shooting a seismic program with a subsequent option to drill a deep exploration well. Anadarko shot a 3D seismic survey over the exploration license in 2002 and in February of 2003 spud the Liard P-16 well. This well reached a total depth of 3,125 meters (3,064 meters TVD) and encountered gas within the Nahanni formation. Anadarko's current plans are to stimulate and test the capability of the well as soon as spring breakup is over.

Situated at the Arctic Circle, the Colville Lake Area has significant potential for large-scale gas and condensate reserves trapped structurally and stratigraphically within sandstones of Cambrian Age. Paramount, over the last three years, has acquired a significant land base in the area of some 650,000 acres (~ 28

Alberta townships). In late 2002 Paramount acquired a 50-percent partner in all of its lands in the area in order to accelerate the exploration of these lands. Apache Canada as part of the partnership agreement participated in the drilling of two 1,450-meter wells on Paramount's Nogha prospect. The first well Nogha C-49 was drilled, cased and completed as a Mt. Clarke gas well. The second well, Nogha M-17, was also drilled and cased although completion operations were suspended due to spring breakup. In addition to the evaluation of the Nogha Block, the partners purchased and reprocessed 2D trade seismic data and carried out a new 156 km 2D seismic survey over Federal Exploration License 399. This seismic will be evaluated in the spring to define future drilling locations. On Federal Exploration License 414 trade seismic data was purchased and reprocessed. This data is currently being mapped to assist in the planning of a seismic survey that will be carried out later this year.

Financial

Petroleum and natural gas revenue totaled \$120.6 million for the three months ended March 31, 2003, as compared to \$76.8 million for the corresponding period in 2002. The increase in revenue is a result of higher crude oil and natural gas prices, as well as a 10 percent increase in average production to 272.1 MMcfq/d (40,088 BOE/d) in the current quarter as compared to 247.0 MMcfq/d (38,798 BOE/d) in the first quarter of 2002.

Cash flow from operations for the three months ended March 31, 2003 totaled \$58.5 million or \$0.97 per basic and fully diluted common share, a 1 percent increase from the \$58.2 million or \$0.98 per basic and fully diluted common share reported for the comparable quarter in 2002.

Net earnings for the current quarter totaled \$0.6 million or \$0.01 per basic and fully diluted common share, as compared to \$18.9 million or \$0.32 per basic and fully diluted common share for the three months ended March 31, 2002.

Outlook

As previously reported, Paramount is selling 16.1 MMcf/d and 1,436 Bbl/d (4,119 BOE/d) for proceeds of \$89 Million. As a result of these transactions, Paramount now expects daily production of 150 to 160 MMcf/d and 7,000 Bbl/d or 32,000 to 33,600 BOE/d on a 6:1 basis and cash flow of approximately \$200 million or \$ 3.30/share. Paramount's capital expenditure program budget for all of 2003 is \$150 to \$175 million. As a result of excess cash flow, the disposition program, and the closing of the transactions associated with the Paramount Energy Trust creation, year-end debt levels are projected to be reduced to approximately \$200 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("M D & A") should be read in conjunction with the interim unaudited consolidated financial statements for the three months ended March 31, 2003 and the audited consolidated financial statements and M D & A for the year ended December 31, 2002.

During the first quarter 2003, Paramount Resources Ltd. ("Paramount" or the "Company") completed the formation and structuring of Paramount Energy Trust (the "Trust"), through the

following transactions:

1. On February 3, 2003, Paramount transferred to the Trust natural gas assets in the Legend area of Northeast Alberta for net proceeds of \$28 million and 9,907,767 units of the Trust.
2. On February 3, 2003, Paramount declared a dividend-in-kind of an aggregate of 9,907,767 units of the Trust. The dividend was paid to shareholders of Paramount common shares of record on the close of business on February 11, 2003. The dividend was declared after the Trust received all regulatory clearances with respect to its final prospectus in Canada and its registration statement in the United States. The final prospectus and registration statement qualified and registered (i) the Dividend Trust Units, (ii) Rights to purchase further Trust Units, and (iii) the Trust Units issuable upon exercise of the Rights.
3. On March 11, 2003, in conjunction with the closing of a rights offering by the Trust, Paramount disposed of additional natural gas assets in Northeast Alberta to Paramount Operating Trust for net proceeds of \$175 million. The combined production of the Northeast Alberta assets, including the Legend assets, averaged 97 MMcf/d during 2002.

The Company closed several minor non-core property dispositions during the quarter. Net proceeds of approximately \$20 million were received during the first three months of 2003. In total, Paramount has agreed to sell properties in Southern Alberta, Saskatchewan and North Dakota for proceeds of approximately \$89 million. Closing of all dispositions is expected to occur before the end of June 2003. The proceeds received to date for the minor property dispositions and the closing of the transactions associated with the Trust have been applied against the Company's debt facilities.

CAPITAL EXPENDITURES

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CAPITAL EXPENDITURES

Three Months Ended March 31				

Wells Drilled	2003		2002	

	Gross (1)	Net (2)	Gross (1)	Net (2)

Natural gas	67	47.6	96	76.5
Oil	5	5.0	3	2.8
Standing/Service	-	-	2	1.4
Dry	5	4.2	8	7.3

Total	77	56.8	109	88.0

(1) "Gross" wells means the number of wells in which Paramount has a working interest.

(2) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage working interest therein.

During the three months ended March 31, 2003, Paramount participated in the drilling of 77 gross wells (56.8 net), compared to 109 gross wells (88.0 net) during the same period in 2002.

 Three Months Ended March 31

Capital Expenditures (thousands of dollars)	2003	2002	2001
Land	\$ 2,206	\$ 2,141	\$ 11,094
Geological and geophysical	748	558	2,440
Drilling	39,307	77,838	85,199
Production equipment and facilities	10,148	22,115	17,024
Net exploration and development expenditures	\$ 52,409	\$ 102,652	\$ 115,757
Dry hole and seismic costs expensed	(9,639)	(2,280)	(4,469)
Property acquisitions	-	8,370	1,239
Property dispositions	(263,030)	(2,428)	(1,104)
Other	275	90	116
Depletion and depreciation expense	(43,072)	(30,678)	(17,866)
Net change in capital assets	\$ (263,057)	\$ 75,726	\$ 93,673

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The majority of Paramount's capital expenditure program is completed in the winter months, due to inaccessibility of our remote locations in warmer months; capital additions for the quarter were concentrated in the Kaybob and Cameron Hills areas. For the three months ended March 31, 2003, net exploration and development expenditures totaled \$52.4 million, of which approximately \$13.0 million was spent on properties that were subsequently sold to the Trust.

SHARE CAPITAL

During the quarter 710,000 stock options were exercised for total proceeds of \$10.3 million. As a result, common shares outstanding increased at March 31, 2003, to 60,168,600, as compared to 59,458,600 at December 31, 2002.

An additional 37,000 stock options and share appreciation rights were exercised for cash consideration of \$141,000, which amount was charged to general and administrative expenses.

REVENUE

Natural gas revenue during the quarter increased 38 percent to \$92.9 million as compared to \$67.6 million for the comparable quarter in 2002. The increase in natural gas revenue results from higher commodity prices received during the quarter. Stronger natural gas demand resulted in an increase of 51 percent in Paramount's average natural gas sales price to \$5.35/Mcf as compared to \$3.55/Mcf in the comparable quarter in 2002. Included in natural gas sales are \$26.2 million of hedging losses. On a per unit basis the 2003 first quarter price includes approximately \$1.50/Mcf loss from natural gas commodity hedges that were in place during the period. Natural gas sales volumes averaged 193.2 MMcf/d in the quarter as compared to 211.5 MMcf/d for the comparable quarter in 2002. Compared to the fourth quarter of 2002, natural gas sales decreased 26 percent from 262.6 MMcf/d. The decrease in natural gas sales is primarily the

result of the disposition of the Northeast Alberta assets to the Trust.

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Three Months Ended March 31			
Revenue Analysis (thousands of dollars)	2003	2002	2001
Natural gas and other	\$ 92,939	\$ 67,563	\$ 178,554
Crude oil and natural gas liquids	27,662	9,273	8,446
Gain on sale of short-term investments	- 15,577	2,982	
Other revenue	1,123	-	-
Gross revenue	121,724	92,413	189,982
Royalties	(31,217)	(9,081)	(43,661)
Net revenue	\$ 90,507	\$ 83,332	\$ 146,321

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Oil and natural gas liquids revenue during the period increased 198% to \$27.7 million as compared to \$9.3 million for the comparable quarter in 2002. The increase in oil and natural gas liquids revenue results from higher commodity prices and the addition of Summit's oil and natural gas liquids production. Stronger oil and natural gas liquids demand resulted in an increase of 34 percent in Paramount's average oil and natural gas sales price to \$38.95/Bbl as compared to \$29.03/Bbl in the comparable quarter in 2002. Included in the oil and natural gas liquids sales are \$2.9 million of hedging losses. On a per unit basis the 2003 first quarter price includes approximately \$4.03/Bbl loss from oil and natural gas liquids commodity price hedges that were in place during the period. Oil and natural gas liquids volumes increased 122 percent to average 7,892 Bbl/d for the quarter as compared to 3,548 Bbl/d for the comparable quarter in 2002. The increase is attributable to the acquisition of Summit, which at the time of acquisition produced approximately 5,000 Bbl/d of oil and natural gas liquids.

ROYALTIES

Alberta Gas Crown royalties are a cash royalty calculated on the Crown's share of production using the Alberta Reference Price. The Alberta Reference Price is the monthly weighted average well head price for gas consumed in Alberta and gas exported from Alberta reduced by allowances for transportation and marketing. A subsequent cost of service credit is applied to account for the Crown's share of allowable capital and processing fees to arrive at the net royalty. Generally the Crown's share of production will increase in a higher price environment.

Royalties for the three months ended March 31, 2003 averaged \$1.28/Mcfeq or 26 percent of Paramount's average sales price of \$4.92/Mcfeq. This compares to \$0.41/Mcfeq or 12 percent of the average sales price reported for the same period in 2002. The increased rate results from the higher commodity prices received during the quarter, before hedging losses, as compared to the first quarter of 2002. Hedging losses do not reduce royalty

expense due to the Crown's use of the Alberta Reference Price to calculate royalties, as opposed to the Company's realized price.

OPERATING COSTS

For the three months ended March 31, 2003, operating costs totaled \$18.9 million compared to \$18.0 million during the same period a year earlier.

On a unit-of-production basis, average operating costs decreased 5 percent to \$0.77/Mcfeq from \$0.81/Mcfeq in 2002. Historically, Paramount's operating costs on a unit-of-production basis have been higher during the first quarter as compared to annual average. Many of Paramount's properties are inaccessible in the warmer months due the ground conditions of their locations and this requires maintenance and repair projects to be performed in the winter months. For the remainder of 2003, the Company expects operating costs in total and on a unit-of-production basis to decline in recognition of the disposal of higher cost assets in Northeast Alberta. In addition, as experienced in previous years when new production comes onstream and efficiencies are optimized from work done during the winter, operating costs in total and on a unit-of-production basis are reduced.

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GENERAL AND ADMINISTRATIVE EXPENSES

Three Months Ended March 31			
General and Administrative Expenses (thousands of dollars)	2003	2002	2001
General and administrative expenses	\$ 4,627	\$ 2,689	\$ 2,635
Share appreciation rights and stock options exercised for cash	141	376	813
Stock-based compensation expensed	-	229	-
Total general and administrative expenses	\$ 4,768	\$ 3,294	\$ 3,448

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General and administrative expenses totaled \$4.8 million for the three months ended March 31, 2003, as compared to \$3.3 million recorded for the same period a year earlier. On a unit-of-production basis, general and administrative expenses before costs associated with the Share Appreciation Rights Plan increased to \$0.19/Mcfeq as compared to \$0.12/Mcfeq for the period ended March 31, 2002. In 2002, the Company increased head office staff by more than 40 percent and field staff by 60 percent in order to manage the Company's increasing asset base and to adequately staff the Trust. Costs increases associated with additional staffing levels include salary, benefits and rent. General and administrative expenses are expected to decline for the remainder of 2003 as the Trust's operations will be excluded from Paramount's activities effective March 11, 2003. Paramount does not capitalize any general and administrative expenses.

DRYHOLE COSTS

The Company follows the Successful Efforts Method of accounting for petroleum and natural gas operations. Under this method the Company capitalizes only those costs that result directly in the discovery of petroleum and natural gas reserves. The cost of unproductive wells, abandoned wells and surrendered leases are charged to earnings in the year of abandonment or surrender. For the three months ended March 31, 2003, \$8.9 million in dryhole costs were recorded, as compared to \$1.7 million in the first quarter of 2002. Of the dry hole expense recorded in 2003, approximately \$4.9 million results from wells drilled in prior years, which were determined in the current year to be incapable of production in economic quantities.

CURRENT INCOME TAX

At December 31, 2002, the Company had accumulated tax pools of approximately \$796 million, which will be available for deduction in 2003 in accordance with Canadian income tax regulations at varying rates of amortization. Paramount does not expect to pay current income taxes in 2003.

CASH FLOW AND EARNINGS

Cash flow from operations totaled \$58.5 million or \$0.97 per basic and fully diluted common share, representing a 1 percent increase from the \$58.2 million, or \$0.98 per basic and fully diluted common share reported for the corresponding period in 2002. Fully diluted weighted average shares outstanding totaled 60.1 million in the current quarter.

Cash flow will continue to be directed towards the Company's capital expenditure program and the reduction of bank indebtedness.

Net earnings for the three months ended March 31, 2003 totaled \$0.6 million or \$0.01 per basic and fully diluted common share, compared to net income of \$18.9 million, or \$0.32 per basic and fully diluted common share reported for the same period a year earlier. The lower net income for the quarter is the result of a significant commodity hedging loss of \$29.1 million and an increase in depletion and depreciation expense as compared to 2002.

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Consolidated Balance Sheets

	March 31	December 31
(thousands of dollars)	2003	2002

	(unaudited)	
ASSETS		
Current Assets		
Short-term investments (market value: 2003 - \$13,995; 2002 -\$14,168)	\$ 13,995	14,168
Accounts receivable (note 5)	108,524	91,042
Prepaid expenses	14,883	19,213
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	137,402	124,423

Property, Plant and Equipment		
Petroleum and natural gas properties, at cost	1,475,437	1,961,369
Accumulated depletion and depreciation	(326,533)	(549,408)
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1,148,904 1,411,961

\$ 1,286,306 \$ 1,536,384

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Accounts payable and accrued liabilities	\$ 158,629	\$ 140,396
Shareholder loan (note 5)	-	33,000
Bank loans (notes 2, 4 and 5)	296,294	498,097

454,923 671,493

Drilling rig indebtedness (note 5)	1,354	1,443
Mortgage (note 5)	6,654	6,730
Provision for future site restoration and abandonment costs	18,316	22,954
Deferred revenue	5,344	7,804
Future income taxes	295,057	279,855

326,725 318,786

Commitments and contingencies (note 5)

Shareholders' Equity

Share capital (note 6)		
Issued and outstanding 60,168,600 common shares (2002- 59,458,600 common shares)	200,510	190,193
Retained earnings	304,148	355,912

504,658 546,105

\$ 1,286,306 \$ 1,536,384

See accompanying notes to consolidated financial statements

Consolidated Statements of Earnings and Retained Earnings (unaudited)

Three Months Ended March 31

(thousands of dollars except per share amounts) 2003 2002

Revenue

Petroleum and natural gas sales	\$ 120,601	\$ 76,836
Royalties (net of ARTC)	(31,217)	(9,081)
Gain on sale of investments	-	15,577
Other revenue	1,123	-

90,507 83,332

Expenses

Operating	18,866	17,992
Interest	7,062	2,591
General and administrative	4,768	3,294
Geological and geophysical	748	558
Dry hole costs	8,891	1,722
Lease rentals	775	643
Gain on sales of property, plant and equipment	(271)	(413)
Provision for future site restoration and abandonment costs	1,262	600
Depletion and depreciation	43,072	30,678

	85,173	57,665	

Earnings before taxes	5,334	25,667	

Income and other taxes			
Large Corporations Tax and other	547	615	
Future income tax	4,163	6,140	

	4,710	6,755	

Net earnings	624	18,912	
Retained earnings, beginning of period	355,912	346,064	
Adjustment on disposition of assets to a related party (note 3)	(1,388)	-	
Dividends (note 3)	(51,000)	-	
Adoption of new accounting policy (note 2)	-	(459)	

Retained earnings, end of period	\$ 304,148	\$ 364,517	

Net earnings per common share			
- basic	\$ 0.01	\$ 0.32	
- diluted	\$ 0.01	\$ 0.32	

Weighted average common shares outstanding (thousands)			
- basic	59,998	59,459	
- diluted	60,072	59,544	

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended March 31	

(thousands of dollars)	2003	2002

Operating activities		
Net earnings	\$ 624	\$ 18,912
Add (deduct) non-cash items		
Depletion and depreciation	43,072	30,678
Gain on sales of property, plant and equipment	(271)	(413)
Provision for future site restoration and abandonment costs	1,262	600
Future income taxes	4,163	6,140
Add items not related to operating activities		
Dry hole costs	8,891	1,722
Geological and geophysical costs	748	558

Cash flow from operations	58,489	58,197
Increase (decrease) in deferred revenue	(2,460)	18,757
Change in non-cash operating working capital	(28,527)	22,691

	27,502	99,645

Financing activities		
Bank loans - draws	10,000	7,236
Bank loans - repayments	(211,803)	-
Shareholder loan	(33,000)	-
Capital Stock	10,317	760
Mortgage	(76)	-
Drilling rig indebtedness	(89)	-

	(224,651)	7,996

Cash flow (used in) provided by operating and financing activities	(197,149)	107,641

Investing activities		
Property, plant and equipment expenditures	51,936	102,184
Petroleum and natural gas property acquisitions	-	8,370
Geological and geophysical costs	748	558
Proceeds on sale of property, plant and equipment (note 3)	(222,832)	(2,571)
Change in non-cash investing working capital	(27,001)	(331)

Cash flow (provided by) used in investing activities	(197,149)	108,210

Decrease (increase) in cash	-	(569)
Cash, beginning of period	-	740

Cash, end of period	\$ -	\$ 171

Income taxes paid	\$ 5,466	\$ 25,000
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Interest paid	\$ 7,415	\$ 2,676
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See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(all tabular amounts expressed in thousands of dollars)

Paramount Resources Ltd. (the "Company") is involved in the exploration and development of petroleum and natural gas primarily in western Canada. The interim consolidated financial statements are stated in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in notes to annual consolidated financial statements has been condensed or omitted. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Paramount's Annual Report for the year ended December 31, 2002.

The preparation of interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared in a manner consistent with accounting policies utilized in the consolidated financial statements for the year ended December 31, 2002.

2. CHANGE IN ACCOUNTING POLICY

(a) Stock Based Compensation

Effective January 1, 2002, the Company adopted the new Canadian Institute of Chartered Accountants' standard on accounting for Stock-Based Compensation. Under this new standard, the Company's stock options and share appreciation rights, which can be settled in cash at the discretion of the employee, are accounted for at

an amount equal to the difference between the exercise price and the fair value at the date of grant, resulting in a liability and corresponding compensation expense being recognized. The awards are remeasured at each reporting date. As permitted by the new standard, the Company applied the change retroactively for the share appreciation rights without restatement of individual prior periods. The impact of the adoption of the new standard on the financial statements as at January 1, 2002, was as follows:

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Increase in liability	\$ 459
Decrease in retained earnings	\$ 459

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The recognized expense for the three-month period ended March 31, 2003 was nil (2002 - \$ 229,000).

This new standard requires the presentation of pro forma net earnings as if the Company had accounted for all of its employee stock options granted after December 31, 2001, under the fair value method. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant date of these awards, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

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		Three months ended March 31	
		2003	2002
Net earnings	as reported	\$ 624	\$ 18,912
	pro forma	\$ 596	\$ 18,909
Net earnings per common share - basic	as reported	\$ 0.01	\$ 0.32
	pro forma	\$ 0.01	\$ 0.32
Net earnings per common share - diluted	as reported	\$ 0.01	\$ 0.32
	pro forma	\$ 0.01	\$ 0.32

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The fair value for these options was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions: weighted-average risk-free interest rate of 5.8 percent; dividend yield of 0 percent; weighted-average volatility factor of the expected market price of the Company's common shares of 39.5 percent; and a weighted-average expected life of the options of 4 years.

(b) Bank Loans

On January 1, 2002, the Company adopted the new CICA Emerging Issues Committee Abstract regarding balance sheet classification of callable debt obligations and debt obligations expected to be

refinanced. All borrowings where the lender has the right to demand repayment within 12 months or where the lender has the right to refuse to roll over the borrowing for a further lending period of longer than 12 months are required to be classified as current liabilities. The impact of this change has been to increase current liabilities by the amount of any such borrowings then in place.

3. DISPOSITION OF ASSETS TO PARAMOUNT ENERGY TRUST

During the three months ended March 31, 2003, the Company completed the formation and structuring of Paramount Energy Trust (the "Trust") through the following transactions:

a) On February 3, 2003, Paramount transferred to the Trust natural gas properties in the Legend area of Northeast Alberta for net proceeds of \$28 million and 9,907,767 units of the Trust.

b) On February 3, 2003, Paramount declared a dividend-in-kind of an aggregate of 9,907,767 units of the Trust. The dividend was paid to shareholders of Paramount common shares of record on the close of business on February 11, 2003. The dividend was declared after the Trust received all regulatory clearances with respect to its final prospectus and registration statement in the United States. The final prospectus and registration statement qualified and registered (i) the Dividend Trust Units, (ii) Rights to purchase further Trust Units, and (iii) the Trust Units issuable upon exercise of the Rights.

c) On March 11, 2003, in conjunction with the closing of a rights offering by the Trust, Paramount disposed of additional natural gas properties in Northeast Alberta to Paramount Operating Trust for net proceeds of \$175 million.

In addition to transferring the natural gas properties to the Trust, the Company transferred the related accumulated provision for site restoration and abandonment costs. The Trust is a related party as a result of a significant number of common shareholders. As such, natural gas properties and related liabilities were transferred at net book value, with no gain or loss on disposition recorded. Details are as follows:

/T/

Natural gas properties	\$ 240,326
Future income tax liability	11,039
Site restoration liability	(5,900)
Costs of disposition	9,516
Adjustment to retained earnings	(1,388)

 Net proceeds on disposition \$ 253,593

/T/

Associated with the creation and financing of the Trust and the transfer of natural gas properties to the Trust, the Company incurred costs of approximately \$9.5 million. These costs have been included as a cost of disposition.

4. BANK LOANS

On June 28, 2002, the Company negotiated a \$600 million credit facility with a syndicate of Canadian Chartered Banks, including a \$466 million production facility, a \$109 million bridge facility and a \$25 million working capital facility. The term of the facility is to April 30, 2003. Available borrowings under the facility were reduced to \$315.5 million upon completion of the Trust disposition.

The Company has provided a first floating charge over all the assets and a limited recourse guarantee from Paramount Oil and Gas Ltd., a related entity with a significant ownership interest in the Company. The facility bears interest at prime rates, bankers acceptance rates or libor rates plus a margin ranging from 50 to 150 basis points. There are no contractual repayment requirements under this facility.

5. FINANCIAL INSTRUMENTS

The Company's financial instruments included in the consolidated balance sheet are comprised of short-term investments, accounts receivable, accounts payable and accrued liabilities, shareholder loan, bank loans, mortgage and drilling rig indebtedness.

(a) Commodity Price Hedges

Financial forward sales arrangements entered into by the Company are unchanged from those outstanding at December 31, 2002. Had these financial contracts been settled on March 31, 2003, using prices in effect at that time, the mark-to-market before-tax loss would have totaled \$34.1 million. During 2003, \$29.1 million of net losses related to commodity hedging contracts (2002 - \$18.5 million of net gains) are included in petroleum and natural gas sales.

(b) Foreign Exchange Hedges

Foreign currency index swap transactions entered into by the Company are unchanged from those outstanding at December 31, 2002. At March 31, 2003, the estimated fair value of these hedges based on the Company's assessment of available market information was a loss of \$1.3 million.

(c) Fair Values of Financial Assets and Liabilities

Borrowings under bank credit facilities and the issuance of commercial paper are for short periods and are market rate based; thus, carrying values approximate fair value. Fair values for derivative instruments are determined based on the estimated cash repayment or receipt necessary to settle the contract at period-end. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices available to the Company.

The fair values of other financial instruments, including accounts receivable, accounts payable and accrued liabilities and shareholder loan, approximate their carrying values due to the short-term maturity of those instruments.

The fair values of the mortgage and drilling rig indebtedness approximate their carrying values, as there have been no significant changes in long-term interest rates from the dates these liabilities were incurred to the balance sheet date.

(d) Credit Risk

The Company is exposed to credit risk from financial instruments to the extent of non-performance by third parties, and non-performance by counterparties to swap agreements. The Company minimizes credit risk associated with possible non-performance by financial instrument counterparties by entering into contracts with only highly rated counterparties; and controls third-party credit risk with credit approvals, limits on exposures to any one counterparty, and monitoring procedures. The Company sells production to a variety of purchasers under normal industry sale and payment terms. The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal credit risks.

6. SHARE CAPITAL

(a) Authorized Capital

The authorized capital of the Company consists of an unlimited number of non-voting preferred shares without nominal or par value, issuable in series, and an unlimited number of common shares without nominal or par value.

(b) Issued Capital

During the three months ended March 31, 2003, a total of 747,000 stock options were exercised for proceeds of \$10.3 million. At March 31, 2003, 60,168,600 common shares of the Company were issued and outstanding.

(c) Stock Option Plan/Share Appreciation Rights Plan

During 2001, the Company replaced the Share Appreciation Rights Plan ("SARP") with the Employee Incentive Stock Option plan (the "plan"). Under the plan, stock options are granted at the current market price on the date of issuance. Participants in the plan, upon exercising their stock options, have the option of receiving a cash payment equal to the difference between the exercise price and the market price of the Company's common shares, or receiving common shares issued from Treasury. Cash payments made in respect of the plan are charged to general and administrative expenses when incurred. Options granted vest over four years and have a four-and-a-half year contractual life. The Company has reserved 5.9 million stock options for issuance pursuant to the plan. On February 6, 2003, all remaining outstanding SARPs were cancelled.

/T/

Stock option/SARP transactions for the respective periods are as follows:

	2003		2002	
	Average grant price	Number of options/SARPs	Average grant price	Number of options/SARPs
Outstanding, January 1	\$14.25	1,949,500	\$14.08	2,173,500
Granted	12.02	645,000	16.74	44,000
Exercised	14.41	(747,000)	13.25	(125,000)
Cancelled	14.22	(240,000)	13.21	(20,500)
Outstanding, March 31	\$13.29	1,607,500	\$14.20	2,072,000

Exercisable, March 31 \$12.02 592,000 \$13.75 400,600

The following summarizes information about stock options outstanding at March 31, 2003:

Year of grant	Number outstanding at March 31, 2003	Weighted average remaining contractual life (years)	Weighted average exercise price/share	Number exercisable at March 31, 2003	Weighted average exercise price/share
2003	592,000	2	\$12.02	592,000	\$12.02
2002	80,000	3	\$15.90	-	-
2001	935,500	2	\$14.16	-	-
	1,607,500	2	\$13.29	592,000	\$12.02

/T/

Stock options granted during the three months ended March 31, 2003, have remaining contractual lives equivalent to those stock options exercised during the period.

7. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

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