Financial and Operating Highlights [1]

($ millions, except as noted)

Three Months Ended	September 30, 2008	June 30, 2008	Change %
Financial			
Petroleum and natural gas sales	**83.5**	102.9	(19)
Funds flow from operations	**40.9**	46.3	(12)
Per share – diluted ($/share)	**0.60**	0.68	(12)
Net earnings (loss)	**103.9**	(31.9)	426
Per share – diluted ($/share)	**1.53**	(0.47)	426
Capital expenditures [2]	**33.1**	10.5	215
Investments [3]	**354.8**	467.7	(24)
Total assets	**1,259.8**	1,193.6	6
Net debt [4]	**61.0**	48.0	27
Common shares outstanding (thousands)	**67,749**	67,739	-
Operating			
Sales volumes:			
Natural gas (MMcf/d)	**57.3**	67.7	(15)
Oil and NGLs (Bbl/d)	**3,657**	3,611	1
Total (Boe/d)	**13,206**	14,895	(11)
Gas weighting	**72%**	76%	(4)
Total wells drilled (gross)	**18**	8	125

(1) Readers are referred to the advisories concerning non-GAAP measures and barrels of oil equivalent conversions under the heading "Advisories" in this document.
(2) Exploration and development capital expenditures only.
(3) Based on the period-end closing prices of publicly traded enterprises and book value of the remaining investments.
(4) Net debt is a non-GAAP measure, it is calculated and defined in the Liquidity and Capital Resources section of Management's Discussion and Analysis.

SIGNIFICANT EVENTS

Third Quarter Overview

- Funds flow from operations were $40.9 million in the third quarter, a decrease of $5.4 million from the second quarter and included the impacts of lower realized commodity prices and lower production offset by lower payments on commodity contract settlements.
- Net earnings were $103.9 million in the third quarter compared to a net loss of $31.9 million for the second quarter. Current quarter pre-tax earnings included $91.5 million of mark-to-market gains on commodity contracts and stock based compensation recoveries.

Principal Properties

- Third quarter netback decreased by $13.0 million from the second quarter to $54.8 million, largely due to lower realized commodity prices and lower production partially offset by lower royalties and operating expenses.
- Kaybob started drilling the first of two wells of a four well pad in Resthaven. Production from the first two wells is expected during the first quarter of 2009 with the remaining wells to be drilled during the winter 2009/2010 drilling season. Kaybob also applied for regulatory approval to drill up to four wells per section on an incremental 37 land sections, in addition to the 62 sections approved earlier this year.
- Grande Prairie's waterflood regulatory hearings have concluded and a decision is expected in the first quarter of 2009.
- Drilled three (2.3 net) wells in the United States, furthering Southern's light oil program.
- The initial bidding period closed for the Northern properties and no acceptable bids were received. The formal sales process is now closed, however, Paramount will continue to consider offers for the properties.
- Continued to dispose of non-core assets recognizing a gain of $9.6 million.

Strategic Investments

- Commenced construction of a third drilling rig, expected to be in service in 2009.
- Invested $12.3 million in 22.4 million shares of MGM Energy pursuant to MGM Energy's July public offering, maintaining a 16.7 percent equity interest.
- Increased ownership in Trilogy to 22.1 percent at September 30, 2008, through continued participation in Trilogy's distribution reinvestment plan and indirectly as a result of Trilogy's normal course issuer bid unit purchases.
- Independent resource evaluation for Hoole oil sands properties was completed with a best estimate (50% probability) of approximately 458 million barrels of contingent bitumen resources.

Corporate

- Interest and financing charges for the nine months ended September 30, 2008 decreased to $7.4 million from $28.6 million for the prior year comparable period on lower average debt levels.

REVIEW OF OPERATIONS

Average daily sales volumes for the three months ended September 30, 2008 and June 30, 2008 were as follows:

	Q3 2008			Q2 2008			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	**17.3**	**542**	**3,420**	19.3	567	3,782	(2.0)	(25)	(362)
Grande Prairie	**7.7**	**660**	**1,948**	13.1	582	2,769	(5.4)	78	(821)
Northern	**18.1**	**815**	**3,826**	19.8	872	4,166	(1.7)	(57)	(340)
Southern	**13.6**	**1,632**	**3,902**	14.4	1,590	3,991	(0.8)	42	(89)
Other	**0.6**	**8**	**110**	1.1	-	187	(0.5)	8	(77)
Total	**57.3**	**3,657**	**13,206**	67.7	3,611	14,895	(10.4)	46	(1,689)

Kaybob

Kaybob sales volumes decreased ten percent to 3,420 Boe/d in the third quarter mainly due to natural declines. Unscheduled outages at three different third party facilities in the Smoky, Musreau and Pine Creek areas accounted for approximately 100 Boe/d of the decrease from the previous quarter. Activities were limited during the third quarter as properties are predominately winter access only. Capital expenditures totaled $2.8 million for the quarter including four (0.8 net) wells drilled.

During the second quarter, Kaybob received regulatory approval to allow the drilling of up to four wells per section in 62 sections of land. Kaybob filed regulatory applications in the third quarter to allow the drilling of up to four wells per section in another 37 sections of land. Once received, Kaybob will have 99 sections of land throughout the Musreau, Resthaven, and Smoky areas to implement a multi-well pad drilling program. At Resthaven, Paramount started drilling the first of two wells on what will ultimately be a four well pad. Production from the first two wells is expected to be on-stream during the first quarter of 2009. The third and fourth wells are expected to be drilled in early 2010.

Grande Prairie

Third quarter reported sales volumes for Grande Prairie were 1,948 Boe/d, a decrease of 30% from the second quarter. Second quarter reported sales volumes included a one-time increase of approximately 560 Boe/d as a result of Paramount resolving a dispute with a joint venture partner regarding the historic payout status of a well. The remaining decrease in reported sales volumes was mainly due to scheduled and unscheduled plant turnarounds and outages that were partially offset by improved production management and optimization.

Capital expenditures totaled $5.2 million for the quarter including three (1.5 net) wells drilled.

At Mirage, two (0.7 net) non-operated wells and one (1.0 net) operated well were brought on production during the quarter, with aggregate production rates of 1.2 MMcf/d (net).

Development of the Karr Montney gas project continued with one of the two planned horizontal re-entries completed during the third quarter, and the second horizontal re-entry to be completed during the fourth quarter. Tie-ins are expected to be completed during the fourth quarter. In addition, regulatory approval was received to drill up to two wells per section in 18 contiguous sections of land in the Karr area.

Startup of a water injection well at Crooked Creek continues to be deferred due to regulatory delays. Regulatory hearings have concluded with a decision expected in the first quarter of 2009. The water injection well is designed to inject sufficient volumes of water to increase oil production by 5,000 Boe/d (850 Boe/d net) under good production practice. During the third quarter, one (0.2 net) well was drilled at Crooked Creek and is expected to be on production late in the fourth quarter. An additional, two (1.0 net) wells are planned to be drilled at Crooked Creek by year end.

Northern

Northern sales volumes decreased eight percent to 3,826 Boe/d mainly due to natural declines. Production was also reduced by 1.2MMcf/d (net) from June to August due to a pipeline failure at Bistcho.

Earlier this year, Paramount initiated a process to explore the sale of properties in the Cameron Hills, Bistcho Lake, Negus, and Larne areas in Alberta and the Northwest Territories. On July 29, 2008, the initial bidding period closed and while interest was expressed, no acceptable bids were received. The formal sales process is now closed, however, Paramount will continue to consider offers for the properties.

Activities continue to focus on planning for the 2009 capital program as the properties are predominately accessible only during winter.

Southern

Southern sales volumes decreased two percent to 3,902 Boe/d. Production from new wells in North Dakota was offset by natural declines from properties throughout Southern Alberta.

Capital expenditures for the quarter totaled $24.2 million including 11 (4.7 net) wells drilled and the related infrastructure.

As expected, production at Chain was comparable between quarters at approximately 2,200 Boe/d. During the quarter, four (1.8 net) wells were drilled, including one (1.0 net) horizontal well that was completed early in the fourth quarter utilizing a multi-stage fracturing ("frac"). The horizontal well is presently flowing back from that operation and is expected to be on production during the fourth quarter. In addition, a 14 (8.7 net) well recompletion project targeting the Edmonton Sands formation is currently in progress at Chain. At the start of the fourth quarter, Southern drilled two (1.5 net) CBM wells that will be completed and tied in by year end.

The majority of capital expenditures for the quarter were directed towards North Dakota. During the quarter, three (2.3 net) wells were drilled in North Dakota, of which one (0.5 net) well was completed and on production. In addition, three (2.7 net) wells drilled in previous quarters were completed and brought on production.

To date, Southern has drilled 11 wells in North Dakota, of which four are Bakken wells, and a fifth Bakken well is presently drilling. Three of these wells have been completed, with one well on production, and two wells to be brought on production that were flowing back from multi-stage frac operations. The fourth well is awaiting completion of a multi-stage frac operation.

Capital expenditures for the remainder of year will continue to focus on North Dakota, targeting primarily light oil from the Bakken formation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated November 7, 2008, should be read in conjunction with the unaudited Interim Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the three and nine months ended September 30, 2008 and Paramount's audited Consolidated Financial Statements and MD&A for the year ended December 31, 2007. Amounts are presented in Canadian dollars unless otherwise stated. The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles (''GAAP") in Canada.

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

In this document "funds flow from operations", "funds flow from operations per share - diluted", "netback" and "net debt", collectively the "Non-GAAP measures", are presented as indicators of Paramount's financial performance. The Non-GAAP measures do not have standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other issuers. Funds flow from operations excludes the impacts of non-commodity financial derivatives, among other items. Certain comparative figures have been reclassified to conform to the current years presentation.

Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

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 ("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 allocating resources, assessing operating performance and achieving 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:

- Kaybob consisting of properties in West Central Alberta;
- Grande Prairie consisting of properties in Central Alberta;
- Northern consisting of properties in Northern Alberta, the Northwest Territories and Northeast British Columbia; and
- Southern consisting of properties in Southern Alberta, Saskatchewan, Montana and North Dakota.

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, sales, or future revenue generation.

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

Third Quarter 2008 Highlights

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
($ millions, except as noted)				
Financial				
Net (loss) earnings	**103.9**	(82.2)	**33.9**	572.8
per share - basic ($/share)	**1.53**	(1.17)	**0.50**	8.12
per share - diluted ($/share)	**1.53**	(1.17)	**0.50**	8.04
Funds flow from operations	**40.9**	21.7	**111.4**	77.7
per share - diluted ($/share)	**0.60**	0.31	**1.64**	1.09
Petroleum and natural gas sales	**83.5**	61.9	**263.4**	221.6
Total assets			**1,259.8**	1,484.0
Long-term debt			**101.3**	135.5
Net debt			**61.0**	(95.4)
Operational				
Sales volumes				
Natural gas (MMcf/d)	**57.3**	73.5	**63.6**	82.3
Oil and NGLs (Bbl/d)	**3,657**	3,977	**3,693**	3,707
Total (Boe/d)	**13,206**	16,231	**14,288**	17,422
Average realized price				
Natural gas ($/Mcf)	**8.65**	5.31	**8.98**	6.86
Oil and NGLs ($/Bbl)	**112.64**	70.99	**105.63**	65.66
Wells drilled (net)	**7**	17	**27**	100

Third Quarter Overview

- Funds flow from operations increased by 88 percent to $40.9 million from the prior year comparable quarter due to higher realized commodity prices and lower operating expenses, partially offset by lower production and higher financial commodity contract payments.
- Net earnings increased to $103.9 million in the third quarter of 2008 from a net loss of $82.2 million in 2007. Current quarter pre-tax earnings included $91.5 million of mark-to-market gains on commodity contracts and stock based compensation recoveries, in addition to $29.8 million of income from equity investments. Prior year net loss included property write-downs.

Principal Properties

- Netback increased by $24.9 million to $54.8 million, largely due to higher average commodity prices and lower operating expenses.
- Kaybob started drilling the first of two wells of a four well pad in Resthaven. Production from the first two wells is expected during the first quarter of 2009 with the remaining wells to be drilled during the winter 2009/2010 drilling season. Kaybob also applied for regulatory approval to drill up to four wells per section on an incremental 37 sections of land, in addition to the 62 sections approved earlier this year.
- Grande Prairie's waterflood regulatory hearings have concluded and a decision is expected in the first quarter of 2009.
- Drilled three (2.3 net) wells in the United States, furthering Southern's light oil program.
- Continued to dispose of non-core assets, recognizing a gain of $9.6 million.

Strategic Investments

- Commenced construction of a third drilling rig, expected to be in service in 2009.
- Invested $12.3 million in 22.4 million shares of MGM Energy pursuant to MGM Energy's July public offering, maintaining a 16.7 percent equity interest.
- Increased ownership in Trilogy to 22.1 percent at September 30, 2008, through continued participation in Trilogy's distribution reinvestment plan and as a result of Trilogy's normal course issuer bid unit purchases.
- Independent resource evaluation for Hoole oil sands properties was completed with a best estimate (50% probability) of approximately 458 million barrels of contingent bitumen resources.

Corporate

- Interest and financing charges decreased to $2.3 million from $4.2 million in the third quarter of 2007.

Funds Flow From Operations

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

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions, except as noted)	**2008**	2007	**2008**	2007
Cash from (used in) operating activities	**49.6**	(12.5)	**123.3**	56.5
Change in non-cash working capital	**(8.7)**	34.2	**(11.9)**	21.2
Funds flow from operations	**40.9**	21.7	**111.4**	77.7
Funds flow from operations ($/Boe)	**33.68**	14.52	**28.45**	16.33

Paramount's third quarter funds flow from operations increased in 2008 to $40.9 million from $21.7 million in 2007. Funds flow from operations for the nine months ended September 30, 2008 increased to $111.4 million from $77.7 million in 2007. The increases were primarily due to higher realized commodity prices, lower operating expenses and lower interest expense offset by higher settlements of financial commodity contracts in 2008.

The variances in funds flow from operations between the 2007 and 2008 are summarized as follows:

($ millions)	Three Months Ended September 30	Nine Months Ended September 30
Funds Flow From Operations - 2007	21.7	77.7
Favourable (unfavourable) variance		
Petroleum and natural gas sales	21.6	41.8
Settlements of financial commodity contracts	(8.4)	(41.2)
Royalties	(3.2)	(4.7)
Operating and transportation expense	6.5	10.3
General and administrative expense	1.4	4.6
Stock-based compensation	0.2	(1.4)
Interest expense	1.9	20.7
Distributions from equity investments	1.7	1.6
Other income	(3.1)	0.5
Other	0.6	1.5
Total variance	19.2	33.7
Funds Flow From Operations - 2008	**40.9**	**111.4**

Net Earnings (Loss)

The variances in net earnings (loss) between 2007 and 2008 are summarized as follows:

($ millions)	Three Months Ended September 30	Nine Months Ended September 30
Net (Loss) Earnings- 2007	(82.2)	572.8
Favourable (unfavourable) variance		
Impact of variances in funds flow from operations	19.2	33.7
Financial commodity contracts – net of settlements	91.3	54.8
Stock-based compensation	9.0	(6.6)
Write-down of petroleum and natural gas properties	79.6	79.6
Depletion, depreciation and accretion	3.3	19.1
Dry hole	10.9	53.2
Gain or loss on sale of property, plant and equipment	8.8	(274.1)
Gain on sale of investments	-	(528.7)
Income from equity investments	31.5	(15.6)
Non-controlling interest	0.3	(11.2)
Unrealized foreign exchange	(2.2)	(31.5)
Future income tax	(74.3)	78.3
Other	8.7	10.1
Total variance	186.1	(538.9)
Net Earnings- 2008	**103.9**	**33.9**

Earnings for the nine months ended September 30, 2007 included the gains on disposal of shares of North American Oil Sands Corporation and properties in the Surmont area as well as MGM Energy's net loss of $30.8 million. MGM Energy's results of operations were consolidated with Paramount's until May 29, 2007.

Principal Properties

Netbacks and Segment Earnings (Loss)

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions)	**2008**	2007	**2008**	2007
Revenue	**83.5**	61.9	**263.4**	221.6
Royalties	**(12.0)**	(8.8)	**(40.8)**	(36.1)
Operating expenses	**(12.7)**	(19.2)	**(53.6)**	(63.1)
Transportation expenses	**(4.0)**	(4.0)	**(11.7)**	(12.5)
Netback	**54.8**	29.9	**157.3**	109.9
Settlements of financial commodity contracts	**(9.9)**	(1.5)	**(25.0)**	16.2
Netback including settlements of commodity contracts	**44.9**	28.4	**132.3**	126.1
Other Principal Property items (see below)	**69.8**	(125.7)	**(55.5)**	(218.1)
Segment earnings (loss)	**114.7**	(97.3)	**76.8**	(92.0)

Revenue

($ millions)	Three Months Ended September 30 2008	2007	% Change	Nine Months Ended September 30 2008	2007	% Change
Natural gas sales	**45.6**	35.9	27	**156.5**	154.9	1
Oil and NGLs sales	**37.9**	26.0	46	**106.9**	66.7	60
Total	**83.5**	61.9	35	**263.4**	221.6	19

Revenue for the third quarter of 2008 from natural gas, oil and NGLs sales was $83.5 million, an increase of 35 percent from 2007 due primarily to the impact of higher prices, partially offset by lower sales volumes. Similarly, revenue for the nine month period ended September 30, 2008 increased to $263.4 million from $221.6 million in 2007 due to higher prices, partially offset by lower sales volumes.

The impact of changes in prices and volumes on petroleum and natural gas sales revenue for the three and nine months ended September 30, 2008 are as follows:

Three Months

($ millions)	Natural gas	Oil and NGLs	Total
Three months ended September 30, 2007	35.9	26.0	61.9
Effect of changes in prices	17.6	14.0	31.6
Effect of changes in sales volumes	(7.9)	(2.1)	(10.0)
Three months ended September 30, 2008	**45.6**	**37.9**	**83.5**

Nine Months

($ millions)	Natural gas	Oil and NGLs	Total
Nine months ended September 30, 2007	154.9	66.7	221.6
Effect of changes in prices	36.9	40.3	77.2
Effect of changes in sales volumes	(35.3)	(0.1)	(35.4)
Nine months ended September 30, 2008	**156.5**	**106.9**	**263.4**

Sales Volumes

	Three Months Ended September 30								
	2008			2007			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	**17.3**	**542**	**3,420**	21.1	739	4,263	(3.8)	(197)	(843)
Grande Prairie	**7.7**	**660**	**1,948**	9.6	1,028	2,626	(1.9)	(368)	(678)
Northern	**18.1**	**815**	**3,826**	25.5	925	5,171	(7.4)	(110)	(1,345)
Southern	**13.6**	**1,632**	**3,902**	16.0	1,272	3,936	(2.4)	360	(34)
Other	**0.6**	**8**	**110**	1.3	13	235	(0.7)	(5)	(125)
Total	**57.3**	**3,657**	**13,206**	73.5	3,977	16,231	(16.2)	(320)	(3,025)

Third quarter average daily natural gas sales volumes decreased to 57.3 MMcf/d in 2008 compared to 73.5 MMcf/d in 2007. The decrease was primarily a result of declines, the shut-in of the Maxhamish and Liard West facilities, and the sale of non-core properties.

Third quarter average daily crude oil and NGLs sales volumes decreased to 3,657 Bbl/d in 2008 compared to 3,977 Bbl/d in 2007 primarily as waterflood was suspended at Crooked Creek in Grande Prairie in October 2007 pending regulatory approval and declines in other areas. The decreases were partially offset by production increases from Southern's North Dakota oil program.

	Nine Months Ended September 30								
	2008			2007			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	**18.9**	**626**	**3,781**	23.1	556	4,401	(4.2)	70	(620)
Grande Prairie	**9.9**	**644**	**2,291**	11.9	859	2,838	(2.0)	(215)	(547)
Northern	**19.1**	**816**	**3,991**	27.2	954	5,495	(8.1)	(138)	(1,504)
Southern	**14.5**	**1,603**	**4,025**	18.6	1,335	4,441	(4.1)	268	(416)
Other	**1.2**	**4**	**200**	1.5	3	247	(0.3)	1	(47)
Total	**63.6**	**3,693**	**14,288**	82.3	3,707	17,422	(18.7)	(14)	(3,134)

Volume variances for the nine month period ended September 30, 2008 compared to September 30, 2007 are generally consistent with those for the three month period, and include a dispute resolution with a joint venture partner regarding the historic payout status of a well, resulting in Grande Prairie reporting additional volumes of approximately 200 Boe/d.

During the second quarter, Paramount initiated a process to explore the sale of properties in the Cameron Hills, Bistcho Lake, Negus, and Larne areas in Alberta and the Northwest Territories. On July 29, 2008, the initial bidding period closed and while interest was expressed, no acceptable bids were received. The formal sales process is now closed, however, Paramount will continue to consider offers for the properties. In addition, Paramount continues to investigate the potential sale of other non-core properties.

Commodity Prices

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

	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	**2008**	2007	% Change
Natural Gas						
New York Mercantile Exchange (US$/MMbtu)	**10.24**	6.16	66	**9.73**	6.83	42
AECO (Cdn$/GJ)	**8.76**	5.32	65	**8.13**	6.46	26
Crude Oil						
West Texas Intermediate (US$/Bbl)	**117.98**	75.38	57	**113.29**	66.23	71
Edmonton par (Cdn$/Bbl)	**122.58**	80.65	52	**115.65**	73.68	57
Foreign Exchange						
Cdn$/1US$	**1.04**	1.04	-	**1.02**	1.10	7

Average Realized Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	**2008**	2007	% Change
Natural gas ($/Mcf)	**8.65**	5.31	63	**8.98**	6.86	31
Oil and NGLs ($/Bbl)	**112.64**	70.99	59	**105.63**	65.66	61
Total ($/Boe)	**68.72**	41.46	66	**67.27**	46.42	45

Paramount’s third quarter average realized natural gas price for 2008, before realized losses on financial commodity contracts, was $8.65/Mcf compared to $5.31/Mcf in 2007. Paramount’s average realized natural gas price is based on prices received at the various markets in which it sells natural gas. Paramount’s natural gas sales portfolio primarily consists of sales priced at the Alberta spot market, Eastern Canadian markets, and California markets. Paramount’s natural gas production is sold in a combination of daily and monthly contracts.

The third quarter average realized oil and NGLs price for 2008, before realized losses on financial commodity contracts, increased to $112.64/Bbl compared to $70.99/Bbl in 2007. Paramount's Canadian oil and NGLs sales portfolio primarily consists of sales priced relative to Edmonton Par, adjusted for transportation and quality differentials. Paramount’s United States oil and NGLs sales portfolio is sold at the lease with differentials negotiated relative to West Texas Intermediate crude oil prices.

Commodity Price Management

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

Settlements of financial commodity contracts were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions, except as noted)	**2008**	2007	**2008**	2007
(Paid) received on settlement				
Gas contracts	**(4.4)**	-	**(11.3)**	15.2
Crude contracts	**(5.5)**	(1.5)	**(13.7)**	1.0
Total	**(9.9)**	(1.5)	**(25.0)**	16.2
$/Boe	**(8.13)**	(0.98)	**(6.39)**	3.39

At September 30, 2008, Paramount had the following commodity contracts outstanding:

($ millions, except as noted)	Total Notional	Average Price	Fair Value	Remaining Term
Gas - NYMEX	40,000 MMbtu/d	Fixed - US$9.07/MMbtu	**2.1**	October 2008
Gas - NYMEX	20,000 MMbtu/d	Fixed - US$9.99/MMbtu	**6.8**	November 2008 - March 2009
Gas - AECO	20,000 GJ/d	Fixed - CAD $9.50/GJ	**7.5**	November 2008 - March 2009
Crude - WTI	2,000 Bbl/d	Fixed - US$90.40/Bbl	**(1.9)**	October 2008 - December 2008
Crude - WTI	1,000 Bbl/d	Fixed - US$133.65/Bbl	**11.7**	January 2009 - December 2009
			26.2	

Paramount also has a long-term physical contract to sell 3,400 GJ/d of natural gas at a fixed price of $2.52/GJ plus an escalation factor, expiring in 2011.

Royalties

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions, except as noted)	**2008**	2007	**2008**	2007
Natural gas	**5.2**	4.4	**23.3**	24.5
Oil and NGLs	**6.8**	4.4	**17.5**	11.6
Total	**12.0**	8.8	**40.8**	36.1
$/Boe	**9.92**	5.88	**10.43**	7.56
Royalty rate (%)	**14.4**	14.2	**15.5**	16.2

Third quarter royalties increased to $12.0 million in 2008 compared to $8.8 million in 2007. Paramount's natural gas royalties increased by 18 percent primarily as a result of higher gas prices in 2008 and the impacts of higher investment royalty credits in Northern in 2007. The increase was partially offset by gas cost allowance and custom processing credits in Alberta and lower production volumes. Oil and NGLs royalties increased by 55 percent consistent with price increases, and increased production in Southern. These increases were partially offset by decreases in Kaybob and Grande Prairie due to production declines.

Royalties for the nine months ended September 30, 2008 include the impacts of higher gas cost allowance credits in Alberta.

The impact of changes in revenue and royalty rates on royalty expense for the three and nine months ended September 30, 2008 is as follows:

($ millions)	
Three months ended September 30, 2007	8.8
Effect of changes in revenue	3.0
Effect of changes in royalty rates	0.2
Three months ended September 30, 2008	**12.0**

($ millions)	
Nine months ended September 30, 2007	36.1
Effect of changes in revenue	6.8
Effect of changes in royalty rates	(2.1)
Nine months ended September 30, 2008	**40.8**

Operating Expense

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions, except as noted)	**2008**	2007	% Change	**2008**	2007	% Change
Operating expense	**12.7**	19.2	(34)	**53.6**	63.1	(15)
$/Boe	**10.45**	12.88	(19)	**13.67**	13.23	3

Operating expenses in the third quarter of 2008 decreased 34 percent to $12.7 million compared to $19.2 million in 2007. The decrease is primarily due to lower operating expenses in Northern, which include reductions resulting from the shut-in of the Maxhamish and Liard West assets, and lower operating expenses in Kaybob as a result of lower production. Operating expenses have increased in Southern consistent with production increases and include mineral and severance taxes in the United States. Operating expenses for the nine month period include higher first quarter operating costs associated the shut-in of the Liard West area in the first quarter of 2008.

Transportation Expense

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions, except as noted)	**2008**	2007	% Change	**2008**	2007	% Change
Transportation expense	**4.0**	4.0	-	**11.7**	12.5	(6)
$/Boe	**3.26**	2.67	22	**2.99**	2.61	15

Third quarter transportation expense remained at $4.0 million in 2008. Transportation costs per Boe increased in the current year due to the impacts of less production volume over similar fixed costs compared to the prior year.

Per Unit Netbacks

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Natural gas ($/Mcf)				
Revenue	**8.65**	5.31	**8.98**	6.86
Royalties	**(1.01)**	(0.66)	**(1.34)**	(1.09)
Operating expenses	**(1.73)**	(2.10)	**(2.38)**	(2.18)
Transportation	**(0.65)**	(0.59)	**(0.59)**	(0.54)
Netback	**5.26**	1.96	**4.67**	3.05
Settlements of financial commodity contracts	**(0.84)**	-	**(0.50)**	0.68
Netback including settlements of financial commodity contracts	**4.42**	1.96	**4.17**	3.73
Conventional oil ($/Bbl)				
Revenue	**114.10**	70.97	**106.79**	65.62
Royalties	**(17.30)**	(10.47)	**(15.85)**	(10.52)
Operating expenses	**(10.67)**	(14.42)	**(13.00)**	(14.58)
Transportation	**(1.58)**	(0.54)	**(1.36)**	(0.75)
Netback	**84.55**	45.54	**76.58**	39.77
Settlements of financial commodity contracts	**(20.58)**	(5.24)	**(17.75)**	1.23
Netback including settlements of financial commodity contracts	**63.97**	40.30	**58.83**	41.00
Natural gas liquids ($/Bbl)				
Revenue	**107.27**	73.29	**101.84**	68.52
Royalties	**(30.28)**	(16.42)	**(22.11)**	(14.68)
Operating expenses	**(10.17)**	(11.31)	**(12.52)**	(11.21)
Transportation	**(1.68)**	(0.50)	**(1.17)**	(0.91)
Netback	**65.14**	45.06	**66.04**	41.72
All products ($/Boe)				
Revenue	**68.72**	41.46	**67.27**	46.42
Royalties	**(9.92)**	(5.88)	**(10.43)**	(7.56)
Operating expenses	**(10.45)**	(12.88)	**(13.67)**	(13.23)
Transportation	**(3.26)**	(2.67)	**(2.99)**	(2.61)
Netback	**45.09**	20.03	**40.18**	23.02
Settlements of financial commodity contracts	**(8.13)**	(0.98)	**(6.39)**	3.39
Netback including settlements of financial commodity contracts	**36.96**	19.05	**33.79**	26.41

Other Principal Property Items

($ millions)	Three Months Ended September 30 **2008**	2007	Nine Months Ended September 30 **2008**	2007
Depletion, depreciation and accretion	**28.1**	32.5	**85.3**	106.7
Exploration	**1.1**	1.4	**6.5**	5.6
Dry hole	**0.2**	11.1	**5.5**	18.9
Loss (gain) on sale of property plant and equipment	**(9.6)**	(1.0)	**(8.8)**	(12.2)
Commodity contracts – net of settlements	**(89.5)**	1.9	**(33.2)**	21.6
Write-down of petroleum and natural gas properties	**-**	79.6	**-**	79.6
Other items	**(0.1)**	0.2	**0.2**	(2.1)
Total	**(69.8)**	125.7	**55.5**	218.1

Depletion, depreciation and accretion expense ("DD&A expense") for the third quarter of 2008 decreased to $28.1 million or $23.17/Boe compared to $32.5 million or $21.77/Boe in 2007. The decrease in DD&A expense is primarily a result of lower production. The commodity contract gains and losses are unrealized and relate to future production periods. The prior year also included a write-down of properties in Kaybob and Northern.

Strategic Investments

($ millions)	Three Months Ended September 30 **2008**	2007	Nine Months Ended September 30 **2008**	2007
Income (loss) from equity investments	**29.8**	(1.7)	**11.2**	555.5
Exploration	**-**	(0.1)	**-**	(3.8)
Dry hole	**-**	-	**-**	(39.8)
Other expenses	**(1.4)**	(0.3)	**(3.4)**	(4.9)
Other income	**0.6**	0.5	**2.0**	271.7
Non-controlling interest	**-**	(0.5)	**-**	10.9
Segment Earnings (Loss)	**29.0**	(2.1)	**9.8**	789.6

Strategic Investments at September 30, 2008 include the following:

- investments in Trilogy, MGM Energy, Nuloch, and Paxton;
- oil sands investments, including shares in MEG Energy and bitumen land holdings; and
- drilling rigs in the United States operated by Paramount's wholly owned subsidiary, Paramount Drilling U.S. LLC ("Paramount Drilling").

MEG Energy is a private company focused on oil sands development in the Athabasca region of Alberta. MEG Energy owns a 100 percent working interest in over 700 square miles of oil sands leases including 80 contiguous square miles of oil sands leases in the Christina Lake area.

Paxton is a private company that is developing technology to capture greenhouse gas for improved hydrocarbon recovery and power generation where bitumen based fuels are economically available.

Nuloch is a TSX Venture listed oil and gas company with properties in Alberta and Southeast Saskatchewan.

Paramount Drilling owns and operates two rigs in North Dakota, used for Paramount's US operations. Paramount has commissioned the construction of a third rig, expected to be operational in 2009.

Third quarter income from equity investments includes equity income of $28.5 million from Trilogy. Income from equity investments for the nine months ended September 30, 2008 includes equity income of $23.2 million from Trilogy and equity losses of $8.9 million from MGM Energy, in addition to a $3.8 million dilution loss from MGM Energy. Paramount continues to increase its equity holdings of Trilogy through participation in Trilogy's DRIP and indirectly as a result of Trilogy's normal course issuer bid unit purchases. During the quarter Paramount also invested $12.3 million in 22.4 million common shares of MGM Energy, pursuant to MGM Energy's July 2008 public offering, maintaining Paramount's 16.7 percent equity ownership. Prior year income from equity investments included the gain on disposal of shares of North American of $528.6 million.

Other income for 2008 consists primarily of the net margin related to drilling services performed for third parties by Paramount Drilling. Other income for 2007 included the gain on disposal of properties in the Surmont area of $271.0 million.

Until May 29, 2007, Paramount owned greater than 50 percent of MGM Energy's common shares and the results of operations and cash-flows of MGM Energy were consolidated in the financial results of Paramount. Subsequent to May 29, 2007, Paramount accounts for its investment in MGM Energy using the equity method. Prior to the January 12, 2007 spin-out of MGM Energy, the Mackenzie Delta and other Northern assets spun-out to MGM Energy were included in the Strategic Investment segment.

Dry hole and exploration expenses for 2007 related to MGM Energy's 2006/2007 winter drilling program.

Corporate

	Three Months Ended September 30		Nine Months Ended September 30	
($ millions)	**2008**	2007	**2008**	2007
General and administrative	**6.0**	7.9	**20.2**	22.3
Stock-based compensation	**(11.9)**	(2.8)	**2.0**	(6.9)
Interest and financing charges	**2.3**	4.2	**7.4**	28.6
Foreign exchange (gain) loss	**1.6**	0.1	**4.0**	(24.5)
Other expenses	**0.4**	9.8	**2.7**	11.9
Other income	**(0.3)**	(3.6)	**(2.8)**	(3.8)
Corporate costs	**(1.9)**	15.6	**33.5**	27.6

Third quarter Corporate segment net cost recovery was $1.9 million in 2008 compared to costs of $15.6 million in 2007. The change was primarily related to stock based compensation recoveries in 2008 and debt extinguishment charges in 2007.

General and administrative expense decreased in 2008 primarily due to lower employee related costs.

Interest and financing charges for the third quarter 2008 were $2.3 million compared to $4.2 million in 2007, as Paramount had lower average debt levels in the third quarter of 2008 compared to 2007. Foreign exchange gains and losses primarily result from US denominated debt partially offset by the foreign exchange collar. During 2007, Paramount had higher levels of US denominated debt exposed to foreign exchange rate changes.

Other income includes interest income earned on short-term investments and cash balances.

Capital Expenditures

($ millions)	Three Months Ended September 30 **2008**	2007	Nine Months Ended September 30 **2008**	2007
Geological and geophysical	**1.0**	1.6	**6.3**	7.9
Drilling and completions	**29.5**	15.9	**85.9**	107.5
Production equipment and facilities	**2.6**	14.1	**15.5**	81.6
Exploration and development expenditures	**33.1**	31.6	**107.7**	197.0
Land and property acquisitions	**1.3**	2.9	**5.3**	12.8
Cash proceeds on dispositions	**(8.3)**	(14.5)	**(20.9)**	(29.2)
Principal Properties	**26.1**	20.0	**92.1**	180.6
Strategic Investments -net	**5.8**	3.2	**10.9**	(21.5)
Corporate	**-**	0.5	**0.7**	1.1
Net capital expenditures	**31.9**	23.7	**103.7**	160.2

Exploration and development expenditures for the nine month period ended September 30, 2008 were $107.7 million compared to $197.0 million in 2007. Third quarter activities were focused on Southern's North Dakota oil program, Grande Prairie and initiating Kaybob's pad drilling program. During the quarter, Paramount's 2008 exploration and development budget was increased to $170 million from $150 million primarily to fund cost increases and Paramount increasing its working interest share of existing projects in Southern. Capital spending for the remainder of the year will be directed at the North Dakota oil program, Kaybob, and to a lesser extent Grande Prairie. Current year dispositions are part of Paramount's strategy to divest of non-core assets.

Strategic Investments capital expenditures for the third quarter 2008 consist primarily of construction of the third drilling rig. Prior year Strategic Investment capital expenditures included spending related to oil sands projects, MGM Energy and drilling rigs and is net of the Surmont sale proceeds.

Wells drilled are as follows:

(wells drilled)	Three Months Ended September 30				Nine Months Ended September 30			
	2008		2007		**2008**		2007	
	Gross[(1)]	**Net**[(2)]	Gross[(1)]	Net[(2)]	**Gross**[(1)]	**Net**[(2)]	Gross[(1)]	Net[(2)]
Gas	**12**	**3**	29	15	**32**	**13**	78	47
Oil	**6**	**4**	8	1	**20**	**13**	17	6
Oil sands evaluation	**-**	**-**	–	–	**-**	**-**	43	43
Dry & Abandoned [(3)]	**-**	**-**	2	1	**2**	**1**	6	4
Total	**18**	**7**	39	17	**54**	**27**	144	100

(1) Gross wells 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 wells is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.
(3) Dry & Abandoned for 2007 includes two (2.0 net) wells drilled by MGM Energy.

Liquidity and Capital Resources

($ millions)	September 30, 2008	December 31, 2007	Change
Working capital surplus [1]	(41.4)	(152.0) [2]	110.6
Credit facility	3.6	–	3.6
US Senior Notes [3]	98.8	136.5	(37.7)
Net debt	61.0	(15.5)	76.5
Share capital	306.9	313.8	(6.9)
Contributed surplus	2.2	1.4	0.8
Retained earnings	627.3	593.5	33.8
Accumulated other comprehensive income	(2.1)	–	(2.1)
Total	995.3	893.2	102.1

(1) Excludes risk management assets and liabilities and stock based compensation.
(2) Includes reclassification of other available for sale investments from short-term to long-term assets of $0.9 million.
(3) Excludes unamortized financing fees.

Working Capital

Paramount's working capital surplus at September 30, 2008 was $41.4 million compared to a surplus of $152.0 million at December 31, 2007. Included in working capital at September 30, 2008 was $47.0 million in cash and cash equivalents and $10.9 million of liquid short-term investments. The decrease in working capital is primarily due to capital spending, repurchases of US Senior Notes, and investments in MGM Energy, Trilogy, Nuloch, and Paxton.

Paramount expects to finance the remainder of its 2008 operations, contractual obligations, and capital expenditures from its existing cash and cash equivalents, funds flow from operations, and from available borrowing capacity, if required.

Bank Credit Facility

During the second quarter, Paramount renewed its credit agreement and extended the revolving term to April 29, 2009. Both the gross and net borrowing base were adjusted to $150 million. At Paramount's request, the banking syndicate's commitment to lend up to $125 million remains unchanged. As of September 30, 2008, $3.6 million was drawn on the credit facility; Paramount also had undrawn letters of credit outstanding totalling $15.7 million that reduce the amount available to the Company under the credit facility.

US Senior Notes

During the first quarter of 2008, Paramount made open market repurchases of US$45.0 million principal amount of 8.5% US Senior Notes reducing the outstanding balance to US$93.2 million (CAD$ 98.8 million) at September 30, 2008 from the original balance of US$213.6 million. Paramount may re-market the purchased debt at its discretion.

Share Capital

On May 6, 2008, the Company's Normal Course Issuer Bid ("NCIB") expired. Purchases of 3,304,926 Common Shares for $55.0 million were made under the NCIB, representing 4.7 percent of the Common Shares outstanding when the original NCIB was approved.

At October 31, 2008, Paramount had 67,749,124 Common Shares outstanding, 5,730,200 Stock Options (with each entitling the holder to acquire one Common Share) outstanding (1,611,100 exercisable) and nil

Holdco options outstanding (nil exercisable). On October 27, 2008 all Holdco options were cancelled and replaced with stock appreciation rights having the same vesting dates, expiry dates and exercise prices.

Quarterly Information

	2008			2007				2006
($ millions, except as noted)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	**83.5**	102.9	77.0	61.8	61.9	80.9	78.8	73.1
Net earnings (loss)	**103.9**	(31.9)	(38.0)	(156.5)	(82.2)	671.0	(16.1)	(159.6)
per share - basic ($/share)	**1.53**	(0.47)	(0.56)	(2.29)	(1.17)	9.46	(0.23)	(2.32)
per share - diluted ($/share)	**1.53**	(0.47)	(0.56)	(2.29)	(1.17)	9.34	(0.23)	(2.32)
Funds flow from operations	**40.9**	46.3	24.2	22.9[1]	21.7	18.0	37.9[1]	26.1
per share - diluted ($/share)	**0.60**	0.68	0.36	0.33	0.31	0.25	0.54	0.38
Sales volumes								
Natural gas (MMcf/d)	**57.3**	67.7	65.8	67.6	73.5	89.5	84.8	79.0
Oil and NGLs (Bbl/d)	**3,657**	3,611	3,811	2,984	3,977	3,561	3,636	3,937
Total (Boe/d)	**13,206**	14,895	14,775	14,248	16,231	18,480	17,773	17,104
Average realized price								
Natural gas ($/Mcf)	**8.65**	10.54	7.68	6.43	5.31	7.35	7.72	7.20
Oil and NGLs ($/Bbl)	**112.64**	115.55	89.44	79.77	70.99	64.66	60.84	57.47

[1] Includes reclassification of FX collar to conform to current year's presentation

Significant Items Impacting Quarterly Results

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

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.

First quarter 2008 earnings include $12.7 million of equity investment losses primarily related to MGM Energy and mark-to-market losses of $15.0 million on financial commodity contracts.

Fourth quarter 2007 earnings include a $192.4 million write-down of petroleum and natural gas properties, primarily related to natural gas producing properties.

Third quarter 2007 earnings include a write-down of petroleum and natural gas properties of $79.6 million related to Kaybob and Northern.

Second quarter 2007 earnings include a pre-tax $528.6 million gain on the sale of North American and a pre-tax gain of $282.2 million on the sale of property, plant and equipment, including $271.0 million related to the sale of the assets in the Surmont area.

First quarter 2007 earnings include $47.6 million of dry hole expenses, including $39.8 million related to MGM Energy's 2006/2007 drilling program and an $18.9 million future income tax recovery.

Fourth quarter 2006 earnings include a $182.5 million write-down of petroleum and natural gas properties.

Subsequent Events

Paramount settled the following commodity sales contracts subsequent to September 30, 2008:

Commodity	Notional/Quantity	Price	Original Term	Payment Received
Gas - NYMEX	10,000 MMbtu/d	Fixed - US$10.03/MMbtu	November 2008 - March 2009	US$4.8 million
Crude - WTI	1,000 Bbl/d	Fixed - US$133.65/Bbl	January 2009 - December 2009	US$19.5 million

In addition, Paramount entered into the following commodity purchase contracts:

Commodity	Notional/Quantity	Price	Term
Gas - NYMEX	(10,000) MMbtu/d	Fixed - US$6.63/MMbtu	November 2008 - March 2009
Crude - WTI	(2,000) Bbl/d	Fixed - US$74.63/Bbl	November 2008 - December 2008

Related Party Transactions

On January 12, 2007, Paramount Resources Ltd. completed a reorganization pursuant to a plan of arrangement under the *Business Corporations Act (Alberta)* (the "MGM Spinout") involving Paramount Resources Ltd., its shareholders and MGM Energy, a wholly-owned subsidiary of Paramount immediately prior to the MGM Spinout.

Included in capital expenditures is $3.2 million to a supplier for the construction of the third drilling rig. An individual who is a part owner of the supplier is also a director of a company affiliated with Paramount.

Significant Equity Investees

The following table summarizes the assets, liabilities and results of operations of Paramount's significant equity investees. The amounts summarized have been derived directly from the investees' financial statements as at and for the periods ended September 30, 2008 and 2007, 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 and MGM Energy.

($ millions)	Trilogy		MGM Energy	
As at September 30	**2008**	2007	**2008**	2007
Current assets	**$ 91.6**	$ 46.5	**$ 95.5**	$ 124.6
Long term assets	**906.3**	877.2	**261.4**	264.8
Current liabilities	**85.3**	75.3	**7.7**	9.7
Long term liabilities	**477.3**	465.2	**1.8**	3.2
Equity	**435.3**	383.2	**347.4**	376.5
Nine months ended September 30	**2008**	2007	**2008**	2007
Revenue	**$ 377.7**	$ 300.1	**$ 2.1**	$ 1.8
Expenses	**255.5**	279.8	**69.7**	45.3
Tax expense (recovery)	**9.2**	76.6	**(16.6)**	(12.5)
Net Earnings (loss)	**$ 113.0**	$ (56.3)	**$ (51.0)**	$ (31.0)
Units/shares outstanding at September 30 (thousands)	**95,940**	92,567	**263,195**	128,945
Paramount's equity interest at September 30[1]	**22.1%**	16.7%	**16.7%**	16.7%

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

Trilogy had 4.0 million trust unit options outstanding (0.2 million exercisable) at September 30, 2008 at exercise prices ranging from $6.65 to $23.95 per unit. MGM Energy had 7.9 million stock options outstanding (0.8 million exercisable) at September 30, 2008 at exercise prices ranging from $0.50 to $5.00 per share.

Outlook Update

Paramount projects annual average production of 14,000 Boe/d for 2008, a decrease of 1,250 Boe/d from original guidance of 15,250 Boe/d. This decrease is primarily the result of lower than anticipated production in the United States due to delays in bringing on production from Bakken wells and lower than expected production rates on wells in the Birdbear formation, and because of delays in obtaining regulatory approval for waterflood at Crooked Creek in Grande Prairie.

Changes in Accounting Policies

Canadian GAAP

Effective January 1, 2008 the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation," which combined, replaced Section 3861 "Financial Instruments – Disclosures and Presentation". Sections 3862 and 3863 require enhanced disclosure of financial instruments including the nature and extent of risks arising from financial instruments.

Effective January 1, 2008 the Company adopted CICA Handbook Section 1535 "Capital Disclosures", requiring disclosure related to the Company's objectives, policies, and processes for managing capital, including the extent of externally imposed capital requirements.

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 converged to International Financial Reporting Standards for fiscal years beginning on January 1, 2011. The Company is currently assessing the impacts of the convergence. A project team has been assembled to research, analyze and oversee the transition. The project team is in the process of identifying key differences as they relate to the Company.

Advisories

Forward-looking Statements

Certain statements included in this document constitute forward-looking statements or information under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include, but are not limited to: business strategies and objectives, capital expenditures, future production levels, exploration and development plans and the timing thereof, abandonment and reclamation plans and costs, acquisition and disposition plans, operating and other costs and royalty rates.

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. The following assumptions have been made, in addition to any other assumptions identified in this document:

- the ability of Paramount to obtain required capital to finance its operations;
- the ability of Paramount to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability of Paramount to market its oil and natural gas to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability of Paramount to secure adequate product transportation;
- the ability of Paramount and its partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals;
- currency, exchange and interest rates; and
- future oil and gas prices.

Although Paramount believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Paramount can give no assurance that such expectations will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward-looking statements or information. These risks and uncertainties include but are not limited to:

- the ability of Paramount's management to execute its business plan;

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand for oil and gas;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations and the adequacy and costs of such capital;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- risks and uncertainties involving the geology of oil and gas deposits;
- risks inherent in Paramount's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the value and liquidity of Paramount's investments and the returns on such investments;
- the uncertainty of estimates and projections relating to exploration and development costs and expenses;
- the uncertainty of estimates and projections relating to future production and the results of exploration, development and drilling;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- the availability of future growth prospects and Paramount's expected financial requirements;
- Paramount's ability to obtain equipment, services, supplies and personnel in a timely manner to carry out its activities;
- Paramount's ability to enter into or continue leases;
- health, safety and environmental risks;
- Paramount's ability to secure adequate product transportation and storage;
- imprecision in estimates of product sales and the anticipated revenues from such sales;
- the ability to add production and reserves through development and exploration activities;
- weather conditions;
- the possibility that government laws, regulations or policies may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments and changes to royalty regimes and government regulations regarding royalty payments;
- changes in taxation laws and regulations and the interpretation thereof;
- changes in environmental laws and regulations and the interpretation thereof;
- the cost of future abandonment activities and site restoration;
- the ability to obtain necessary regulatory approvals;
- risks associated with existing and potential future law suits and regulatory actions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- loss of the services of any of Paramount's executive officers or key employees;
- the impact of market competition;

- general economic and business conditions; and
- other risks and uncertainties described elsewhere in this document or in Paramount's other filings with Canadian securities authorities and the United States Securities and Exchange Commission.

The forward-looking statements or information contained in this document are made as of the date hereof and 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, unless so required by applicable securities laws.

Non-GAAP Measures

"Funds flow from operations" is used to assist management in measuring the Company's ability to finance capital programs and meet financial obligations and 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 and transportation costs. Refer to the calculation of "Net debt" in the liquidity and capital resources section of this document. 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.

Barrels of Oil Equivalent Conversions

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.

Contingent resources are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are classified as a resource rather than a reserve due to one or more contingencies, such as the absence of regulatory approvals, detailed design estimates or near term development plans.

PARAMOUNT RESOURCES LTD.

Consolidated Balance Sheets (Unaudited)

($ thousands)

As at	September 30 2008	December 31 2007
ASSETS		
Current assets		
Cash and cash equivalents	**$ 46,954**	$ 83,304
Short-term investments	**10,912**	94,749
Accounts receivable	**50,100**	63,982
Risk management assets (Note 9)	**31,017**	–
Prepaid expenses and other	**2,413**	1,874
	141,396	243,909
Property, plant and equipment	**773,270**	754,947
Investments (Note 4)	**334,849**	290,701
Goodwill	**10,258**	10,258
	$ 1,259,773	$ 1,299,815
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 68,951**	$ 91,896
Risk management liabilities (Note 9)	**2,511**	28,980
Current portion of stock-based compensation liability (Note 7)	**187**	3,333
	71,649	124,209
Long-term debt (Note 5)	**101,327**	134,606
Asset retirement obligations (Note 6)	**94,605**	97,359
Stock-based compensation liability (Note 7)	**–**	66
Future income taxes	**57,809**	34,926
	325,390	391,166
Commitments and contingencies (Notes 9 and 12)		
Shareholders' equity		
Share capital	**306,943**	313,828
Contributed surplus	**2,179**	1,375
Retained earnings	**627,346**	593,450
Accumulated other comprehensive loss	**(2,085)**	(4)
	934,383	908,649
	$ 1,259,773	$ 1,299,815

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.

Consolidated Statements of Earnings (Loss) (Unaudited)

($ thousands, except as noted)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Revenue				
Petroleum and natural gas sales	**$ 83,490**	$ 61,899	**$ 263,368**	$ 221,578
Gain (loss) on financial commodity contracts (Note 9)	**79,553**	(3,350)	**8,160**	(5,398)
Royalties	**(12,058)**	(8,780)	**(40,836)**	(36,079)
	150,985	49,769	**230,692**	180,101
Expenses				
Operating	**12,692**	19,234	**53,542**	63,153
Transportation	**3,963**	4,002	**11,688**	12,478
General and administrative	**6,524**	7,898	**21,514**	26,064
Stock-based compensation	**(11,901)**	(2,680)	**2,022**	(5,969)
Depletion, depreciation and accretion	**29,512**	32,866	**88,659**	107,805
Exploration	**1,140**	1,536	**6,487**	9,385
Dry hole	**170**	11,094	**5,477**	58,696
(Gain) on sale of property, plant and equipment	**(9,613)**	(810)	**(8,847)**	(283,025)
Write-down of petroleum and natural gas properties	**–**	79,598	**–**	79,598
Interest and financing charges	**2,316**	4,229	**7,411**	28,632
Foreign exchange (gain) loss (Note 9)	**1,609**	110	**4,040**	(24,548)
Debt extinguishment and other	**(185)**	9,824	**1,510**	9,124
	36,227	166,901	**193,503**	81,393
Income (loss) from equity investments (Note 4)	**29,824**	(1,655)	**11,186**	555,484
Other income	**920**	4,050	**4,754**	4,611
Non-controlling interest	**–**	(321)	**–**	11,243
Earnings (loss) before tax	**145,502**	(115,058)	**53,129**	670,046
Income and other tax expense (recovery)				
Current and other tax expense	**558**	331	**1,042**	856
Future income tax expense (recovery)	**41,066**	(33,234)	**18,138**	96,432
	41,624	(32,903)	**19,180**	97,288
Net earnings (loss)	**$ 103,878**	$ (82,155)	**$ 33,949**	$ 572,758
Net earnings (loss) per common share ($/share) (Note 8)				
Basic	**$ 1.53**	$ (1.17)	**$ 0.50**	$ 8.12
Diluted	**$ 1.53**	$ (1.17)	**$ 0.50**	$ 8.04

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.

Consolidated Statements of Shareholders' Equity (Unaudited)

($ thousands, except as noted)

	Nine months ended September 30, 2008			Twelve months ended December 31, 2007		
Share Capital	**Shares (000's)**			Shares (000's)		
Balance, beginning of period	**67,681**	**$**	**313,828**	70,279	$	341,071
Issued on exercise of stock options	**74**		**1,198**	701		14,197
Share issuance costs, net of tax benefit	**–**		**–**	–		(165)
Tax effect of flow-through share renunciations and other	**–**		**(7,753)**	–		(21,684)
Common shares repurchased	**(6)**		**(30)**	(3,299)		(15,308)
Unvested common shares under stock incentive plan	**–**		**(300)**	–		(775)
Adjustment on MGM Energy spinout (Note 1)	**–**		**–**	–		(3,508)
Balance, end of period	**67,749**	**$**	**306,943**	67,681	$	313,828
Contributed Surplus						
Balance, beginning of period		**$**	**1,375**		$	–
Stock-based compensation expense on investees' options			**804**			1,375
Balance, end of period		**$**	**2,179**		$	1,375
Retained Earnings						
Balance, beginning of period		**$**	**593,450**		$	222,679
Adjustment on MGM Energy spinout (Note 1)			**–**			(5,901)
Common shares repurchased			**(53)**			(39,569)
Net earnings (loss)			**33,949**			416,241
Balance, end of period		**$**	**627,346**		$	593,450
Accumulated Other Comprehensive Income (Loss)						
Balance, beginning of period		**$**	**(4)**		$	–
Other comprehensive income (loss), net of tax			**(2,081)**			(4)
Balance, end of period		**$**	**(2,085)**		$	(4)
Total Shareholders' Equity		**$**	**934,383**		$	908,649

See the accompanying notes to these Interim Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

($ thousands)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Net earnings (loss)	**$ 103,878**	$ (82,155)	**$ 33,949**	$ 572,758
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on available for sale investments	**(9,952)**	(33)	**(2,081)**	93
Comprehensive income (loss)	**$ 93,926**	$ (82,188)	**$ 31,868**	$ 572,851

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.
Consolidated Statements of Cash Flows (Unaudited)
($ thousands)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Operating activities				
Net earnings (loss)	**$ 103,878**	$ (82,155)	**$ 33,949**	$ 572,758
Add (deduct)				
Items not involving cash (Note 11)	**(62,016)**	90,115	**72,409**	(560,873)
Asset retirement obligation expenditures	**(2,250)**	(4,090)	**(7,562)**	(5,975)
Exploration and dry hole	**1,310**	12,664	**11,964**	66,602
Debt extinguishment costs	**–**	5,145	**626**	5,145
	40,922	21,679	**111,386**	77,657
Change in non-cash working capital	**8,715**	(34,214)	**11,865**	(21,173)
Cash from (used in) operating activities	**49,637**	(12,535)	**123,251**	56,484
Financing activities				
Net draw (repayments) of short-term debt and revolving long-term debt	**3,614**	–	**3,614**	(77,118)
Repayment of long-term debt	**–**	(246,406)	**(45,990)**	(247,916)
Settlement of foreign exchange contract	**–**	–	**(22,335)**	4,900
Common shares issued, net of issuance costs	**136**	21	**457**	3,368
Common shares repurchased	**–**	(35,102)	**(83)**	(35,102)
MGM Energy shares issued, net of issuance costs	**–**	–	**–**	78,546
Cash from (used in) financing activities	**3,750**	(281,487)	**(64,337)**	(273,322)
Investing activities				
Expenditures on property, plant and equipment and exploration	**(40,236)**	(38,233)	**(124,679)**	(267,765)
Proceeds on sale of property, plant and equipment	**8,302**	14,478	**20,869**	106,796
Investments	**(18,539)**	(12,027)	**(51,690)**	(12,027)
Settlement of note receivable	**–**	–	**75,000**	–
Reorganization costs and other	**–**	(1,288)	**–**	(3,841)
Proceeds on disposal of investment (net)	**–**	1,143	**–**	680,368
Change in basis of presentation – MGM Energy	**–**	–	**–**	(50,404)
Change in non-cash working capital	**(2,160)**	(18,338)	**(14,764)**	(146,038)
Cash from (used in) investing activities	**(52,633)**	(54,265)	**(95,264)**	307,089
Increase (decrease) in cash and cash equivalents	**754**	(348,287)	**(36,350)**	90,251
Cash and cash equivalents, beginning of period	**46,200**	452,895	**83,304**	14,357
Cash and cash equivalents, end of period	**$ 46,954**	$ 104,608	**$ 46,954**	$ 104,608

Supplemental cash flow information (Note 11)

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 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, 2007. 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, 2007.

a) *MGM Energy Corp. - Basis of Presentation*

On January 12, 2007, Paramount completed the spinout of MGM Energy Corp. ("MGM Energy"). Until May 29, 2007, Paramount owned greater than 50 percent of the issued and outstanding common shares of MGM Energy ("MGM Shares"), and MGM Energy's financial position, results of operations and cashflows were included in the Consolidated Financial Statements of Paramount. As a result of an issuance of common shares by MGM Energy on May 30, 2007, Paramount's ownership interest in MGM Energy was reduced to less than 50 percent and accordingly, subsequent to May 29, 2007, Paramount accounts for its investment in MGM Shares using the equity method.

b) *Reclassification*

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

c) *Change in Estimate*

In accordance with its policy, the Company reviews depreciation estimates on an ongoing basis. As a result, effective January 1, 2008, the Company changed the usage pattern estimates of certain facilities and gathering systems to a unit of production method from a straight-line method to better reflect the observed usage and expected lives of these assets. The effect of this change in estimate for the nine months ended September 30, 2008 was to increase depreciation expense by $20.1 million, decrease future income tax expense by $5.7 million, decrease net earnings by $14.4 million, and decrease basic and diluted earnings per share by $0.21.

2. Changes to Accounting Policies

As of January 1, 2008, Paramount adopted new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 – "Capital Disclosures". Additional disclosures required as a result of adopting the section are included in Note 10.

As of January 1, 2008 Paramount adopted new CICA Handbook Sections 3862 – "Financial Instruments – Disclosures" and 3863 – "Financial Instruments – Presentation". Additional disclosures required as a result of adopting these sections are included in Note 9.

3. Segmented Information

Paramount segregates its operations into the following segments, which have been established by management to assist in resource allocation, assessing operating performance, and achieving 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 Central 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. Goodwill is included in Principal Properties.
- 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, sales, or future revenue generation. Paramount Drilling U.S. LLC ("Paramount Drilling") is 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 September 30, 2008	**Principal Properties**	**Strategic Investments**	**Corporate**	**Total**
Revenue				
Petroleum and natural gas sales, net of royalties	$ 71,432	$ –	$ –	**$ 71,432**
Gain on financial commodity contracts	79,553	–	–	**79,553**
	150,985	–	–	**150,985**
Expenses				
Operating and transportation	16,655	–	–	**16,655**
General and administrative	–	516	6,008	**6,524**
Stock-based compensation	–	–	(11,901)	**(11,901)**
Depletion, depreciation and accretion	28,159	915	438	**29,512**
Exploration	1,140	–	–	**1,140**
Dry hole	170			**170**
Gain on sale of property, plant and equipment	(9,613)	–	–	**(9,613)**
Interest and financing charges	–	–	2,316	**2,316**
Foreign exchange loss	–	–	1,609	**1,609**
Debt extinguishment and other	(185)	–	–	**(185)**
	36,326	1,431	(1,530)	**36,227**
Income from equity investments	–	29,824	–	**29,824**
Other income	–	561	359	**920**
Segment earnings	$ 114,659	$ 28,954	$ 1,889	**145,502**
Income and other tax expense				**41,624**
Net earnings				**$ 103,878**

Three months ended September 30, 2007	Principal Properties	Strategic Investments	Corporate	Total
Revenue				
Petroleum and natural gas sales, net of royalties	$ 53,119	$ –	$ –	$ 53,119
Loss on financial commodity contracts	(3,350)	–	–	(3,350)
	49,769	–	–	49,769
Expenses				
Operating and transportation	23,236	–	–	23,236
General and administrative	–	24	7,874	7,898
Stock-based compensation	–	103	(2,783)	(2,680)
Depletion, depreciation and accretion	32,507	23	336	32,866
Exploration	1,396	140	–	1,536
Dry Hole	11,094	–	–	11,094
(Gain) loss on sale of property, plant and equipment	(987)	177	–	(810)
Write-down of petroleum and natural gas properties	79,598	–	–	79,598
Interest and financing charges	–	–	4,229	4,229
Foreign exchange loss	–	–	110	110
Debt extinguishment and other	404	–	9,420	9,824
	147,248	467	19,186	166,901
Loss from equity investments	–	(1,655)	–	(1,655)
Other income	–	490	3,560	4,050
Non-controlling interest	150	(471)	–	(321)
Segment loss	$ (97,329)	$ (2,103)	$ (15,626)	(115,058)
Income and other tax recovery				(32,903)
Net loss				$ (82,155)

($ thousands, except as noted)

Nine months ended September 30, 2008	**Principal Properties**	**Strategic Investments**	**Corporate**	**Total**
Revenue				
Petroleum and natural gas sales, net of royalties	$ 222,532	$ –	$ –	**$ 222,532**
Gain on financial commodity contracts	8,160	–	–	**8,160**
	230,692	–	–	**230,692**
Expenses				
Operating and transportation	65,230	–	–	**65,230**
General and administrative	–	1,299	20,215	**21,514**
Stock-based compensation	–	–	2,022	**2,022**
Depletion, depreciation and accretion	85,357	2,063	1,239	**88,659**
Exploration	6,487	–	–	**6,487**
Dry hole	5,477	–	–	**5,477**
Gain on sale of property, plant and equipment	(8,847)	–	–	**(8,847)**
Interest and financing charges	–	–	7,411	**7,411**
Foreign exchange loss	–	–	4,040	**4,040**
Debt extinguishment and other	174	–	1,336	**1,510**
	153,878	3,362	36,263	**193,503**
Income from equity investments	–	11,186	–	**11,186**
Other income	–	1,984	2,770	**4,754**
Segment earnings (loss)	$ 76,814	$ 9,808	$ (33,493)	**53,129**
Income and other tax expense				**19,180**
Net earnings				**$ 33,949**

Nine months ended September 30, 2007	Principal Properties	Strategic Investments	Corporate	Total
Revenue				
Petroleum and natural gas sales, net of royalties	$ 185,499	$ –	$ –	$ 185,499
Loss on financial commodity contracts	(5,398)	–	–	(5,398)
	180,101	–	–	180,101
Expenses				
Operating and transportation	75,631	–	–	75,631
General and administrative	–	3,749	22,315	26,064
Stock-based compensation	–	926	(6,895)	(5,969)
Depletion, depreciation and accretion	106,748	170	887	107,805
Exploration	5,606	3,779	–	9,385
Dry hole	18,872	39,824	–	58,696
Gain on sale of property, plant and equipment	(12,220)	(270,805)	–	(283,025)
Write-down of petroleum and natural gas properties	79,598	–	–	79,598
Interest and financing charges	–	–	28,632	28,632
Foreign exchange gain	–	–	(24,548)	(24,548)
Debt extinguishment and other	(1,806)		10,930	9,124
	272,429	(222,357)	31,321	81,393
Income from equity investments	–	555,484	–	555,484
Other income	–	861	3,750	4,611
Non-controlling interest	302	10,941	–	11,243
Segment earnings (loss)	$ (92,026)	789,643	$ (27,571)	670,046
Income and other tax expense				97,288
Net earnings				$ 572,758

Capital Expenditures	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Principal Properties	**$ 33,270**	$ 33,069	**$ 106,629**	$ 205,672
Strategic Investments	**5,843**	3,276	**10,917**	53,227
Corporate	**29**	464	**706**	964
	$ 39,142	$ 36,809	**$ 118,252**	$ 259,863

Total Assets	As at September 30	
	2008	2007
Principal Properties	**$ 829,618**	$ 938,897
Strategic Investments	**378,802**	319,682
Corporate	**51,353**	225,467
	$ 1,259,773	$ 1,484,046

Capital expenditures for Principal Properties during the nine months ended September 30, 2008 include $5.0 million (2007 – nil) of drilling costs for services provided by Paramount Drilling.

In August of 2008 Paramount entered into an agreement with a supplier for the construction of a significant portion of a third drilling rig. To date, US$3.3 million has been paid of a total commitment of US$8.2 million. An individual who indirectly owns part of the supplier is also a director of a company affiliated with Paramount.

4. Investments

As at	September 30, 2008		December 31, 2007	
	(Shares/Units) **(000's)**		(Shares/Units) (000's)	
Equity accounted investments:				
Trilogy Energy Trust ("Trilogy")	**21,214**	**$ 112,318**	17,763	$ 77,370
MGM Energy	**43,834**	**58,255**	21,470	58,182
Paxton Corporation ("Paxton")	**1,750**	**4,820**	–	–
Private oil and gas company ("Privateco")	**2,709**	**3,187**	2,709	2,523
		178,580		138,075
Available for sale investments:				
MEG Energy Corp. ("MEG Energy")	**3,700**	**151,700**	3,700	151,700
NuLoch Resources Inc. ("NuLoch")	**6,141**	**3,869**	–	–
Other		**700**		926
		$ 334,849		$ 290,701

During the three months ended March 31, 2008, Paramount made open market purchases of 1.9 million units of Trilogy and participated in Trilogy's distribution reinvestment plan ("DRIP"), acquiring an additional 0.5 million units. Paramount allocated $19.0 million of the net purchase price differential of $24.1 million to property plant and equipment, and the remainder to goodwill. The purchase price differential applicable to property plant and equipment is being amortized into equity earnings over the life of Trilogy's proved reserves.

From April 1, 2008 to September 30, 2008, Paramount continued to participate in Trilogy's DRIP, acquiring an additional 1.0 million units. In September of 2008 Trilogy repurchased 1.8 million of its trust units pursuant to a normal course issuer bid. As of September 30, 2008 Paramount's ownership in Trilogy has increased to 22.1 percent due to its DRIP participation and Trilogy's unit repurchases.

($ thousands, except as noted)

During the three months ended September 30, 2008 Paramount purchased 22.4 million common shares of MGM Energy for $12.3 million, as part of a public issuance of common and flow-through shares by MGM Energy. Paramount recorded a dilution gain of $0.7 million as a result of the offering, and maintained a 16.7 percent equity interest in MGM Energy.

At September 30, 2008, Paramount held 2.9 percent of MEG Energy's common shares.

In February 2008, the Company purchased 3.5 million common shares of Paxton, a private company, for $4.8 million. Subsequently, Paxton consolidated its common shares on a two-for-one basis. In May 2008 Paxton issued additional shares, which reduced Paramount's equity interest to 10.1 percent from 16.8 percent at March 31, 2008. As a result of the issuance, Paramount recognized a dilution gain of $0.1 million. Certain directors of Paramount are also directors and shareholders of Paxton.

In March 2008, the Company purchased 6.1 million Class A common shares of NuLoch for $6.0 million. As of September 30, 2008, Paramount owned approximately 20 percent of NuLoch's outstanding Class A common shares.

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

Three months ended September 30	**Equity earnings (loss)**	**Dilution gain**	**2008**	2007
Trilogy	$ 28,510	$ –	**$ 28,510**	$ (791)
MGM Energy	(50)	708	**658**	(1,225)
Paxton	(9)	–	**(9)**	–
Privateco	665	–	**665**	480
North American Oil Sands Corporation	–	–	**–**	(119)
	$ 29,116	$ 708	**$ 29,824**	$ (1,655)

Nine months ended September 30	**Equity earnings (loss)**	**Dilution gain (loss)**	**2008**	2007
Trilogy	$ 23,232	$ –	**$ 23,232**	$ 9,842
MGM Energy	(8,934)	(3,785)	**(12,719)**	28,140
Paxton	(56)	64	**8**	–
Privateco	665	–	**665**	480
North American Oil Sands Corporation	–	–	**–**	517,022
	$ 14,907	$ (3,721)	**$ 11,186**	$ 555,484

5. Long-Term Debt

As at	**September 30 2008**	December 31 2007
Canadian Dollar Denominated Debt		
Bank credit facility	**$ 3,614**	$ –
U.S. Dollar Denominated Debt		
8 1/2 percent US Senior Notes due 2013 (US$93.2 million), (2007 – US$138.2 million)	**98,774**	136,547
	102,388	136,547
Debt financing costs – unamortized portion	**(1,061)**	(1,941)
	$ 101,327	$ 134,606

($ thousands, except as noted)

Bank Credit Facility

During the second quarter, Paramount renewed its credit agreement and extended the revolving term to April 29, 2009. Both the gross and net borrowing base were adjusted to $150 million. The banking syndicate's commitment to lend up to $125 million remains unchanged. As of September 30, 2008, Paramount had undrawn letters of credit outstanding totalling $15.7 million that reduce the amount available to the Company under the credit facility.

US Senior Notes

During the first quarter of 2008, Paramount made open market purchases of US$45.0 million (2007 – US$75.4 million) principal amount of US Senior Notes, reducing the net principal outstanding to US$93.2 million at September 30, 2008 from the original balance of US$213.6 million

6. Asset Retirement Obligations

	Nine months ended September 30, 2008	Year ended December 31, 2007
Asset retirement obligations, beginning of period	**$ 97,359**	$ 83,815
Disposal of properties	**(3,166)**	(13,107)
Liabilities incurred	**949**	10,997
Revision in estimated costs of abandonment	**–**	17,961
Liabilities settled	**(7,562)**	(6,958)
Accretion expense	**6,578**	6,666
Change in basis of presentation - MGM Energy (Note 1)	**–**	(966)
Effects of foreign exchange	**447**	(1,049)
Asset retirement obligations, end of period	**$ 94,605**	$ 97,359

7. Stock-based Compensation

Paramount Options	**Nine months ended September 30, 2008**		Nine months ended September 30, 2007	
	Weighted Average Exercise Price	**# of Options**	Weighted Average Exercise Price	# of Options
	($ / share)		($ / share)	
Balance, beginning of period	**$ 19.49**	**6,430,000**	$ 19.41	4,468,925
Granted	**14.58**	**62,000**	20.73	1,658,500
Exercised	**7.71**	**(283,600)**	5.59	(732,800)
Cancelled	**21.04**	**(423,200)**	25.16	(434,500)
Balance, end of period	**$ 19.90**	**5,785,200**	$ 21.39	4,960,125
Options exercisable, end of period	**$ 21.55**	**785,500**	$ 18.31	372,150

Holdco Options	**Nine months ended September 30, 2008**		Nine months ended September 30, 2007	
	Weighted Average Exercise Price	**# of Options**	Weighted Average Exercise Price	# of Options
	($ / share)		($ / share)	
Balance, beginning of period	**$ 8.14**	**334,375**	$ 6.72	737,625
Exercised	**6.53**	**(243,875)**	4.83	(238,250)
Cancelled	**10.03**	**(6,000)**	14.01	(20,000)
Balance, end of period	**$ 12.63**	**84,500**	$ 7.25	479,375
Options exercisable, end of period	**$ 12.05**	**56,000**	$ 7.49	189,500

8. Weighted Average Shares Outstanding

Earnings (loss) per common share is calculated by dividing earnings available to common shareholders by the weighted average number of Common Shares outstanding.

	Three months ended September 30		**Nine months ended September 30**	
(thousands of common shares)	**2008**	2007	**2008**	2007
Weighted average common shares outstanding – Basic	**67,747**	69,992	**67,720**	70,570
Dilutive effect of stock options	**262**	–	**343**	688
Weighted average common shares outstanding – Diluted	**68,009**	69,992	**68,063**	71,258

9. Risk Management and Financial Instruments

Financial instruments at September 30, 2008 consisted of cash and cash equivalents, short-term investments, accounts receivable, risk management assets and liabilities, available for sale investments, accounts payable and accrued liabilities, and long-term debt.

Fair Values of Financial Assets and Liabilities

Risk management assets and liabilities are carried at fair value, which is based on forward market curves and is compared to quotes provided by financial institutions. The carrying value of Paramount's long-term debt is measured at amortized cost. The US Senior Notes had a market value of 91.5 percent of their principal amount at September 30, 2008.

Available for sale investments that are publicly traded are carried at market value. The investment in MEG Energy is carried at cost because MEG Energy is a private corporation and its common shares are not traded in an active market. Paramount has no immediate plans to dispose of its available for sale investments.

The carrying value of all other financial instruments approximates fair value due to their short-term maturities.

Risk management assets and liabilities outstanding at September 30, 2008 are as follows:

($ thousands, except as noted)

	Total Notional	Average Price	Fair Value	Remaining Term
Risk management assets				
Commodity				
Gas - NYMEX	40,000 MMbtu/d	Fixed - US$9.07/MMbtu	**$ 2,102**	October 2008
Gas - NYMEX	20,000 MMbtu/d	Fixed - US$9.99/MMbtu	**6,787**	November 2008 - March 2009
Gas - AECO	20,000 GJ/d	Fixed - CAD$9.50/GJ	**7,493**	November 2008 - March 2009
Crude - WTI	1,000 Bbl/d	Fixed - US$107.31/Bbl	**649**	October 2008 - December 2008
Crude - WTI	1,000 Bbl/d	Fixed - US$133.65/Bbl	**11,721**	January 2009 - December 2009
Foreign Exchange				
Canadian/US Dollar Collar	US$90 million	CDN$/US$ - Floor $1.0550 Ceiling $0.9949	**2,265**	January 2009 expiry
			31,017	
Risk management liabilities				
Commodity				
Crude - WTI	1,000 Bbl/d	Fixed - US$73.48/Bbl	**(2,511)**	October 2008 - December 2008
Net risk management asset (liability)			**$ 28,506**	

The changes in fair values of risk management assets and liabilities for the nine months ended September 30, 2008 are as follows:

	Commodity	Foreign Exchange	Total
Fair value, beginning of period	$ (6,941)	$ (22,039)	**$ (28,980)**
Changes in fair value	8,160	1,969	**10,129**
Settlements – paid	25,022	22,335	**47,357**
Fair value, end of period	$ 26,241	$ 2,265	**$ 28,506**

The foreign exchange loss for the nine month period ended September 30, 2008 includes a net loss on the US Senior Notes of $6.9 million and a net gain of $2.0 million related to foreign exchange contracts.

Paramount has an outstanding commitment to sell 3,400 GJ/d of natural gas at $2.52/GJ plus an escalation factor to 2011, which has a fair value loss of $14.2 million at September 30, 2008 (December 31, 2007 – loss of $17.2 million). The Company has designated this contract as normal usage, and as a result does not recognize the fair value of the contract in the Consolidated Financial Statements.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of underlying changes in market prices. The principal market risks impacting Paramount are commodity price risk, foreign currency risk, interest rate risk, and equity price risk.

($ thousands, except as noted)

Commodity Price Risk

The Company uses financial commodity contracts from time to time to manage its exposure to commodity price volatility. At September 30, 2008, assuming all other variables are held constant, a 10 percent increase or decrease in the applicable forward market curves would have had the following impact on Paramount's net earnings from changes in the fair value of financial commodity contracts:

	10% increase	10% decrease
Natural gas	$ (3,700)	$ 3,700
Crude oil	$ (4,200)	$ 4,200

Foreign Currency Risk

Paramount is exposed to foreign currency risk on financial instruments denominated in US dollars including cash balances, accounts receivable, risk management assets and liabilities, accounts payable, US Senior Notes and related interest. The Company uses foreign exchange contracts to manage foreign exchange risks related to its US Senior Notes. At September 30, 2008, a strengthening or weakening of the Canadian dollar relative to the US dollar would have had the following effect on net earnings.

	Strengthen 1%	Weaken 1%
US Senior Notes	$ 800	$ (800)
Foreign exchange collar	$ (600)	$ 500

Sales prices of crude oil and natural gas are determined with reference to US benchmark prices, therefore a strengthening of the Canadian dollar relative to the US dollar will decrease the revenue received for petroleum and natural gas products. Paramount's expenditures are primarily in Canadian dollars but include capital and operating expenditures in US dollars, largely related to the Company's US operations, and payments of interest on US Senior Notes and settlements of risk management liabilities.

Interest Rate Risk

Paramount is exposed to interest rate risk from time to time on outstanding balances of floating rate credit facilities and on interest bearing cash and cash equivalents and short-term investments. Paramount's US Senior Notes bear interest at a fixed rate and are subject to fair value changes as interest rates change.

Equity Price Risk

Paramount is exposed to equity price risk associated with its available for sale investments.

Credit Risk

Paramount is exposed to credit risk on its financial instruments where a financial loss would be experienced if a counterparty to a financial asset failed to meet its obligations. The Company minimizes credit risk by entering into contracts with counterparties that possess high credit ratings, by employing net settlement agreements, employing letters of credit, and limiting available credit when necessary. Accounts receivable include balances due from customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risk. At September 30, 2008, Paramount did not have any significant concentrations of credit risk with any individual sales customer or joint venture partner.

($ thousands, except as noted)

The maximum credit risk exposure at September 30, 2008 is limited to the carrying values of cash and cash equivalents, short-term investments, accounts receivable and risk management assets.

Liquidity Risk

Liquidity risk is the risk that Paramount will be unable to meet its financial obligations. The Company manages liquidity risk by ensuring that it has sufficient cash, credit facilities and other financial resources available to meet its obligations.

The Company forecasts cash flows for a period of 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations, credit facilities, dispositions of assets, and accessing capital markets.

Contractual obligations related to financial liabilities, at September 30, 2008 are as follows:

	2008	2009-2010	2011-2013	Total
Accounts payable and accrued liabilities	$ 68,951	$ –	$ –	$ 68,951
Risk management liabilities	2,511	–	–	2,511
Bank credit facility	–	3,614	–	3,614
US Senior Notes, including interest	–	16,791	119,762	136,553
	$ 71,462	$ 20,405	$ 119,762	$ 211,629

10. Capital Structure

Paramount's primary objectives in managing its capital structure are to:

(i) maintain a flexible capital structure which optimizes the cost of capital at an acceptable level of risk;

(ii) maintain sufficient liquidity to support ongoing operations, capital expenditure programs, strategic initiatives, and repayment of debt obligations when due; and

(iii) maximize shareholder returns.

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 monitors metrics such as the Company's debt-to-equity and debt-to-cash flow ratios, among others, to measure the status of its capital structure. The Company has not established fixed quantitative thresholds for such metrics. Paramount may adjust its capital structure by issuing or repurchasing shares, issuing or repurchasing debt, refinancing existing debt, modifying capital spending programs, and acquiring or disposing of assets.

($ thousands, except as noted)

Paramount's capital structure consists of the following:

As at	September 30, 2008	December 31, 2007
Working capital (surplus)[1]	**$ (41,428)**	$ (152,013)
Credit facility	**3,614**	–
US Senior Notes (excluding unamortized financing fees)	**98,774**	136,547
Net Debt	**60,960**	(15,466)
Share capital	**306,943**	313,828
Contributed surplus	**2,179**	1,375
Retained earnings	**627,346**	593,450
Accumulated other comprehensive income (loss)	**(2,085)**	(4)
Total Capital	**$ 995,343**	$ 893,183

[1] Excludes risk management assets and liabilities and stock-based compensation liabilities.

Paramount is subject to financial covenants under its credit facility and US Senior Note agreements ("Debt Agreements"). The Company maintained compliance with all such financial covenants during the quarter. The Debt Agreements contain certain restrictions on Paramount's ability to repurchase equity, issue or refinance debt, acquire or dispose of assets, or pay dividends.

11. Consolidated Statements of Cash Flows – Selected Information

Items not involving cash

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
(Gain) loss on sale of investments	**$ –**	$ 119	**$ –**	$ (528,566)
Financial commodity contracts	**(89,427)**	1,886	**(33,182)**	21,605
Stock-based compensation	**(12,284)**	(3,267)	**(2,471)**	(9,057)
Depletion, depreciation and accretion	**29,512**	32,866	**88,659**	107,805
Gain on sale of property, plant and equipment	**(9,613)**	(810)	**(8,847)**	(283,025)
Foreign exchange (gain) loss	**2,419**	207	**5,085**	(26,452)
Cash distributions in excess of equity earnings	**–**	6,127	**3,930**	–
Equity earnings in excess of cash distributions	**(23,579)**	–	**–**	(13,308)
Future income tax expense (recovery)	**41,066**	(33,234)	**18,138**	96,432
Write-down of petroleum and natural gas properties	**–**	79,598	**–**	79,598
Non-controlling interest	**–**	321	**–**	(11,243)
Extinguishment of debt, interest and other	**(110)**	6,302	**1,097**	5,338
	$ (62,016)	$ 90,115	**$ 72,409**	$ (560,873)

Supplemental cash flow information

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Interest paid	**$ 4,030**	$ 10,372	**$ 10,722**	$ 39,348
Current and other tax paid	**$ 328**	$ 864	**$ 1,011**	$ 1,680

($ thousands, except as noted)

12. Subsequent Events

Paramount settled the following commodity sales contracts subsequent to September 30, 2008:

Commodity	Notional/Quantity	Price	Original Term	Payment Received
Gas - NYMEX	10,000 MMbtu/d	Fixed - US$10.03/MMbtu	November 2008 - March 2009	US$ 4.8 million
Crude - WTI	1,000 Bbl/d	Fixed - US$133.65/Bbl	January 2009 - December 2009	US$19.5 million

In addition, Paramount entered into the following commodity purchase contracts:

Commodity	Notional/Quantity	Price	Term
Gas - NYMEX	(10,000) MMbtu/d	Fixed - US$6.63/MMbtu	November 2008 - March 2009
Crude - WTI	(2,000) Bbl/d	Fixed - US$74.63/Bbl	November 2008 - December 2008

CORPORATE INFORMATION

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Chief Executive Officer

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

B. K. Lee
Chief Financial Officer

C. E. Morin
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G.W. P. McMillan
Corporate Operating Officer

D.S. Purdy
Corporate Operating Officer

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Corporate Operating Officer

L. A. Friesen
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S. L. Riddell Rose
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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
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