Paramount resources ltd.

2011 Second Quarter Report

FINANCIAL AND OPERATING HIGHLIGHTS[1]

($ millions, except as noted)

	Three months ended June 30			Six months ended June 30		
	2011	2010	Change %	**2011**	2010	Change %
Financial[2]						
Petroleum and natural gas sales	**61.1**	44.6	37	**107.9**	93.5	15
Funds flow from operations[3]	**23.4**	25.2	(7)	**37.3**	48.7	(23)
Per share – diluted ($/share)	**0.29**	0.35	(17)	**0.48**	0.67	(28)
Net income (loss)	**12.2**	(17.5)	170	**0.3**	9.4	(97)
Per share – basic ($/share)	**0.16**	(0.24)	167	**–**	0.13	(100)
Per share – diluted ($/share)	**(0.02)**	(0.24)	92	**(0.06)**	0.13	(146)
Exploration and development expenditures	**54.5**	17.9	204	**214.6**	84.7	153
Investments in other entities – market value[4]				**783.1**	354.8	121
Total assets				**1,714.5**	1,145.6	50
Net debt[5]				**514.1**	184.9	178
Common shares outstanding (thousands)				**79,051**	72,434	9
Operating						
Sales volumes:						
Natural gas (MMcf/d)	**77.7**	57.0	36	**68.3**	53.6	27
NGLs (Bbl/d)	**1,504**	821	83	**1,237**	798	55
Oil (Bbl/d)	**2,110**	2,466	(14)	**2,231**	2,602	(14)
Total (Boe/d)	**16,572**	12,787	30	**14,844**	12,333	20
Average realized price:						
Natural gas ($/Mcf)	**4.43**	4.49	(1)	**4.36**	5.00	(13)
NGLs ($/Bbl)	**83.17**	77.26	8	**81.66**	74.82	9
Oil ($/Bbl)	**95.64**	69.34	38	**88.44**	72.57	22
Net wells drilled (excluding oil sands evaluation)	**8**	2	300	**20**	24	(17)
Net oil sands evaluation wells drilled	**1**	–	–	**27**	45	(40)

(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas definitions in the "Advisories" section of this document.
(2) Paramount adopted International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011 and the Company has applied IFRS as of January 1, 2010 (the "Transition Date") for comparative purposes. Certain prior period amounts have been adjusted to reflect the changes in the Company's accounting policies.
(3) The Company has adjusted its funds flow from operations measure for all periods presented. Refer to the advisories concerning non-GAAP measures in the "Advisories" section of this document.
(4) Based on the period-end closing prices of publicly traded enterprises and the book value of the remaining investments.
(5) 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.

SECOND QUARTER OVERVIEW

Funds Flow From Operations

- Second quarter 2011 funds flow from operations was $23.4 million, $1.8 million lower than the second quarter of 2010, as the impact of higher production and a higher netback was more than offset by higher interest, cash payments on financial commodity contracts and other corporate costs.

Principal Properties

- Average sales volumes in the second quarter of 2011 increased 30 percent to 16,572 Boe/d compared to 12,787 Boe/d in the second quarter of 2010. Paramount's average daily sales volumes for the last two weeks of June exceeded 20,000 Boe/d.
- Netback increased 49 percent in the second quarter of 2011 to $34.9 million from $23.4 million in the second quarter of 2010.
- The Kaybob corporate operating unit ("COU") increased sales volumes to over 10,000 Boe/d in the last two weeks of June.
- Construction of the 45 MMcf/d processing plant at Musreau is progressing on budget with an expected start-up in October. Design work has commenced to expand the new facility, once operational, into a 190 MMcf/d (160 MMcf/d sales gas capacity) deep cut liquids extraction plant with an expected start-up in the second quarter of 2013.
- At Karr-Gold Creek in the Grande Prairie COU, a 22 day shut-down of a third-party midstream processing facility that affected approximately 1,700 Boe/d of the Company's production was resolved during May 2011 and the Company is working to restore production from the shut-in wells.
- Construction of the 10 MMcf/d compression and gathering system at Valhalla was completed in June 2011 and the facility commenced operations in July 2011.
- In May 2011, Paramount closed the acquisition of ProspEx Resources Ltd. ("ProspEx").

Strategic Investments

- The market value of Paramount's portfolio of investments in other oil and gas entities increased nine percent during the second quarter of 2011 to $783.1 million.
- In July 2011, the Company received an updated independent evaluation of its bitumen resources within the Grand Rapids formation at the Hoole oil sands property in which estimated economic contingent bitumen resources increased 20 percent to 763 million barrels (Best Estimate (P50)). The before-tax net present value of future net revenue of such economic contingent resources, discounted at ten percent (Best Estimate (P50)), increased 49 percent to $2.8 billion.
- Between April 2011 and July 2011 Paramount sold its investments in the shares of NuLoch Resources Inc. ("NuLoch") and Magnum Hunter Resources Corporation ("Magnum Hunter") for aggregate proceeds of $15.8 million.

Corporate

- In April 2011, Paramount closed offerings of an aggregate 1.7 million Common Shares for gross proceeds of $54.2 million.
- In June 2011, Paramount renewed and expanded its bank credit facility, increasing the total credit limit to $300 million from $160 million.

REVIEW OF OPERATIONS

Three months ended	June 30, 2011	March 31, 2011	Change %
SALES VOLUMES			
Natural gas (MMcf/d)	**77.7**	58.7	32
NGLs (Bbl/d)	**1,504**	968	55
Oil (Bbl/d)	**2,110**	2,353	(10)
Total (Boe/d)	**16,572**	13,097	27
NETBACK ($/Boe)			
Petroleum and natural gas sales	**40.52**	39.67	2
Royalties	**(3.46)**	(4.01)	(14)
Operating expense and production tax	**(10.40)**	(13.20)	(21)
Transportation	**(3.52)**	(3.47)	1
Netback	**23.14**	18.99	22
Financial commodity contract settlements	**(0.47)**	(0.23)	104
Netback including financial commodity contract settlements	**22.67**	18.76	21

Paramount's average sales volumes increased 27 percent to 16,572 Boe/d in the second quarter of 2011 compared to 13,097 Boe/d in the previous quarter, primarily as a result of production increases in the Kaybob COU and the impact of the ProspEx acquisition (June – 2,850 Boe/d, second quarter – 950 Boe/d). Sales volumes were affected by operational disruptions in the Grande Prairie COU where a third-party processing facility shut-in Karr-Gold Creek production for 22 days and in the Northern COU where a third-party pipeline failure affected liquids sales volumes during the quarter. Paramount's average sales volumes exceeded 20,000 Boe/d during the last two weeks of June.

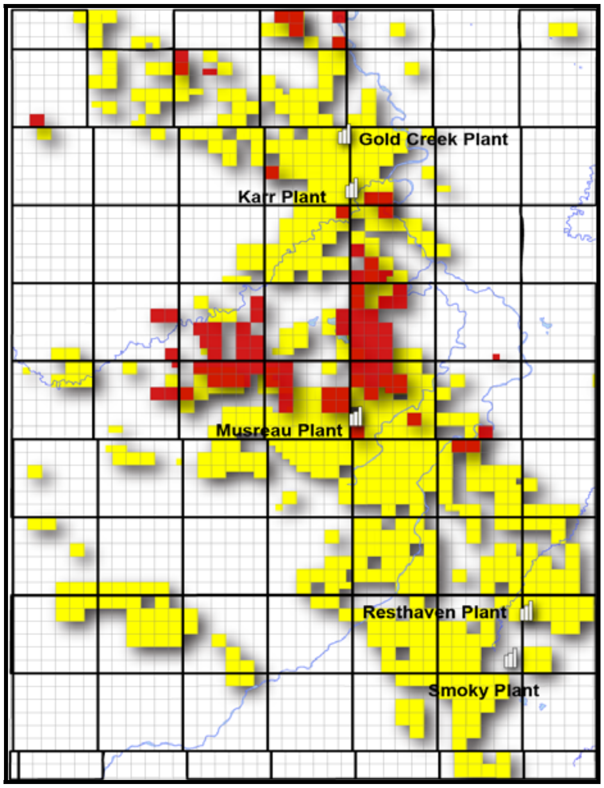
The second quarter netback per Boe increased 21 percent compared to the previous quarter, primarily because of lower per unit operating costs. The Company's operating costs are normally higher in the first quarter as a result of annual scheduled repair and maintenance programs at winter access locations in the Northern COU.

ProspEx Acquisition

On May 31, 2011, Paramount completed the acquisition of ProspEx; paying $64.8 million in cash and issuing two million Paramount Common Shares.

Through the acquisition, Paramount added a suite of high impact liquids-rich natural gas assets with multi-zone and horizontal drilling potential in several zones, including the prolific Falher C zone in the Kakwa area. These assets increase Paramount's Deep Basin land holdings in the Kakwa, Elmworth and Wapiti areas of Alberta. The acquisition also included assets in the Pembina and Brazeau areas and numerous drilling locations in the Birch area of north eastern British Columbia, a liquids-rich Montney gas opportunity. In addition, the acquisition included reserves and production from the Ricinus and Harmattan areas of Alberta.

The following map shows Paramount's Deep Basin lands and the Deep Basin lands added through the acquisition of ProspEx:



Paramount Lands
Added through ProspEx Acquisition

KAYBOB

Three months ended	June 30, 2011		March 31, 2011		Change %
Sales Volumes					
Natural gas (MMcf/d)	**43.5**		27.7		57
NGLs (Bbl/d)	**847**		535		58
Oil (Bbl/d)	**102**		95		7
Total (Boe/d)	**8,204**		5,246		56
Exploration and Development Expenditures[(1)] ($ millions)					
Exploration, drilling, completions and tie-ins	**14.0**		45.1		(69)
Facilities and gathering	**4.4**		34.2		(87)
	18.4		79.3		(77)
	Gross	**Net**	Gross	Net	
Wells drilled	**5**	**3**	10	6	
Wells placed on production	**–**	**–**	11	7	

(1) Before deduction of Alberta Drilling Royalty credits

Average daily sales volumes in the Kaybob COU in the second quarter of 2011 increased 56 percent to 8,204 Boe/d compared to the prior quarter, and exceeded 10,000 Boe/d in the last two weeks of June 2011. The increase in sales volumes was primarily the result of production from new wells brought on production and incremental production from wells added through the ProspEx acquisition. Performance of the 11 (7.0 net) wells brought on production during 2011 has been consistent with, or exceeded expectations.

Subsequent to quarter end, one (0.5 net) new Montney formation well was completed and brought on production, and Paramount currently has an additional 11 (7.3 net) Dunvegan, Falher and Montney wells awaiting completion and tie-in. The Company expects that by August 2011 it will be operating four drilling rigs on its Deep Basin properties, drilling up to 11 (7.4 net) more wells this year, including three (3.0 net) Montney wells. Regulatory approvals to drill up to eight wells per section have been obtained for a total of 19 sections and additional applications will be submitted as the development of the Company's properties progresses.

The Company is continuing its plans to expand processing capacity in the Deep Basin as current production levels are nearing the limit of the Company's owned and third-party firm service processing capacity. Construction of the new 45 MMcf/d processing plant at Musreau is progressing on-budget and is now expected to start-up in October 2011 as construction activities have been impacted by wet weather conditions. With its continued positive drilling results, the Company has initiated design work to expand the total capacity of the new plant, once operational, to 190 MMcf/d (160 MMcf/d sales gas capacity) and convert it into a deep cut liquids extraction plant. It is anticipated that this expansion will be completed during the second quarter of 2013. The planned expansion of the third-party processing plant at Smoky, for which Paramount has nominated for an incremental 50 MMcf/d of processing capacity, is currently in the engineering and design phase and is expected to be completed in mid-2013.

Paramount anticipates that by the end of 2011 it will have 55 MMcf/d of Company-owned and firm-service third-party processing capacity at Musreau and approximately 20 MMcf/d of Company-owned processing capacity in the Resthaven/Smoky area. The Company will continue to utilize available excess capacity at facilities where Paramount has ownership and utilize interruptible capacity in third-party facilities to maximize production while additional Company-owned capacity is being constructed.

GRANDE PRAIRIE

Three months ended	June 30, 2011		March 31, 2011		Change %
Sales Volumes					
Natural gas (MMcf/d)	**12.6**		13.0		(3)
NGLs (Bbl/d)	**560**		367		53
Oil (Bbl/d)	**448**		426		5
Total (Boe/d)	**3,108**		2,954		5
Exploration and Development Expenditures[1] ($ millions)					
Exploration, drilling, completions and tie-ins	**19.0**		39.6		(52)
Facilities and gathering	**9.9**		20.8		(52)
	28.9		60.4		(52)
	Gross	**Net**	Gross	Net	
Wells drilled	**3**	**3**	7	4	
Wells placed on production	**3**	**3**	7	4	

(1) Before deduction of Alberta Drilling Royalty credits

Average sales volumes in the Grande Prairie COU increased five percent in the second quarter of 2011 to 3,108 Boe/d compared to 2,954 Boe/d in the first quarter of the year, despite a processing disruption at a third-party processing facility and continued wet weather conditions.

KARR-GOLD CREEK

Sales volumes at Karr-Gold Creek were impacted by processing interruptions at a third-party midstream facility which shut-in approximately 1,700 Boe/d of production for 22 days during the quarter. The facility resumed service in mid-May and production volumes are expected to increase during the remainder of 2011 as production from shut-in wells is restored and new wells are brought on production.

Second quarter activities at Karr-Gold Creek included the drilling of one (1.0 net) well and the tie-in of two (2.0 net) wells previously drilled. The completion of an additional three (3.0 net) wells was deferred until the third quarter due to an extended spring break-up and wet weather that impacted construction activities.

Construction of the second phase of the compression/dehydration facility at Karr-Gold Creek has been completed, which brings total dehydration and compression capacity to 40 MMcf/d of sour gas and 8 MMcf/d of sweet gas.

VALHALLA

Two (1.5 net) wells were drilled at Valhalla in the second quarter and construction of the initial 10 MMcf/d phase of a gas gathering and compression system was completed. The start-up of the system was deferred until July as a result of delays in receiving third-party approvals. The Company plans to expand the system to 20 MMcf/d by the end of 2011.

ANTE CREEK

Paramount has drilled two (1.5 net) wells to date at Ante Creek targeting oil from the Montney formation. The first well is producing at approximately 200 Bbl/d (100 Bbl/d net), the maximum currently permitted.

The second well is planned to be completed and tied-in during the third quarter. Applications will be made for Good Production Practice to permit wells in Ante Creek to be produced at unrestricted rates. A third Montney oil well is expected to be drilled later in 2011.

SOUTHERN

Three months ended	June 30, 2011		March 31, 2011		Change %
Sales Volumes					
Natural gas (MMcf/d)	**10.6**		8.7		22
NGLs (Bbl/d)	**90**		51		76
Oil (Bbl/d)	**1,477**		1,435		3
Total (Boe/d)	**3,333**		2,939		13
Exploration and Development Expenditures[1] ($ millions)					
Exploration, drilling, completions and tie-ins	**1.8**		3.0		(40)
Facilities and gathering	**0.5**		1.8		(72)
	2.3		4.8		(52)
	Gross	**Net**	Gross	Net	
Wells drilled	**5**	**2**	3	1	
Wells placed on production	**2**	**2**	15	12	

(1) Before deduction of Alberta Drilling Royalty credits

Southern COU average sales volumes increased by 13 percent in the second quarter of 2011 to 3,333 Boe/d compared to 2,939 Boe/d in the prior quarter as a result of production additions from the ProspEx acquisition and new wells in Chain.

Second quarter 2011 activities in southern Alberta included the tie-in of two (2.0 net) Chain area coal bed methane wells. At Enchant, the drilling of three oil wells planned for the second quarter was deferred to the third quarter due to rig availability.

In southern Saskatchewan, Paramount's joint development partner brought its initial three Viking light oil wells on production. Paramount will have a post-payout interest of 45 percent in these wells. An additional 4 (1.8 net) wells were drilled in the second quarter and will be completed later in 2011.

In May 2011, drilling of a fourth well began under the North Dakota joint development project.

NORTHERN

Three months ended	June 30, 2011		March 31, 2011		Change %
Sales Volumes					
Natural gas (MMcf/d)	**11.0**		9.3		18
NGLs (Bbl/d)	**7**		15		(53)
Oil (Bbl/d)	**83**		397		(79)
Total (Boe/d)	**1,927**		1,958		(2)
Exploration and Development Expenditures[1] ($ millions)					
Exploration, drilling, completions and tie-ins	**2.4**		9.9		76
Facilities and gathering	**0.1**		2.9		97
	2.5		12.8		80
	Gross	**Net**	Gross	Net	
Wells drilled	**–**	**–**	2	2	
Wells placed on production	**–**	**–**	2	2	

(1) Before deduction of Alberta Drilling Royalty credits

Average sales volumes in the Northern COU during the second quarter of 2011 were unchanged from the first quarter of the year, as decreases in sales volumes resulting from natural declines and a third-party pipeline failure were offset by new production from wells brought on during the first quarter. The third-party pipeline was shut-down at the end of April, and has not yet received regulatory approval to resume service.

As part of the ProspEx acquisition, the Company added approximately 22,500 net acres of undeveloped land in the Birch area of north east British Columbia, which is prospective for a liquids-rich Montney natural gas play. In the third quarter of 2011, Paramount expects to complete a horizontal exploratory well that had been drilled by ProspEx.

STRATEGIC INVESTMENTS

In July 2011, Paramount received an updated independent evaluation of its bitumen resources within the Grand Rapids formation at the Hoole oil sands property from the Company's independent reserves evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel"), who had previously evaluated the Hoole oil sands property effective April 30, 2010. This update was undertaken to include the results of Paramount's 15 well 2010/2011 winter delineation drilling program, which increased the mapped thickness of the reservoir in some areas, confirmed the continuous nature of the reservoir and extended the boundaries of the exploitable reservoir.

The tables below summarize McDaniel's updated evaluation of the estimated volumes and net present values attributable to Paramount's 100 percent interest in the economic contingent bitumen resources in the Grand Rapids formation at Hoole as of April 30, 2011, and current estimates of initial and fully developed production from such interests. Economic contingent bitumen resources in the Grand Rapids formation and the associated net present values were determined assuming a conventional Steam-Assisted Gravity Drainage development scenario. Potentially exploitable bitumen accumulations within other prospective formations in the Hoole oil sands properties were not included in McDaniel's evaluation.

Category / Level of Certainty [6]	DEBIP [1] (MBbl)[4]	Economic Contingent Resources[2][3] (MBbl) [4]	Initial Production (Bbl/d) [5]	Fully Developed Production (Bbl/d) [5]
High Estimate	1,821,614	952,544	27,000	105,000
Best Estimate	1,631,742	762,661	26,000	80,000
Low Estimate	1,320,406	552,094	25,000	60,000

(1) DEBIP means Discovered Exploitable Bitumen In-Place. Discovered Exploitable Bitumen In-Place is the estimated volume of bitumen, as of a given date, which is contained in a subsurface stratigraphic interval of a known accumulation that meets or exceeds certain reservoir characteristics, such as minimum continuous net pay, porosity, and mass bitumen content, considered necessary for the commercial application of known recovery technologies. There is no certainty that it will be commercially viable to produce any portion of the resources.

(2) Represents the Company's share of recoverable volumes before deduction of royalties. In the assessment of contingent resources within the Hoole oil sands properties, McDaniel used a minimum net pay cut-off of 10 meters in the best estimate case.

(3) Refer to the advisories section at the end of this document for further information concerning contingent resources, including economic contingent resources.

(4) MBbl means thousands of barrels.

(5) Bbl/d means barrels per day. Initial production means the average daily production rate during the first year of production. Estimates of production rates assume that production will commence in 2015 and fully developed production will be reached in 2016 for the low estimate, 2017 for the best estimate and 2018 for the high estimate.

(6) Refer to the advisories section at the end of this document for a description of such categories.

Category / Level of Certainty [4]	NPV[1] of Future Net Revenue ($MM)[2] Discounted At 0%	5%	8%	10%	NPV[1] Discounted at 10% ($/Bbl) [3]
High Estimate	22,884	9,452	5,862	4,336	4.55
Best Estimate	16,522	6,549	3,935	2,834	3.72
Low Estimate	10,454	4,026	2,321	1,602	2.90

(1) NPV means net present value and represents the Company's share of future net revenue, before the deduction of income tax from the economic contingent bitumen resources in the Grand Rapids formation within the Hoole oil sands properties. The calculation considers such items as revenues, royalties, operating costs, abandonment costs and capital expenditures. Royalties have been calculated based on Alberta's Royalty Framework applicable to oil sands projects in Alberta. The calculation does not consider financing costs and general and administrative costs. All NPVs are calculated assuming natural gas is used as a fuel for steam generation. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of April 1, 2011.

(2) $MM means millions of Canadian dollars.

(3) $/Bbl means Canadian dollars per barrel.

(4) Refer to the advisories section at the end of this document for a description of such categories.

During the remainder of 2011, the Company expects to finalize its plans for the initial development of the Hoole oil sands properties, complete the engineering design and environmental impact analysis for the project and submit a regulatory application for commercial development of the resource. The Company has continued to analyze and interpret the data collected in the first quarter drilling and delineation program, including performing a steam coreflood in order to confirm the quality and characteristics of the reservoir.

Paramount continues to interpret the results of its winter drilling program at Saleski, with an emphasis on the analysis of the recovered cores. Paramount has commissioned an independent evaluation of the Saleski property, which is expected to be received in the fourth quarter of 2011.

Paramount is developing plans to begin drilling operations on its shale gas properties in the 2011/2012 winter drilling season, with the first well being planned for the Dunedin area of north east British Columbia. The Company purchased seismic data in the first quarter of 2011 covering a substantial portion of its shale gas acreage which will be incorporated in further studies and planning for future projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated August 2, 2011, should be read in conjunction with the unaudited Interim Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the three and six months ended June 30, 2011 and Paramount's audited Consolidated Financial Statements for the year ended December 31, 2010.

This document contains forward-looking information, non-GAAP measures and disclosures of barrels of oil equivalent volumes and economic contingent resources. Readers are referred to the "Advisories" section at the end of this document concerning such matters.

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

Canadian Generally Accepted Accounting Principles ("GAAP"), as issued by the Canadian Institute of Chartered Accountants, were converted to International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company's unaudited Interim Consolidated Financial Statements for the three and six months ended June 30, 2011 have been prepared in accordance with IAS 34 - Interim Financial Reporting, IFRS 1 - First-time Adoption of IFRS and the IFRS accounting policies the Company expects to adopt in its initial IFRS annual Consolidated Financial Statements as at and for the year ended December 31, 2011. Paramount's IFRS accounting policies and significant accounting judgments, estimates, and assumptions are described in Note 1 and Note 2 to the Company's March 31, 2011 unaudited Interim Consolidated Financial Statements. Note 19 to the Company's March 31, 2011 unaudited Interim Consolidated Financial Statements contains reconciliations of IFRS amounts as of January 1, 2010 (the "Transition Date") and as at and for the twelve months ended December 31, 2010 to amounts previously published in accordance with Canadian GAAP in effect prior to January 1, 2011 ("Previous GAAP").

In order to prepare comparative information, the Company has applied IFRS as of the Transition Date and amounts included in this MD&A related to periods on or after the Transition Date have been adjusted to conform to the Company's IFRS accounting policies. Amounts related to periods prior to the Transition Date included in this MD&A have not been adjusted, and are denoted as being prepared in accordance with Previous GAAP.

About Paramount

Paramount is an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of natural gas, crude oil and natural gas liquids ("NGLs"). 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, now Perpetual Energy Inc., in February, 2003; (ii) Trilogy Energy Trust, now Trilogy Energy Corp. ("Trilogy"), in April, 2005; and (iii) MGM Energy Corp. ("MGM Energy") in January, 2007. Paramount continues to hold investments in the securities of Trilogy and MGM Energy in its portfolio of Strategic Investments.

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

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

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

Strategic Investments include: (i) investments in other entities, including affiliates; (ii) investments in development stage assets, including oil sands resources and prospective shale gas acreage, where there is no near-term expectation of production, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation; and (iii) three drilling rigs owned by Paramount's wholly owned subsidiaries Fox Drilling Inc. ("Fox Drilling") in Canada and Paramount Drilling U.S., L.L.C. ("Paramount Drilling") in the United States.

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.

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

SECOND QUARTER HIGHLIGHTS[1]

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
FINANCIAL				
($ millions, except as noted)				
Petroleum and natural gas sales	**61.1**	44.6	**107.9**	93.5
Funds flow from operations[2]	**23.4**	25.2	**37.3**	48.7
per share – diluted ($/share)	**0.29**	0.35	**0.48**	0.67
Net income (loss)	**12.2**	(17.5)	**0.3**	9.4
per share – basic ($/share)	**0.16**	(0.24)	**–**	0.13
per share – diluted ($/share)	**(0.02)**	(0.24)	**(0.06)**	0.13
Exploration and development expenditures	**54.5**	17.9	**214.6**	84.7
Investments in other entities – market value[3]			**783.1**	354.8
Total assets			**1,714.5**	1,145.6
Long-term debt			**455.1**	155.6
Net debt			**514.1**	184.9
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	**77.7**	57.0	**68.3**	53.6
NGLs (Bbl/d)	**1,504**	821	**1,237**	798
Oil (Bbl/d)	**2,110**	2,466	**2,231**	2,602
Total (Boe/d)	**16,572**	12,787	**14,844**	12,333
Net wells drilled (excluding oil sands evaluation)	**8**	2	**20**	24
Net oil sands evaluation wells drilled	**1**	–	**27**	45
FUNDS FLOW FROM OPERATIONS ($/Boe)[2]				
Petroleum and natural gas sales	**40.52**	38.34	**40.14**	41.89
Royalties	**(3.46)**	(4.78)	**(3.70)**	(5.61)
Operating expense and production tax	**(10.40)**	(9.54)	**(11.62)**	(11.30)
Transportation	**(3.52)**	(3.87)	**(3.50)**	(3.85)
Netback	**23.14**	20.15	**21.32**	21.13
Financial commodity contract settlements	**(0.47)**	4.16	**(0.36)**	2.72
Netback including financial commodity contract settlements	**22.67**	24.31	**20.96**	23.85
General and administrative	**(3.14)**	(2.51)	**(3.32)**	(2.81)
Interest	**(5.60)**	(2.44)	**(5.94)**	(2.44)
Dividends from investments	**1.68**	3.11	**2.14**	3.46
Other	**(0.08)**	(0.84)	**0.06**	(0.24)
	15.53	21.63	**13.90**	21.82

(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas measures and definitions in the "Advisories" section of this document.
(2) The Company has adjusted its funds flow from operations measure for all periods subsequent to the Transition Date. Refer to the advisories concerning non-GAAP measures in the "Advisories" section of this document.
(3) Based on the period-end closing prices of publicly traded enterprises and the book value of the remaining investments.

SECOND QUARTER 2011 OVERVIEW

Principal Properties

- Average sales volumes in the second quarter of 2011 increased 30 percent to 16,572 Boe/d compared to 12,787 Boe/d in the second quarter of 2010. During the last two weeks of June 2011, average sales volumes exceeded 20,000 Boe/d.
- Netback increased 49 percent in the second quarter of 2011 to $34.9 million from $23.4 million in the second quarter of 2010.
- The Kaybob COU increased sales volumes to over 10,000 Boe/d in the last two weeks of June.
- Construction of the 45 MMcf/d processing plant at Musreau is progressing on budget with an expected start-up in October. Design work has commenced to expand the new facility, once operational, into a 190 MMcf/d (160 MMcf/d sales gas capacity) deep cut liquids extraction plant with an expected start-up in the second quarter of 2013.
- At Karr-Gold Creek in the Grande Prairie COU, a 22 day shut-down of a third-party midstream processing facility which affected approximately 1,700 Boe/d of the Company's production was resolved during May 2011 and the Company is working to restore production from the shut-in wells.
- The Grande Prairie COU completed the construction of its 10 MMcf/d compression and gathering system at Valhalla in June 2011 and the facility commenced operations in July.
- In May 2011, Paramount closed the acquisition of ProspEx Resources Ltd. ("ProspEx").

Strategic Investments

- The market value of Paramount's portfolio of investments in other oil and gas entities increased nine percent during the second quarter of 2011 to $783.1 million due to increases in the share price of Trilogy and MEG Energy Corp. ("MEG").
- In July 2011, the Company received an updated independent evaluation of its bitumen resources within the Grand Rapids formation at the Hoole oil sands property in which estimated economic contingent bitumen resources increased 20 percent to 763 million barrels (Best Estimate (P50)). The before-tax net present value of future net revenue of such economic contingent resources, discounted at ten percent (Best Estimate (P50)), increased 49 percent to $2.8 billion.
- Between April 2011 and July 2011 Paramount sold its investments in the shares of NuLoch Resources Inc. ("NuLoch") and Magnum Hunter Resources Corporation ("Magnum Hunter") for aggregate proceeds of $15.8 million.

Corporate

- In April 2011, Paramount closed offerings of an aggregate 1.7 million Common Shares for gross proceeds of $54.2 million.
- In June 2011, Paramount renewed and expanded its bank credit facility, increasing the total credit limit to $300 million from $160 million.

CONSOLIDATED RESULTS

Net Income (Loss)

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Principal Properties	**(5.7)**	(5.5)	**15.9**	(8.2)
Strategic Investments	**19.2**	(4.9)	**12.0**	32.8
Corporate	**(2.1)**	(11.6)	**(25.2)**	(21.0)
Taxes	**0.8**	4.5	**(2.4)**	5.8
Net Income (Loss)	**12.2**	(17.5)	**0.3**	9.4

The Company recorded net income of $12.2 million in the second quarter of 2011 compared to a net loss of $17.5 million in the same period of 2010, primarily as a result of:

- An increase of $16.5 million in petroleum and natural gas sales;
- An increase of $14.4 million in other income due to the recognition of gains related to transactions in respect of the Company's NuLoch and ProspEx investments; and
- A $10.6 million stock-based compensation recovery;

Partially offset by:

- An increase of $9.6 million in depletion and depreciation; and
- An increase of $5.7 million in interest expense.

The Company recorded net income of $0.3 million in the six months ended June 30, 2011 compared to net income of $9.4 million in the same period of 2010, primarily as a result of:

- A decrease in income from equity accounted investments in 2011, primarily due to the recognition of $36.8 million of equity earnings in 2010 related to Trilogy's conversion from a trust structure to a corporate structure;
- An increase of $15.6 million in depletion and depreciation;
- An increase of $10.7 million in interest expense; and
- A 2011 loss of $0.2 million on financial commodity contracts compared to gains of $10.1 million in 2010;

Partially offset by:

- An increase of $38.9 million in gains recognized on the sale of property, plant and equipment related primarily to the 2011 sale of undeveloped land in North Dakota;
- An increase of $14.5 million in other income primarily due to the recognition of gains related to transactions in respect of the Company's NuLoch and ProspEx investments;
- An increase of $14.4 million in petroleum and natural gas sales; and
- A decrease of $12.8 million in stock-based compensation expense.

Funds Flow From Operations [(1)]

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Cash from (used in) operating activities	**(9.9)**	14.6	**29.9**	30.2
Change in non-cash working capital	**32.7**	7.1	**(1.4)**	11.1
Geological and geophysical expenses	**1.2**	2.2	**4.1**	5.0
Asset retirement obligation settlements	**(0.6)**	1.3	**4.7**	2.4
Funds flow from operations	**23.4**	25.2	**37.3**	48.7
Funds flow from operations ($/Boe)	**15.53**	21.63	**13.90**	21.82

(1) The Company has adjusted its funds flow from operations measure for all periods subsequent to the Transition Date. Refer to the advisories concerning non-GAAP measures in the "Advisories" section of this document.

- Funds flow from operations in the second quarter of 2011 decreased by $1.8 million from the second quarter of 2010, primarily due to the impact of higher interest, commodity contract payments and other corporate costs, partially offset by a higher netback.

- Year-to-date funds flow from operations in 2011 decreased by $11.4 million compared to 2010, primarily due to higher interest, commodity contract payments and other corporate costs, partially offset by a higher netback.

Funds flow from operations were reduced by $1.0 million (2010 – $0.3 million) for costs associated with the completion of corporate acquisitions.

PRINCIPAL PROPERTIES

Netback and Segment Earnings (Loss)

	Three months ended June 30				Six months ended June 30			
	2011		2010		**2011**		2010	
		($/Boe)		*($/Boe)*		***($/Boe)***		*($/Boe)*
Petroleum and natural gas sales	**61.1**	***40.52***	44.6	*38.34*	**107.9**	***40.14***	93.5	*41.89*
Royalties	**(5.2)**	***(3.46)***	(5.6)	*(4.78)*	**(9.9)**	***(3.70)***	(12.5)	*(5.61)*
Operating expense and production tax	**(15.7)**	***(10.40)***	(11.1)	*(9.54)*	**(31.2)**	***(11.62)***	(25.2)	*(11.30)*
Transportation	**(5.3)**	***(3.52)***	(4.5)	*(3.87)*	**(9.4)**	***(3.50)***	(8.6)	*(3.85)*
Netback	**34.9**	***23.14***	23.4	*20.15*	**57.4**	***21.32***	47.2	*21.13*
Financial commodity contract settlements	**(0.7)**	***(0.47)***	4.8	*4.16*	**(1.0)**	***(0.36)***	6.1	*2.72*
Netback including financial commodity contract settlements	**34.2**	***22.67***	28.2	*24.31*	**56.4**	***20.96***	53.3	*23.85*
Other principal property items (see below)	**(39.9)**		(33.7)		**(40.5)**		(61.5)	
Segment earnings (loss)	**(5.7)**		(5.5)		**15.9**		(8.2)	

Petroleum and Natural Gas Sales

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Natural gas	**31.4**	23.3	35	**53.9**	48.5	11
NGLs	**11.4**	5.7	100	**18.3**	10.8	69
Oil	**18.3**	15.6	17	**35.7**	34.2	4
	61.1	44.6	37	**107.9**	93.5	15

Petroleum and natural gas sales in the second quarter of 2011 were $61.1 million, an increase of $16.5 million from the second quarter of 2010, primarily due to the impact of higher natural gas and NGLs sales volumes and higher oil prices. Year-to-date petroleum and natural gas sales in 2011 were $107.9 million, an increase of $14.4 million from the same period in 2010, primarily due to the impact of higher natural gas and NGLs sales volumes and higher oil prices, partially offset by lower natural gas prices and lower oil sales volumes.

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

	Natural gas	**NGLs**	**Oil**	**Total**
Three months ended June 30, 2010	23.3	5.7	15.6	44.6
Effect of changes in prices	(0.4)	0.8	5.0	5.4
Effect of changes in sales volumes	8.5	4.9	(2.3)	11.1
Three months ended June 30, 2011	**31.4**	**11.4**	**18.3**	**61.1**

	Natural gas	**NGLs**	**Oil**	**Total**
Six months ended June 30, 2010	48.5	10.8	34.2	93.5
Effect of changes in prices	(7.9)	1.5	6.4	–
Effect of changes in sales volumes	13.3	6.0	(4.9)	14.4
Six months ended June 30, 2011	**53.9**	**18.3**	**35.7**	**107.9**

Sales Volumes

	Three months ended June 30											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2011	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %
Kaybob	**43.5**	21.2	105	**847**	387	119	**102**	123	(17)	**8,204**	4,035	103
Grande Prairie	**12.6**	13.4	(6)	**560**	356	57	**448**	609	(26)	**3,108**	3,202	(3)
Southern	**10.6**	9.4	13	**90**	57	58	**1,477**	1,294	14	**3,333**	2,926	14
Northern	**11.0**	13.0	(15)	**7**	21	(67)	**83**	440	(81)	**1,927**	2,624	(27)
	77.7	57.0	36	**1,504**	821	83	**2,110**	2,466	(14)	**16,572**	12,787	30

Second quarter natural gas sales volumes increased 36 percent to 77.7 MMcf/d in 2011 compared to 57.0 MMcf/d in 2010. NGLs sales volumes increased 83 percent to 1,504 Bbl/d in 2011 compared to 821 Bbl/d in the same period of the prior year. Oil sales volumes decreased 14 percent to 2,110 Bbl/d in 2011 compared to 2,466 Bbl/d in 2010.

Total second quarter average sales volumes in 2011 increased 3,785 Boe/d or 30 percent compared to the same quarter of 2010 primarily as a result of new well production in the Deep Basin properties within the Kaybob COU and from wells acquired through the acquisitions of ProspEx (approximately 950 Boe/d) and Redcliffe Exploration Inc. ("Redcliffe") (approximately 650 Boe/d). The increases in sales volumes were partially offset by decreases in the Northern COU due to production declines at Cameron Hills and Bistcho and a third-party pipeline failure and in the Grande Prairie COU where an unscheduled shut-down of a third-party midstream plant affected 1,700 Boe/d of sales volumes for 22 days at Karr-Gold Creek.

	Six months ended June 30											
	Natural Gas (MMcf/d)			NGLs (Bbl/d)			Oil (Bbl/d)			Total (Boe/d)		
	2011	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %
Kaybob	**35.7**	19.8	80	**692**	408	70	**99**	96	3	**6,732**	3,812	77
Grande Prairie	**12.8**	11.7	9	**464**	318	46	**437**	716	(39)	**3,032**	2,978	2
Southern	**9.7**	9.2	5	**71**	50	42	**1,456**	1,338	9	**3,137**	2,924	7
Northern	**10.1**	12.9	(22)	**10**	22	(55)	**239**	452	(47)	**1,943**	2,619	(26)
	68.3	53.6	27	**1,237**	798	55	**2,231**	2,602	(14)	**14,844**	12,333	20

Year-to-date natural gas sales volumes increased 14.7 MMcf/d or 27 percent to 68.3 MMcf/d in 2011 compared to 53.6 MMcf/d in 2010. NGLs sales volumes increased 55 percent to 1,237 Bbl/d in 2011 compared to 798 Bbl/d in the same period of the prior year. Oil sales volumes decreased 14 percent to 2,231 Bbl/d in 2011 compared to 2,602 Bbl/d in 2010.

Total year-to-date average sales volumes in 2011 increased 2,511 Boe/d or 20 percent to 14,844 Boe/d compared to 12,333 Boe/d in the same period of 2010. The increase was primarily a result of new well production in the Deep Basin properties in the Kaybob COU and from wells acquired through the acquisitions of Redcliffe (approximately 620 Boe/d) and ProspEx (approximately 475 Boe/d). The increases in sales volumes were partially offset by decreases in the Northern COU due to production declines at Cameron Hills and Bistcho and a third-party pipeline failure and in the Grande Prairie COU where an unscheduled shut-down of a third party midstream plant affected 1,700 Boe/d of sales volumes for 51 days at Karr-Gold Creek.

Average Realized Prices

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Natural gas ($/Mcf)	**4.43**	4.49	(1)	**4.36**	5.00	(13)
NGLs ($/Bbl)	**83.17**	77.26	8	**81.66**	74.82	9
Oil ($/Bbl)	**95.64**	69.34	38	**88.44**	72.57	22
Total ($/Boe)	**40.52**	38.34	6	**40.14**	41.89	(4)

Commodity Prices

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

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Natural Gas						
AECO (Cdn$/GJ)	**3.55**	3.66	(3)	**3.56**	4.37	(19)
New York Mercantile Exchange (Henry Hub US$/MMbtu)	**4.32**	4.14	4	**4.22**	4.71	(10)
Crude Oil						
Edmonton par (Cdn$/Bbl)	**102.65**	75.44	36	**95.54**	77.87	23
West Texas Intermediate (US$/Bbl)	**102.56**	76.29	34	**98.33**	77.50	27
Foreign Exchange						
$Cdn / 1 $US	**0.968**	1.039	(7)	**0.977**	1.042	(6)

Commodity Price Management

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

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Natural gas contracts	**–**	4.8	**–**	6.1
Oil contracts	**(0.7)**	–	**(1.0)**	–
	(0.7)	4.8	**(1.0)**	6.1

At June 30, 2011, Paramount had the following financial oil contracts outstanding:

Instruments	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX Swap	1,000 Bbl/d	US $93.73/Bbl	**(0.6)**	July 2011 – December 2011
Oil – NYMEX Swap	500 Bbl/d	US$101.01/Bbl	**0.5**	July 2011 – May 2012
Oil – NYMEX Collar	500 Bbl/d	Floor – US $85.00/Bbl Ceiling – US $116.85/Bbl	**0.2**	July 2011 – May 2012
			0.1	

Royalties

	Three months ended June 30				Six months ended June 30			
	2011	***Royalty rate (%)***	2010	*Royalty rate (%)*	**2011**	***Royalty rate (%)***	2010	*Royalty rate (%)*
Royalties	**5.2**	***8.5***	5.6	*12.5*	**9.9**	***9.2***	12.5	*13.4*

Second quarter royalties decreased by $0.4 million to $5.2 million in 2011 compared to $5.6 million in 2010. Year-to-date royalties decreased by $2.6 million to $9.9 million in 2011 compared to $12.5 million in 2010. The Company's average royalty rates decreased in 2011 as a result of a greater proportion of production qualifying for Alberta new well royalty incentive programs, the reduction of the maximum Alberta crown royalty rate on oil in Alberta and lower production from properties with higher royalty rates. The impact of decreases in royalty rates were partially offset by higher royalties related to higher petroleum and natural gas sales revenue.

Operating Expense and Production Tax

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Operating Expense	**15.0**	10.5	43	**30.0**	24.0	25
Production Tax	**0.7**	0.6	17	**1.2**	1.2	–
Total	**15.7**	11.1	41	**31.2**	25.2	24

Second quarter operating expenses and production tax increased by $4.6 million in 2011 to $15.7 million compared to $11.1 million in the second quarter of 2010. Year-to-date operating expenses and production tax increased $6.0 million to $31.2 million in 2011 compared to $25.2 million in 2010. The increases were primarily related to new wells brought on at Musreau and Smoky in the Kaybob COU and from wells added through the acquisitions of ProspEx and Redcliffe.

Transportation Expense

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Transportation Expense	**5.3**	4.5	18	**9.4**	8.6	9

Second quarter 2011 transportation costs increased to $5.3 million in 2011 compared to $4.5 million in 2010 as a result of a 30 percent increase in sales volumes. Year-to-date transportation costs increased to $9.4 million in 2011 compared to $8.6 million in 2010 as a result of a 20 percent increase in volumes. Second quarter transportation costs decreased to $3.52 per Boe in 2011 compared to $3.87 per Boe in 2010. Year-to-date transportation costs decreased to $3.50 per Boe in 2011 compared to $3.85 per Boe in 2010. The per unit decrease is primarily due to increased production from properties in the Kaybob COU where transportation costs are lower and decreased production from properties in the Northern COU which have higher transportation costs.

Other Principal Property Items

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Commodity contracts – net of settlements	**(3.8)**	5.2	**(0.7)**	(3.9)
Depletion and depreciation	**34.0**	24.5	**61.1**	46.0
Exploration and evaluation	**7.3**	6.0	**15.9**	20.3
(Gain) loss on sale of property, plant and equipment	**0.4**	(0.5)	**(39.2)**	(0.6)
Accretion of asset retirement obligations	**2.4**	1.9	**4.7**	3.8
Other	**(0.4)**	(3.4)	**(1.3)**	(4.1)
Total	**39.9**	33.7	**40.5**	61.5

Second quarter depletion and depreciation increased to $34.0 million or $22.54 per Boe in 2011 compared to $24.5 million or $21.06 per Boe in the prior year. Year-to-date depletion and depreciation increased to $61.1 million or $22.74 per Boe in 2011 compared to $46.0 million or $20.61 per Boe in the prior year. The increase was primarily due to increased production volumes and costs related to new wells, facilities and gathering systems.

The gain on sale of property, plant and equipment recorded for the six months ended June 30, 2011 is primarily related to the sale of approximately 6,000 net acres of undeveloped land in North Dakota, unrelated to the farm-out lands, for cash proceeds of US$40 million.

Exploration and evaluation expense is primarily related to the cost of expired undeveloped land leases. Second quarter expired lease costs were $6.3 million in 2011 compared to $4.6 million in 2010 and year-to-date expired lease costs were $12.8 million in 2011 compared to $7.6 million in 2010.

STRATEGIC INVESTMENTS

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Income (loss) from equity-accounted investments	**1.2**	(1.0)	**–**	39.6
Drilling rig revenue	**1.6**	–	**3.2**	–
Drilling rig expense	**(0.5)**	(0.6)	**(2.3)**	(0.6)
General and administrative	**(1.1)**	(0.7)	**(2.1)**	(1.3)
Stock-based compensation	**3.1**	(1.8)	**0.1**	(3.6)
Interest	**(0.3)**	(0.3)	**(0.6)**	(0.6)
Other income (expense)	**15.2**	(0.5)	**13.7**	(0.7)
Segment Earnings (Loss)	**19.2**	(4.9)	**12.0**	32.8

Strategic Investments at June 30, 2011 include:

- investments in the shares of Trilogy, MEG, MGM Energy, Magnum Hunter, Paxton Corporation, and other public and private corporations;
- oil sands resources at Hoole, situated within the western portion of the Athabasca Oil Sands region, and carbonate bitumen holdings in Northeast Alberta, including at Saleski;
- prospective shale gas acreage in the Horn River and Liard Basins in Northeast British Columbia and the Northwest Territories; and
- three drilling rigs operated by Paramount's wholly-owned subsidiaries: Fox Drilling in Canada and Paramount Drilling in the United States.

The second quarter 2011 income from equity-accounted investments of $1.2 million compared to a loss of $1.0 million in the second quarter of 2010. Year-to-date 2011 income from equity-accounted investments was nil compared to income of $39.6 million in the same period of 2010.

In April 2011, Paramount sold 3.3 million of the NuLoch shares it held for cash proceeds of $8.1 million. The Company recognized a gain on disposition of $5.7 million in other income which previously had been recorded in reserves. In May 2011, Magnum Hunter acquired NuLoch and Paramount's remaining 3.3 million NuLoch shares were exchanged for 1.1 million Magnum Hunter shares. The accumulated unrealized gain of $5.3 million that had been recorded in reserves in respect of the NuLoch shares exchanged was recognized in other income. In July 2011, Paramount sold all 1.1 million of the Magnum Hunter it held for $7.7 million cash.

On May 31, 2011, Paramount acquired all 54.9 million of the issued and outstanding shares of ProspEx not already owned in exchange for $64.8 million in cash and the issuance of 2.0 million Paramount Common Shares. ProspEx was a Calgary based natural gas focused company with interests in petroleum and natural gas properties in western Canada. The accumulated gain of $4.4 million to May 31, 2011 that had been recorded in reserves in respect of the Company's investment in the shares of ProspEx was recognized in other income.

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

	Carrying Value		Market Value[1]	
	June 30, 2011	December 31, 2010	**June 30, 2011**	December 31, 2010
Trilogy	**120.5**	125.7	**575.8**	297.0
MEG	**186.2**	168.3	**186.2**	168.3
MGM Energy	**3.2**	5.2	**7.5**	8.8
NuLoch	**–**	13.7	**–**	13.7
Magnum Hunter	**7.1**	–	**7.1**	–
ProspEx	**–**	7.4	**–**	7.4
Other[2]	**6.4**	7.7	**6.5**	7.7
Total	**323.4**	328.0	**783.1**	502.9

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

In July 2011, Paramount received an updated independent evaluation of its bitumen resources within the Grand Rapids formation at its Hoole oil sands property, incorporating the results of the Company's 15 well 2010/2011 winter delineation drilling program, which increased the mapped thickness of the reservoir in some areas, confirmed the continuous nature of the reservoir and extended the boundaries of the exploitable reservoir. The updated evaluation was conducted by the Company's independent reserves evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel"), who had previously evaluated the Hoole oil sands property effective April 30, 2010. The updated evaluation estimates that the Grand Rapids formation within the Company's 100 percent owned Hoole oil sands properties contains approximately 763 million barrels (April 30, 2010 – 634 million barrels) of economic contingent bitumen resources within the Grand Rapids formation (Best Estimate (P50)). The estimated before-tax net present value of future net revenue, discounted at ten percent (Best Estimate (P50)), is $2.8 billion (April 30, 2010 - $1.9 billion).

During the remainder of 2011, the Company expects to finalize its plans for the initial development of the Hoole property and complete the engineering design and environmental impact analysis for the project with a view to submitting a regulatory application for commercial development of the resource by the end of 2011.

Paramount has also begun the delineation of its carbonate bitumen resource at the Saleski property, completing a ten well drilling and delineation program in April 2011. The wells targeted the Grosmont formation to obtain data for a detailed analysis of the property, for which Paramount has commissioned an independent resource evaluation.

Paramount's two Canadian based drilling rigs continue to drill on Company lands in Alberta. The United States-based drilling rig has been contracted to a third party exploration and development company for the balance of 2011.

CORPORATE

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
General and administrative	**3.6**	2.2	**6.8**	4.9
Stock-based compensation	**(7.5)**	4.9	**0.8**	9.8
Depletion and depreciation	**0.1**	0.2	**0.2**	0.4
Interest	**8.3**	2.6	**15.6**	5.0
Foreign exchange	**(3.4)**	1.3	**0.8**	0.5
Acquisition transaction costs	**1.0**	0.3	**1.0**	0.3
Other (income) expense	**–**	0.1	**–**	0.1
	2.1	11.6	**25.2**	21.0

Second quarter corporate segment net costs decreased to $2.1 million in 2011 compared to $11.6 million in 2010, primarily due to a 2011 stock-based compensation recovery, partially offset by increased interest, general and administrative and acquisition transaction costs.

Year-to-date corporate segment net costs increased to $25.2 million in 2011 compared to $21.0 million in 2010, primarily due to higher interest and general and administrative expenses, partially offset by lower stock-based compensation.

EXPLORATION AND CAPITAL EXPENDITURES

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Geological and geophysical	**1.1**	2.1	**3.1**	5.0
Drilling, completion and tie-ins	**36.1**	11.8	**131.0**	67.7
Facilities and gathering	**17.3**	4.0	**80.5**	12.0
Exploration and development expenditures	**54.5**	17.9	**214.6**	84.7
Land and property acquisitions	**9.4**	10.1	**20.2**	23.1
Principal Properties	**63.9**	28.0	**234.8**	107.8
Strategic Investments	**1.8**	(0.3)	**18.8**	10.8
Corporate	**–**	0.1	**–**	0.1
	65.7	27.8	**253.6**	118.7

Exploration and development expenditures in the second quarter of 2011 were $54.5 million compared to $17.9 million in the second quarter of 2010. Year-to-date exploration and development expenditures in 2011 were $214.6 million compared to $84.7 million in the same period of 2010. Current year spending focused on drilling and completing wells for the Kaybob COU's Deep Basin development and at Karr-Gold Creek and Valhalla in the Grande Prairie COU. Facilities expenditures primarily relate to the new plant and gathering systems at Musreau in the Kaybob COU and at Karr-Gold Creek and Valhalla in the Grande Prairie COU. Year-to-date exploration and development expenditures in 2011 were reduced by $1.9 million (2010 - $6.6 million) as a result of the Alberta Drilling Royalty Credit program.

Year-to-date land and property acquisitions include purchases of Deep Basin undeveloped land in the Kaybob COU of $16.1 million.

Strategic investments capital expenditures in 2011 consist primarily of $6 million to drill delineation wells for the Hoole oil sands project and $8 million for delineation wells at the Saleski Carbonate Bitumen project.

Wells drilled are as follows:

	Three months ended June 30				Six months ended June 30			
	2011		2010		**2011**		2010	
(wells drilled)	**Gross**(1)	**Net**(2)	Gross(1)	Net(2)	**Gross**(1)	**Net**(2)	Gross(1)	Net(2)
Gas	**8**	**6**	4	2	**23**	**15**	23	18
Oil	**5**	**2**	–	–	**11**	**5**	2	2
Oil sands evaluation	**1**	**1**	–	–	**28**	**27**	45	45
Dry and abandoned	**–**	**–**	–	–	**–**	**–**	4	4
Total	**14**	**9**	4	2	**62**	**47**	74	69

(1) Gross is the number of wells in which Paramount has a working interest or a royalty interest that may be converted to a working interest.
(2) Net is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.

OUTLOOK

Paramount's 2011 annual capital spending budget (excluding land and acquisitions) remains at $450 million, with $425 million allocated to exploration and development spending in the Company's core producing areas and $25 million allocated to the Hoole oil sands and Saleski carbonate bitumen areas. The Company has flexibility within its current capital plan to increase or decrease spending depending upon future economic conditions, among other factors.

Average sales volumes for the last two weeks of June 2011 increased to over 20,000 Boe/d and further increases in sales volumes are expected throughout the second half of the year as additional wells and facilities are brought on production. A wet spring and summer, combined with disruptions at third-party facilities, have impacted the timing of some of the Company's planned field activities and subsequent expected production additions. The Company continues to forecast a 2011 exit rate of approximately 28,000 Boe/d.

LIQUIDITY AND CAPITAL RESOURCES

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

	June 30, 2011	December 31, 2010	Change
Working capital deficit[(1)]	**54.5**	(4.8)	59.3
Credit facility	**89.6**	–	89.6
Senior Notes[(2)]	**370.0**	300.0	70.0
Net debt[(3)]	**514.1**	295.2	218.9
Share capital	**597.8**	481.8	116.0
Retained earnings	**128.7**	128.4	0.3
Reserves	**74.3**	72.0	2.3
Total Capital	**1,314.9**	977.4	337.5

(1) Excludes risk management assets and liabilities, stock-based compensation liabilities and $0.8 million (December 31, 2010 – $6.1 million) included in accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances.
(2) Excludes unamortized issue premiums and financing costs.
(3) Net debt excludes the $19.9 million deposit on account with the CRA, pending resolution of the Company's notices of objection.

Working Capital

Paramount's working capital deficit at June 30, 2011 was $54.5 million compared to a surplus of $4.8 million at December 31, 2010. The working capital deficit at June 30, 2011 included $18.6 million of cash and cash equivalents, $45.5 million of accounts receivable and $98.2 million of accounts payable and accrued liabilities. The decrease in working capital is primarily a result of the Company's 2011 capital program and the ProspEx acquisition, partially offset by drawings on the Company's bank credit facility, proceeds from the Senior Notes offering, equity issuances, the undeveloped land sale in the United States and funds flow from operations. A principal payment of $1.5 million was made on the drilling rig loan in the first quarter of 2011.

Paramount expects to fund its operations, obligations and capital expenditures for the remainder of 2011 with existing cash and cash equivalents, funds flow from operations, drawings under its bank credit facility, and by accessing the capital markets, if required.

Bank Credit Facility

In June 2011, Paramount renewed its bank credit facility (the "Facility"), increasing the total credit limit from $160 million to $300 million, which is available in two tranches. The first tranche ("Tranche A") has a borrowing base and lender commitments of $225 million and is available on a revolving basis to June 30, 2012. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due June 30, 2012 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the drilling rig loan. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments.

The Facility bears interest at the lenders' prime lending rates, US base rates, bankers' acceptance or LIBOR rates, as selected at the discretion of Paramount, plus an applicable margin which is dependent upon the Company's debt to cash flow ratio and the tranche under which borrowings are made. The maximum amount that Paramount may borrow under the Facility is subject to periodic review, and is dependent upon the Company's reserves, lenders' projections of future commodity prices and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors. Increases in the borrowing base and lender commitments under Tranche A reduce the credit limit under Tranche B by an equivalent amount.

At June 30, 2011, $89.6 million (2010 – nil) was drawn on the Facility. Paramount had undrawn letters of credit outstanding at June 30, 2011 of $24.5 million that reduce the amount available to the Company.

Senior Notes

In February 2011, Paramount completed a public offering of an additional $70 million principal amount of its senior unsecured notes ("Senior Notes") at a price of $1,030 per $1,000 principal amount, of which

$1.4 million principal amount was purchased by an entity that is controlled by the Company's Chairman and Chief Executive Officer. As of June 30, 2011, the Company has an aggregate of $370 million principal amount of Senior Notes outstanding. The Senior Notes bear interest at 8.25 percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year and mature on December 13, 2017. The Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The net proceeds of the 2011 public offering were used to fund the Company's 2011 capital program and for general corporate purposes.

Share Capital

In May 2011, the Company issued 2,000,000 Common Shares in connection with the ProspEx acquisition. In April 2011, Paramount issued 1,500,000 Common Shares at a price of $32.50 per share for gross proceeds of $48.8 million through a public offering. In April 2011, Paramount also issued 150,000 Canadian development expense flow-through Common Shares at a price of $36.50 per share for gross proceeds of $5.5 million to a company controlled by the Company's Chairman and Chief Executive Officer.

At July 29, 2011, Paramount had 79.1 Common Shares and 4.8 million Stock Options outstanding (1.1 million exercisable).

QUARTERLY INFORMATION

	2011	2010					2009 (Previous GAAP)[1]	
($ millions, except as noted)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	**61.1**	46.8	46.0	44.9	44.6	48.9	45.0	36.3
Funds flow from operations	**23.4**	13.9	21.3	24.1	25.2	23.5	18.8	10.2
per share – diluted ($/share)	**0.29**	0.19	0.29	0.33	0.35	0.33	0.27	0.15
Net income (loss)	**12.2**	(11.9)	(113.8)	6.9	(17.5)	26.9	(46.4)	(25.2)
per share – basic ($/share)	**0.16**	(0.16)	(1.55)	0.09	(0.24)	0.37	(0.67)	(0.38)
per share – diluted ($/share)	**(0.02)**	(0.16)	(1.55)	0.09	(0.24)	0.37	(0.67)	(0.38)
Sales volumes								
Natural gas (MMcf/d)	**77.7**	58.7	60.4	62.9	57.0	50.2	47.0	49.9
NGLs (Bbl/d)	**1,504**	968	1,030	1,099	821	775	707	564
Oil (Bbl/d)	**2,110**	2,353	2,357	2,381	2,466	2,739	2,966	3,169
Total (Boe/d)	**16,572**	13,097	13,461	13,967	12,787	11,875	11,514	12,046
Average realized price								
Natural gas ($/Mcf)	**4.43**	4.26	4.04	4.12	4.49	5.59	4.85	3.24
NGLs ($/Bbl)	**83.17**	79.29	75.52	59.90	77.26	72.22	67.40	52.01
Oil ($/Bbl)	**95.64**	81.91	75.45	68.60	69.34	75.51	71.85	64.16

(1) Financial results prior to the Transition Date were prepared in accordance with Previous GAAP.

Significant Items Impacting Quarterly Results

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

- Second quarter 2011 earnings include the recognition of $15.4 million of gains on investments in securities and a $10.6 million stock-based compensation recovery, partially offset by higher depletion and depreciation and interest.
- First quarter 2011 earnings include gains of $39.6 million on the sale of property, plant and equipment, partially offset by $11.3 million of stock-based compensation charges.
- Fourth quarter 2010 earnings include $33.4 million of stock-based compensation charges, a $57.9 million write-down of petroleum and natural gas properties and goodwill and $11.9 million of expired lease costs.
- Third quarter 2010 earnings include a future income tax recovery of $37.0 million and $8.1 million of stock-based compensation charges.
- Second quarter 2010 earnings include increased depletion, depreciation and accretion expense and $6.7 million of stock-based compensation charges.
- First quarter 2010 earnings include $36.8 million of equity earnings related to Trilogy's conversion from a trust structure to a corporate structure, $8.2 million of dry hole expenses and $6.8 million of stock-based compensation charges.
- Fourth quarter 2009 earnings include $24.3 million of dry hole expenses related to suspended exploratory well costs and a $14.9 million write-down of petroleum and natural gas properties.[1]
- Third quarter 2009 earnings include higher stock-based compensation charges, and lower earnings from Strategic Investments. [1]

(1) Financial results prior to the Transition Date were prepared in accordance with Previous GAAP.

SIGNIFICANT EQUITY INVESTEE

The following table summarizes the assets, liabilities and results of operations of Trilogy. The amounts summarized have been derived directly from Trilogy's financial statements as at and for the periods ended June 30, 2011 and 2010, and do not include Paramount's adjustments in 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.

As at June 30	**2011**	2010
Current assets	**63.0**	50.5
Long term assets	**1,125.2**	993.5
Current liabilities	**82.9**	61.5
Long term liabilities	**568.3**	404.7
Equity	**537.0**	577.8

Six months ended June 30	**2011**	2010
Revenue and other	**160.0**	146.5
Expenses	**148.7**	(18.3)
Tax expense (recovery)	**3.6**	(28.8)
Net earnings (loss)	**7.7**	193.6
Shares/units outstanding, end of period (thousands)	**115,776**	114,705
Paramount's equity interest in Trilogy, end of period[1]	**21%**	21%

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

Trilogy had 4.8 million stock options outstanding (0.8 million exercisable) at June 30, 2011 at exercise prices ranging from $4.85 to $12.88 per share.

CHANGE IN ACCOUNTING POLICIES

IFRS Transition

As noted previously, Canadian GAAP was converted to IFRS effective for fiscal years beginning on or after January 1, 2011. Paramount's unaudited Interim Consolidated Financial Statements as at and for the three and six months ended June 30, 2011 have been prepared in accordance with IAS 34 - Interim Financial Reporting, IFRS 1 - First-time Adoption of IFRS and the IFRS accounting policies the Company expects to adopt in its initial IFRS annual Consolidated Financial Statements as at and for the year ended December 31, 2011. The adoption of IFRS has not had a material impact on the Company's operations, cash flows, capital expenditures or strategic objectives.

Reconciliations between Previous GAAP amounts and IFRS amounts for the three and six months ended June 30, 2010 are included in Note 18 to the Company's unaudited Interim Consolidated Financial Statements as at and for three and six months ended June 30, 2011. A description of the Company's IFRS accounting policies, significant accounting judgments, estimates and assumptions and reconciliations between the Company's 2010 annual amounts prepared in accordance with Previous GAAP and the 2010 IFRS amounts are disclosed in the Company's unaudited Interim Consolidated Financial Statements as at and for the three months ended March 31, 2011.

Summarized reconciliations of Paramount's second quarter 2010 Previous GAAP amounts to IFRS amounts are as follows:

Equity

As at	**June 30, 2010**
Shareholders' Equity – Previous GAAP	**$ 732.9**
IFRS Adjustments:	
Change in asset retirement obligations	**(82.5)**
Adjustments to PP&E related to impairments and changes in depletion	**(38.9)**
Change in stock-based compensation liability	**(2.0)**
Change in currency translation method related to foreign subsidiaries	**(3.9)**
Adjustments to equity accounted investments - changes in investees' equity due to IFRS	**23.6**
Adjustment to flow-through shares	**(2.2)**
Adjustment to deferred tax	**32.3**
Shareholders' Equity – IFRS	**$ 659.3**

Comprehensive Income

	Three months ended June 30, 2010	**Six months ended June 30, 2010**
Comprehensive Loss – Previous GAAP	$ (29.0)	$ (41.7)
IFRS Adjustments:		
Adjustments to PP&E related to impairments and changes in depletion	13.8	26.5
Accretion of asset retirement obligations	0.1	0.6
Change in currency translation method related to foreign subsidiaries	3.1	1.1
Change in stock-based compensation	0.5	1.6
Adjustment to flow-through shares	–	(1.4)
Change in income from equity accounted investments	(0.7)	31.2
Adjustment to deferred tax	(3.1)	(6.2)
Comprehensive Income (Loss) – IFRS	**$ (15.3)**	**$ 11.7**

Cash Flows

	Three months ended June 30, 2010	Six months ended June 30, 2010
Cash from operating activities under Previous GAAP	$ 15.0	$ 32.6
Adjustments under IFRS:		
Exploration costs	(2.1)	(5.0)
Common shares purchased under stock incentive plan	2.9	2.9
Foreign exchange on cash	(1.1)	(0.3)
Cash from operating activities under IFRS	**$ 14.6**	**$ 30.2**
Cash from financing activities under Previous GAAP	$ 50.7	$ 51.8
Adjustments under IFRS:		
Common shares purchased under stock incentive plan	(2.9)	(2.9)
Cash from financing activities under IFRS	**$ 47.8**	**$ 48.9**
Cash used in investing activities under Previous GAAP	$ (97.5)	$ (153.3)
Adjustments under IFRS:		
Exploration costs	2.1	5.0
Cash used in investing activities under IFRS	**$ (95.4)**	**$ (148.2)**
Net decrease	(33.0)	(69.1)
Foreign exchange on cash and cash equivalents	1.1	0.3
	$ (31.8)	**$ (68.8)**

Future Changes in Accounting Standards

As of January 1, 2013, Paramount will be required to adopt certain standards and amendments issued by the International Accounting Standards Board ("IASB") as described below, for which the Company is currently assessing the impact on its Consolidated Financial Statements.

- **IFRS 11, "Joint Arrangements"** is the result of the IASB's project to replace IAS 31, "Interest in Joint Ventures". The new standard redefines "joint operations" and "joint ventures" and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The Company expects its joint venture arrangements will continue to meet the definition of "joint operations" and that proportionate consolidation of such arrangements will continue under the new standard.

- **IFRS 13, "Fair Value Measurement"** provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

- **IFRS 9, "Financial Instruments"** is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

- **IFRS 10, "Consolidated Financial Statements"** is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

- **IFRS 12, "Disclosure of Interests in Other Entities"** outlines the required disclosures for interests in subsidiaries and joint arrangements. The new standard requires disclosure of information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

ADVISORIES

Forward-looking Information

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "estimate", "expect", "plan", "intend", "propose", or similar words suggesting future outcomes or an outlook. Forward looking information in this document includes, but is not limited to:

- expected production volumes and the timing thereof;
- planned exploration and development expenditures, and the timing thereof;
- development plans for Paramount's oil sands leases and the projected timeline for finalizing such plans;
- exploration and development plans and strategies;
- budget allocations and capital spending flexibility;
- adequacy of facilities to process natural gas production;
- estimated resources and the undiscounted and discounted net present value of future net revenues from such resources (including the forecast prices and costs and the timing of expected production volumes and future development capital);
- estimated initial and fully developed production from the oil sands leases and the timing thereof;
- timing of regulatory applications;
- ability to fulfill future pipeline transportation commitments;
- undeveloped land lease expiries;
- timing and cost of future abandonment and reclamation;
- business strategies and objectives;
- sources of and plans for financing;
- acquisition and disposition plans;
- operating and other costs and royalty rates;
- expected drilling programs, well tie-ins, facility construction and expansions, completions and the timing thereof; and
- the outcome of any legal claims, audits, assessments or other regulatory matters or proceedings.

Such forward-looking information is 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:

- future crude oil, bitumen and natural gas prices and general economic and business conditions;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner to carry out its activities;
- the ability of Paramount to market its oil and natural gas successfully to current and new customers;
- estimates of input and labour costs for an oil sands project;
- the ability of Paramount to secure adequate product transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals;
- estimated timelines being met in respect of the development of the Hoole oil sands properties;
- access to capital markets and other sources of funding; and
- currency exchange and interest rates.

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

- fluctuations in crude oil, bitumen, natural gas and NGLs prices, foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, costs and expenses and the timing thereof;
- changes to the status or interpretation of laws, regulations or policies;
- changes in environmental laws including emission reduction obligations;
- the receipt and timing of governmental or regulatory approvals;

- the ability to secure adequate product processing, transportation and storage;
- the uncertainty of exploration, development and drilling;
- operational risks in exploring for, developing and producing crude oil and natural gas, and the timing thereof;
- the ability to obtain equipment, services, supplies and personnel in a timely manner;
- potential disruption or unexpected technical difficulties in designing, developing or operating new or existing facilities;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resource estimates;
- the ability to generate sufficient cash flow from operations and other sources of financing at an acceptable cost to meet current and future obligations, including costs of anticipated projects;
- changes in general business and economic conditions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- the effects of weather;
- the ability to fund exploration, development and operational activities and meet current and future obligations;
- the timing and cost of future abandonment and reclamation activities;
- cleanup costs or business interruptions due environmental damage and contamination;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities, including its Annual Information Form.

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

Non-GAAP Measures

In this document "Funds flow from operations", "Funds flow from operations - per Boe", "Funds flow from operations per share - diluted", "Netback", "Netback including financial commodity contract settlements", "Net Debt", "Exploration and development expenditures" and "Investments in other entities – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by GAAP.

The Company has adjusted its funds flow from operations measure for all periods subsequent to the Transition Date to exclude asset retirement obligation settlements, cash outflows related to the purchase of Paramount's Common Shares under the Company's stock incentive plan and the effect of changes in foreign exchange rates in respect of foreign currency cash and cash equivalent balances. Funds flow from operations refers to cash from operating activities before net changes in operating working capital, geological and geophysical expenses and asset retirement obligation settlements. Funds flow from operations is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to finance capital programs and meet financial obligations.

Netback equals petroleum and natural gas sales less royalties, operating costs, production taxes and transportation costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Net Debt is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the calculation of Net Debt in the liquidity and capital resources section of this document. Exploration and development expenditures refers to capital expenditures incurred by the Company's COUs (excluding land and property acquisitions). The exploration and development expenditure measure provides management and investors with information regarding the Company's Principal Property spending on drilling and infrastructure projects, separate from land and property acquisition activity.

Investments in other entities – market value reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG Energy Corp., MGM Energy and others), and all other investments in other entities at book value. Paramount provides this information in its MD&A because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values.

Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, or other measures of financial performance calculated in accordance with GAAP. The Non-GAAP measures are unlikely to be comparable to similar measures presented by other issuers.

Oil and Gas Measures and Definitions

This document contains 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.

This document contains disclosure of certain results of an updated independent evaluation of the Company's contingent bitumen resources from the Grand Rapids formation within the Company's Hoole oil sands property as of April 30, 2011 by McDaniel (the "McDaniel Evaluation"). "Contingent resources" are those quantities of bitumen resources 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. There is no certainty that it will be commercially viable to produce any portion of the contingent resources. For Paramount, contingencies which must be overcome to enable the reclassification of bitumen contingent resources as reserves include finalization of plans for the initial development of the Hoole oil sands properties, regulatory application submission with no major issues raised, access to capital markets and other sources of funding, and intent to proceed by Paramount evidenced by a development plan with major capital expenditures. "Economic contingent resources" are those contingent bitumen resources that are currently economically recoverable based on specific forecasts of commodity prices and costs. There is no certainty that it will be commercially viable to produce any portion of the economic contingent resources. "Best estimate" is considered to be the best estimate of the quantity of resources that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. Those resources that fall within the best estimate have a 50 percent confidence level that the actual quantities recovered will equal or exceed the estimate. "Low estimate" is considered to be a conservative estimate of the quantity of resources that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. Those resources at the low end of the estimate range have the highest degree of certainty – a 90 percent confidence level – that the actual quantities recovered will equal or exceed the estimate. "High estimate" is considered to be an optimistic estimate of the quantity of resources that will actually be recovered. It is unlikely that the actual remaining quantities of resources recovered will meet or exceed the high estimate. Those resources at the high end of the estimate range have a lower degree of certainty – a 10 percent confidence level – that the actual quantities recovered will equal or exceed the estimate. The volume of economic contingent resources disclosed represents the Company's share of recoverable volumes before the deduction of royalties.

This document contains certain disclosures of net present values ("NPV") from the McDaniel Evaluation. The NPVs disclosed represent the Company's share of future net revenue, before the deduction of income tax from the economic contingent bitumen resources in the Grand Rapids formation within the Hoole oil sands properties. The calculation considers such items as revenues, royalties, operating costs, abandonment costs and capital expenditures. Royalties were calculated based on Alberta's Royalty Framework applicable to oil sands projects in Alberta. The calculation does not consider financing costs and general and administrative costs. The NPVs were calculated assuming natural gas is used as a fuel for steam generation. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of April 1, 2011. The estimated net present value of economic contingent resources disclosed does not represent fair market value.

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

As at	Note	June 30 2011	December 31 2010 (note 18)
ASSETS			
Current assets			
Cash and cash equivalents	17	**$ 18,574**	$ 74,659
Accounts receivable		**45,505**	33,280
Risk management	16	**646**	–
Prepaid expenses and other		**4,160**	2,572
		68,885	110,511
Deposit		**19,944**	19,788
Exploration and evaluation	5	**397,204**	269,084
Property, plant and equipment, net	6	**835,735**	580,334
Equity accounted investments	7	**130,110**	138,300
Investments in securities	8	**193,324**	189,717
Deferred income tax		**52,846**	75,575
Goodwill	9	**16,499**	8,012
		$ 1,714,547	$ 1,391,321
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Drilling rig loan	10	**$ 25,380**	$ 26,880
Accounts payable and accrued liabilities		**98,171**	84,928
Risk management	16	**581**	693
Stock-based compensation	15	**38,230**	46,187
		162,362	158,688
Long-term debt	11	**455,068**	294,205
Asset retirement obligations	12	**279,316**	241,770
Stock-based compensation	15	**16,992**	14,460
		913,738	709,123
Shareholders' equity			
Share capital	13	**597,821**	481,827
Retained earnings		**128,722**	128,375
Reserves	14	**74,266**	71,996
		800,809	682,198
		$ 1,714,547	$ 1,391,321

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.
Consolidated Statement of Comprehensive Income (Loss) (Unaudited)
($ thousands, except as noted)

	Note	Three months ended June 30 2011	Three months ended June 30 2010 (note 18)	Six months ended June 30 2011	Six months ended June 30 2010 (note 18)
Petroleum and natural gas sales		**$ 61,100**	$ 44,609	**$ 107,855**	$ 93,504
Royalties		**(5,215)**	(5,558)	**(9,946)**	(12,514)
Revenue		**55,885**	39,051	**97,909**	80,990
Gain (loss) on financial commodity contracts	16	**3,150**	(384)	**(216)**	10,081
		59,035	38,667	**97,693**	91,071
Expenses					
Operating expense and production tax		**15,677**	11,100	**31,232**	25,227
Transportation		**5,311**	4,503	**9,402**	8,588
General and administrative		**4,730**	2,923	**8,932**	6,265
Stock-based compensation	15	**(10,602)**	6,756	**717**	13,488
Depletion and depreciation		**34,318**	24,741	**62,005**	46,449
Exploration and evaluation	5	**7,490**	6,258	**16,873**	20,520
(Gain) loss on sale of property, plant and equipment		**405**	(231)	**(39,236)**	(331)
Accretion of asset retirement obligations		**2,381**	1,934	**4,707**	3,848
Interest		**8,644**	2,903	**16,273**	5,576
Acquisition transaction costs		**1,035**	267	**1,035**	267
Foreign exchange		**(3,394)**	1,363	**756**	559
		65,995	62,517	**112,696**	130,456
Income (loss) from equity-accounted investments	7	**1,233**	(951)	**(40)**	39,621
Other	3,8	**17,100**	2,733	**17,786**	3,328
Net income (loss) before tax		**11,373**	(22,068)	**2,743**	3,564
Income tax expense (recovery)					
Current		**(125)**	(10)	**34**	(6)
Deferred		**(714)**	(4,534)	**2,362**	(5,816)
		(839)	(4,544)	**2,396**	(5,822)
Net income (loss)		**$ 12,212**	$ (17,524)	**$ 347**	$ 9,386
Other comprehensive income (loss), net of tax	14				
Change in market value of securities		**(9,645)**	(207)	**7,772**	1,618
Exchange differences on translation of US subsidiaries		**(3,948)**	2,402	**(3,100)**	713
		(13,593)	2,195	**4,672**	2,331
Comprehensive income (loss)		**$ (1,381)**	$ (15,329)	**$ 5,019**	$ 11,717
Net income (loss) per common share ($/share)	13				
Basic		**$ 0.16**	$ (0.24)	**$ 0.00**	$ 0.13
Diluted		**$ (0.02)**	$ (0.24)	**$ (0.06)**	$ 0.13

See the accompanying notes to these Interim Consolidated Financial Statements.

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

	Note	Three months ended June 30 2011	Three months ended June 30 2010 (note 18)	Six months ended June 30 2011	Six months ended June 30 2010 (note 18)
Operating activities					
Net income (loss)		**$ 12,212**	$ (17,524)	**$ 347**	$ 9,386
Add (deduct)					
Items not involving cash	17	**7,437**	36,936	**27,142**	26,576
Dividends on equity-accounted investments		**2,535**	3,618	**5,747**	7,715
Asset retirement obligations settled	12	**627**	(1,269)	**(4,704)**	(2,413)
Change in non-cash working capital		**(32,722)**	(7,119)	**1,409**	(11,057)
Cash (used in) from operating activities		**(9,911)**	14,642	**29,941**	30,207
Financing activities					
Drilling rig loan repayment		**–**	–	**(1,500)**	(1,000)
Proceeds from Senior Notes, net of issue costs		**(11)**	–	**70,953**	–
Repayment of debt assumed on acquisitions		**(37,824)**	(10,521)	**(37,824)**	(10,521)
Net draw of revolving long-term debt		**89,562**	60,544	**89,562**	60,544
Common shares issued, net of issue costs		**51,447**	657	**53,260**	2,776
Common shares purchased under stock incentive plan		**(604)**	(2,901)	**(2,974)**	(2,901)
Cash from financing activities		**102,570**	47,779	**171,477**	48,898
Investing activities					
Property, plant and equipment and exploration		**(64,429)**	(25,516)	**(249,484)**	(113,396)
Proceeds on sale of property, plant and equipment		**141**	1,017	**44,257**	1,017
Proceeds on sale of investment		**8,052**	–	**8,402**	–
Corporate acquisitions		**(64,759)**	(46,172)	**(64,759)**	(46,172)
Purchase of investments in securities		**–**	(2,481)	**–**	(3,854)
Equity accounted investments		**–**	–	**–**	(1,200)
Change in non-cash working capital		**(60,456)**	(22,205)	**4,689**	15,356
Cash used in investing activities		**(181,451)**	(95,357)	**(256,895)**	(148,249)
Net decrease		**(88,792)**	(32,936)	**(55,477)**	(69,144)
Foreign exchange on cash and cash equivalents		**359**	1,130	**(608)**	295
Cash and cash equivalents, beginning of period		**107,007**	56,195	**74,659**	93,238
Cash and cash equivalents, end of period		**$ 18,574**	$ 24,389	**$ 18,574**	$ 24,389

Supplemental cash flow information 17

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.
Consolidated Statement of Shareholders' Equity (Unaudited)
($ thousands, except as noted)

Six months ended June 30	Note	2011 Shares (000's)	2011	2010 Shares (000's)	2010
Share Capital					(note 18)
Balance, beginning of period		***75,034***	**$ 481,827**	*72,058*	$ 418,191
Issued		***1,867***	**59,060**	*348*	6,025
Issued on acquisition of ProspEx	3	***2,000***	**57,280**	–	–
Change in unvested common shares for stock incentive plan		***65***	**(346)**	*28*	(408)
Balance, end of period		***78,966***	**$ 597,821**	*72,434*	$ 423,808
Retained Earnings					
Balance, beginning of period			**$ 128,375**		$ 218,386
Net income (loss)			**347**		9,386
Balance, end of period			**$ 128,722**		$ 227,772
Reserves					
Balance, beginning of period			**$ 71,996**		$ 5,027
Other comprehensive income			**4,672**		2,331
Stock-based compensation on investees' options			**(2,402)**		376
Balance, end of period			**$ 74,266**		$ 7,734
Total Shareholders' Equity			**$ 800,809**		$ 659,314

See the accompanying notes to these Interim Consolidated Financial Statements.

1. BASIS OF PRESENTATION

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, Canadian corporation that explores for, develops, processes, transports, and markets petroleum and natural gas. Paramount's principal properties are located in Alberta, the Northwest Territories and British Columbia in Canada, and in North Dakota and Montana in the United States. Paramount has divided its operations into three business segments: Principal Properties, Strategic Investments and Corporate.

Paramount is incorporated and domiciled in Canada. The address of its registered office is 4700, 888 3rd Street S.W., Calgary, Alberta, Canada, T2P 5C5. These unaudited Interim Consolidated Financial Statements are stated in Canadian dollars, except where otherwise noted, and were authorized for issuance by the Audit Committee of Paramount Resources Ltd. on August 2, 2011.

Paramount is the ultimate parent company of the consolidated group of companies. The financial statements of Paramount's subsidiaries and partnerships are prepared on a consistent basis with the parent company in accordance with the Company's accounting policies. All intercompany balances and transactions have been eliminated.

These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 - Interim Financial Reporting and IFRS 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1"). Certain information and disclosures normally required to be included in notes to annual consolidated financial statements have been condensed or omitted.

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, 2010 and Paramount's unaudited Interim Consolidated Financial Statements as at and for the three months ended March 31, 2011.

Canadian Generally Accepted Accounting Principles ("GAAP"), as issued by the Canadian Institute of Chartered Accountants, were converted to International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. In order to prepare comparative information, the Company applied IFRS as of January 1, 2010 (the "Transition Date") and the accounting, estimation and valuation policies adopted on conversion to IFRS have been consistently applied to all periods presented herein. Paramount's expected IFRS accounting policies and significant accounting judgments, estimates, and assumptions are described in Note 1 and Note 2 to the Company's March 31, 2011 unaudited Interim Consolidated Financial Statements.

Note 19 to the Company's March 31, 2011 unaudited Interim Consolidated Financial Statements contains reconciliations of IFRS amounts as of the Transition Date and as at and for the twelve months ended December 31, 2010 to amounts previously published in accordance with Canadian GAAP in effect prior to January 1, 2011 ("Previous GAAP"). Reconciliations of IFRS amounts for the three and six months ended June 30, 2010 to amounts previously published in accordance with Previous GAAP are provided in Note 18 to these unaudited Interim Consolidated Financial Statements.

2. FUTURE CHANGES IN ACCOUNTING STANDARDS

As of January 1, 2013, Paramount will be required to adopt certain standards and amendments issued by the International Accounting Standards Board ("IASB") as described below, for which the Company is currently assessing the impact on its Consolidated Financial Statements.

- **IFRS 11, "Joint Arrangements"** is the result of the IASB's project to replace IAS 31, "Interest in Joint Ventures". The new standard redefines "joint operations" and "joint ventures" and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The Company expects its joint venture arrangements will continue to meet the definition of "joint operations" and that proportionate consolidation of such arrangements will continue under the new standard.

- **IFRS 13, "Fair Value Measurement"** provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

- **IFRS 9, "Financial Instruments"** is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

- **IFRS 10, "Consolidated Financial Statements"** is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

- **IFRS 12, "Disclosure of Interests in Other Entities"** outlines the required disclosures for interests in subsidiaries and joint arrangements. The new standard requires disclosure of information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

3. ACQUISITION OF PROSPEX RESOURCES LTD.

On May 31, 2011, Paramount acquired all 54.9 million of the issued and outstanding common shares of ProspEx Resources Ltd. ("ProspEx") not already owned for consideration of $64.8 million cash and the issuance by Paramount of 2.0 million Common Shares. Immediately prior to the acquisition, Paramount owned 5.6 million shares of ProspEx (9 percent voting interest). ProspEx was a publicly traded energy company with the majority of its properties located in Alberta. These financial statements include the results of operations of the acquired business for the period following the closing of the transaction on May 31, 2011.

The acquisition of ProspEx has been accounted for using the acquisition method whereby all of the assets acquired and liabilities assumed are recorded at fair value. The following table summarizes the net assets acquired pursuant to the acquisition:

($ thousands, except as noted)

Net assets acquired	
Accounts receivable	**$ 10,302**
Exploration and evaluation	**82,100**
Property, plant, and equipment	**107,485**
Goodwill	**7,509**
Accounts payable	**(11,348)**
Bank debt	**(37,824)**
Asset retirement obligations	**(11,943)**
Deferred income tax liability	**(11,865)**
Other	**279**
Net assets acquired	**$ 134,695**

Cash paid	**$ 64,759**
Paramount Common Shares issued (1)	**57,280**
Fair value of ProspEx shares previously held (2)	**12,656**
Total	**$ 134,695**

(1) Based on 2.0 million Paramount Common Shares issued and the closing price of Paramount Common Shares on the acquisition date of $28.64 per share.
(2) Based on 5.6 million ProspEx shares held by Paramount and the closing price of ProspEx common shares on the acquisition date of $2.25 per share.

Accounts receivable includes $4.1 million of revenue receivable and $6.2 million of joint venture receivables. Accounts payable includes $10.8 million of trade payables and $0.5 million of royalties payable.

Upon the acquisition of ProspEx, a gain of $4.4 million related to the ProspEx shares held by Paramount at the acquisition date was recognized in other income based on the closing market price of the ProspEx common shares of $2.25 on May 31, 2011. The gain had previously been recorded in other comprehensive income. Goodwill recorded on the acquisition of ProspEx is primarily related to the Company's recognition of asset retirement obligations and deferred income tax liabilities. None of the goodwill is deductible for tax purposes.

Paramount incurred $1.0 million of transaction costs related to the acquisition, which were recognized in acquisition transaction costs in the consolidated statement of comprehensive income.

Since May 31, 2011, the Company recorded $3.2 million of petroleum and natural gas sales in respect of properties added through the ProspEx acquisition. If the acquisition of ProspEx had been completed on January 1, 2011, Paramount's petroleum and natural gas sales for the six months ended June 30, 2011 would have been $124.8 million. The impact on net income is impracticable to determine.

The allocation of the consideration transferred is provisional, and was estimated by management at the time of the preparation of these unaudited Interim Consolidated Financial Statements based on information then available. Amendments may be made to these amounts as the estimates are finalized.

4. SEGMENTED INFORMATION

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

- **Principal Properties:** Principal properties consist of: (i) the Kaybob Corporate Operating Unit ("COU"), which includes properties in West Central Alberta; (ii) the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta; (iii) the Southern COU, which includes properties in Southern Alberta, Saskatchewan, North Dakota, and Montana; and (iv) the Northern COU, which includes properties in Northern Alberta, the Northwest Territories and Northeast British Columbia.

($ thousands, except as noted)

- **Strategic Investments:** Strategic investments include: (i) investments in other entities, including affiliates; (ii) investments in development stage assets, including oil sands resources and prospective shale gas acreage, where there is no near-term expectation of production or revenue, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation; and (iii) three Rigs owned by Fox Drilling Inc. and Paramount Drilling U.S., L.L.C., wholly-owned subsidiaries of the Company.

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

Three months ended June 30, 2011	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 55,885	$ –	$ –	$ –	**$ 55,885**
Gain (loss) on financial commodity contracts	3,150	–	–	–	**3,150**
	59,035	–	–	–	**59,035**
Expenses					
Operating expense and production tax	15,677	–	–	–	**15,677**
Transportation	5,311	–	–	–	**5,311**
General and administrative	–	1,104	3,626	–	**4,730**
Stock-based compensation	–	(3,094)	(7,508)	–	**(10,602)**
Depletion and depreciation	33,990	1,139	12	(823)	**34,318**
Exploration and evaluation	7,323	167	–	–	**7,490**
Gain on sale of property, plant and equipment	405	–	–	–	**405**
Accretion of asset retirement obligations	2,366	15	–	–	**2,381**
Interest	–	311	8,333	–	**8,644**
Acquisition transaction costs	–	–	1,035	–	**1,035**
Foreign exchange	–	–	(3,394)	–	**(3,394)**
	65,072	(358)	2,104	(823)	**65,995**
Income (loss) from equity-accounted investments	–	1,233	–	–	**1,233**
Other	362	15,565	–	–	**15,927**
Drilling rig revenue	–	4,468	–	(2,832)	**1,636**
Drilling rig expense	–	(2,353)	–	1,890	**(463)**
	(5,675)	19,271	(2,104)	(119)	**11,373**
Inter-segment eliminations	–	(119)	–	119	**–**
Segment earnings (loss)	$ (5,675)	$ 19,152	$ (2,104)	$ –	**11,373**
Income tax recovery					**839**
Net Income					**$ 12,212**

($ thousands, except as noted)

Three months ended June 30, 2010	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 39,051	$ –	$ –	$ –	$ 39,051
Gain (loss) on financial commodity contracts	(384)	–	–	–	(384)
	38,667	–	–	–	38,667
Expenses					
Operating expense and production tax	11,100	–	–	–	11,100
Transportation	4,503	–	–	–	4,503
General and administrative	–	692	2,231	–	2,923
Stock-based compensation	–	1,824	4,932	–	6,756
Depletion and depreciation	24,506	534	176	(475)	24,741
Exploration and evaluation	6,039	219	–	–	6,258
Gain on sale of property, plant and equipment	(458)	227	–	–	(231)
Accretion of asset retirement obligations	1,923	11	–	–	1,934
Interest	–	270	2,633	–	2,903
Acquisition transaction costs	–	–	267	–	267
Foreign exchange	–	77	1,286	–	1,363
	47,613	3,854	11,525	(475)	62,517
Income (loss) from equity-accounted investments	–	(951)	–	–	(951)
Other	3,411	–	(94)	–	3,317
Drilling rig revenue	–	1,595	–	(1,595)	–
Drilling rig expense	–	(1,667)	–	1,083	(584)
	(5,535)	(4,877)	(11,619)	(37)	(22,068)
Inter-segment eliminations	–	(37)	–	37	–
Segment earnings (loss)	$ (5,535)	$ (4,914)	$ (11,619)	$ –	(22,068)
Income tax recovery					4,544
Net loss					$ (17,524)

Six months ended June 30, 2011	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 97,909	$ –	$ –	$ –	**$ 97,909**
Gain (loss) on financial commodity contracts	(216)	–	–	–	**(216)**
	97,693	–	–	–	**97,693**
Expenses					
Operating expense and production tax	31,232	–	–	–	**31,232**
Transportation	9,402	–	–	–	**9,402**
General and administrative	–	2,149	6,783	–	**8,932**
Stock-based compensation	–	(62)	779	–	**717**
Depletion and depreciation	61,101	2,548	193	(1,837)	**62,005**
Exploration and evaluation	15,889	984	–	–	**16,873**
Gain on sale of property, plant and equipment	(39,236)	–	–	–	**(39,236)**
Accretion of asset retirement obligations	4,678	29	–	–	**4,707**
Interest	–	640	15,633	–	**16,273**
Acquisition transaction costs	–	–	1,035	–	**1,035**
Foreign exchange	–	(30)	786	–	**756**
	83,066	6,258	25,209	(1,837)	**112,696**
Income (loss) from equity-accounted investments	–	(40)	–	–	**(40)**
Other	1,316	15,566	–	–	**16,882**
Drilling rig revenue	–	9,952	–	(6,794)	**3,158**
Drilling rig expense	–	(5,403)	–	3,149	**(2,254)**
	15,943	13,817	(25,209)	(1,808)	**2,743**
Inter-segment eliminations	–	(1,808)	–	1,808	**–**
Segment earnings (loss)	$ 15,943	$ 12,009	$ (25,209)	$ –	**2,743**
Income tax expense					**(2,396)**
Net income					**$ 347**

($ thousands, except as noted)

Six months ended June 30, 2010	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 80,990	$ –	$ –	$ –	$ 80,990
Gain (loss) on financial commodity contracts	10,081	–	–	–	10,081
	91,071	–	–	–	91,071
Expenses					
Operating expense and production tax	25,227	–	–	–	25,227
Transportation	8,588	–	–	–	8,588
General and administrative	–	1,323	4,942	–	6,265
Stock-based compensation	–	3,641	9,847	–	13,488
Depletion and depreciation	46,004	1,530	347	(1,432)	46,449
Exploration and evaluation	20,250	270	–	–	20,520
Gain on sale of property, plant and equipment	(558)	227	–	–	(331)
Accretion of asset retirement obligations	3,827	21	–	–	3,848
Interest	–	602	4,974	–	5,576
Acquisition transaction costs	–	–	267	–	267
Foreign exchange	–	43	516	–	559
	103,338	7,657	20,893	(1,432)	130,456
Income (loss) from equity-accounted investments	–	39,621	–	–	39,621
Other	4,070	–	(143)	–	3,927
Drilling rig revenue	–	4,925	–	(4,925)	–
Drilling rig expense	–	(3,655)	–	3,056	(599)
	(8,197)	33,234	(21,036)	(437)	3,564
Inter-segment eliminations	–	(437)	–	437	–
Segment earnings (loss)	$ (8,197)	$ 32,797	$ (21,036)	$ –	3,564
Income tax recovery					5,822
Net income					$ 9,386

Total Assets

As at	**June 30, 2011**	December 31, 2010
Principal Properties	**$ 1,198,153**	$ 816,279
Strategic Investments	**408,531**	397,009
Corporate	**107,863**	178,033
	$ 1,714,547	$ 1,391,321

5. EXPLORATION AND EVALUATION

	Six months ended June 30, 2011	Twelve months ended December 31, 2010
Balance, beginning of period	**$ 269,084**	$ 151,283
Additions	**106,749**	175,495
Corporate acquisitions	**82,100**	29,754
Transfers to property, plant and equipment	**(43,847)**	(51,828)
Impairment	**–**	(1,739)
Dry hole	**–**	(8,479)
Expired lease costs	**(12,768)**	(24,247)
Dispositions	**(3,829)**	(586)
Foreign exchange	**(285)**	(569)
Balance, end of period	**$ 397,204**	$ 269,084

($ thousands, except as noted)

Exploration and Evaluation Expense

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Geological and geophysical	**$ 1,234**	$ 2,013	**$ 4,105**	$ 5,150
Dry hole	**–**	(396)	**–**	7,754
Expired lease costs	**6,256**	4,641	**12,768**	7,616
	$ 7,490	$ 6,258	**$ 16,873**	$ 20,520

6. PROPERTY, PLANT AND EQUIPMENT

For the six months ended June 30, 2011	**Petroleum and natural gas assets**	**Drilling rigs**	**Other**	**Total**
Cost				
Balance, December 31, 2010	$ 873,850	$ 46,146	$ 19,850	**$ 939,846**
Additions	143,537	1,018	30	**144,585**
Corporate acquisitions	107,485	–	–	**107,485**
Transfer from exploration and evaluation	44,284	–	–	**44,284**
Dispositions	(2,953)	–	–	**(2,953)**
Change in asset retirement provision	26,858	–	–	**26,858**
Currency translation differences	(1,448)	(446)	(17)	**(1,911)**
Cost, June 30, 2011	**1,191,613**	**46,718**	**19,863**	**1,258,194**
Accumulated depletion, depreciation, amortization and write-downs				
Balance, December 31, 2010	$ (333,483)	$ (8,157)	$ (17,872)	**$ (359,512)**
Transfer from exploration and evaluation	(437)	–	–	**(437)**
Depletion, depreciation and amortization	(61,062)	(2,525)	(255)	**(63,842)**
Dispositions	787	–	–	**787**
Currency translation differences	395	143	7	**545**
Accumulated depletion, depreciation, amortization and write-downs, June 30, 2011	**(393,800)**	**(10,539)**	**(18,120)**	**(422,459)**
Net book value, December 31, 2010	540,367	37,989	1,978	**580,334**
Net book value, June 30, 2011	$ 797,813	$ 36,179	$ 1,743	**$ 835,735**

For the twelve months ended December 31, 2010	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, January 1, 2010	$ 641,265	$ 46,840	$ 19,720	$ 707,825
Additions	118,457	1,208	161	119,826
Corporate acquisitions	37,189	–	–	37,189
Transfer from exploration and evaluation	52,375	–	–	52,375
Dispositions	(6,861)	(1,121)	–	(7,982)
Change in asset retirement provision	34,063	–	–	34,063
Currency translation differences	(2,638)	(781)	(31)	(3,450)
Cost, December 31, 2010	873,850	46,146	19,850	939,846
Accumulated depletion, depreciation, amortization and write-downs				
Balance, January 1, 2010	$ (184,315)	$ (3,274)	$ (17,130)	$ (204,719)
Transfer from exploration and evaluation	(547)	–	–	(547)
Depletion, depreciation and amortization	(100,982)	(5,135)	(751)	(106,868)
Write-downs	(54,350)	–	–	(54,350)
Dispositions	6,415	–	–	6,415
Currency translation differences	296	252	9	557
Accumulated depletion, depreciation, amortization and write-downs, December 31, 2010	(333,483)	(8,157)	(17,872)	(359,512)
Net book value, January 1, 2010	456,950	43,566	2,590	503,106
Net book value, December 31, 2010	$ 540,367	$ 37,989	$ 1,978	$ 580,334

At June 30, 2011, $80.8 million (December 31, 2010 – $20.0 million) of capitalized costs related to incomplete development wells and infrastructure projects are currently not subject to depletion.

Year-to-date additions to property, plant and equipment include $1.1 million of capitalized interest for qualifying assets in the construction phase (2010 – nil).

7. EQUITY ACCOUNTED INVESTMENTS

	June 30, 2011			December 31, 2010		
	Shares (000's)	**Carrying Value**	**Market Value(1)**	_Shares (000's)_	Carrying Value	Market Value(1)
Trilogy Energy Corp. ("Trilogy")	**_24,144_**	**$ 120,453**	**$ 575,842**	_24,144_	$ 125,746	$ 296,975
MGM Energy Corp. ("MGM Energy")	**_43,834_**	**3,208**	**7,452**	_43,834_	5,222	8,767
Paxton Corporation	**_1,750_**	**4,134**		_1,750_	4,338	
Other		**2,315**			2,994	
		$ 130,110			$ 138,300	

(1) Based on the period-end trading price of publicly traded entities.

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

Three months ended June 30	**2011**			2010		
	Equity income (loss)	**Dilution gain**	**Total**	Equity (loss)	Dilution gain	Total
Trilogy	**$ 757**	**$ 774**	**$ 1,531**	$ (879)	$ –	$ (879)
MGM Energy	**(193)**	**–**	**(193)**	(247)	248	1
Paxton Corporation	**(105)**	**–**	**(105)**	(73)	–	(73)
	$ 459	**$ 774**	**$ 1,233**	$ (1,199)	$ 248	$ (951)

Six months ended June 30	**2011**			2010		
	Equity income (loss)	**Dilution gain**	**Total**	Equity income (loss)	Dilution gain	Total
Trilogy	**$ 173**	**$ 774**	**$ 947**	$ 35,919	$ 4,109	$ 40,028
MGM Energy	**(782)**	**–**	**(782)**	(497)	209	(288)
Paxton Corporation	**(205)**	**–**	**(205)**	(119)	–	(119)
	$ (814)	**$ 774**	**$ (40)**	$ 35,303	$ 4,318	$ 39,621

8. INVESTMENTS IN SECURITIES

	June 30, 2011		December 31, 2010	
	Shares (000's)		*Shares (000's)*	
MEG Energy Corp.	***3,700***	**$ 186,184**	*3,700*	$ 168,313
NuLoch Resources Inc. ("NuLoch")	**–**	**–**	*6,579*	13,684
Magnum Hunter Resources Corporation ("Magnum Hunter")	***1,083***	**7,064**	–	–
ProspEx Resources Ltd.	**–**	**–**	*5,625*	7,369
Other		**76**		351
		$ 193,324		$ 189,717

In April 2011, Paramount sold 3.3 million of the NuLoch shares it held for cash proceeds of $8.1 million. The Company recognized a gain on the disposition of $5.7 million, which previously had been recorded in other comprehensive income. In May 2011, NuLoch was acquired by Magnum Hunter and each of the remaining 3.3 million NuLoch shares held by Paramount was exchanged for 0.3304 of a common share of Magnum Hunter, resulting in Paramount receiving 1.1 million common shares of Magnum Hunter. An accumulated unrealized gain of $5.3 million that had been recorded in other comprehensive income in respect of the NuLoch shares exchanged by Paramount was recognized in other income. Magnum Hunter is a publicly traded United States oil and gas exploration company.

In July 2011, Paramount sold all of its 1.1 million shares of Magnum Hunter for proceeds of $7.7 million.

($ thousands, except as noted)

9. GOODWILL

As at	June 30, 2011	December 31, 2010
Carrying value, beginning of period	**$ 8,012**	$ –
Acquisitions	**7,509**	11,589
Additional accrued liability	**978**	–
Impairment	–	(3,577)
Carrying value, end of period	**$ 16,499**	$ 8,012

For the six months ended June 30, 2011, there were additions to goodwill of $7.5 million in respect of the ProspEx acquisition and $1.0 million in respect of additional liabilities of Redcliffe Exploration Inc. that existed at the date of acquisition.

The carrying amount of goodwill allocated to each of the COUs is as follows:

As at	June 30, 2011	December 31, 2010
Grande Prairie	**$ 9,246**	$ 7,464
Kaybob	**4,307**	548
Southern	**2,506**	–
Northern	**440**	–
	$ 16,499	$ 8,012

10. DRILLING RIG LOAN

At June 30, 2011, $25.4 million (December 31, 2010 - $26.9 million) was outstanding on the drilling rig loan. Unless demanded by the bank, the remaining scheduled principal repayments are as follows: 2011 - $2.5 million; 2012 - $5.1 million; 2013 - $5.1 million and 2014 - $12.7 million.

11. LONG-TERM DEBT

	June 30, 2011	December 31, 2010
Bank credit facility – Tranche A	**$ 89,562**	$ –
8 ¼ percent Senior Notes due 2017	**370,000**	300,000
	459,562	300,000
Unamortized financing costs net of premiums	**(4,494)**	(5,795)
	$ 455,068	$ 294,205

Bank Credit Facility

In June 2011, Paramount renewed its bank credit facility (the "Facility"), increasing the total credit limit from $160 million to $300 million, which is available in two tranches. The first tranche ("Tranche A") has a borrowing base and lender commitments of $225 million and is available on a revolving basis to June 30, 2012. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due June 30, 2012 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the drilling rig loan. Balances drawn under Tranche B are secured by the pledge of certain of the Company’s equity investments.

($ thousands, except as noted)

The Facility bears interest at the lenders' prime lending rates, US base rates, bankers' acceptance or LIBOR rates, as selected at the discretion of Paramount, plus an applicable margin which is dependent upon the Company's debt to cash flow ratio and the tranche under which borrowings are made. The maximum amount that Paramount may borrow under the Facility is subject to periodic review, and is dependent upon the Company's reserves, lenders' projections of future commodity prices and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors. Increases in the borrowing base and lender commitments under Tranche A reduce the credit limit under Tranche B by an equivalent amount.

At June 30, 2011, $89.6 million (December 31, 2010 – nil) was drawn on the Facility. Paramount had undrawn letters of credit outstanding at June 30, 2011 of $24.5 million that reduce the amount available to the Company.

Senior Notes

In February 2011, Paramount completed a public offering of an additional $70 million principal amount of its senior unsecured notes ("Senior Notes") at a price of $1,030 per $1,000 principal amount, of which $1.4 million principal amount was purchased by an entity that is controlled by the Company's Chairman and Chief Executive Officer. The Senior Notes bear interest at 8.25 percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year and mature on December 13, 2017. The Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company.

12. ASSET RETIREMENT OBLIGATIONS

	Six months ended June 30, 2011	Twelve months ended December 31, 2010
Asset retirement obligations, beginning of period	**$ 241,770**	$ 195,088
Retirement obligations incurred	**5,662**	25,691
Revisions to estimated retirement costs	**21,242**	21,779
Obligations settled	**(4,704)**	(3,209)
Disposal of properties	**(974)**	(9,638)
Accretion expense	**4,707**	7,975
Assumed on corporate acquisition	**11,943**	4,581
Foreign exchange	**(330)**	(497)
Asset retirement obligations, end of period	**$ 279,316**	$ 241,770

The period-end present value of the asset retirement obligations was determined using a risk-free rate of 3.5 percent (December 31, 2010 – 4 percent) and an inflation rate of 3 percent (December 31, 2010 – 3 percent)

13. SHARE CAPITAL

Weighted Average Common Shares Outstanding

	Three months ended June 30				Six months ended June 30			
	2011		2010		**2011**		2010	
		Shares (000's)		Shares (000's)		**Shares (000's)**		Shares (000's)
Net income (loss) - basic	**$ 12,212**	**77,126**	$(17,524)	72,399	**$ 347**	**76,143**	$ 9,386	72,312
Dilutive effect of Paramount options	**(13,596)**	**2,351**	–	–	**(5,381)**	**2,129**	–	–
Net income (loss) - diluted	**$ (1,384)**	**79,477**	$(17,524)	72,399	**$ (5,034)**	**78,272**	$ 9,386	72,312

Outstanding Paramount Options can be exchanged for the Company's Common Shares in accordance with the terms of the stock option plan. As a result, they are considered potentially dilutive and are included in the calculation of Paramount's diluted net income per share calculation when they are dilutive for the period.

In April 2011, Paramount issued 1,500,000 Common Shares at a price of $32.50 per share for gross proceeds of $48.8 million through a public offering. In April 2011, Paramount also issued 150,000 Canadian development expense flow-through Common Shares at a price of $36.50 per share for gross proceeds of $5.5 million to a company controlled by the Company's Chairman and Chief Executive Officer.

14. RESERVES

Reserves include unrealized gains on the Company's investments in securities, foreign exchange differences on translation of foreign subsidiaries' balances, and stock-based compensation expense on investees' options ("SBC – Investees' Options"). The changes in reserves are as follows:

	Unrealized Gains on Securities	Translation of Foreign Subsidiaries	SBC - Investees' Options	Total Reserves
Balance, December 31, 2010	$ 71,622	$ (2,028)	$ 2,402	**$ 71,996**
Other comprehensive income	7,772	(3,100)	–	**4,672**
SBC - Investees' Options	–	–	819	**819**
Reclassification to equity accounted investments	–	–	(3,221)	**(3,221)**
Balance, June 30, 2011	$ 79,394	$ (5,128)	$ –	**$ 74,266**

	Unrealized Gains on Securities	Translation of Foreign Subsidiaries	SBC - Investees' Options	Total Reserves
Balance, January 1, 2010	$ 3,188	$ –	$ 1,839	**$ 5,027**
Other comprehensive income	1,618	713	–	**2,331**
SBC – Investees' Options	–	–	376	**376**
Balance, June 30, 2010	$ 4,806	$ 713	$ 2,215	**$ 7,734**

Other Comprehensive Income

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Unrealized Gains on Securities				
Change in market value of securities	**$ 4,748**	$ 3,161	**$ 24,523**	$ 5,249
Reclassification of other comprehensive income to earnings	**(15,580)**	(3,433)	**(15,580)**	(3,433)
Deferred tax	**1,187**	65	**(1,171)**	(198)
	(9,645)	(207)	**7,772**	1,618
Translation of Foreign Subsidiaries				
Exchange differences on translation of US subsidiaries	**(3,979)**	2,159	**(4,858)**	584
Reclassification of other comprehensive loss to earnings	**–**	–	**2,326**	–
Deferred tax	**31**	243	**(568)**	129
	(3,948)	2,402	**(3,100)**	713
Other comprehensive income (loss)	**$(13,593)**	$ 2,195	**$ 4,672**	$ 2,331

15. STOCK-BASED COMPENSATION

Stock Option Plan

	Six months ended June 30, 2011		Year ended December 31, 2010	
	Weighted Average Exercise Price	**Number**	Weighted Average Exercise Price	Number
	($/share)		($/share)	
Balance, beginning of period	**$ 13.90**	**5,006,300**	$ 8.61	4,571,500
Granted	**29.55**	**120,000**	28.98	1,276,500
Exercised	**8.76**	**(220,000)**	7.90	(683,700)
Forfeited	**17.68**	**(83,000)**	8.74	(158,000)
Balance, end of period	**$ 14.45**	**4,823,300**	$ 13.90	5,006,300
Options exercisable, end of period	**$ 8.01**	**1,147,301**	$ 8.13	1,367,301

The intrinsic value of vested options at June 30, 2011 was $22.5 million (December 31, 2010 - $32.2 million).

Stock Incentive Plan

	Six months ended June 30, 2011		Twelve months ended December 31, 2010	
Stock incentive plan shares held in trust	***Shares (000's)***		*Shares (000's)*	
Balance, beginning of period	***150***	**$ 410**	*178*	$ 312
Shares purchased	***101***	**2,974**	*178*	2,901
Change in vested and unvested shares	***(166)***	**(2,628)**	*(206)*	(2,803)
Balance, end of period	***85***	**$ 756**	*150*	$ 410

($ thousands, except as noted)

Employee Benefit Costs (Recovery)

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Stock option plan	**$ (10,910)**	$ 5,612	**$ (161)**	$ 11,912
Stock incentive plan	**308**	1,144	**878**	1,576
Stock-based compensation expense (recovery)	**(10,602)**	6,756	**717**	13,488
Salaries and benefits	**4,733**	4,610	**10,267**	9,457
	$ (5,869)	$ 11,366	**$ 10,984**	$ 22,945

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management financial instruments outstanding at June 30, 2011 are as follows:

Instruments	Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX Swap	1000 Bbl/d	US $93.73/Bbl	**$ (581)**	July 2011 – December 2011
Oil – NYMEX Swap	500 Bbl/d	US $101.01/Bbl	**483**	July 2011 – May 2012
Oil – NYMEX Collar	500 Bbl/d	Floor – US $85.00/Bbl Ceiling US $116.85/Bbl	**163**	July 2011 – May 2012
			$ 65	

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

	Six months ended June 30, 2011	Year ended December 31, 2010
Fair value, beginning of period	**$ (693)**	$ 2,187
Changes in fair value	**(216)**	10,047
Settlements paid (received)	**974**	(12,927)
Fair value, end of period	**$ 65**	$ (693)

17. CONSOLIDATED STATEMENTS OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Financial commodity contracts	**$ (3,857)**	$ 5,222	**$ (758)**	$ (4,003)
Stock-based compensation	**(10,644)**	6,691	**675**	13,423
Depletion and depreciation	**34,318**	24,741	**62,005**	46,449
Exploration and evaluation	**6,256**	4,120	**12,768**	15,481
Gain on sale of property, plant, and equipment	**405**	(231)	**(39,236)**	(331)
Accretion of asset retirement obligations	**2,381**	1,934	**4,707**	3,848
Foreign exchange	**(3,913)**	1,454	**208**	488
(Income) loss from equity accounted investments	**(1,233)**	951	**40**	(39,621)
Deferred income tax	**(714)**	(4,534)	**2,362**	(5,816)
Gain on sale of investments	**(15,591)**	(3,499)	**(15,591)**	(3,499)
Other	**29**	87	**(38)**	157
	$ 7,437	$ 36,936	**$ 27,142**	$ 26,576

($ thousands, except as noted)

Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Interest paid	**$ 17,816**	$ 813	**$ 18,006**	$ 5,532
Current tax paid	**$ 45**	$ 22	**$ 45**	$ 35

Components of cash and cash equivalents

	June 30, 2011	December 31, 2010
Cash	**$ 18,574**	$ 29,679
Bankers' acceptances	**–**	44,980
	$ 18,574	$ 74,659

18. RECONCILIATION TO PREVIOUS GAAP

Paramount has applied IFRS as of the Transition Date, and all amounts presented in these unaudited Interim Consolidated Financial Statements have been prepared on a consistent basis in accordance with the Company's expected IFRS accounting policies, except where certain IFRS 1 exemptions were utilized. As noted previously, Paramount's March 31, 2011 unaudited Interim Consolidated Financial Statements included a description of the Company's IFRS accounting policies in Note 1 and reconciliations of IFRS amounts to amounts previously published in accordance Previous GAAP as of the Transition Date and as at and for the twelve months ended December 31, 2010 in Note 19.

The following information reconciles comparative amounts for the three and six months ended June 30, 2010 included in these unaudited Interim Consolidated Financial Statements to amounts that were previously published in accordance with Previous GAAP.

($ thousands, except as noted)

The following table summarizes the adjustments to Paramount's comprehensive income for the three months ended June 30, 2010 prepared under Previous GAAP to the Company's comprehensive income prepared in accordance with IFRS:

Three months ended June 30, 2010	**Previous GAAP**	Reclasses (18a)	PPE (18b)	ARO (18c)	FX (18d)	SBC (18e)	FTS (18f)	Equity Accounting (18g)	Deferred Tax (18h)	**IFRS**
Petroleum and natural gas sales	**$ 44,609**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	**$ 44,609**
Royalties	**(5,558)**	–	–	–	–	–	–	–	–	**(5,558)**
Revenue	**39,051**	–	–	–	–	–	–	–	–	**39,051**
Gain (loss) on financial commodity contracts	**(384)**	–	–	–	–	–	–	–	–	**(384)**
	38,667	–	–	–	–	–	–	–	–	**38,667**
Expenses										
Operating expense and production tax	**11,100**	–	–	–	–	–	–	–	–	**11,100**
Transportation	**4,503**	–	–	–	–	–	–	–	–	**4,503**
General and administrative	**3,190**	(267)	–	–	–	–	–	–	–	**2,923**
Stock-based compensation	**7,296**	–	–	–	–	(540)	–	–	–	**6,756**
Depletion and depreciation	**45,336**	(6,833)	(13,762)	–	–	–	–	–	–	**24,741**
Exploration	**2,096**	(2,096)	–	–	–	–	–	–	–	**–**
Dry hole	**(396)**	396	–	–	–	–	–	–	–	**–**
(Gain) loss on sale of property, plant & equipment	**(170)**	–	–	(61)	–	–	–	–	–	**(231)**
Interest	**2,903**	–	–	–	–	–	–	–	–	**2,903**
Foreign exchange	**2,197**	(834)	–	–	–	–	–	–	–	**1,363**
Exploration and evaluation	**–**	6,341	(83)	–	–	–	–	–	–	**6,258**
Accretion of asset retirement obligations	**–**	2,192	–	(258)	–	–	–	–	–	**1,934**
Acquisition transaction costs	**–**	267	–	–	–	–	–	–	–	**267**
	78,055	(834)	(13,845)	(319)	–	(540)	–	–	–	**62,517**
Income (loss) from investments	**3,304**	(3,499)	–	–	–	–	–	(756)	–	**(951)**
Other	**(766)**	3,499	–	–	–	–	–	–	–	**2,733**
Income (loss) before tax	**(36,850)**	834	13,845	319	–	540	–	(756)	–	**(22,068)**
Income tax expense (recovery)										
Current	**(10)**	–	–	–	–	–	–	–	–	**(10)**
Deferred	**(8,032)**	–	–	–	–	–	–	–	3,498	**(4,534)**
	(8,042)	–	–	–	–	–	–	–	3,498	**(4,544)**
Net income (loss)	**(28,808)**	834	13,845	319	–	540	–	(756)	(3,498)	**(17,524)**
Other comprehensive income (loss), net of tax										
Change in market value of securities	**3,226**	–	–	–	–	–	–	–	–	**3,226**
Exchange differences on translation of US subsidiaries	**–**	(834)	–	(246)	3,132	–	–	–	350	**2,402**
Reclass of accumulated (gains) to earnings	**(3,433)**	–	–	–	–	–	–	–	–	**(3,433)**
Comprehensive income (loss)	**$ (29,015)**	$ –	$ 13,845	$ 73	$ 3,132	$ 540	$ –	$ (756)	$ (3,148)	**$ (15,329)**

($ thousands, except as noted)

The following table summarizes the adjustments to Paramount's comprehensive income for the six months ended June 30, 2010 prepared under Previous GAAP to the Company's comprehensive income prepared in accordance with IFRS:

Six months ended June 30, 2010	**Previous GAAP**	Reclasses	PPE	ARO	FX	SBC	FTS	Equity Accounting	Deferred Tax	**IFRS**
		(18a)	(18b)	(18c)	(18d)	(18e)	(18f)	(18g)	(18h)	
Petroleum and natural gas sales	**$ 93,504**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	**$ 93,504**
Royalties	**(12,514)**	–	–	–	–	–	–	–	–	**(12,514)**
Revenue	**80,990**	–	–	–	–	–	–	–	–	**80,990**
Gain (loss) on financial commodity contracts	**10,081**	–	–	–	–	–	–	–	–	**10,081**
	91,071	–	–	–	–	–	–	–	–	**91,071**
Expenses										
Operating expense and production tax	**25,227**	–	–	–	–	–	–	–	–	**25,227**
Transportation	**8,588**	–	–	–	–	–	–	–	–	**8,588**
General and administrative	**6,532**	(267)	–	–	–	–	–	–	–	**6,265**
Stock-based compensation	**15,043**	–	–	–	–	(1,555)	–	–	–	**13,488**
Depletion and depreciation	**84,945**	(11,979)	(26,517)	–	–	–	–	–	–	**46,449**
Exploration	**5,150**	(5,150)	–	–	–	–	–	–	–	**–**
Dry hole	**7,754**	(7,754)	–	–	–	–	–	–	–	**–**
(Gain) loss on sale of property, plant & equipment	**(170)**	–	–	(161)	–	–	–	–	–	**(331)**
Interest	**5,576**	–	–	–	–	–	–	–	–	**5,576**
Foreign exchange	**1,008**	(449)	–	–	–	–	–	–	–	**559**
Exploration and evaluation	**–**	20,520	–	–	–	–	–	–	–	**20,520**
Accretion of asset retirement obligations	**–**	4,363	–	(515)	–	–	–	–	–	**3,848**
Acquisition transaction costs	**–**	267	–	–	–	–	–	–	–	**267**
	159,653	(449)	(26,517)	(676)	–	(1,555)	–	–	–	**130,456**
Income from investments	**11,975**	(3,499)	–	–	–	–	–	31,145	–	**39,621**
Other	**(171)**	3,499	–	–	–	–	–	–	–	**3,328**
Income (loss) before tax	**(56,778)**	449	26,517	676	–	1,555	–	31,145	–	**3,564**
Income tax expense (recovery)										
Current	**(6)**	–	–	–	–	–	–	–	–	**(6)**
Deferred	**(13,500)**	–	–	–	–	–	1,405	–	6,279	**(5,816)**
	(13,506)	–	–	–	–	–	1,405	–	6,279	**(5,822)**
Net income (loss)	**(43,272)**	449	26,517	676	–	1,555	(1,405)	31,145	(6,279)	**9,386**
Other comprehensive income (loss), net of tax										
Change in market value of securities	**5,051**	–	–	–	–	–	–	–	–	**5,051**
Exchange differences on translation of US subsidiaries	**–**	(449)	–	(76)	1,077	–	–	–	161	**713**
Reclass of accumulated (gains) to earnings	**(3,433)**	–	–	–	–	–	–	–	–	**(3,433)**
Comprehensive income (loss)	**$ (41,654)**	$ –	$ 26,517	$ 600	$ 1,077	$ 1,555	$ (1,405)	$ 31,145	$ (6,118)	**$ 11,717**

a) Reclassifications ("Reclasses")

Exploration Expense

For the three months ended June 30, 2010 exploration expense of $2.1 million and a dry hole recovery of $0.4 million that were presented as individual line items under Previous GAAP are included in exploration and evaluation expense under IFRS. For the six months ended June 30, 2010 exploration expense of $5.2 million and dry hole expense of $7.8 million are included in exploration and evaluation expense under IFRS.

Depletion and Depreciation

For the three months ended June 30, 2010 write-offs of the cost of expired mineral leases in respect of undeveloped properties of $4.6 million were included in depletion and depreciation expense under Previous GAAP but are included in exploration and evaluation expense under IFRS. For the six months ended June 30, 2010 $7.6 million was included in exploration and evaluation expense.

Accretion expense for the three months ended June 30, 2010 of $2.2 million related to asset retirement obligations that was included in depletion, depreciation and accretion under Previous GAAP is presented separately under IFRS. For the six months ended June 30, 2010, $4.4 million of accretion expense is presented separately under IFRS.

Foreign Exchange

For the three months ended June 30, 2010 $0.8 million of foreign exchange expense was reclassified to other comprehensive income. For the six months ended June 30, 2010 $0.4 million was reclassified to other comprehensive income.

Other Income

The gain on sale of available-for-sale investments for the three and six months ended June 30, 2010 of $3.5 million that was included in income (loss) from investments under Previous GAAP is included in other income under IFRS.

b) Property, Plant, and Equipment ("PPE")

Under IFRS, the type and method for calculating reserves used in determining depletion on a unit-of-production basis is not specifically prescribed. Under Previous GAAP, the Company was required to use a reserve estimate based on average commodity prices of the preceding year. On Transition Date, Paramount changed its reserves estimates for calculating depletion to use proved developed reserves based on forecasted commodity prices.

Depletion expense for the three months ended June 30, 2010 was reduced by $13.8 million under IFRS due to reduced carrying values of petroleum and natural gas properties as a result of IFRS impairment adjustments at the Transition Date and the change in the reserves used in calculating unit-of-production depletion. For the six months ended June 30, 2010, depletion expense was reduced by $26.5 million.

c) Asset Retirement Obligations ("ARO")

Under IFRS, the Company's policy is to re-measure asset retirement obligations at each reporting date using the period-end risk-free rate. Under Previous GAAP, credit-adjusted risk-free rates were applied to each obligation when initially recognized, and that rate was not adjusted for changes in discount rates in future periods. The change in discount rates decreased accretion expense for the three months ended June 30, 2010 by $0.3 million. For the six months ended June 30, 2010, accretion expense was reduced by $0.5 million.

d) Foreign Exchange Translation ("FX")

Under IFRS, assets and liabilities of subsidiaries with functional currencies that are not the presentation currency are translated at the exchange rate in effect at the end of the reporting period and the resulting exchange differences are recognized in other comprehensive income. Under Previous GAAP, the assets and liabilities of the Company's integrated foreign operations were translated into Canadian dollars using the temporal method, where non-monetary items were translated at historical exchange rates and monetary assets and liabilities were translated at the exchange rate in effect at the end of the reporting period, with resulting exchange differences recognized in earnings.

The impact on OCI for the three months ended June 30, 2010 as a result of the change in translation method was an increase of $3.1 million. For the six months ended June 30, 2010 the impact was an increase of $1.1 million.

e) Stock-based Compensation ("SBC")

Under IFRS, Paramount's stock-based compensation liability related to Paramount Options is re-measured at the end of each period using the Black-Scholes-Merton fair value option pricing model. Under Previous GAAP, the stock-based compensation liability was re-measured at the end of each period using the intrinsic value method, where the liability was calculated based on the amount by which the market price of the Company's Common Shares exceeded the exercise price of outstanding options. As a result of the change in valuation method, Paramount's stock-based compensation expense decreased by $0.5 million for the three months ended June 30, 2010. The decrease in stock-based compensation expense for the six months ended June 30, 2010 was $1.6 million.

f) Flow-through Shares ("FTS")

Under IFRS, proceeds from the issuance of flow-through shares are allocated between the sale of the shares, which are recorded in share capital, and the sale of the tax benefits, which are initially recorded as an accrued liability. The allocation is made based on the difference between the issue price of flow-through shares and the market price of the Common Shares on the date the offering is priced. The liability related to the sale of the tax benefits is reversed as qualifying expenditures intended for renunciation to subscribers are incurred, and a deferred tax liability is recorded. The difference between the deferred tax liability recorded and the liability related to the sale of tax benefits is recognized as deferred tax expense. Under Previous GAAP, when flow-through shares were issued, they were recorded in share capital based on proceeds received. Upon filing the renunciation documents with the tax authorities, a future tax liability was recognized and share capital was reduced for the tax effect of expenditures renounced to subscribers. For the six months ended June 30, 2010, the impact on deferred income tax expense was an increase of $1.4 million.

($ thousands, except as noted)

g) Equity Accounted Investments ("Equity Accounting")

The equity method of accounting requires an investor to adjust the carrying value of its investment in an investee for the investor's proportionate share of changes in the investee's net assets. For the three months ended June 30, 2010 income from equity-accounted investments decreased by $0.8 million to reflect Paramount's proportionate share of the adjustments Trilogy and MGM Energy recorded in respect of their IFRS transitions. For the six months ended June 30, 2010 the impact was an increase of $31.1 million.

h) Deferred Income Tax ("Deferred Tax")

Deferred income tax expense for the three months ended June 30, 2010 was increased by $3.5 million as a result of the IFRS adjustments. The impact for the six months ended June 30, 2010 was an increase in deferred tax expense of $6.3 million. Deferred income tax on foreign exchange differences on translation of the US subsidiaries included in other comprehensive income was $0.4 million for the three months ended June 30, 2010 and $0.2 million for the six months ended June 30, 2010.

The following table reconciles Shareholders' Equity as at June 30, 2010 under Previous GAAP to Shareholders' Equity prepared in accordance with IFRS:

As at	**June 30, 2010**
Shareholders' Equity – Previous GAAP	**$ 732,897**
IFRS Adjustments:	
Change in asset retirement obligations	**(82,464)**
Adjustments to PP&E related to impairments and changes in depletion	**(38,896)**
Change in stock-based compensation liability	**(1,989)**
Change in currency translation method related to foreign subsidiaries	**(3,920)**
Adjustments to equity accounted investments - changes in investees' equity due to IFRS	**23,597**
Adjustment to flow-through shares	**(2,195)**
Adjustment to deferred tax	**32,284**
Shareholders' Equity – IFRS	**$ 659,314**

The following table reconciles the Consolidated Statement of Cash Flows prepared under Previous GAAP to the Company's Statement of Cash Flows prepared in accordance with IFRS:

($ thousands, except as noted)

	Three months ended June 30, 2010	Six months ended June 30, 2010
Cash from operating activities under Previous GAAP	$ 15,009	$ 32,640
Adjustments under IFRS:		
Exploration costs	(2,138)	(5,039)
Common shares purchased under stock incentive plan	2,901	2,901
Foreign exchange on cash	(1,130)	(295)
Cash from operating activities under IFRS	**$ 14,642**	**$ 30,207**
Cash from financing activities under Previous GAAP	$ 50,680	$ 51,799
Adjustment under IFRS:		
Common shares purchased under stock incentive plan	(2,901)	(2,901)
Cash from financing activities under IFRS	**$ 47,779**	**$ 48,898**
Cash used in investing activities under Previous GAAP	$ (97,495)	$ (153,288)
Adjustment under IFRS:		
Exploration costs	2,138	5,039
Cash used in investing activities under IFRS	**$ (95,357)**	**$ (148,249)**
Net decrease	(32,936)	(69,144)
Foreign exchange on cash and cash equivalents	1,130	295
	$ (31,806)	**$ (68,849)**

CORPORATE INFORMATION

OFFICERS

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

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

B. K. Lee
Chief Financial Officer

E. M. Shier
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G.W. P. McMillan
Corporate Operating Officer

D.S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

P.R. Kinvig
Controller

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

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

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

T. E. Claugus (4)
President, GMT Capital Corp.
Atlanta, Georgia

J. C. Gorman (1) (3) (4)
Retired
Calgary, Alberta

D. Jungé C.F.A. (4)
Chairman of the Board and Chief Executive Officer
Pitcairn Trust Company
Bryn Athyn, Pennsylvania

D. M. Knott (4)
Managing General Partner
Knott Partners, L.P.
Syosset, New York

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

S. L. Riddell Rose
President and Chief Executive Officer

Perpetual Energy Inc.
Calgary, Alberta

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

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

HEAD OFFICE

4700 Bankers Hall West
888 Third Street S. W.
Calgary, Alberta
Canada T2P 5C5
Telephone: (403) 290-3600
Facsimile: (403) 262-7994
www.paramountres.com

CONSULTING ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

BANKERS

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

The Royal Bank of Scotland N.V. (Canada) Branch
Calgary, Alberta

The Toronto-Dominion Bank
Calgary, Alberta

HSBC Bank Canada
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange ("POU")