Financial and Operating Highlights [1]

($ millions, except as noted)

Three Months Ended	June 30, 2008	March 31, 2008	Change %
Financial			
Petroleum and natural gas sales	**102.9**	77.0	34
Funds flow from operations	**46.3**	24.2	91
Per share – diluted ($/share)	**0.68**	0.36	89
Net loss	**(31.9)**	(38.0)	16
Per share – diluted ($/share)	**(0.47)**	(0.56)	16
Capital expenditures [2]	**10.5**	64.1	(84)
Investments [3]	**467.7**	387.3	21
Total assets	**1,193.6**	1,217.0	(2)
Net debt [4]	**48.0**	75.9	37
Common shares outstanding (thousands)	**67,739**	67,693	–
Operating			
Sales volumes:			
Natural gas (MMcf/d)	**67.7**	65.8	3
Oil and NGLs (Bbl/d)	**3,611**	3,811	(5)
Total (Boe/d)	**14,895**	14,775	1
Gas weighting	**76%**	74%	–
Total wells drilled (gross)	**8**	28	(71)

(1) Readers are referred to the advisories concerning non-GAAP measures and barrels of oil equivalent conversions under the heading "Advisories" in this document.
(2) Exploration and development capital expenditures only.
(3) Based on the period-end closing prices of publicly traded enterprises and book value of the remaining investments.
(4) Net debt, a non-GAAP measure, is defined and calculated in the Liquidity and Capital Resources section of the Management's Discussion and Analysis and excludes risk management assets and liabilities and stock-based compensation liabilities. Prior period comparative amounts have been restated to conform to the current year presentation.

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Second Quarter Overview

- Funds flow from operations increased by 91 percent to $46.3 million in the second quarter from $24.2 million in the first quarter due to higher realized commodity prices offset by higher payments on commodity contract settlements.
- The Company reported a net loss of $31.9 million in the second quarter of 2008 compared to net loss of $38.9 million for the first quarter. Current quarter pre-tax earnings included $66.7 million of mark-to-market losses on commodity contracts and stock based compensation charges.

Principal Properties

- Second quarter netback increased by $33.0 million from the first quarter to $67.8 million, largely due to higher realized commodity prices and lower operating expenses.
- Received regulatory approval to drill up to 4 wells per section on 62 sections of land in Kaybob and added approximately $20 million to Kaybob's 2008 capital budget to drill an additional 11 (6.1 net) wells.
- Initiated a process to explore the sale of properties in the Cameron Hills, Bistcho Lake, Negus, and Larne areas in Alberta and the Northwest Territories. On July 29, 2008, the initial bidding process closed, the Company is presently evaluating the bidding results.
- Continued to dispose of non-core assets and evaluate the potential sale of other non-core properties.

Strategic Investments

- Purchased $5.1 million of additional lands.
- Continued participation in Trilogy's dividend reinvestment plan increasing ownership to 21.4 percent as of June 30, 2008.
- During July 2008, commenced construction of a third drilling rig expected to be in service in 2009.
- In July 2008, invested $12.3 million in 22.4 million common shares of MGM Energy, pursuant to MGM Energy's public offering. Paramount maintained a 16.7 percent equity ownership following the transaction.

Corporate

- Interest and financing charges for the six months ended June 30, 2008 decreased to $5.1 million from $25.9 million for the prior year comparable period on lower average debt levels.

REVIEW OF OPERATIONS

Average daily sales volumes for the three months ended June 30, 2008 and March 31, 2008 were as follows:

	Q2 2008			Q1 2008			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**19.3**	**567**	**3,782**	20.3	770	4,144	(1.0)	(203)	(362)
Grande Prairie	**13.1**	**582**	**2,769**	8.8	689	2,161	4.3	(107)	608
Northern	**19.8**	**872**	**4,166**	19.3	760	3,983	0.5	112	183
Southern	**14.4**	**1,590**	**3,991**	15.6	1,586	4,183	(1.2)	4	(192)
Other	**1.1**	**-**	**187**	1.8	6	304	(0.7)	(6)	(117)
Total	**67.7**	**3,611**	**14,895**	65.8	3,811	14,775	1.9	(200)	120

Kaybob

Kaybob sales volumes decreased nine percent to 3,782 Boe/d mainly due to natural declines, primarily in Musreau. Activities were limited during the second quarter due to the annual spring road bans restricting heavy equipment from entering the area.

Kaybob received regulatory approval to allow the drilling of up to four wells per section in 62 sections of land throughout the Musreau, Resthaven, and Smoky areas. With a combination of increased gas prices and approval for increased well density, Kaybob's capital expenditure budget was increased by $20 million to drill and equip an additional 11 (6.1 net) wells. Paramount anticipates drilling from its first multi-well pad in Resthaven in the fourth quarter, with production expected to be on-stream during the first quarter of 2009.

Grande Prairie

Grande Prairie reported sales volumes increased 28 percent to 2,769 Boe/d. During the second quarter, Paramount resolved a dispute with a joint venture partner regarding the historic payout status of a well, resulting in Grande Prairie reporting a one-time addition to second quarter sales volumes of approximately 500 Boe/d. Excluding the impact of this adjustment, sales volumes increased five percent to approximately 2,270 Boe/d mainly due to improved production management and optimization.

Activity in Grande Prairie was limited due to seasonal access restrictions. At Mirage, three (0.9 net) wells were drilled as a result of a farmout. These wells are scheduled to be completed and tied-in during the third quarter with net production expected to be 1 MMcf/d. Planned workovers at the Karr Montney gas project are underway and production from two wells is expected late summer.

At Crooked Creek, startup of a water injection well continues to be deferred due to delays in obtaining regulatory approval. Regulatory hearings have commenced and water injection is expected to start after regulatory approval, which is anticipated to be received during the fourth quarter. The water injection well was designed to inject sufficient volumes of water to increase oil production by 5,000 Boe/d (850 Boe/d net) under good production practice.

During the fourth quarter, five (3.0 net) wells are planned to be drilled at Crooked Creek, and one well and one recompletion are planned at Karr.

Northern

Northern sales volumes increased five percent to 4,166 Boe/d mainly due to the tie-in of three (1.5 net) wells during the first week of April at Bistcho and workover activities at Cameron Hills, partly offset by natural declines and a pipeline failure at West Bistcho which has affected 1.2 MMcf/d of net production since the beginning of June. First quarter production was negatively impacted by the scheduled Bistcho plant turnaround in January.

During the quarter, Paramount initiated a process to explore the sale of properties in the Cameron Hills, Bistcho Lake, Negus, and Larne areas in Alberta and the Northwest Territories. Second quarter production from these properties was approximately 3,100 Boe/d of which 72% was natural gas.

Northern's 2008 capital program was substantially completed during the first quarter as the properties are predominately accessible only during winter. Activities continue to focus on planning for the 2009 capital program and the disposition process.

Southern

Southern sales volumes declined five percent to 3,991 Boe/d as production increases from wells brought on production in North Dakota and Montana were offset by natural declines from properties throughout Southern Alberta.

The majority of capital expenditures for the quarter were directed towards North Dakota. During the quarter, four (3.5 net) wells were drilled in North Dakota, of which one (0.96 net) well was completed and on production at the end of July. Development of the Outlook field in Montana continued with two (0.5 net) oil wells completed during the quarter, increasing net production by 50 Boe/d.

Capital expenditures for the remainder of year will continue to focus on North Dakota, targeting primarily light oil from the Bakken formation. Southern anticipates drilling 11 (10.0 net) wells in North Dakota during the remainder of the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

Paramount is an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of petroleum and natural gas. Management's strategy is to maintain a balanced portfolio of opportunities, to grow reserves and production in Paramount's Principal Properties while maintaining a large inventory of undeveloped acreage, and to selectively pursue higher risk/higher return prospects. Paramount has spun-out three public entities: (i) Paramount Energy Trust in February, 2003; (ii) Trilogy Energy Trust ("Trilogy") in April, 2005; and (iii) MGM Energy Corp. ("MGM Energy") in January, 2007. Paramount continues to hold investments in the securities of Trilogy and MGM Energy in its portfolio of Strategic Investments.

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

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

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

Strategic Investments include investments in other entities, including affiliates, and development stage assets where there is no near-term expectation of production, but a longer-term value proposition based on spin-outs, sales, or future revenue generation.

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

Second Quarter 2008 Highlights

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
($ millions, except as noted)				
Financial				
Net (loss) earnings	**(31.9)**	671.0	**(69.9)**	654.9
per share - basic ($/share)	**(0.47)**	9.46	**(1.03)**	9.24
per share - diluted ($/share)	**(0.47)**	9.34	**(1.03)**	9.15
Funds flow from operations	**46.3**	18.0	**70.5**	56.0
per share - diluted ($/share)	**0.68**	0.25	**1.04**	0.78
Petroleum and natural gas sales	**102.9**	80.9	**179.9**	159.7
Total assets			**1,193.6**	1,897.6
Long-term debt			**93.8**	380.2
Net debt			**48.0**	(145.4)
Operational				
Sales volumes				
Natural gas (MMcf/d)	**67.7**	89.5	**66.7**	87.3
Oil and NGLs (Bbl/d)	**3,611**	3,561	**3,711**	3,598
Total (Boe/d)	**14,895**	18,480	**14,835**	18,129
Average realized price				
Natural gas ($/Mcf)	**10.54**	7.35	**9.13**	7.53
Oil and NGLs ($/Bbl)	**115.55**	64.66	**102.14**	62.74
Wells drilled (net)	**4**	1	**20**	83

Second Quarter Overview

- Funds flow from operations increased by 157 percent to $46.3 million from the prior year comparable quarter due to higher realized commodity prices and lower interest expense, partially offset by higher payments on commodity contract settlements.
- The Company reported a net loss of $31.9 million in the second quarter of 2008 compared to net earnings of $671.0 million in 2007. Current quarter pre-tax earnings included $66.7 million of mark-to-market losses on commodity contracts and stock based compensation charges. Prior year net earnings included gains on the disposition of shares of North American Oil Sands Corporation ("North American") and properties in the Surmont area.

Principal Properties

- Netback increased by $26.1 million to $67.8 million, largely due to higher realized commodity prices and lower operating expenses.
- Received regulatory approval to drill up to 4 wells per section on 62 sections of land in Kaybob and added approximately $20 million to Kaybob's 2008 capital budget to drill an additional 11 (6.1 net) wells.
- Initiated process for the potential disposition of several Northern properties.
- Continued to dispose of non-core assets.

Strategic Investments

- Purchased $5.1 million of additional lands.
- Continued participation in Trilogy's dividend reinvestment plan, increasing ownership to 21.4 percent as of June 30, 2008

Corporate

- Interest and financing charges decreased to $2.4 million from $14.4 million in the second quarter of 2007.

Funds Flow From Operations

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

($ millions, except as noted)	Three Months Ended June 30 **2008**	2007	Six Months Ended June 30 **2008**	2007
Cash flow from operating activities	**40.5**	39.8	**73.6**	69.0
Change in non-cash working capital	**5.8**	(21.8)	**(3.1)**	(13.0)
Funds flow from operations	**46.3**	18.0	**70.5**	56.0
Funds flow from operations ($/Boe)	**34.15**	10.73	**26.10**	17.05

Paramount's second quarter funds flow from operations increased in 2008 to $46.3 million from $18.0 million in 2007. Funds flow from operations for the six months ended June 30, 2008 increased to $70.5 million from $56.0 million in 2007. The increases were primarily due to higher realized commodity prices and lower interest expense offset by higher settlements of financial commodity contracts in 2008.

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

($ millions)	Three Months Ended June 30	Six Months Ended June 30
Funds Flow From Operations - 2007	18.0	56.0
Favourable (unfavourable) variance		
Petroleum and natural gas sales	22.1	20.2
Settlements of financial commodity contracts	(13.4)	(32.7)
Royalties	(1.4)	(1.5)
Operating and transportation expense	5.5	3.8
General and administrative expense	2.7	3.2
Stock-based compensation expense	(1.4)	(1.6)
Interest expense	11.3	19.9
Distributions from equity investments	0.4	(0.1)
Other income	1.1	3.1
Other	1.4	0.2
Total variance	28.3	14.5
Funds Flow From Operations - 2008	**46.3**	**70.5**

Net Earnings (Loss)

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

($ millions)	Three Months Ended June 30	Six Months Ended June 30
Net Earnings- 2007	671.0	654.9
Favourable (unfavourable) variance		
Impact of variances in funds flow from operations	28.3	14.5
Financial commodity contracts – net of settlements	(42.3)	(36.5)
Gain on sale of investments	(528.7)	(528.7)
Stock-based compensation	(6.0)	(15.6)
Depletion, depreciation and accretion	10.4	15.8
Dry hole	–	42.3
Gain or loss on sale of property, plant and equipment	(282.4)	(283.0)
Income from equity investments	(18.2)	(47.1)
Non-controlling interest	(1.1)	(11.6)
Unrealized foreign exchange	(24.1)	(29.3)
Future income tax	162.8	152.6
Other	(1.6)	1.8
Total variance	(702.9)	(724.8)
Net Loss- 2008	**(31.9)**	**(69.9)**

Second quarter earnings in 2007 included the gains on disposal of shares of North American and properties in the Surmont area. Earnings for the three and six months ended June 30, 2007 also include MGM Energy's net loss of $5.8 million and $30.8 million, respectively. MGM Energy's results of operations were consolidated with Paramount's until May 29, 2007.

Principal Properties

Netbacks and Segment Earnings (Loss)

	Three Months Ended June 30		Six Months Ended June 30	
($ millions)	**2008**	2007	**2008**	2007
Revenue	**102.9**	80.9	**179.9**	159.7
Royalties	**(15.5)**	(14.1)	**(28.8)**	(27.3)
Operating expenses	**(15.9)**	(20.9)	**(40.9)**	(43.9)
Transportation expenses	**(3.7)**	(4.2)	**(7.7)**	(8.5)
Netback	**67.8**	41.7	**102.5**	80.0
Settlements of financial commodity contracts	**(12.9)**	0.5	**(15.1)**	17.7
Netback including settlements of commodity contracts	**54.9**	42.2	**87.4**	97.7
Other Principal Property items (see below)	**(75.5)**	(29.5)	**(125.2)**	(92.4)
Segment earnings (loss)	**(20.6)**	12.7	**(37.8)**	5.3

Revenue

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2008**	2007	% Change	**2008**	2007	% Change
Natural gas sales	**64.9**	60.1	8	**110.9**	119.0	(7)
Oil and NGLs sales	**38.0**	20.8	83	**69.0**	40.7	70
Total	**102.9**	80.9	27	**179.9**	159.7	13

Revenue for the second quarter of 2008 from natural gas, oil and NGLs sales was $102.9 million, an increase of 27 percent from 2007 due primarily to the impact of higher prices, partially offset by lower sales volumes. Similarly, revenue for the six month period ended June 30, 2008 increased to $179.9 million from $159.7 million in 2007 due to higher prices partially offset by lower sales volumes.

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

Three Months

($ millions)	Natural gas	Oil and NGLs	Total
Three months ended June 30, 2007	60.1	20.8	80.9
Effect of changes in prices	19.6	16.8	36.4
Effect of changes in sales volumes	(14.8)	0.4	(14.4)
Three months ended June 30, 2008	**64.9**	**38.0**	**102.9**

Six Months

($ millions)	Natural gas	Oil and NGLs	Total
Six months ended June 30, 2007	119.0	40.7	159.7
Effect of changes in prices	19.4	26.5	45.9
Effect of changes in sales volumes	(27.5)	1.8	(25.7)
Six months ended June 30, 2008	**110.9**	**69.0**	**179.9**

Sales Volumes

	Three months ended June 30								
	2008			2007			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**19.3**	**567**	**3,782**	26.5	523	4,937	(7.2)	44	(1,155)
Grande Prairie	**13.1**	**582**	**2,769**	12.7	673	2,791	0.4	(91)	(22)
Northern	**19.8**	**872**	**4,166**	29.3	963	5,841	(9.5)	(91)	(1,675)
Southern	**14.4**	**1,590**	**3,991**	19.8	1,401	4,713	(5.4)	189	(722)
Other	**1.1**	**–**	**187**	1.2	1	198	(0.1)	(1)	(11)
Total	**67.7**	**3,611**	**14,895**	89.5	3,561	18,480	(21.8)	50	(3,585)

Second quarter average daily natural gas sales volumes decreased to 67.7 MMcf/d in 2008 compared to 89.5 MMcf/d in 2007. The decrease was primarily a result of production declines in Northern at Bistcho and Cameron Hills as well as the shut-in of the Maxhamish facility in October 2007 and Liard West in March of 2008. Production increases from new wells in Kaybob were more than offset by normal production declines as Kaybob's 2008 capital spending was lower compared to 2007. Other decreases included the impacts of property sales in Southern. Grande Prairie's volumes include a one time increase of approximately 2.6 MMcf/d related to the resolution of a dispute regarding the payout status of a well.

Second quarter average daily crude oil and NGLs sales volumes increased to 3,611 Bbl/d in 2008 compared to 3,561 Bbl/d in 2007 primarily as a result of Paramount's North Dakota oil program. In addition, Grande Prairie's 2008 volumes include a one time increase of approximately 80 Bbl/d related to the resolution of the payout dispute. These increases were partially offset by natural declines and facility shut-ins in Northern and normal declines in Grande Prairie.

	Six months ended June 30								
	2008			2007			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**19.8**	**668**	**3,963**	24.2	465	4,495	(4.4)	203	(532)
Grande Prairie	**11.0**	**636**	**2,465**	13.1	778	2,961	(2.1)	(142)	(496)
Northern	**19.6**	**816**	**4,074**	28.3	976	5,689	(8.7)	(160)	(1,615)
Southern	**15.0**	**1,588**	**4,087**	20.1	1,379	4,719	(5.1)	209	(632)
Other	**1.3**	**3**	**246**	1.6	–	265	(0.3)	3	(19)
Total	**66.7**	**3,711**	**14,835**	87.3	3,598	18,129	(20.6)	113	(3,294)

Volume variances for the six month period ended June 30, 2008 compared to June 30, 2007 are generally consistent with those for the three month period.

During the second quarter, Paramount initiated a process to explore the sale of properties in the Cameron Hills, Bistcho Lake, Negus, and Larne areas in Alberta and the Northwest Territories. Second quarter production from these properties was approximately 3,100 Boe/d. On July 29, 2008, the initial bidding process closed, Paramount is presently evaluating the bidding results. In addition, Paramount continues to investigate the potential sale of other non-core properties.

Commodity Prices

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

	Three Months Ended June 30			Six Months Ended June 30		
	2008	2007	% Change	**2008**	2007	% Change
Natural Gas						
New York Mercantile Exchange (US$/MMbtu)	**10.93**	7.55	45	**9.48**	7.16	32
AECO (Cdn$/GJ)	**8.87**	6.99	27	**7.82**	7.03	11
Crude Oil						
West Texas Intermediate (US$/Bbl)	**123.98**	65.03	91	**110.94**	61.65	80
Edmonton par (Cdn$/Bbl)	**126.25**	72.62	74	**112.19**	70.19	60
Foreign Exchange						
Cdn$/1US$	**1.010**	1.098	(8)	**1.007**	1.135	(11)

Average Realized Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2008	2007	% Change	**2008**	2007	% Change
Natural gas ($/Mcf)	**10.54**	7.35	43	**9.13**	7.53	21
Oil and NGLs ($/Bbl)	**115.55**	64.66	79	**102.14**	62.74	63
Total ($/Boe)	**75.92**	48.08	58	**66.62**	48.67	37

Paramount’s second quarter average realized natural gas price for 2008, before settlements of financial commodity contracts, was $10.54/Mcf compared to $7.35/Mcf in 2007. Paramount’s average realized natural gas price is based on prices received at the various markets in which it sells natural gas. Paramount’s natural gas sales portfolio primarily consists of sales priced at the Alberta spot market, Eastern Canadian markets, and California markets. Paramount’s natural gas production is sold in a combination of daily and monthly contracts.

Second quarter average realized oil and NGLs price for 2008, before settlements of financial commodity contracts, increased to $115.55/Bbl compared to $64.66/Bbl in 2007. Paramount's Canadian oil and NGLs sales portfolio primarily consists of sales priced relative to Edmonton Par, adjusted for transportation and quality differentials. Paramount’s United States oil and NGLs sales portfolio is sold at the lease with differentials negotiated relative to West Texas Intermediate crude oil prices.

Commodity Price Management

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

Settlements of financial commodity contracts were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
($ millions, except as noted)	**2008**	2007	**2008**	2007
(Paid) received on settlement				
Gas contracts	**(6.8)**	–	**(6.8)**	15.2
Crude contracts	**(6.1)**	0.5	**(8.3)**	2.5
Total	**(12.9)**	0.5	**(15.1)**	17.7
$/Boe	**(9.52)**	0.30	**(5.61)**	5.39

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

($ millions, except as noted)	**Total Notional**	**Average Price**	**Fair Value**	**Remaining Term**
Gas - NYMEX	40,000 MMbtu/d	Fixed - US$9.07/MMbtu	**(21.3)**	July 2008 - October 2008
Gas - NYMEX	20,000 MMbtu/d	Fixed - US$9.99/MMbtu	**(12.4)**	November 2008 - March 2009
Gas - AECO	20,000 GJ/d	Fixed - CAD $9.50/GJ	**(8.2)**	November 2008 - March 2009
Crude - WTI	2,000 Bbl/d	Fixed - US$90.40/Bbl	**(18.8)**	July 2008 - December 2008
Crude - WTI	1,000 Bbl/d	Fixed - US$133.65/Bbl	**(2.5)**	January 2009 - December 2009
			(63.2)	

As at August 6, 2008, the estimated fair value of the remaining outstanding commodity contracts was a gain of $2.4 million.

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

Royalties

	Three Months Ended June 30		Six Months Ended June 30	
($ millions, except as noted)	**2008**	2007	**2008**	2007
Natural gas	**9.4**	10.7	**18.0**	20.1
Oil and NGLs	**6.1**	3.4	**10.8**	7.2
Total	**15.5**	14.1	**28.8**	27.3
$/Boe	**11.43**	8.38	**10.66**	8.30
Royalty rate (%)	**15.1**	17.4	**16.0**	17.1

Second quarter royalties increased to $15.5 million in 2008 compared to $14.1 million in 2007. Paramount's natural gas royalties decreased by 12 percent, and includes the impacts of higher annual gas cost allowance adjustments and higher custom processing credits. Oil and NGLs royalties increased by 80 percent due to price and production increases.

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

($ millions)	Total
Three months ended June 30, 2007	14.1
Effect of changes in revenue	3.8
Effect of changes in royalty rates	(2.4)
Three months ended June 30, 2008	**15.5**

($ millions)	Total
Six months ended June 30, 2007	27.3
Effect of changes in revenue	3.4
Effect of changes in royalty rates	(1.9)
Six months ended June 30, 2008	**28.8**

Operating Expense

	Three Months Ended June 30			Six Months Ended June 30		
($ millions, except as noted)	**2008**	2007	% Change	**2008**	2007	% Change
Operating expense	**15.9**	20.9	(24)	**40.9**	43.9	(7)
$/Boe	**11.74**	12.42	(5)	**15.12**	13.41	13

Operating expenses in the second quarter of 2008 decreased 24 percent to $15.9 million compared to $20.9 million in 2007. The decrease is primarily due to asset dispositions in Northern, plant equalizations in Kaybob and overall lower volumes. Operating expenses have increased in Southern consistent with production increases. Operating expenses for the six month period include higher first quarter operating costs associated with Northern.

Transportation Expense

	Three Months Ended June 30			Six Months Ended June 30		
($ millions, except as noted)	**2008**	2007	% Change	**2008**	2007	% Change
Transportation expense	**3.7**	4.2	(12)	**7.7**	8.5	(9)
$/Boe	**2.73**	2.49	10	**2.86**	2.58	11

Second quarter transportation expense decreased to $3.7 million in 2008 compared to $4.2 million in 2007, primarily as a result of lower volumes, particularly in Northern. Transportation costs per Boe increased in the current year due to the impacts of less production volume over fixed costs.

Per Unit Netbacks

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Natural gas ($/Mcf)				
Revenue	**10.54**	7.35	**9.13**	7.53
Royalties	**(1.52)**	(1.31)	**(1.48)**	(1.27)
Operating expenses	**(1.86)**	(2.02)	**(2.59)**	(2.21)
Transportation	**(0.55)**	(0.51)	**(0.57)**	(0.52)
Netback	**6.61**	3.51	**4.49**	3.53
Settlements of financial commodity contracts	**(1.11)**	–	**(0.56)**	0.96
Netback including settlements of financial commodity contracts	**5.50**	3.51	**3.93**	4.49
Conventional oil ($/Bbl)				
Revenue	**117.09**	65.91	**103.00**	62.73
Royalties	**(18.56)**	(11.42)	**(15.09)**	(10.38)
Operating expenses	**(13.59)**	(14.00)	**(14.05)**	(14.82)
Transportation	**(1.13)**	(0.94)	**(1.25)**	(0.80)
Netback	**83.81**	39.55	**72.61**	36.73
Settlements of financial commodity contracts	**(24.34)**	1.91	**(16.27)**	4.73
Netback including settlements of financial commodity contracts	**59.47**	41.46	**56.34**	41.46
Natural gas liquids ($/Bbl)				
Revenue	**110.73**	64.47	**99.48**	65.15
Royalties	**(19.03)**	(7.02)	**(18.58)**	(13.45)
Operating expenses	**(13.03)**	(12.13)	**(13.59)**	(11.13)
Transportation	**(0.07)**	(1.10)	**(0.95)**	(1.20)
Netback	**78.60**	44.22	**66.36**	39.37
All products ($/Boe)				
Revenue	**75.92**	48.08	**66.62**	48.67
Royalties	**(11.43)**	(8.38)	**(10.66)**	(8.30)
Operating expenses	**(11.74)**	(12.42)	**(15.12)**	(13.41)
Transportation	**(2.73)**	(2.49)	**(2.86)**	(2.58)
Netback	**50.02**	24.79	**37.98**	24.38
Settlements of financial commodity contracts	**(9.52)**	0.30	**(5.61)**	5.39
Netback including settlements of financial commodity contracts	**40.50**	25.09	**32.37**	29.77

Other Principal Property Items

	Three Months Ended June 30		Six Months Ended June 30	
($ millions)	**2008**	2007	**2008**	2007
Depletion, depreciation and accretion	**30.1**	41.1	**57.2**	74.2
Exploration	**1.6**	1.6	**5.4**	4.2
Dry hole	**–**	–	**5.3**	7.8
Loss (gain) on sale of property plant and equipment	**0.3**	(11.2)	**0.8**	(11.2)
Commodity contracts – net of settlements	**43.4**	1.1	**56.2**	19.8
Other items	**0.1**	(3.1)	**0.3**	(2.4)
Total	**75.5**	29.5	**125.2**	92.4

Depletion, depreciation and accretion expense ("DD&A expense") for the second quarter of 2008 decreased to $30.1 million or $22.20/Boe compared to $41.1 million or $24.44/Boe in 2007. The decrease in DD&A expense is primarily a result of lower production and lower per-unit depletion rates. The commodity contract losses are unrealized and relate to future production periods.

Strategic Investments

	Three Months Ended June 30		Six Months Ended June 30	
($ millions)	**2008**	2007	**2008**	2007
Income (loss) from equity investments	**(5.9)**	540.9	**(18.6)**	557.1
Exploration	**–**	(1.0)	**–**	(3.6)
Dry hole	**–**	–	**–**	(39.8)
Other expenses	**(0.8)**	(2.1)	**(1.9)**	(4.8)
Other income	**1.0**	271.4	**1.4**	271.4
Non-controlling interest	**–**	1.0	**–**	11.4
Segment Earnings (Loss)	**(5.7)**	810.2	**(19.1)**	791.7

Strategic Investments at June 30, 2008 include the following:

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

MEG Energy is a private company focused on oil sands development in the Athabasca region of Alberta. MEG Energy owns a 100 percent working interest in over 750 square miles of oil sands leases including 80 contiguous square miles of oil sands leases in the Christina Lake area.

Paxton is a private company, developing technology to capture greenhouse gas for improved hydrocarbon recovery and power generation where bitumen based fuels are economically available. Nuloch is a TSX Venture listed oil and gas company with properties in Alberta and Southeast Saskatchewan.

Paramount Drilling owns and operates two rigs in North Dakota, used for Paramount's US operations.

Second quarter income from equity investments includes an equity loss of $5.0 million from Trilogy. Income from equity investments for the six months ended June 30, 2008 includes equity losses of $5.3 million from Trilogy and $8.9 million from MGM Energy, in addition to a $4.5 million dilution loss from

MGM Energy. Prior year income from equity investments included the gain on disposal of shares of North American of $528.6 million.

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

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

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

Corporate

	Three Months Ended June 30		Six Months Ended June 30	
($ millions)	**2008**	2007	**2008**	2007
General and administrative	**6.5**	7.8	**14.2**	14.4
Stock-based compensation	**10.3**	2.7	**13.9**	(4.1)
Interest and financing charges	**2.4**	14.4	**5.1**	25.9
Foreign exchange (gain) loss	**0.3**	(21.7)	**2.4**	(24.7)
Other expenses	**0.5**	0.3	**2.2**	0.6
Other income	**(0.5)**	(0.5)	**(2.4)**	(0.2)
Corporate costs	**19.5**	3.0	**35.4**	11.9

Second quarter Corporate segment net costs totalled $19.5 million in 2008 compared $3.0 million in 2007. The cost increase was primarily related to foreign exchange gains in 2007 and the impacts of higher stock based compensation in 2008.

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

Interest and financing charges for the second quarter 2008 were $2.4 million compared to $14.4 million in 2007, as Paramount had lower average debt levels in the second quarter of 2008 compared to 2007. Foreign exchange gains and losses primarily result from US denominated debt partially offset by the foreign exchange collar. During 2007, Paramount had higher levels of US denominated debt exposed to foreign exchange rate changes.

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

Capital Expenditures

($ millions)	Three Months Ended June 30 **2008**	2007	Six Months Ended June 30 **2008**	2007
Geological and geophysical	**1.6**	1.7	**5.3**	6.3
Drilling and completions	**8.9**	8.1	**56.4**	91.6
Production equipment and facilities	**–**	17.2	**12.9**	67.5
Exploration and development expenditures	**10.5**	27.0	**74.6**	165.4
Land and property acquisitions	**1.8**	3.2	**4.0**	10.0
Cash proceeds on dispositions	**(6.2)**	(13.8)	**(12.6)**	(14.8)
Principal Properties	**6.1**	16.4	**66.0**	160.6
Strategic Investments -net	**5.1**	(66.3)	**5.1**	(23.9)
Corporate	**0.5**	0.3	**0.7**	0.5
Net capital expenditures	**11.7**	(49.6)	**71.8**	137.2

Exploration and development expenditures for the six month period ended June 30, 2008 totalled $74.6 million compared to $165.4 million in 2007. Second quarter activities were focused on Southern's North Dakota oil program. Second quarter activities within the other COU's were minimal due to limited seasonal access. During the second quarter, Kaybob received regulatory approval to downspace to four wells per section on 62 sections of land. As a result, Paramount's 2008 exploration and development budget has been increased to $150 million from $130 million. Other capital spending for the remainder of the year will be directed at the North Dakota oil program and to a lesser extent Grande Prairie. Northern's capital program is substantially complete for 2008. Current year dispositions include facilities and property in Northern and Southern as part of Paramount's strategy to divest of non-core assets.

Strategic Investments capital expenditures for 2008 consist of land acquisitions. Prior year Strategic Investment capital expenditures included spending related to oil sands projects, MGM Energy and drilling rigs net of the Surmont sale proceeds.

Wells drilled are as follows:

(wells drilled)	Three Months Ended June 30 **2008**		2007		Six Months Ended June 30 **2008**		2007	
	Gross[1]	**Net**[2]	Gross[1]	Net[2]	**Gross**[1]	**Net**[2]	Gross[1]	Net[2]
Gas	**4**	**1**	1	1	**20**	**10**	49	32
Oil	**4**	**3**	–	–	**14**	**9**	9	5
Oil sands evaluation	**–**	**–**	–	–	**–**	**–**	43	43
Dry & Abandoned [3]	**–**	**–**	–	–	**2**	**1**	4	3
Total	**8**	**4**	1	1	**36**	**20**	105	83

(1) Gross wells is the number of wells in which Paramount has a working interest or a royalty interest that may be converted to a working interest.
(2) Net wells is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.
(3) Dry & Abandoned for 2007 includes two (2.0 net) wells drilled by MGM Energy.

Liquidity and Capital Resources

($ millions)	June 30, 2008	December 31, 2007	Change
Working capital deficit (surplus) [(1)]	**(46.9)**	(152.0) [(2)]	105.1
Credit facility	**–**	–	–
US Senior Notes [(3)]	**94.9**	136.5	(41.6)
Net debt	**48.0**	(15.5)	63.5
Share capital	**306.4**	313.8	(7.4)
Contributed surplus	**1.9**	1.4	0.5
Retained earnings	**523.5**	593.5	(70.0)
Accumulated other comprehensive income	**7.9**	–	7.9
Total	**887.7**	893.2	(5.5)

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

Working Capital

Paramount's working capital surplus (excluding risk management assets and liabilities and stock based compensation liabilities) at June 30, 2008 was $46.9 million compared to $152.0 million at December 31, 2007. Included in working capital at June 30, 2008 was $46.2 million in cash and cash equivalents. The decrease in working capital is primarily due to capital spending, repurchases of US Senior Notes, and investments in Trilogy, Nuloch, and Paxton.

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

Bank Credit Facility

During the second quarter, Paramount renewed its credit agreement and extended the revolving term to April 29, 2009. Both the gross and net borrowing base were adjusted to $150 million. At Paramount's request, the banking syndicate's commitment to lend up to $125 million remains unchanged. As of June 30, 2008, no balances were drawn on the credit facility; however, Paramount had undrawn letters of credit outstanding totalling $15.4 million that reduce the amount available to the Company under the credit facility.

US Senior Notes

During the first quarter of 2008, Paramount made open market purchases of US$45.0 million principal amount of 8.5% US Senior Notes reducing the outstanding balance to US$93.2 million (CAD$ 94.9 million) at June 30, 2008 from the original balance of US$213.6 million. Paramount may re-market the purchased debt at its discretion.

Share Capital

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

At July 31, 2008, Paramount had 67,749,124 Common Shares outstanding, 5,824,200 Stock Options (with each entitling the holder to acquire one Common Share) outstanding (769,500 exercisable) and 88,000 Holdco options outstanding (42,500 exercisable).

Quarterly Information

	2008		2007				2006	
($ millions, except as noted)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	**102.9**	77.0	61.8	61.9	80.9	78.8	73.1	77.9
Net earnings (loss)	**(31.9)**	(38.0)	(156.5)	(82.2)	671.0	(16.1)	(159.6)	22.2
per share - basic ($/share)	**(0.47)**	(0.56)	(2.29)	(1.17)	9.46	(0.23)	(2.32)	0.33
per share - diluted ($/share)	**(0.47)**	(0.56)	(2.29)	(1.17)	9.34	(0.23)	(2.32)	0.32
Funds flow from operations	**46.3**	24.2	22.9[1]	21.7	18.0	37.9[1]	26.1	37.3
per share - diluted ($/share)	**0.68**	0.36	0.33	0.31	0.25	0.54	0.38	0.54
Sales volumes								
Natural gas (MMcf/d)	**67.7**	65.8	67.6	73.5	89.5	84.8	79.0	81.4
Oil and NGLs (Bbl/d)	**3,611**	3,811	2,984	3,977	3,561	3,636	3,937	3,901
Total (Boe/d)	**14,895**	14,775	14,248	16,231	18,480	17,773	17,104	17,471
Average realized price								
Natural gas ($/Mcf)	**10.54**	7.68	6.43	5.31	7.35	7.72	7.20	7.07
Oil and NGLs ($/Bbl)	**115.55**	89.44	79.77	70.99	64.66	60.84	57.47	69.32

(1) Includes reclassification of FX collar to conform to current year's presentation

Significant Items Impacting Quarterly Results

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

Second quarter 2008 earnings include $5.9 million of equity investment losses and mark-to-market losses of $56.4 million on financial commodity contracts.

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

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

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

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

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

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

Third quarter 2006 earnings include $24.2 million of financial instrument gains and a $14.7 million stock-based compensation recovery.

Subsequent Events

Subsequent to June 30, 2008 Paramount:

- Invested $12.3 million in 22.4 million common shares of MGM Energy, pursuant to MGM Energy's July 2008 public offering. Paramount maintained a 16.7 percent equity ownership following the transaction.
- Sold non-core producing properties in Northeast Alberta for $9.0 million, before closing adjustments.
- Commenced construction of a third drilling rig expected to be in service in 2009.
- Extended the foreign exchange collar to January 29, 2009 with a notional amount of US$90.0 million, a floor of CDN$1.0550/USD and a ceiling of CDN$0.9949/USD.

Related Party Transactions

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

Significant Equity Investees

The following table summarizes the assets, liabilities and results of operations of Paramount's significant equity investees. The amounts summarized have been derived directly from the investees' financial statements as at and for the periods ended June 30, 2008 and 2007, and do not include Paramount's adjustments when applying the equity method of investment accounting. As a result, the amounts included in the table below cannot be used to derive Paramount's equity income and net investment in Trilogy and MGM Energy.

($ millions)	Trilogy		MGM Energy	
As at June 30	**2008**	2007	**2008**	2007
Current assets	**$ 75.1**	$ 53.2	**$ 26.7**	$ 36.2
Long term assets	**901.8**	913.9	**255.2**	243.9
Current liabilities	**155.9**	85.6	**10.5**	7.3
Long term liabilities	**488.0**	467.7	**1.7**	3.1
Equity	**333.0**	413.8	**269.7**	269.7
Six months ended June 30	**2008**	2007	**2008**	2007
Revenue	**$ 252.1**	$ 84.7	**$ 1.5**	$ 0.7
Expenses	**267.2**	75.3	**68.0**	41.9
Tax expense (recovery)	**3.0**	–	**(16.6)**	(21.1)
Net Earnings (loss)	**$ (18.1)**	$ 9.4	**$ (49.9)**	$ (29.2)
Units/shares outstanding at June 30 (thousands)	**96,210**	92,566	**128,944**	35,226
Paramount's equity interest at June 30[1]	**21.4%**	16.2%	**16.7%**	20.2%

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

Trilogy had 4.1 million trust unit options outstanding (0.2 million exercisable) at June 30, 2008 at exercise prices ranging from $6.65 to $23.95 per unit. MGM Energy had 7.5 million stock options outstanding (0.4 million exercisable) at June 30, 2008 at exercise prices averaging $4.81 per share.

Outlook Update

Paramount's annual production guidance will be updated pending resolution of the process to explore the sale of certain properties in Northern and confirmation of sustained incremental production rates from Southern's North Dakota drilling program.

Changes in Accounting Policies

Canadian GAAP

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

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

Future Accounting Changes

International Financial Reporting Standards

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards for fiscal years beginning on January 1, 2011. The Company is currently assessing the impacts of the convergence. A project team has been assembled to research, analyze and oversee the transition. The project team is in the process of identifying key differences as they relate to the Company.

Advisories

Forward-looking Statements

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

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

- the ability of Paramount to obtain required capital to finance its operations;
- the ability of Paramount to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability of Paramount to market its oil and natural gas to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability of Paramount to secure adequate product transportation;

- the ability of Paramount and its partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals;
- currency, exchange and interest rates; and
- future oil and gas prices.

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

- the ability of Paramount's management to execute its business plan;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand for oil and gas;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations and the adequacy and costs of such capital;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- risks and uncertainties involving the geology of oil and gas deposits;
- risks inherent in Paramount's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the value and liquidity of Paramount's investments and the returns on such investments;
- the uncertainty of estimates and projections relating to exploration and development costs and expenses;
- the uncertainty of estimates and projections relating to future production and the results of exploration, development and drilling;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- the availability of future growth prospects and Paramount's expected financial requirements;
- Paramount's ability to obtain equipment, services, supplies and personnel in a timely manner to carry out its activities;
- Paramount's ability to enter into or continue leases;
- health, safety and environmental risks;
- Paramount's ability to secure adequate product transportation and storage;
- imprecision in estimates of product sales and the anticipated revenues from such sales;
- the ability to add production and reserves through development and exploration activities;
- weather conditions;
- the possibility that government laws, regulations or policies may change or governmental approvals may be delayed or withheld;

- uncertainty in amounts and timing of royalty payments and changes to royalty regimes and government regulations regarding royalty payments;
- changes in taxation laws and regulations and the interpretation thereof;
- changes in environmental laws and regulations and the interpretation thereof;
- the cost of future abandonment activities and site restoration;
- the ability to obtain necessary regulatory approvals;
- risks associated with existing and potential future law suits and regulatory actions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- loss of the services of any of Paramount's executive officers or key employees;
- the impact of market competition;
- general economic and business conditions; and
- other risks and uncertainties described elsewhere in this document or in Paramount's other filings with Canadian securities authorities and the United States Securities and Exchange Commission.

The forward-looking statements or information contained in this document are made as of the date hereof and Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Non-GAAP Measures

"Funds flow from operations" is used to assist management in measuring the Company's ability to finance capital programs and meet financial obligations and refers to cash flows from operating activities before net changes in operating working capital. "Netback" equals petroleum and natural gas sales less royalties, operating costs and transportation costs. Refer to the calculation of "Net debt" in the liquidity and capital resources section of this document. The calculation of net debt has been changed to exclude risk management assets and liabilities and stock based compensation liabilities because both are highly volatile and are settled in future periods. Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, or other measures of financial performance calculated in accordance with GAAP.

Barrels of Oil Equivalent Conversions

This document contains disclosure expressed as "Boe" and "Boe/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

PARAMOUNT RESOURCES LTD.

Consolidated Balance Sheets (Unaudited)

($ thousands)

As at	June 30 2008	December 31 2007
ASSETS		
Current assets		
Cash and cash equivalents	**$ 46,200**	$ 83,304
Short-term investments	**–**	94,749
Accounts receivable	**63,253**	63,982
Risk management assets (Note 9)	**829**	–
Prepaid expenses and other	**1,570**	1,874
	111,852	243,909
Property, plant and equipment	**761,809**	754,947
Investments (Note 4)	**309,724**	290,701
Goodwill	**10,258**	10,258
	$ 1,193,643	$ 1,299,815
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 64,132**	$ 91,896
Risk management liabilities (Note 9)	**63,186**	28,980
Current portion of stock-based compensation liability (Note 7)	**8,078**	3,333
	135,396	124,209
Long-term debt (Note 5)	**93,799**	134,606
Asset retirement obligations (Note 6)	**96,000**	97,359
Stock-based compensation liability (Note 7)	**4,401**	66
Future income taxes	**24,342**	34,926
	353,938	391,166
Commitments and contingencies (Notes 9 and 12)		
Shareholders' equity		
Share capital	**306,445**	313,828
Contributed surplus	**1,926**	1,375
Retained earnings	**523,466**	593,450
Accumulated other comprehensive income (loss)	**7,868**	(4)
	839,705	908,649
	$ 1,193,643	$ 1,299,815

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.

Consolidated Statements of Earnings (Loss) (Unaudited)

($ thousands, except as noted)

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Revenue				
Petroleum and natural gas sales	**$ 102,911**	$ 80,858	**$ 179,878**	$ 159,679
Loss on financial commodity contracts (Note 9)	**(56,371)**	(631)	**(71,393)**	(2,050)
Royalties	**(15,483)**	(14,102)	**(28,778)**	(27,299)
	31,057	66,125	**79,707**	130,330
Expenses				
Operating	**15,922**	20,882	**40,850**	43,920
Transportation	**3,704**	4,184	**7,725**	8,476
General and administrative	**6,838**	9,568	**14,991**	18,166
Stock-based compensation	**10,316**	2,968	**13,923**	(3,290)
Depletion, depreciation and accretion	**30,971**	41,399	**59,147**	74,939
Exploration	**1,561**	2,542	**5,347**	7,849
Dry hole	**–**	–	**5,307**	47,602
(Gain) loss on sale of property, plant and equipment	**260**	(282,182)	**766**	(282,215)
Interest and financing charges	**2,406**	14,413	**5,095**	25,913
Foreign exchange (gain) loss (Note 9)	**347**	(21,693)	**2,430**	(24,657)
Debt extinguishment and other	**128**	(2,900)	**1,695**	(2,210)
	72,453	(210,819)	**157,276**	(85,507)
Income (loss) from equity investments (Note 4)	**(5,934)**	540,935	**(18,638)**	557,139
Other income	**1,485**	848	**3,834**	562
Non-controlling interest	**–**	1,096	**–**	11,564
Earnings (loss) before tax	**(45,845)**	819,823	**(92,373)**	785,102
Income and other tax expense (recovery)				
Current and other tax expense	**255**	279	**485**	525
Future income tax expense (recovery)	**(14,208)**	148,578	**(22,928)**	129,666
	(13,953)	148,857	**(22,443)**	130,191
Net earnings (loss)	**$ (31,892)**	$ 670,966	**$ (69,930)**	$ 654,911
Net earnings (loss) per common share ($/share) (Note 8)				
Basic	**$ (0.47)**	$ 9.46	**$ (1.03)**	$ 9.24
Diluted	**$ (0.47)**	$ 9.34	**$ (1.03)**	$ 9.15

PARAMOUNT RESOURCES LTD.

Consolidated Statements of Shareholders' Equity (Unaudited)

($ thousands, except as noted)

	Six months ended June 30, 2008		Twelve months ended December 31, 2007	
Share Capital	**Shares (000's)**		Shares (000's)	
Balance, beginning of period	**67,681**	**$ 313,828**	70,279	$ 341,071
Issued on exercise of stock options	**64**	**1,056**	701	14,197
Share issuance costs, net of tax benefit	–	–	–	(165)
Tax effect of flow-through share renunciations and other	–	**(7,753)**	–	(21,684)
Common shares repurchased	**(6)**	**(30)**	(3,299)	(15,308)
Unvested common shares under stock incentive plan	–	**(656)**	–	(775)
Adjustment on MGM Energy spinout (Note 1)	–	–	–	(3,508)
Balance, end of period	**67,739**	**$ 306,445**	67,681	$ 313,828
Contributed Surplus				
Balance, beginning of period		**$ 1,375**		$ –
Stock-based compensation expense on investees' options		**551**		1,375
Balance, end of period		**$ 1,926**		$ 1,375
Retained Earnings				
Balance, beginning of period		**$ 593,450**		$ 222,679
Adjustment on MGM Energy spinout (Note 1)		–		(5,901)
Common shares repurchased		**(54)**		(39,569)
Net earnings (loss)		**(69,930)**		416,241
Balance, end of period		**$ 523,466**		$ 593,450
Accumulated Other Comprehensive Income (Loss)				
Balance, beginning of period		**$ (4)**		$ –
Other comprehensive income (loss), net of tax		**7,872**		(4)
Balance, end of period		**$ 7,868**		$ (4)
Total Shareholders' Equity		**$ 839,705**		$ 908,649

See the accompanying notes to these Interim Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

($ thousands)

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Net earnings (loss)	**$ (31,892)**	$ 670,966	**$ (69,930)**	$ 654,911
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on available for sale investments	**7,774**	(9)	**7,872**	126
Comprehensive income (loss)	**$ (24,118)**	$ 670,957	**$ (62,058)**	$ 655,037

See the accompanying notes to these Interim Consolidated Financial Statements.

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

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Operating activities				
Net earnings (loss)	**$ (31,892)**	$ 670,966	**$ (69,930)**	$ 654,911
Add (deduct)				
Items not involving cash (Note 11)	**79,373**	(653,291)	**134,427**	(650,988)
Asset retirement obligation expenditures	**(2,754)**	(1,345)	**(5,312)**	(1,885)
Exploration and dry hole	**1,561**	1,719	**10,654**	53,938
Debt extinguishment costs	**–**	–	**626**	–
	46,288	18,049	**70,465**	55,976
Change in non-cash working capital	**(5,773)**	21,746	**3,148**	13,039
Cash from operating activities	**40,515**	39,795	**73,613**	69,015
Financing activities				
Net repayment of short-term debt and revolving long-term debt	**–**	(189,258)	**–**	(78,628)
Repayment of long-term debt	**–**	–	**(45,990)**	–
Settlement of foreign exchange contract	**–**	–	**(22,335)**	4,900
Common shares issued, net of issuance costs	**175**	120	**322**	3,346
Common shares repurchased	**–**	–	**(84)**	–
MGM Energy shares issued, net of issuance costs	**–**	–	**–**	78,546
Cash from (used in) financing activities	**175**	(189,138)	**(68,087)**	8,164
Investing activities				
Expenditures on property, plant and equipment and exploration	**(17,968)**	(42,697)	**(84,443)**	(229,532)
Proceeds on sale of property, plant and equipment	**6,204**	92,318	**12,567**	92,318
Investments	**(4,881)**	–	**(33,152)**	–
Settlement of note receivable	**–**	–	**75,000**	–
Reorganization costs and other	**–**	(1,479)	**–**	(2,553)
Proceeds on disposal of investment (net)	**–**	679,040	**–**	679,230
Change in basis of presentation – MGM Energy	**–**	(50,404)	**–**	(50,404)
Change in non-cash working capital	**(29,593)**	(147,737)	**(12,602)**	(127,700)
Cash from (used in) investing activities	**(46,238)**	529,041	**(42,630)**	361,359
Increase (decrease) in cash and cash equivalents	**(5,548)**	379,698	**(37,104)**	438,538
Cash and cash equivalents, beginning of period	**51,748**	73,197	**83,304**	14,357
Cash and cash equivalents, end of period	**$ 46,200**	$ 452,895	**$ 46,200**	$ 452,895

Supplemental cash flow information (Note 11)

See the accompanying notes to these Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ thousands, except as noted)

1. Basis of Presentation

The unaudited Interim Consolidated Financial Statements include the accounts of Paramount Resources Ltd. and its subsidiaries ("Paramount" or the "Company"), are stated in Canadian dollars, and have been prepared using accounting policies and methods of application that are consistent with Paramount's audited consolidated financial statements as at and for the year ended December 31, 2007. Paramount conducts its business through two business segments: Principal Properties and Strategic Investments.

Certain information and disclosures normally required to be included in notes to annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited Interim Consolidated Financial Statements should be read in conjunction with Paramount's audited consolidated financial statements as at and for the year ended December 31, 2007.

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

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

b) *Reclassification*

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

c) *Change in Estimate*

In accordance with its policy, the Company reviews depreciation estimates on an ongoing basis. As a result, effective January 1, 2008, the Company changed the usage pattern estimates of certain facilities and gathering systems to a unit of production method from a straight-line method to better reflect the observed usage and expected lives of these assets. The effect of this change in estimate for the six months ended June 30, 2008 was to increase depreciation expense by $13.2 million, increase future income tax recovery by $3.7 million, increase net loss by $9.5 million, and increase basic and diluted loss per share by $0.14.

2. Changes to Accounting Policies

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

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

3. Segmented Information

Paramount segregates its operations into the following segments, which have been established by management to assist in resource allocation, assessing operating performance, and achieving long-term strategic objectives:

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
($ thousands, except as noted)

Three months ended June 30, 2008	**Principal Properties**	**Strategic Investments**	**Corporate**	**Total**
Revenue				
Petroleum and natural gas sales, net of royalties	$ 87,428	$ –	$ –	**$ 87,428**
Loss on financial commodity contracts	(56,371)	–	–	**(56,371)**
	31,057	–	–	**31,057**
Expenses				
Operating and transportation	19,626	–	–	**19,626**
General and administrative	–	315	6,523	**6,838**
Stock-based compensation	–	–	10,316	**10,316**
Depletion, depreciation and accretion	30,093	462	416	**30,971**
Exploration	1,561	–	–	**1,561**
Loss on sale of property, plant and equipment	260	–	–	**260**
Interest and financing charges	–	–	2,406	**2,406**
Foreign exchange loss	–	–	347	**347**
Debt extinguishment and other	128	–	–	**128**
	51,668	777	20,008	**72,453**
Loss from equity investments	–	(5,934)	–	**(5,934)**
Other income	–	980	505	**1,485**
Segment loss	$ (20,611)	$ (5,731)	$ (19,503)	**(45,845)**
Income and other tax recovery				**(13,953)**
Net loss				**$ (31,892)**

Three months ended June 30, 2007	Principal Properties	Strategic Investments	Corporate	Total
Revenue				
Petroleum and natural gas sales, net of royalties	$ 66,756	$ –	$ –	$ 66,756
Loss on financial commodity contracts	(631)	–	–	(631)
	66,125	–	–	66,125
Expenses				
Operating and transportation	25,066	–	–	25,066
General and administrative	–	1,812	7,756	9,568
Stock-based compensation	–	268	2,700	2,968
Depletion, depreciation and accretion	41,071	29	299	41,399
Exploration	1,574	968	–	2,542
Gain on sale of property, plant and equipment	(11,200)	(270,982)	–	(282,182)
Interest and financing charges	–	–	14,413	14,413
Foreign exchange gain	–	–	(21,693)	(21,693)
Debt extinguishment and other	(2,900)	–	–	(2,900)
	53,611	(267,905)	3,475	(210,819)
Income from equity investments	–	540,935	–	540,935
Other income	–	372	476	848
Non-controlling interest	137	959	–	1,096
Segment earnings (loss)	$ 12,651	$ 810,171	$ (2,999)	819,823
Income and other tax expense				148,857
Net earnings				$ 670,966

($ thousands, except as noted)

Six months ended June 30, 2008	**Principal Properties**	**Strategic Investments**	**Corporate**	**Total**
Revenue				
Petroleum and natural gas sales, net of royalties	$ 151,100	$ –	$ –	**$ 151,100**
Loss on financial commodity contracts	(71,393)	–	–	**(71,393)**
	79,707	–	–	**79,707**
Expenses				
Operating and transportation	48,575	–	–	**48,575**
General and administrative	–	783	14,208	**14,991**
Stock-based compensation	–	–	13,923	**13,923**
Depletion, depreciation and accretion	57,198	1,148	801	**59,147**
Exploration	5,347	–	–	**5,347**
Dry hole	5,307	–	–	**5,307**
Loss on sale of property, plant and equipment	766	–	–	**766**
Interest and financing charges	–	–	5,095	**5,095**
Foreign exchange loss	–	–	2,430	**2,430**
Debt extinguishment and other	359	–	1,336	**1,695**
	117,552	1,931	37,793	**157,276**
Loss from equity investments	–	(18,638)	–	**(18,638)**
Other income	–	1,423	2,411	**3,834**
Segment loss	$ (37,845)	$ (19,146)	$ (35,382)	**(92,373)**
Income and other tax recovery				**(22,443)**
Net loss				**$ (69,930)**

Six months ended June 30, 2007	Principal Properties	Strategic Investments	Corporate	Total
Revenue				
Petroleum and natural gas sales, net of royalties	$ 132,380	$ –	$ –	$ 132,380
Loss on financial commodity contracts	(2,050)	–	–	(2,050)
	130,330	–	–	130,330
Expenses				
Operating and transportation	52,396	–	–	52,396
General and administrative	–	3,725	14,441	18,166
Stock-based compensation	–	822	(4,112)	(3,290)
Depletion, depreciation and accretion	74,241	147	551	74,939
Exploration	4,210	3,639	–	7,849
Dry hole	7,778	39,824	–	47,602
Gain on sale of property, plant and equipment	(11,233)	(270,982)	–	(282,215)
Interest and financing charges	–	–	25,913	25,913
Foreign exchange gain	–	–	(24,657)	(24,657)
Debt extinguishment and other	(2,210)	–	–	(2,210)
	125,182	(222,825)	12,136	(85,507)
Income from equity investments	–	557,139	–	557,139
Other income	–	371	191	562
Non-controlling interest	152	11,412	–	11,564
Segment earnings (loss)	$ 5,300	$ 791,747	$ (11,945)	785,102
Income and other tax expense				130,191
Net earnings				$ 654,911

Capital Expenditures	**Three months ended June 30**		**Six months ended June 30**	
	2008	2007	**2008**	2007
Principal Properties	**$ 10,752**	$ 35,757	**$ 73,359**	$ 175,396
Strategic Investments	**5,074**	9,221	**5,074**	51,589
Corporate	**469**	279	**677**	489
	$ 16,295	$ 45,257	**$ 79,110**	$ 227,474

Total Assets	**As at June 30**	
	2008	2007
Principal Properties	**$ 794,488**	$ 1,011,285
Strategic Investments	**348,174**	354,862
Corporate	**50,981**	531,418
	$ 1,193,643	$ 1,897,565

Capital expenditures for Principal Properties during the six months ended June 30, 2008 include $7.9 million (2007 – nil) of drilling costs for services provided by Paramount Drilling.

4. Investments

As at	**June 30, 2008**		December 31, 2007	
	(Shares/Units) (000's)		(Shares/Units) (000's)	
Equity accounted investments:				
Trilogy Energy Trust ("Trilogy")	**20,624**	**$ 89,534**	17,763	$ 77,370
MGM Energy	**21,470**	**45,180**	21,470	58,182
Paxton Corporation ("Paxton")	**1,750**	**4,828**	–	–
Private oil and gas company ("Privateco")	**2,709**	**2,523**	2,709	2,523
		142,065		138,075
Available for sale investments:				
MEG Energy Corp. ("MEG Energy")	**3,700**	**151,700**	3,700	151,700
NuLoch Resources Inc. ("NuLoch")	**6,141**	**14,553**	–	–
Other		**1,406**		926
		$ 309,724		$ 290,701

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

During the three months ended June 30, 2008, Paramount participated in Trilogy's DRIP, acquiring an additional 0.4 million units, increasing its ownership to 21.4 percent as of June 30, 2008.

In February 2008, the Company purchased 3.5 million common shares of Paxton, a private company, for $4.8 million. Subsequently, Paxton consolidated its common shares on a two-for-one basis. In May 2008

($ thousands, except as noted)

Paxton issued additional shares, which reduced Paramount's equity interest to 10.1 percent at June 30, 2008 from 16.8 percent at March 31, 2008. As a result of the issuance, Paramount recognized a dilution gain of $0.1 million. Certain directors of Paramount are also directors and shareholders of Paxton.

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

At June 30, 2008 Paramount held 2.9 percent of MEG Energy's common shares and 16.7 percent of MGM's common shares.

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

Three months ended June 30	Equity loss	Dilution gain	2008	2007
Trilogy	$ (4,962)	$ –	**$ (4,962)**	$ 8,354
MGM Energy	(988)	–	**(988)**	4,692
Paxton	(48)	64	**16**	–
North American Oil Sands Corporation	–	–	**–**	527,889
	$ (5,998)	$ 64	**$ (5,934)**	$ 540,935

Six months ended June 30	Equity loss	Dilution gain (loss)	2008	2007
Trilogy	$ (5,277)	$ –	**$ (5,277)**	$ 10,634
MGM Energy	(8,884)	(4,493)	**(13,377)**	29,364
Paxton	(48)	64	**16**	–
North American Oil Sands Corporation	–	–	**–**	517,141
	$ (14,209)	$ (4,429)	**$ (18,638)**	$ 557,139

5. Long-Term Debt

As at	June 30 2008	December 31 2007
Canadian Dollar Denominated Debt		
Bank credit facility	**$ –**	$ –
U.S. Dollar Denominated Debt		
8 1/2 percent US Senior Notes due 2013 (US$93.2 million), (2007 – US$138.2 million)	**94,924**	136,547
	94,924	136,547
Debt financing costs – unamortized	**(1,125)**	(1,941)
	$ 93,799	$ 134,606

Bank Credit Facility

During the second quarter, Paramount renewed its credit agreement and extended the revolving term to April 29, 2009. Both the gross and net borrowing base were adjusted to $150 million. The banking syndicate's commitment to lend up to $125 million remains unchanged. As of June 30, 2008, no balances were drawn on the credit facility; however, Paramount had undrawn letters of credit outstanding totalling $15.4 million that reduce the amount available to the Company under the credit facility.

($ thousands, except as noted)

US Senior Notes

During the first quarter of 2008, Paramount made open market purchases of US$45.0 million (2007 – US$75.4 million) principal amount of US Senior Notes, reducing the net principal outstanding to US$93.2 million.

6. Asset Retirement Obligations

	Six months ended June 30, 2008	Year ended December 31, 2007
Asset retirement obligations, beginning of period	**$ 97,359**	$ 83,815
Reduction on disposal of properties	**(1,184)**	(13,107)
Liabilities incurred	**603**	10,997
Revision in estimated costs of abandonment	**–**	17,961
Liabilities settled	**(5,312)**	(6,958)
Accretion expense	**4,350**	6,666
Change in basis of presentation - MGM Energy (Note 1)	**–**	(966)
Effects of foreign exchange	**184**	(1,049)
Asset retirement obligations, end of period	**$ 96,000**	$ 97,359

7. Stock-based Compensation

Paramount Options	**Six months ended June 30, 2008**		Six months ended June 30, 2007	
	Weighted Average Exercise Price	**# of Options**	Weighted Average Exercise Price	# of Options
	($ / share)		($ / share)	
Balance, beginning of period	**$ 19.49**	**6,430,000**	$ 19.41	4,468,925
Granted	**14.58**	**62,000**	20.87	1,556,500
Exercised	**7.20**	**(256,600)**	5.62	(699,800)
Cancelled	**20.85**	**(384,200)**	27.44	(201,500)
Balance, end of period	**$ 19.88**	**5,851,200**	$ 21.42	5,124,125
Options exercisable, end of period	**$ 21.69**	**769,500**	$ 19.12	338,150

Holdco Options	**Six months ended June 30, 2008**		Six months ended June 30, 2007	
	Weighted Average Exercise Price	**# of Options**	Weighted Average Exercise Price	# of Options
	($ / share)		($ / share)	
Balance, beginning of period	**$ 8.14**	**334,375**	$ 6.72	737,625
Exercised	**6.40**	**(227,875)**	4.75	(201,750)
Cancelled	**10.03**	**(6,000)**	16.37	(16,000)
Balance, end of period	**$ 11.96**	**100,500**	$ 7.06	519,875
Options exercisable, end of period	**$ 12.27**	**48,000**	$ 7.05	168,000

8. Weighted Average Shares Outstanding

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

	Three months ended June 30		Six months ended June 30	
(thousands of common shares)	**2008**	2007	**2008**	2007
Weighted average common shares outstanding – Basic	**67,729**	70,922	**67,707**	70,864
Dilutive effect of stock options	–	948	–	726
Weighted average common shares outstanding – Diluted	**67,729**	71,870	**67,707**	71,590

9. Risk Management and Financial Instruments

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

Fair Values of Financial Assets and Liabilities

Risk management assets and liabilities are carried at fair value, which is based on forward market curves and is compared to quotes provided by financial institutions. The carrying value of Paramount's long-term debt is measured at amortized cost. The US Senior Notes had a market value of 100.5 percent at June 30, 2008.

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

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

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

	Total Notional	Average Price	Fair Value	Remaining Term
Commodity				
Gas - NYMEX	40,000 MMbtu/d	Fixed - US$9.07/MMbtu	**$ (21,332)**	July 2008 - October 2008
Gas - NYMEX	20,000 MMbtu/d	Fixed - US$9.99/MMbtu	**(12,355)**	November 2008 - March 2009
Gas - AECO	20,000 GJ/d	Fixed - CAD$9.50/GJ	**(8,227)**	November 2008 - March 2009
Crude - WTI	2,000 Bbl/d	Fixed - US$90.40/Bbl	**(18,759)**	July 2008 - December 2008
Crude - WTI	1,000 Bbl/d	Fixed - US$133.65/Bbl	**(2,513)**	January 2009 - December 2009
			(63,186)	
Foreign Exchange				
Canadian/US Dollar Collar	US$90 million	CDN$/US$ - Floor $1.0200 Ceiling $0.9821	**829**	July 2008 expiry
			$ (62,357)	

($ thousands, except as noted)

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

	Commodity	Foreign Exchange	Total
Fair value, beginning of period	$ (6,941)	$ (22,039)	**$ (28,980)**
Changes in fair value	(71,393)	533	**(70,860)**
Settlements – paid	15,148	22,335	**37,483**
Fair value, end of period	$ (63,186)	$ 829	**$ (62,357)**

The foreign exchange loss for the six month period ended June 30, 2008 includes a net loss on the US Senior Notes of $2.8 million and a net gain of $0.5 million related to the foreign exchange contracts.

Paramount has an outstanding commitment to sell 3,400 GJ/d of natural gas at $2.52/GJ plus an escalation factor to 2011, which has a fair value loss of $25.9 million at June 30, 2008 (December 31, 2007 – loss of $17.2 million). The Company has designated this contract as normal usage, and as a result does not recognize the fair value of the contract in the Consolidated Financial Statements.

Market Risk

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

Commodity Price Risk

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

	10% increase	10% decrease
Natural gas	$ (10,400)	$ 10,400
Crude oil	$ (7,700)	$ 7,700

Foreign Currency Risk

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

	1% Strengthening	1% Weakening
US Senior Notes	$ 800	$ (800)
Foreign exchange collar	$ (400)	$ 450

($ thousands, except as noted)

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

Interest Rate Risk

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

Equity Price Risk

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

Credit Risk

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

Liquidity Risk

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

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

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

	2008	2009-2010	2011-2013	Total
Accounts payable and accrued liabilities	$ 64,132	$ –	$ –	$ 64,132
Risk management liabilities	48,030	15,156	–	63,186
US Senior Notes, including interest	4,034	16,137	115,095	135,266
	$ 116,196	$ 31,293	$ 115,095	$ 262,584

($ thousands, except as noted)

10. Capital Structure

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

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

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

(iii) to maximize shareholder returns.

Paramount manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations. Paramount monitors metrics such as the Company's debt-to-equity and debt-to-cash flow ratios, among others, to measure the status of its capital structure. The Company has not established fixed quantitative thresholds for such metrics. Paramount may adjust its capital structure by issuing or repurchasing shares, issuing or repurchasing debt, refinancing existing debt, modifying capital spending programs, and acquiring or disposing of assets.

Paramount's capital structure consists of the following:

As at	**June 30, 2008**	December 31, 2007
Working capital deficit (surplus) [1]	**$ (46,891)**	$ (152,013)
Credit facility	**–**	–
US Senior Notes (excluding unamortized financing fees)	**94,924**	136,547
Net Debt	**48,033**	(15,466)
Share capital	**306,445**	313,828
Contributed surplus	**1,926**	1,375
Retained earnings	**523,466**	593,450
Accumulated other comprehensive income (loss)	**7,868**	(4)
Total Capital	**$ 887,738**	$ 893,183

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ thousands, except as noted)

11. Consolidated Statements of Cash Flows – Selected Information

Items not involving cash

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Gain on sale of investments	**$ –**	$ (528,684)	**$ –**	$ (528,684)
Financial commodity contracts – net of settlements	**43,441**	1,129	**56,245**	19,719
Stock-based compensation	**7,348**	1,376	**9,814**	(5,620)
Depletion, depreciation and accretion	**30,971**	41,399	**59,147**	74,939
(Gain) loss on sale of property, plant and equipment	**260**	(282,182)	**766**	(282,215)
Foreign exchange (gain) loss	**619**	(23,467)	**2,665**	(26,660)
Cash distributions in excess of equity earnings	**10,822**	–	**27,509**	–
Equity earnings in excess of cash distributions	**–**	(7,740)	**–**	(19,603)
Future income tax expense (recovery)	**(14,208)**	148,578	**(22,928)**	129,666
Non-controlling interest	**–**	(1,096)	**–**	(11,564)
Extinguishment of debt, interest and other	**120**	(2,604)	**1,209**	(966)
	$ 79,373	$ (653,291)	**$ 134,427**	$ (650,988)

Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Interest paid	**$ 365**	$ 11,877	**$ 6,692**	$ 28,976
Current and other tax paid	**$ 293**	$ 327	**$ 683**	$ 816

12. Subsequent Events

Subsequent to June 30, 2008 Paramount:

- Invested $12.3 million in 22.4 million common shares of MGM Energy, pursuant to MGM Energy's July 2008 public offering. Paramount maintained a 16.7 percent equity ownership following the transaction.
- Sold non-core producing properties in Northeast Alberta for $9.0 million.
- Extended the foreign exchange collar to January 29, 2009 with a notional amount of US$90.0 million, a floor of CDN$1.0550/USD and a ceiling of CDN$0.9949/USD.

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

C. E. Morin
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

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

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Chairman of the Board and Chief Executive Officer
Paramount Resources Ltd.
Calgary, Alberta

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

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

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

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

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

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

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

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

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

B. M. Wylie [2]
Business Executive
Calgary, Alberta

[1] Member of Audit Committee
[2] Member of Environmental, Health and Safety Committee
[3] Member of Compensation Committee
[4] Member of Corporate Governance Committee
[5] Paramount Energy Operating Corp. is a wholly owned subsidiary of Paramount Energy Trust

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REGISTRAR AND TRANSFER AGENT

Computershare Investor Services
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange (“POU”)