FINANCIAL AND OPERATING HIGHLIGHTS [1]

($ millions, except as noted)

	Three months ended June 30			Six months ended June 30		
	2010	2009	Change %	**2010**	2009	Change %
Financial						
Petroleum and natural gas sales	**44.6**	40.2	11	**93.5**	80.4	16
Funds flow from operations	**22.1**	13.7	61	**43.7**	31.3	40
Per share – diluted ($/share)	**0.31**	0.21	48	**0.60**	0.47	28
Net loss	**(28.8)**	(2.6)	(1,008)	**(43.3)**	(26.3)	(65)
Per share – diluted ($/share)	**(0.40)**	(0.04)	(900)	**(0.60)**	(0.40)	(50)
Exploration and development expenditures	**17.7**	5.4	228	**84.5**	60.9	39
Investments – market value [2]				**354.8**	260.2	36
Total assets				**1,149.0**	1,078.8	7
Net debt [3]				**184.9**	128.2	44
Common shares outstanding (thousands)				**72,434**	65,947	10
Operating						
Sales volumes:						
Natural gas (MMcf/d)	**57.0**	59.1	(4)	**53.6**	55.1	(3)
Oil and NGLs (Bbl/d)	**3,287**	3,512	(6)	**3,400**	3,456	(2)
Total (Boe/d)	**12,787**	13,362	(4)	**12,333**	12,641	(2)
Gas weighting	**74%**	74%		**72%**	73%	
Average realized price:						
Natural gas ($/Mcf)	**4.49**	4.03	11	**5.00**	4.82	4
Oil and NGLs ($/Bbl)	**71.32**	57.83	23	**73.10**	51.74	41
Net wells drilled	**2**	–	100	**69**	16	331

(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas definitions in the "Advisories" section of this document.
(2) Based on the period-end closing prices of publicly traded enterprises and the book value of the remaining investments.
(3) 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.

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SECOND QUARTER OVERVIEW

Principal Properties

- Funds flow from operations increased by 61 percent to $22.1 million in the second quarter of 2010 compared to $13.7 million in the second quarter of 2009, primarily due to higher settlements of commodity contracts and higher commodity prices, partially offset by higher royalties.

- Netback before settlements of financial commodity contracts increased by $1.5 million to $23.4 million in the second quarter of 2010 due primarily to higher realized prices.

- On June 29, 2010, Paramount completed its acquisition of Redcliffe Exploration Inc. ("Redcliffe") for cash consideration of $46.2 million. The transaction solidifies Paramount's Peace River Arch land holdings targeting the Montney and Nikanassin formations at Karr-Gold Creek.

- The Kaybob COU drilled and brought on production two (0.3 net) wells in the quarter. An additional two (1.7 net) wells drilled in the first quarter were completed and brought on production.

- The Grande Prairie COU drilled two (1.7 net) wells and brought two (1.8 net) wells on production in the quarter.

- The Northern COU's capital program is substantially complete for 2010. One (1.0 net) well drilled in the first quarter is expected to be brought on in the fourth quarter.

- The Southern COU's coal bed methane drilling program was completed at Chain where five (4.5 net) wells were drilled in July following break-up.

- In July 2010, the operator under the North Dakota joint development agreement commenced drilling the first Bakken oil well.

Strategic Investments

- Paramount received an updated evaluation of its Grand Rapids resource at Hoole from its independent reserves evaluator, with an evaluation date of April 30, 2010. The report estimated contingent bitumen resources at 634 million barrels (Best Estimate (P50)), having a before-tax net present value of future net revenue of $1.9 billion, discounted at ten percent (Best Estimate (P50)).

- In July 2010, MEG Energy Corp. ("MEG") filed a PREP prospectus in connection with its initial public offering of 20 million common shares at a price of $35.00 per share. At June 30, 2010, Paramount owned 3.7 million common shares of MEG with a carrying value of $27.50 per share ($101.8 million).

- Two of Paramount's three drilling rigs are being used to drill on the Company's properties in Alberta. The third rig commenced drilling in the United States in July under a three well contract with a third party.

Corporate

- In July 2010, the borrowing base and lender commitments under the Company's credit facility were increased to $160 million from $125 million.

- Corporate general and administrative costs decreased 42 percent to $2.5 million from $4.3 million in the second quarter of 2009.

REVIEW OF OPERATIONS

Paramount's average daily sales volumes by Corporate Operating Unit ("COU") for the three months ended June 30, 2010 and March 31, 2010 are summarized below:

	Q2 2010			Q1 2010			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	**21.2**	**510**	**4,035**	18.5	498	3,586	2.7	12	449
Grande Prairie	**13.4**	**965**	**3,202**	9.9	1,103	2,751	3.5	(138)	451
Northern	**13.0**	**461**	**2,624**	12.8	487	2,614	0.2	(26)	10
Southern	**9.4**	**1,351**	**2,926**	9.0	1,426	2,924	0.4	(75)	2
Total	**57.0**	**3,287**	**12,787**	50.2	3,514	11,875	6.8	(227)	912

Kaybob

Second quarter sales volumes for the Kaybob COU increased 449 Boe/d to 4,035 Boe/d, consisting of 21.2 MMcf/d of natural gas and 510 Bbl/d of oil and NGLs. This increase is due to new wells brought on production in Smoky, Resthaven and Musreau, partially offset by natural production declines.

Capital expenditures for the second quarter were approximately $5 million, excluding land and drilling royalty credits. In the second quarter two (0.3 net) wells were drilled and brought on production and an additional two (1.7 net) wells drilled in the first quarter were completed and brought on production.

The following table summarizes Paramount operated horizontal wells drilled by the Company in 2009 and 2010 in Kaybob. The Falher well completed in the second quarter of 2010 (see below) achieved a peak test rate of approximately 22 MMcf/d at a pressure of 21.8 MPa after 33 hours of clean-up flow.

Well Completion	Formation	Working Interest (%)	Measured Depth (m)	Horizontal Length (m)	Fracture stages in wellbore	Gross Initial Production Rate [(1) (2)] (MMcf/d)	Flowing Pressure (MPa)	Est. Gross Drilling & Completion Cost ($ million)
Q2 2009	Dunvegan	50	4,000	1,200	6	5.4	9.0	6.3
Q1 2010	Dunvegan	50	4,200	1,250	14	8.3	16.8	8.3
Q2 2010	Dunvegan	100	4,000	1,250	18	9.0[(3)]	9.3[(3)]	8.3
Q2 2010	Falher	67	4,100	1,000	18	16.4[(3)]	20.8[(3)]	8.6

(1) Average daily rate for first month of production.
(2) Quantities represent the volumes produced at the wellhead. Marketable sales volumes would be approximately 5 percent less to account for shrinkage/processing and separation of NGLs. Average liquids content of the natural gas is approximately 25 to 30 Bbls / MMcf.
(3) Well has yet to produce for a full month.

Based on encouraging results achieved to date, the Company is planning to increase the Kaybob COU's capital program for the remainder of 2010 and is evaluating alternatives to expand gathering and processing capacity in the Smoky, Musreau and Resthaven areas in 2011. In July 2010, the Company nominated for 50 MMcf/d of capacity in a proposed third-party plant expansion in Smoky, which is anticipated to be operational in late 2011. The construction of an additional Paramount operated plant is also being considered.

Plans for the remainder of the year include completing the drilling of one (1.0 net) winter access well that was started in the first quarter and drilling up to an additional six (3.3 net) horizontal wells, depending upon continued successful results. The majority of these wells would be drilled on multiple-well pad leases, reducing per-well drilling costs by minimizing mobilization and demobilization activities and sharing surface equipment and pipelines. Where two or more wells are drilled from a lease, the Company anticipates performing the fracture stimulations simultaneously or back-to-back, increasing equipment and personnel efficiencies and thus reducing per-well completion costs. Production from wells drilled in the second half of 2010 is not expected to come on stream until the first quarter of 2011.

Grande Prairie

Grande Prairie COU second quarter sales volumes were 3,202 Boe/d, an increase of 16 percent from the prior quarter. The increase is primarily due to new production from wells drilled in Karr-Gold Creek and Valhalla and production from newly acquired wells, partially offset by natural declines.

Total capital expenditures in the Grande Prairie COU for the second quarter were approximately $15 million, excluding land, acquisitions, and drilling royalty credits. During the second quarter, one (1.0 net) horizontal Montney gas well was drilled at Karr-Gold Creek and one (0.7 net) horizontal Montney gas well was drilled at Valhalla. Two (1.8 net) wells drilled in the first quarter were completed and brought on production. The Grande Prairie COU is currently developing its fall 2010 drilling program and expects to drill a number of additional horizontal Montney wells this year.

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

Well Completion	Working Interest (%)	Measured Depth (m)	Horizontal Length (m)	Fracture stages in wellbore	Stabilized Test Rates[(1)(2)] (MMcf/d)	Stabilized Sandface Flowing Pressure (MPa)	Est. Gross Drilling & Completion Cost ($ million)
Q3 2008	100	3,800	800	7	1.8	8.3	6.8
Q4 2008	100	3,500	550	6	3.8	8.3	5.2[(3)]
Q1 2009	100	3,700	625	7	1.5	6.1	5.8[(3)]
Q3 2009	100	4,800	1,600	16	13.3	23.0	6.4
Q4 2009	100	4,600	1,100	16	10.6	21.0	6.7
Q1 2010	100	4,950	1,700	22	13.4	23.1	6.4
Q2 2010	100	4,200	1,300	17	9.6	21.0	6.0
Q3 2010 (Est)	100	4,600	1,625	26 (Est)	Awaiting Completion		6.4

(1) Stabilized test rates through 2 3/8" tubing.
(2) Quantities represent the volumes produced at the wellhead. Marketable sales volumes would be approximately 25 percent less to account for shrinkage/processing and separation of NGLs. Average liquids content of the natural gas is approximately 50 Bbl / MMcf.
(3) Re-entry wells include the cost to drill the original well to re-entry depth.

Paramount completed the acquisition of Redcliffe Exploration Inc. ("Redcliffe") at the end of the second quarter, solidifying the Grande Prairie COU's Peace River Arch land holdings. The acquisition of Redcliffe adds approximately ten sections of land adjacent to the Company's existing Karr-Gold Creek development. The Grande Prairie COU has now consolidated approximately 115,000 (95,000 net) acres of land at Karr-Gold Creek. The Company estimates that it has a drilling inventory of approximately 200 net locations within the Karr-Gold Creek Montney play.

Paramount is currently constructing a wholly-owned compression / dehydration facility at Karr-Gold Creek with capacity to process 20 MMcf/d of raw gas. This facility is expected to operate at capacity upon completion in the fourth quarter of 2010, as wells drilled in the area have been tied-in with restricted production rates or have been shut-in due to limited compression capacity. A further 20 MMcf/d expansion of this facility is planned for the first quarter of 2011.

At Valhalla, the second of two wells drilled in the first quarter was completed in early April and is expected to be brought on production in the fourth quarter. A Montney horizontal well drilled in the second quarter and completed in July achieved a peak test rate of approximately 19 MMcf/d at a pressure of 7.8 MPa after 14 hours of clean-up flow. The following table summarizes the test results and capital costs for Montney horizontal wells drilled at Valhalla by the Company over the past two years:

Well Completion	Working Interest (%)	Measured Depth (m)	Horizontal Length (m)	Fracture stages in wellbore	Stabilized Test Rates[1] (MMcf/d)[2]	Stabilized Sandface Flowing Pressure (MPa)	Est. Gross Drilling & Completion Cost ($ million)
Q3 2009	50	3,500	1,100	8	2.5	4.3	3.6
Q1 2010	75	3,600	950	12	5.2	18.2	6.5
Q2 2010	100	3,700	950	12	9.3	12.3	4.5
Q3 2010	100	3,600	925	14	10.5	16.0	4.5
Q3 2010 (Est)	63	4,150	1,600	22 (Est)	Awaiting completion		5.0

(1) Stabilized test rates through 2 3/8" tubing.

(2) Quantities represent the volumes produced at the wellhead. Marketable sales volumes would be approximately 15 percent less to account for shrinkage/processing. Average liquids content of the natural gas is negligible.

The Grande Prairie COU has now consolidated approximately 33,000 (20,000 net) acres of land holdings at Valhalla, providing an inventory of more than 100 net drilling locations. An expansion of Paramount's gas gathering system in the western Valhalla area with capacity to process 15 MMcf/d of raw gas through existing facilities is expected to be operational in early 2011, with additional productive capacity additions planned for later in 2011.

Northern

Second quarter 2010 sales volumes in the Northern COU were 2,624 Boe/d, consistent with the first quarter.

Second quarter capital expenditures for the Northern COU were approximately $1 million and related to the tie-in of a well in the Cameron Hills area, which, subject to regulatory approval, is expected to go on production in the fourth quarter.

The Northern COU's 2010 capital program is substantially complete with minimal expenditures planned for the remainder of the year.

Southern

Southern COU sales volumes of 2,926 Boe/d in second quarter of 2010 were consistent with the first quarter of the year.

The Southern COU drilled nine (9.0 net) coal bed methane wells during the first quarter and an additional five (4.5 net) wells in early July following break-up. Three of the 17 wells originally planned for 2010 will not be drilled. Completion and tie-in of the 14 (13.5 net) wells drilled in 2010 and six (6.0 net) wells drilled previously is expected to be completed concurrently in the second half of 2010, reducing per well capital costs. In addition, a Mannville formation well drilled in the first quarter will be tied-in during the third quarter.

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

In July 2010, the North Dakota joint development partner commenced drilling the first Bakken horizontal well. Site preparation work has also commenced for the second well, which is expected to be drilled following completion of drilling on the initial well. Paramount anticipates that with successful results, Summit will be in a position to pursue a significant ongoing drilling and development program in the Bakken play in North Dakota.

Hoole Oil Sands Project

In the second quarter Paramount continued to advance the Hoole oil sands project towards commercialization. The Company enhanced its understanding of the reservoir through the performance of detailed core analysis and reservoir simulations, and is continuing with surface work, including collecting baseline environmental information. This analysis is an important component of Paramount's progression to submitting an application for commercial development, which is expected to be made in 2011.

In May 2010, Paramount received an updated evaluation of its Hoole property, including the results of the Company's 45 well winter drilling and delineation program. The table below summarizes the estimated volumes and net present values attributable to Paramount's 100 percent interest in the contingent bitumen resources within the Grand Rapids formation associated with its Hoole property, as evaluated by the Company's independent reserves evaluator, as of April 30, 2010:

Category / Level of Certainty(1)	Contingent Resources(2)(3) (MBbl)(4)	Fully Developed Production(5)(Bbl/d)	NPV(6) of Future Net Revenue Discounted At 10% ($MM)(7)
High estimate	786,394	85,000	2,934
Best estimate	634,102	70,000	1,908
Low estimate	458,893	50,000	967

(1) A low estimate means high certainty (P90), a best estimate means most likely (P50) and a high estimate means low certainty (P10).
(2) Represents the Company's share of recoverable volumes before deduction of royalties.
(3) Contingent resources are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are classified as a resource rather than a reserve due to one or more contingencies, such as the absence of regulatory approvals, detailed design estimates or near term development plans.
(4) Thousands of barrels
(5) These estimates assume that initial 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) NPV means net present value and represents the Company's share of future net revenue, before the deduction of income tax and does not represent fair value. 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 the reserve evaluator's forecast prices and costs as of April 1, 2010.
(7) Millions of Canadian dollars

In July, Paramount engaged a third party engineering firm to begin preliminary front-end engineering design work, and plans to continue with the collection of environmental data.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated August 3, 2010, 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, 2010 and Paramount's audited Consolidated Financial Statements and MD&A for the year ended December 31, 2009. Information included in this MD&A is presented in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada. Certain comparative figures have been reclassified to conform to the current year's presentation.

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

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

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

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

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

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

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

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

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

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

SECOND QUARTER HIGHLIGHTS[1]

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
FINANCIAL				
Petroleum and natural gas sales	**44.6**	40.2	**93.5**	80.4
Funds flow from operations	**22.1**	13.7	**43.7**	31.3
per share – diluted ($/share)	**0.31**	0.21	**0.60**	0.47
Net loss	**(28.8)**	(2.6)	**(43.3)**	(26.3)
per share – basic and diluted ($/share)	**(0.40)**	(0.04)	**(0.60)**	(0.40)
Exploration and development expenditures	**17.7**	5.4	**84.5**	60.9
Investments – market value			**354.8**	260.2
Total assets			**1,149.0**	1,078.8
Long-term debt			**155.6**	135.7
Net debt			**184.9**	128.2
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	**57.0**	59.1	**53.6**	55.1
Oil and NGLs (Bbl/d)	**3,287**	3,512	**3,400**	3,456
Total (Boe/d)	**12,787**	13,362	**12,333**	12,641
Net wells drilled	**2**	–	**69**	16
FUNDS FLOW FROM OPERATIONS ($/Boe)				
Petroleum and natural gas sales	**38.34**	33.04	**41.89**	35.14
Royalties	**(4.78)**	(3.12)	**(5.61)**	(4.02)
Operating expense and production tax	**(9.54)**	(9.21)	**(11.30)**	(14.31)
Transportation	**(3.87)**	(2.74)	**(3.85)**	(3.09)
Netback	**20.15**	17.97	**21.13**	13.72
Financial commodity contract settlements	**4.16**	–	**2.72**	4.88
Netback including commodity contract settlements	**24.31**	17.97	**23.85**	18.60
General and administrative	**(2.74)**	(4.02)	**(2.93)**	(4.12)
Interest	**(2.44)**	(2.67)	**(2.44)**	(2.52)
Distributions from investments	**3.11**	2.86	**3.46**	4.00
Asset retirement expenditures	**(1.09)**	(0.19)	**(1.08)**	(0.83)
Other	**(2.13)**	(2.66)	**(1.28)**	(1.44)
	19.02	11.29	**19.58**	13.69

[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.

Second Quarter Overview

Principal Properties

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- Netback before settlements of financial commodity contracts increased by $1.5 million to $23.4 million in the second quarter of 2010 due primarily to higher realized prices.

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- In July 2010, the operator under the North Dakota joint development agreement commenced drilling the first Bakken oil well.

Strategic Investments

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- Two of Paramount's three drilling rigs are being used to drill on the Company's properties in Alberta. The third rig commenced drilling in the United States in July under a three well contract with a third party.

Corporate

- In July 2010, the borrowing base and lender commitments under the Company's credit facility were increased to $160 million from $125 million.

- Corporate general and administrative costs decreased 42 percent to $2.5 million from $4.3 million in the second quarter of 2009.

Segment Earnings (Loss)

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Principal Properties	**(23.1)**	(14.5)	**(38.9)**	(35.8)
Strategic Investments	**(0.8)**	(7.8)	**4.7**	(13.0)
Corporate	**(12.9)**	(3.6)	**(22.6)**	(9.7)
Taxes	**8.0**	23.3	**13.5**	32.2
Net Loss	**(28.8)**	(2.6)	**(43.3)**	(26.3)

- The second quarter 2010 net loss of $28.8 million compared to a net loss of $2.6 million in the second quarter of 2009. The current year loss includes: (i) a higher Principal Properties loss due to higher depletion, depreciation and accretion, partially offset by higher revenue; (ii) a lower Strategic Investment loss primarily related to the Trilogy investment; (iii) higher Corporate costs primarily due to the impact of changes in foreign exchange rates and higher stock-based compensation expenses; and (iv) a lower future tax recovery.

- The year-to-date net loss of $43.3 million in 2010 compared to a net loss of $26.3 million in the same period in the prior year. The current year loss includes: (i) a higher Principal Properties loss due to higher depletion and dry hole expenses, partially offset by higher revenue and gains on financial commodity contracts; (ii) higher Strategic Investment earnings primarily related to the Trilogy investment; (iii) higher Corporate costs due to higher stock-based compensation and the impact of changes in foreign exchange rates, partially offset by lower general and administrative costs; and (iv) a lower future tax recovery.

Funds Flow From Operations

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	
	2010	2009	**2010**	2009
Cash from operating activities	**15.0**	21.7	**32.6**	39.9
Change in non-cash working capital	**7.1**	(8.0)	**11.1**	(8.6)
Funds flow from operations	**22.1**	13.7	**43.7**	31.3
Funds flow from operations ($/Boe)	**19.02**	11.29	**19.58**	13.69

- Funds flow from operations in the second quarter of 2010 increased by $8.4 million from the second quarter of 2009, primarily due to higher settlements of commodity contracts and higher commodity prices, partially offset by higher royalties.

- Year-to-date funds flow from operations in 2010 increased by $12.4 million from the prior year, primarily due to the impact of higher commodity prices and lower operating expenses, partially offset by lower settlements of commodity contracts and higher royalties.

Principal Properties

Netback and Segment Loss

	Three months ended June 30				Six months ended June 30			
	2010		2009		**2010**		2009	
		($/Boe)		($/Boe)		**($/Boe)**		($/Boe)
Petroleum and natural gas sales	**44.6**	**38.34**	40.2	33.04	**93.5**	**41.89**	80.4	35.14
Royalties	**(5.6)**	**(4.78)**	(3.8)	(3.12)	**(12.5)**	**(5.61)**	(9.2)	(4.02)
Operating expense and production tax	**(11.1)**	**(9.54)**	(11.2)	(9.21)	**(25.2)**	**(11.30)**	(32.7)	(14.31)
Transportation	**(4.5)**	**(3.87)**	(3.3)	(2.74)	**(8.6)**	**(3.85)**	(7.1)	(3.09)
Netback	**23.4**	**20.15**	21.9	17.97	**47.2**	**21.13**	31.4	13.72
Settlements of financial commodity contracts	**4.8**	**4.16**	–	–	**6.1**	**2.72**	11.2	4.88
Netback including settlements of financial commodity contracts	**28.2**	**24.31**	21.9	17.97	**53.3**	**23.85**	42.6	18.60
Other principal property items (see below)	**(51.3)**		(36.4)		**(92.2)**		(78.4)	
Segment loss	**(23.1)**		(14.5)		**(38.9)**		(35.8)	

Petroleum and Natural Gas Sales

	Three months ended June 30			Six months ended June 30		
	2010	2009	% Change	**2010**	2009	% Change
Natural gas sales	**23.3**	21.7	7	**48.5**	48.0	1
Oil and NGLs sales	**21.3**	18.5	15	**45.0**	32.4	39
Total	**44.6**	40.2	11	**93.5**	80.4	16

Second quarter revenue from natural gas, oil and NGLs sales in 2010 was $44.6 million, an increase of $4.4 million from the second quarter of 2009 due to the impact of higher prices, partially offset by the impact of lower sales volumes. Year-to-date revenue from natural gas, oil and NGLs sales in 2010 was $93.5 million, an increase of $13.1 million from the prior year, due to the impact of higher prices, partially offset by the impact of lower sales volumes.

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

	Natural gas	**Oil and NGLs**	**Total**
Three months ended June 30, 2009	21.7	18.5	40.2
Effect of changes in prices	2.4	4.0	6.4
Effect of changes in sales volumes	(0.8)	(1.2)	(2.0)
Three months ended June 30, 2010	**23.3**	**21.3**	**44.6**

	Natural gas	**Oil and NGLs**	**Total**
Six months ended June 30, 2009	48.0	32.4	80.4
Effect of changes in prices	1.8	13.1	14.9
Effect of changes in sales volumes	(1.3)	(0.5)	(1.8)
Six months ended June 30, 2010	**48.5**	**45.0**	**93.5**

Sales Volumes

	Three months ended June 30								
	2010			2009			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**21.2**	**510**	**4,035**	21.0	397	3,892	0.2	113	143
Grande Prairie	**13.4**	**965**	**3,202**	8.4	868	2,265	5.0	97	937
Northern	**13.0**	**461**	**2,624**	18.9	632	3,785	(5.9)	(171)	(1,161)
Southern	**9.4**	**1,351**	**2,926**	10.8	1,615	3,420	(1.4)	(264)	(494)
Total	**57.0**	**3,287**	**12,787**	59.1	3,512	13,362	(2.1)	(225)	(575)

Natural gas sales volumes decreased to 57.0 MMcf/d in the second quarter of 2010 compared to 59.1 MMcf/d in the second quarter of 2009. Crude oil and NGLs sales volumes decreased to 3,287 Bbl/d in the second quarter of 2010 compared to 3,512 Bbl/d in the second quarter of 2009.

These decreases in 2010 sales volumes were primarily a result of production declines at Bistcho in the Northern COU and at various other properties, partially offset by production from new wells at Karr-Gold Creek in the Grande Prairie COU and at Smoky, Resthaven and Musreau in the Kaybob COU.

The Company’s production at Karr-Gold Creek is currently constrained because of limitations in compression and dehydration capacity. Work is in progress to expand raw gas compression and dehydration capacity by 20 MMcf/d before the end of 2010.

	Six months ended June 30								
	2010			2009			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**19.8**	**504**	**3,812**	19.3	475	3,697	0.5	29	115
Grande Prairie	**11.7**	**1,034**	**2,978**	8.1	832	2,184	3.6	202	794
Northern	**12.9**	**474**	**2,619**	16.5	485	3,227	(3.6)	(11)	(608)
Southern	**9.2**	**1,388**	**2,924**	11.2	1,664	3,533	(2.0)	(276)	(609)
Total	**53.6**	**3,400**	**12,333**	55.1	3,456	12,641	(1.5)	(56)	(308)

Year-to-date natural gas sales volumes decreased to 53.6 MMcf/d in 2010 compared to 55.1 MMcf/d in the prior year. Year-to-date crude oil and NGLs sales volumes decreased to 3,400 Bbl/d in 2010 compared to 3,456 Bbl/d in the prior year.

The decrease in year-to-date sales volumes was primarily a result of natural gas production declines at Bistcho in the Northern COU and at Chain in the Southern COU, oil production declines in North Dakota within the Southern COU and production declines at various other properties, partially offset by production from new wells at Karr-Gold Creek in the Grande Prairie and at Smoky, Resthaven and Musreau in the Kaybob COU.

Average Realized Prices

	Three months ended June 30			Six months ended June 30		
	2010	2009	% Change	**2010**	2009	% Change
Natural gas ($/Mcf)	**4.49**	4.03	11	**5.00**	4.82	4
Oil and NGLs ($/Bbl)	**71.32**	57.83	23	**73.10**	51.74	41
Total ($/Boe)	**38.34**	33.04	16	**41.89**	35.14	19

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		
	2010	2009	% Change	**2010**	2009	% Change
Natural Gas						
AECO (Cdn$/GJ)	**3.66**	3.47	5	**4.37**	4.41	(1)
New York Mercantile Exchange						
(Henry Hub Close) (US$/MMbtu)	**4.14**	3.60	15	**4.71**	4.25	11
Crude Oil						
Edmonton par (Cdn$/Bbl)	**75.44**	66.16	14	**77.87**	57.19	36
West Texas Intermediate (US$Bbl)	**76.29**	59.62	28	**77.50**	51.39	51
Foreign Exchange						
Cdn$/1US$	**1.039**	1.167	(11)	**1.042**	1.206	(14)

Commodity Price Management

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

Receipts from the settlement of financial commodity contracts are as follows:

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Gas contracts	**4.8**	–	**6.1**	11.2

At June 30, 2010, Paramount's outstanding natural gas financial contracts are summarized as follows:

Instruments	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Gas – AECO Sales	30,000 GJ/d	CAD$5.53/GJ	**6.3**	July 2010 – October 2010
Gas – AECO Purchases	(15,000) GJ/d	CAD$3.87/GJ	**(0.1)**	July 2010 – October 2010
			6.2	

Paramount has a long-term physical contract expiring in January of 2011, to sell 3,400 GJ/d of natural gas at $2.73/GJ plus an escalation factor. At June 30, 2010 the fair value of the contract was a loss of $0.9 million.

Royalties

	Three months ended June 30			Six months ended June 30		
	2010	2009	% Change	**2010**	2009	% Change
Natural gas	**1.3**	1.3	–	**3.2**	3.4	(6)
Oil and NGLs	**4.3**	2.5	72	**9.3**	5.8	60
Total	**5.6**	3.8	47	**12.5**	9.2	36
Royalty rate	**12.5%**	9.4%		**13.4%**	11.5%	

Natural gas royalties in the second quarter of 2010 were consistent with the second quarter of 2009. Second quarter 2010 oil and NGLs royalties increased 72 percent compared to the prior year, primarily due to higher crown royalty rates caused by Alberta's price sensitive royalty framework.

Year-to-date natural gas royalties decreased by six percent in 2010 compared to the prior year, primarily due to lower royalty rates. Year-to-date oil and NGLs royalties increased 60 percent compared to the prior year, due to higher oil and NGLs revenue and higher royalty rates.

Operating Expense and Production Tax

	Three months ended June 30			Six months ended June 30		
	2010	2009	% Change	**2010**	2009	% Change
Operating expense	**10.5**	10.9	(4)	**24.0**	31.8	(25)
Production tax	**0.6**	0.3	100	**1.2**	0.9	33
Total	**11.1**	11.2	(1)	**25.2**	32.7	(23)

Operating expenses decreased by $0.4 million in the second quarter of 2010 compared to the second quarter of 2009, primarily due to lower costs associated with decreased production volumes. Second quarter 2010 production tax in the United States increased by $0.3 million due to increased oil and NGLs prices.

Year-to-date operating expenses decreased by $7.8 million compared to the prior year, primarily due to lower current year costs in the Northern COU resulting from prior year major maintenance at Cameron Hills, a more extensive prior year plant turnaround at Bistcho and 2009 well suspension activities at Liard and Bovie. Operating costs in the Kaybob COU decreased in 2010 due to prior year well suspension and other non-recurring costs and improved operating practices. Operating costs were also lower in 2010 at various properties due to lower production volumes. Year-to-date production tax in the United States increased by $0.3 million due to increased oil and NGLs prices.

Transportation Expense

	Three months ended June 30			Six months ended June 30		
	2010	2009	% Change	**2010**	2009	% Change
Transportation expense	**4.5**	3.3	36	**8.6**	7.1	21

Transportation expense increased to $4.5 million in the second quarter of 2010 compared to $3.3 million in the second quarter of 2009. Year-to-date transportation expense increased to $8.6 million from $7.1 million in the prior year. Transportation expense increased primarily because of toll increases in 2010. Transportation costs include the expenses of shipping natural gas to sales points in California and the United States East coast.

Other Principal Property Items

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Depletion, depreciation and accretion	**45.1**	35.8	**84.4**	66.4
Exploration and dry hole expenses	**1.5**	1.6	**12.7**	2.7
Gain on sale of property plant and equipment	**(0.4)**	(0.3)	**(0.4)**	–
Commodity contracts – net of settlements	**5.0**	–	**(3.9)**	9.8
Other	**0.1**	(0.7)	**(0.6)**	(0.5)
Total	**51.3**	36.4	**92.2**	78.4

Depletion, depreciation, and accretion increased to $45.1 million or $38.73 per Boe in the second quarter of 2010 compared to $35.8 million or $29.40 per Boe in the second quarter of 2009. Year-to-date depletion, depreciation, and accretion increased to $84.4 million or $37.82 per Boe in 2010 compared to $66.4 million or $29.03 per Boe in the prior year. The increase in the per unit depletion rates is primarily due to a change in the pricing methodology used to estimate proved reserves, which was adopted in the fourth quarter of 2009. The depletion rate has also been impacted by high finding and development costs in recent years.

Year-to-date exploration and dry hole expenses include $7.8 million of costs related to suspended wells drilled in the first quarter of 2010 at Cameron Hills in the Northern COU.

Strategic Investments

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Income (loss) from investments	**3.3**	(6.9)	**12.0**	(10.9)
Drilling, net	**(1.4)**	(0.2)	**(2.0)**	(0.8)
Other (expense) income	**(1.1)**	(0.7)	**(5.3)**	(1.3)
Segment Earnings (Loss)	**(0.8)**	(7.8)	**4.7**	(13.0)

Strategic Investments at June 30, 2010 include the following:

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

Second quarter 2010 income from investments includes $0.4 million of equity losses, a dilution gain of $0.2 million and a gain of $3.5 million related to the reclassification of gains on the investment in Redcliffe previously recognized in other comprehensive income. The prior year comparable period includes $6.9 million of equity losses.

Year-to-date income from investments in 2010 includes $4.2 million of equity earnings, a dilution gain of $4.3 million and a gain of $3.5 million related to the reclassification of gains on the investment in Redcliffe previously recognized in other comprehensive income. The prior year includes $9.4 million of equity losses and a dilution loss of $1.5 million.

Prior to Trilogy's conversion to a corporation, Paramount participated in Trilogy's distribution reinvestment plan ("DRIP"), acquiring an additional 0.1 million units for $1.2 million.

In July 2010, MEG filed a supplemented post-receipt pricing prospectus with securities regulatory authorities in each of the provinces and territories in Canada in connection with its initial public offering of 20 million common shares at a price of $35.00 per share. At June 30, 2010, Paramount owned 3.7 million common shares of MEG with a carrying value of $27.50 per share.

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

	Carrying Value		**Market Value**[1]	
	June 30, 2010	December 31, 2009	**June 30, 2010**	December 31, 2009
Trilogy	**110.6**	104.5	**224.1**	206.1
MEG Energy	**101.8**	101.8	**101.8**	101.8
MGM Energy	**5.7**	5.9	**8.3**	12.5
Other[2]	**20.5**	22.4	**20.6**	22.5
Total	**238.6**	234.6	**354.8**	342.9

(1) Based on the period-end closing price of publicly-traded investments and book value of remaining investments.
(2) Includes investments in NuLoch, Paxton, Redcliffe (2009),and other public and private corporations.

In May 2010, Paramount disclosed an updated evaluation of its Hoole property, which included the results of the Company's 45 well winter drilling and delineation program. Paramount continues to enhance its understanding of the Hoole reservoir through the performance of detailed core analysis and reservoir simulations, and collecting baseline environmental information. This analysis is an important component of Paramount's progression to submitting an application for commercial development, which is expected to be made in 2011.

Corporate

	Three months ended June 30		**Six months ended June 30**	
	2010	2009	**2010**	2009
General and administrative	**2.5**	4.3	**5.2**	8.2
Stock-based compensation	**5.3**	0.2	**10.9**	0.4
Depletion and depreciation	**0.2**	0.2	**0.4**	0.5
Interest and financing charges	**2.6**	3.3	**5.0**	5.9
Foreign exchange	**2.2**	(4.4)	**1.0**	(5.2)
Other (income) expense	**0.1**	–	**0.1**	(0.1)
Corporate costs	**12.9**	3.6	**22.6**	9.7

Second quarter corporate segment net costs increased $9.3 million to $12.9 million in 2010, compared to $3.6 million in the second quarter of 2009, primarily due to the impact of changes in foreign exchange rates and higher stock-based compensation charges, partially offset by lower general and administrative expenses. General and administrative expense includes $0.3 million of costs related to the Redcliffe acquisition, and decreased primarily due to higher overhead recoveries resulting from higher current year capital spending.

Year-to-date corporate segment net costs increased $12.9 million to $22.6 million in 2010, compared to $9.7 million in the prior year, primarily due to higher stock-based compensation charges and the impact of changes in foreign exchange rates, partially offset by lower general and administrative expenses. General and administrative expenses decreased primarily due to higher overhead recoveries resulting from higher current year capital spending.

Capital Expenditures

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Geological and geophysical	**2.1**	1.5	**5.0**	2.7
Drilling and completions	**10.9**	1.5	**66.1**	38.8
Production equipment and facilities	**4.7**	2.4	**13.4**	19.4
Exploration and development expenditures	**17.7**	5.4	**84.5**	60.9
Land and property acquisitions	**10.1**	1.5	**23.1**	2.8
Acquisition of Redcliffe	**46.2**	–	**46.2**	–
Proceeds on disposition and other	**(0.1)**	(0.3)	**(0.1)**	(0.5)
Principal Properties	**73.9**	6.6	**153.7**	63.2
Strategic Investments				
Capital expenditures	**(0.3)**	1.8	**10.7**	8.9
Proceeds on disposition	**(0.9)**	–	**(0.9)**	–
Corporate	**0.1**	–	**0.1**	–
Net capital expenditures	**72.8**	8.4	**163.6**	72.1

Second quarter exploration and development expenditures were $17.7 million in 2010 compared to $5.4 million in 2009. Year-to-date exploration and development expenditures in 2010 were $84.5 million in 2010 compared to $60.9 million in 2009. Exploration and development expenditures in 2010 focused on drilling and facility expansion at the Karr-Gold Creek deep gas project in the Grande Prairie COU and drilling Deep Basin wells in the Smoky, Musreau and Resthaven areas in the Kaybob COU.

Year-to-date 2010 exploration and development expenditures were reduced by $6.6 million as a result of the Alberta Drilling Royalty Credit program.

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

On June 29, 2010, Paramount acquired all 109.9 million (82% voting interest) of the issued and outstanding Class A shares of Redcliffe not already owned, including 340,000 Class A shares owned by certain officers of Paramount, for cash consideration of $46.2 million. Redcliffe was a Calgary based company with interests in petroleum and natural gas properties in the Peace River Arch and Greater Pembina areas in Alberta. The acquisition was funded with drawings on the Company's credit facility.

Wells drilled are as follows:

	Three months ended June 30				Six months ended June 30			
	2010		2009		**2010**		2009	
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	**Gross[(1)]**	**Net[(2)]**	Gross[(1)]	Net[(2)]
Gas	**4**	**2**	1	–	**23**	**18**	14	8
Oil	**–**	**–**	–	–	**2**	**2**	1	1
Oil sands evaluation	**–**	**–**	–	–	**45**	**45**	7	7
Dry and abandoned	**–**	**–**	–	–	**4**	**4**	–	–
Total	**4**	**2**	1	–	**74**	**69**	22	16

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

Liquidity and Capital Resources

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

	June 30, 2010	December 31, 2009	Change
Working capital deficit (surplus)[1]	**28.7**	(43.5)	72.2
Credit facility	**60.5**	–	60.5
US Senior Notes (excluding unamortized financing fees)	**95.7**	94.4	1.3
Net debt	**184.9**	50.9	134.0
Share capital	**394.2**	393.1	1.1
Contributed surplus	**3.2**	2.9	0.3
Retained earnings	**330.7**	373.7	(43.0)
Accumulated other comprehensive income	**4.8**	3.2	1.6
Total Capital	**917.8**	823.8	94.0

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

Working Capital

Paramount's working capital deficit at June 30, 2010 was $28.7 million compared to a surplus of $43.5 million at December 31, 2009. Working capital at June 30, 2010 includes $24.4 million of cash and cash equivalents and $56.9 million of accounts payable and accrued liabilities. The decrease in working capital is primarily due to capital spending, partially offset by funds flow from operations. A principal payment of $1.0 million was made on the drilling rig loan in March 2010.

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

Bank Credit Facility

In July 2010, the borrowing base and lender commitments under Paramount's credit facility were increased to $160 million from $125 million. The credit facility is available on a revolving basis to April 30, 2011 and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for an additional year, at which time the facility would be due and payable. As of June 30, 2010, $60.5 million was drawn on the credit facility. Paramount had undrawn letters of credit outstanding at June 30, 2010 of $16.4 million that reduce the amount available to the Company under the credit facility.

US Senior Notes

As of June 30, 2010 the outstanding balance of Paramount's 8.5% US Senior Notes remains at US$90.2 million ($95.7 million).

Share Capital

In April 2010, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a normal course issuer bid ("NCIB") commencing April 13, 2010 for a 12-month period. Under the NCIB, Paramount is permitted to purchase for cancellation up to 3,626,476 Common Shares. No shares have been purchased to August 3, 2010.

At August 3, 2010, Paramount had 72,587,524 Common Shares and 4,159,700 Stock Options outstanding (854,354 exercisable).

Quarterly Information

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	**44.6**	48.9	45.0	36.3	40.2	40.2	54.7	83.5
Funds flow from operations	**22.1**	21.6	18.8	10.2	13.7	17.6	68.2	40.9
per share – diluted ($/share)	**0.31**	0.30	0.27	0.15	0.21	0.27	1.01	0.60
Net earnings (loss)	**(28.8)**	(14.5)	(46.4)	(25.2)	(2.6)	(23.7)	(150.5)	103.9
per share – basic & diluted ($/share)	**(0.40)**	(0.20)	(0.67)	(0.38)	(0.04)	(0.36)	(2.23)	1.53
Sales volumes								
Natural gas (MMcf/d)	**57.0**	50.2	47.0	49.9	59.1	51.1	53.4	57.3
Oil and NGLs (Bbl/d)	**3,287**	3,514	3,673	3,733	3,512	3,398	3,298	3,657
Total (Boe/d)	**12,787**	11,875	11,514	12,046	13,362	11,912	12,202	13,206
Average realized price								
Natural gas ($/Mcf)	**4.49**	5.59	4.85	3.24	4.03	5.73	7.43	8.65
Oil and NGLs ($/Bbl)	**71.32**	74.78	71.00	62.33	57.83	45.38	60.04	112.64

Significant Items Impacting Quarterly Results

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

- Second quarter 2010 earnings include increased depletion, depreciation and accretion expense and $7.3 million of stock-based compensation charges.
- First quarter 2010 earnings include $8.2 million of dry hole expenses and $7.7 million of stock-based compensation charges.
- Fourth quarter 2009 earnings include $24.3 million of dry hole expenses related to suspended exploratory well costs and a $14.9 million write-down of petroleum and natural gas properties.
- Third quarter 2009 earnings include higher stock-based compensation charges, and lower earnings from Strategic Investments.
- Second quarter 2009 earnings include increased future income tax recoveries and lower operating expenses.
- First quarter 2009 earnings include lower Corporate costs and Strategic Investments losses.
- Fourth quarter 2008 earnings include a $50.7 million write-down of petroleum and natural gas properties and goodwill and a $96.9 million investment impairment provision.
- Third quarter 2008 earnings include $79.6 million of mark-to-market gains on financial commodity contracts and $29.8 million of equity investment income.

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, 2010 and 2009, and do not include Paramount's adjustments when applying the equity method of investment accounting. As a result, the amounts included in the table below cannot be used to derive Paramount's equity income and net investment in Trilogy.

As at June 30	**2010**	2009
Current assets	**51.5**	56.2
Long term assets	**941.5**	869.0
Current liabilities	**61.4**	58.5
Long term liabilities	**466.5**	481.1
Equity	**465.1**	385.6

Six months ended June 30	**2010**	2009
Revenue	**146.5**	120.6
Expenses	**122.5**	142.9
Tax expense (recovery)	**7.0**	(8.4)
Net earnings (loss)	**17.0**	(13.8)
Shares/units outstanding at June 30 (thousands)	**115,001**	98,295
Paramount's equity interest at June 30[1]	**21.0%**	23.6%

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

Trilogy had 4.6 million stock options outstanding (1.1 million exercisable) at June 30, 2010 at exercise prices ranging from $4.85 to $12.88 per share.

Outlook

Based on encouraging drilling and completion results achieved to date, Paramount expects to accelerate development plans in the Kaybob and Grande Prairie COUs during the remainder of 2010. Additional capital spending beyond the Company's $130 million exploration and development budget is anticipated, the extent of which will depend upon continued strong drilling and completion results and commodity prices.

Paramount's year-to-date average production of 12,333 Boe/d is consistent with expectations. The Company has increased its expected annual average production to approximately 13,425 Boe/d to incorporate the impact of the Redcliffe acquisition.

Change in Accounting Policy

Effective January 1, 2010, Paramount early adopted CICA Handbook section 1582 – "Business Combinations", which replaces the previous business combinations standard. The new standard requires that all of the assets acquired and the liabilities assumed in a business combination be recorded at fair value, which was not the case under the previous standard. The new standard also requires that previously held ownership interests be remeasured to the acquisition date fair value, rather than being restated to cost. In addition, the new standard requires that all acquisition costs associated with the acquisition are expensed, rather than being capitalized as part of the acquisition, that contingent liabilities are recognized at fair value at the acquisition date and subsequently re-measured to fair value with changes recognized in earnings, and that a bargain purchase is recognized in earnings rather than being allocated to non-monetary assets. This new standard has been applied to the acquisition of Redcliffe Exploration Inc. ("Redcliffe").

Effective January 1, 2010, Paramount also early adopted CICA Handbook section 1601 – "Consolidations" and 1602 - "Non-controlling Interests", which together replaced section 1600 – "Consolidations". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 requires non-controlling interests ("NCI") to be presented within equity. There is no impact on the Interim Consolidated Financial Statements from the adoption of these standards.

Future Accounting Changes

International Financial Reporting Standards

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

Paramount's IFRS conversion project is proceeding according to plan and the Company expects to be ready for the transition in the first quarter of 2011.

Significant components of Paramount's IFRS conversion project completed to date include:

- compilation of a diagnostic analysis that identified key differences between existing Canadian GAAP and IFRS, as they relate to the Company;
- preparation of Company specific draft accounting position papers;
- preliminary determination of Paramount's cash generating units ("CGUs"); the impact of the CGUs on prior year's impairments is currently be analyzed;
- implementation of modifications to information systems required to accumulate and process information in order to generate IFRS financial information; and
- a preliminary draft of IFRS disclosures.

Accounting Policy Changes

Significant accounting differences identified include, but are not limited to, accounting for oil and gas properties, accounting for stock-based compensation, and foreign currency translation of foreign subsidiaries.

Paramount elected to early adopt CICA handbook section 1582 "Business Combinations" with respect to the acquisition of Redcliffe. This new Canadian standard is substantially converged with IFRS 3 "Business Combinations" and no adjustments are expected on transition to IFRS.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" provides certain exceptions and exemptions that issuers can choose to adopt at the date of transition to IFRS. Paramount expects to apply the IFRS 1 exemption to not retrospectively apply IFRS 3 "Business Combinations" to past business combinations. Paramount also expects to apply the IFRS 1 exemption to deem historical cumulative translation differences for foreign operations to be zero at transition. Paramount continues to evaluate other relevant alternatives available under the adoption standard.

Implementation

The project team is currently focused on the following activities:

- preparing the opening balance sheet and the reconciliation from Canadian GAAP to IFRS; quantification of IFRS impacts on the opening IFRS balance sheet is expected to be completed in the second half of 2010;
- preparing comparative IFRS adjustments to the 2010 quarterly Canadian GAAP financial statement balances; and
- finalizing Paramount's IFRS policy choices and IFRS 1 elections.

As IFRS accounting policies and processes are being finalized, corresponding changes to internal controls over financial reporting and disclosure controls procedures are being identified to ensure controls remain effective.

Business Activities

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

Advisories

Forward-looking Information

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

- expected production volumes;
- planned exploration and development budget;
- budget allocations and capital spending flexibility;
- expected future plans relating to the COUs;
- capital structure and the flexibility to change future business plans;
- expected drilling programs, well tie-ins, facility expansions, completions, and the timing thereof; and
- estimated contingent bitumen resources and the discounted 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).

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

Undue reliance should not be placed on forward looking information. Forward-looking information is based on risks and uncertainties which could cause actual results to differ materially from those anticipated by Paramount and described in the forward looking information. The material risks and uncertainties include, but are not limited to:

- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- the imprecision of resource estimates;
- the imprecision of estimating the timing, costs and levels of production and drilling;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- the ability to secure adequate product processing, transportation and storage;
- the uncertainty of exploration, development and drilling;
- operational risks in exploring for, developing and producing crude oil and natural gas, and the timing thereof;
- the ability to obtain equipment, services, supplies and personnel in a timely manner;
- potential disruption or unexpected technical difficulties in designing, developing or operating new or existing facilities;
- risks and uncertainties involving the geology of oil and gas deposits;
- the ability to generate sufficient cash flow from operations and other sources of financing at an acceptable cost to meet current and future obligations;
- changes to the status or interpretation of laws, regulations or policies;
- the timing of governmental or regulatory approvals;
- changes in general business and economic conditions;
- uncertainty regarding aboriginal land claims and co-existing with local populations; and
- the effects of weather.

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

Non-GAAP Measures

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

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

Oil and Gas Measures and Definitions

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

This document contains disclosure of the results of an updated evaluation of the Company's contingent bitumen resources from the Grande Rapids formation at Hoole, Alberta. Contingent resources are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are classified as a resource rather than a reserve due to one or more contingencies, such as the absence of regulatory approvals, detailed design estimates or near term development plans. A low estimate means high certainty (P90), a best estimate means most likely (P50) and a high estimate means low certainty (P10).

The before tax net present value of contingent bitumen resources disclosed represents the Company's share of future net revenue, before the deduction of income tax and does not represent fair value. 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. The net present value was calculated assuming natural gas is used as a fuel for steam generation. Revenues and expenditures were calculated based on the reserve evaluator’s forecast prices and costs as of April 1, 2010.

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

	June 30 2010	December 31 2009
ASSETS		
Current assets		
Cash and cash equivalents	**$ 24,389**	$ 93,238
Accounts receivable	**27,919**	23,488
Risk management assets (Note 11)	**6,190**	2,187
Prepaid expenses and other	**4,215**	2,301
	62,713	121,214
Property, plant and equipment, net	**809,049**	716,235
Investments (Note 5)	**238,631**	234,586
Future income taxes	**29,952**	29,940
Goodwill (Note 3)	**8,623**	–
	$ 1,148,968	$ 1,101,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Drilling rig loan (Note 6)	**$ 28,380**	$ 29,380
Accounts payable and accrued liabilities	**56,862**	46,162
Current portion of stock-based compensation liability (Note 10)	**16,252**	11,441
	101,494	86,983
Long-term debt (Note 7)	**155,590**	93,655
Asset retirement obligations (Note 8)	**111,880**	103,462
Stock-based compensation liability (Note 10)	**8,906**	3,771
Future income taxes	**38,201**	41,194
	416,071	329,065
Shareholders' equity		
Share capital (Note 9)	**394,207**	393,087
Contributed surplus	**3,203**	2,890
Retained earnings	**330,681**	373,745
Accumulated other comprehensive income	**4,806**	3,188
	732,897	772,910
	$ 1,148,968	$ 1,101,975

See the accompanying notes to these Interim Consolidated Financial Statements.

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Revenue				
Petroleum and natural gas sales	**$ 44,609**	$ 40,172	**$ 93,504**	$ 80,404
Gain (loss) on financial commodity contracts (Note 11)	**(384)**	–	**10,081**	1,350
Royalties	**(5,558)**	(3,790)	**(12,514)**	(9,208)
	38,667	36,382	**91,071**	72,546
Expenses				
Operating expense and production tax	**11,100**	11,204	**25,227**	32,721
Transportation	**4,503**	3,328	**8,588**	7,076
General and administrative	**3,190**	4,887	**6,532**	9,437
Stock-based compensation	**7,296**	177	**15,043**	443
Depletion, depreciation and accretion	**45,336**	36,049	**84,945**	66,975
Exploration	**2,096**	1,726	**5,150**	2,870
Dry hole	**(396)**	–	**7,754**	–
Gain on sale of property, plant and equipment	**(170)**	(320)	**(170)**	(37)
Interest and financing charges	**2,903**	3,306	**5,576**	5,899
Foreign exchange	**2,197**	(4,389)	**1,008**	(5,163)
	78,055	55,968	**159,653**	120,221
Income (loss) from investments (Note 5)	**3,304**	(6,908)	**11,975**	(10,878)
Other income (loss)	**(766)**	625	**(171)**	100
Loss before tax	**(36,850)**	(25,869)	**(56,778)**	(58,453)
Income and other tax expense (recovery)				
Current and other	**(10)**	(117)	**(6)**	(636)
Future	**(8,032)**	(23,170)	**(13,500)**	(31,552)
	(8,042)	(23,287)	**(13,506)**	(32,188)
Net loss	**$ (28,808)**	$ (2,582)	**$ (43,272)**	$ (26,265)
Net loss per common share ($/share) (Note 9)				
Basic and diluted	**$ (0.40)**	$ (0.04)	**$ (0.60)**	$ (0.40)

See the accompanying notes to these Interim Consolidated Financial Statements.

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Operating Activities				
Net loss	**$ (28,808)**	$ (2,582)	**$ (43,272)**	$ (26,265)
Add (deduct)				
Items not involving cash (Note 12)	**53,406**	16,593	**79,379**	58,370
Asset retirement obligation expenditures (Note 8)	**(1,269)**	(235)	**(2,413)**	(1,888)
Exploration and dry hole expenses	**1,700**	1,726	**12,904**	2,870
Stock incentive plan	**(2,901)**	(1,775)	**(2,901)**	(1,775)
	22,128	13,727	**43,697**	31,312
Change in non-cash working capital	**(7,119)**	7,985	**(11,057)**	8,585
Cash from operating activities	**15,009**	21,712	**32,640**	39,897
Financing activities				
Drilling rig loan repayment (Note 6)	**–**	–	**(1,000)**	–
Net draw of revolving long-term debt (Note 7)	**60,544**	6,229	**60,544**	31,751
Repayment of debt assumed on Redcliffe acquisition (Note 3)	**(10,521)**	–	**(10,521)**	–
Settlement of foreign exchange contract	**–**	–	**–**	12,205
Common shares issued	**657**	–	**2,776**	–
Common shares repurchased (Note 9)	**–**	–	**–**	(4,219)
Cash from financing activities	**50,680**	6,229	**51,799**	39,737
Investing activities				
Expenditures on property, plant and equipment and exploration	**(27,654)**	(8,662)	**(118,435)**	(72,569)
Redcliffe acquisition (Note 3)	**(46,172)**	–	**(46,172)**	–
Proceeds on sale of property, plant and equipment	**1,017**	280	**1,017**	449
Purchase of investments	**(2,481)**	(619)	**(5,054)**	(5,137)
Change in non-cash working capital	**(22,205)**	(29,293)	**15,356**	(34,452)
Cash used in investing activities	**(97,495)**	(38,294)	**(153,288)**	(111,709)
Net decrease in cash and cash equivalents	**(31,806)**	(10,353)	**(68,849)**	(32,075)
Cash and cash equivalents, beginning of period	**56,195**	32,409	**93,238**	54,131
Cash and cash equivalents, end of period	**$ 24,389**	$ 22,056	**$ 24,389**	$ 22,056

Supplemental cash flow information (Note 12)

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	2010		2009	
	Shares (000's)		Shares (000's)	
Share Capital				
Balance, beginning of period	**72,058**	**$ 393,087**	66,741	$ 302,727
Issued	**348**	**6,025**	–	–
Tax effect of flow-through share renunciations	**–**	**(4,497)**	–	–
Common shares repurchased	**–**	**–**	(616)	(2,815)
Change in unvested common shares for stock incentive plan	**28**	**(408)**	(178)	130
Balance, end of period	**72,434**	**$ 394,207**	65,947	$ 300,042
Contributed Surplus				
Balance, beginning of period		**$ 2,890**		$ 2,398
Stock-based compensation expense on investees' options		**313**		256
Balance, end of period		**$ 3,203**		$ 2,654
Retained Earnings				
Balance, beginning of period		**$ 373,745**		$ 473,362
Common shares repurchased		**–**		(1,404)
Change in value of unvested common shares for stock incentive plan		**208**		(398)
Net loss		**(43,272)**		(26,265)
Balance, end of period		**$ 330,681**		$ 445,295
Accumulated Other Comprehensive Income				
Balance, beginning of period		**$ 3,188**		$ –
Other comprehensive income, net of tax		**1,618**		1,167
Balance, end of period		**$ 4,806**		$ 1,167
Total Shareholders' Equity		**$ 732,897**		$ 749,158

See the accompanying notes to these Interim Consolidated Financial Statements.

Consolidated Statement of Comprehensive Loss (Unaudited)

($ thousands)

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Net loss	**$ (28,808)**	$ (2,582)	**$ (43,272)**	$ (26,265)
Other comprehensive income, net of tax				
Change in unrealized gain on available-for-sale investments	**3,226**	1,285	**5,051**	1,167
Reclassification of accumulated (gains) to earnings, net of $0.1 million tax	**(3,433)**	–	**(3,433)**	–
Comprehensive loss	**$ (29,015)**	$ (1,297)	**$ (41,654)**	$ (25,098)

See the accompanying notes to these Interim Consolidated Financial Statements.

1. Basis of Presentation

These unaudited Interim Consolidated Financial Statements include the accounts of Paramount Resources Ltd. and its subsidiaries ("Paramount" or the "Company"), are stated in Canadian dollars, and have been prepared in accordance with Canadian Generally Accepted Accounting Principles using accounting policies and methods of application that are consistent with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2009, except as disclosed in Note 2 below. Paramount conducts its business through two business segments: Principal Properties and Strategic Investments.

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

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

2. Changes in Accounting Policy

Effective January 1, 2010, Paramount early adopted CICA Handbook section 1582 – "Business Combinations", which replaces the previous business combinations standard. The new standard requires that all of the assets acquired and the liabilities assumed in a business combination be recorded at fair value, which was not the case under the previous standard. The new standard also requires that previously held ownership interests be remeasured to the acquisition date fair value, rather than being restated to cost. In addition, the new standard requires that all acquisition costs associated with the acquisition are expensed, rather than being capitalized as part of the acquisition, that contingent liabilities are recognized at fair value at the acquisition date and subsequently re-measured to fair value with changes recognized in earnings, and that a bargain purchase is recognized in earnings rather than being allocated to non-monetary assets. This new standard has been applied to the acquisition of Redcliffe Exploration Inc. ("Redcliffe").

Effective January 1, 2010, Paramount also early adopted CICA Handbook section 1601 – "Consolidations" and 1602 - "Non-controlling Interests", which together replaced section 1600 – "Consolidations". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 requires non-controlling interests ("NCI") to be presented within equity. There is no impact on the Interim Consolidated Financial Statements from the adoption of these standards.

3. Acquisition of Redcliffe Exploration Inc.

On June 29, 2010, Paramount acquired all 109.9 million (82% voting interest) of the issued and outstanding Class A shares of Redcliffe not already owned, including 340,000 Class A shares owned by certain officers of Paramount, for cash consideration of $46.2 million. Immediately prior to the acquisition, Paramount owned 23.5 million Class A shares of Redcliffe. Redcliffe was a publicly traded energy company with the majority of its properties located in the Peace River Arch and Greater Pembina areas of Alberta. These financial statements include the results of operations of the acquired business for the period following the closing of the transaction on June 29, 2010.

The acquisition of Redcliffe 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	
Property, plant, and equipment	**$ 66,943**
Goodwill	**8,623**
Working capital deficit	**(706)**
Bank debt	**(10,521)**
Asset retirement obligations	**(4,581)**
Future income tax liability	**(3,710)**
Net assets acquired	**$ 56,048**

Cash purchase price	**$ 46,172**
Fair value of Redcliffe shares previously held	**9,876**
Total	**$ 56,048**

The allocation of the purchase price is provisional, and was estimated by management at the time of the preparation of these interim consolidated financial statements based on information then available. Amendments may be made to these amounts as the estimates are finalized.

Upon the acquisition of Redcliffe, a gain of $3.5 million previously recorded in Paramount's other comprehensive income ("OCI") related to its investment in Redcliffe was reclassified to income from investments. Goodwill recorded on the acquisition of Redcliffe is primarily related to the Company's recognition of asset retirement obligations and future income tax liabilities. None of the goodwill is deductible for tax purposes. The net assets acquired, including goodwill have been allocated to the Principal Properties business segment.

Paramount incurred $0.3 million of transaction costs related to the Redcliffe acquisition, which were recognized in general and administrative expense.

If the acquisition of Redcliffe had been completed on January 1, 2010, Paramount's petroleum and natural gas sales for the six months ended June 30, 2010 would have been $99.7 million. The impact on net income is impracticable to disclose.

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 Northern COU, which includes properties in Northern Alberta, the Northwest Territories and Northeast British Columbia; and (iv) the Southern COU, which includes properties in Southern Alberta, Saskatchewan, Montana and North Dakota.

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

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

($ thousands, except as noted)

Three months ended June 30, 2010	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue					
Petroleum and natural gas sales, net of royalties	$ 39,051	$ –	$ –	$ –	**$ 39,051**
Loss on financial commodity contracts	(384)	–	–	–	**(384)**
	38,667	–	–	–	**38,667**
Expenses					
Operating expense, production tax and transportation	15,603	–	–	–	**15,603**
General and administrative	–	693	2,497	–	**3,190**
Stock-based compensation	–	2,016	5,280	–	**7,296**
Depletion, depreciation and accretion	45,071	565	175	(475)	**45,336**
Exploration and dry hole	1,488	212	–	–	**1,700**
(Gain) loss on sale of property, plant and equipment	(397)	227	–	–	**(170)**
Interest and financing charges	–	289	2,614	–	**2,903**
Foreign exchange	–	–	2,197	–	**2,197**
	61,765	4,002	12,763	(475)	**78,055**
Income (loss) from investments	–	3,304	–	–	**3,304**
Other income (expense)	(90)	–	(92)	–	**(182)**
Drilling rig revenue	–	1,595	–	(1,595)	**–**
Drilling rig expense	–	(1,667)	–	1,083	**(584)**
	(23,188)	(770)	(12,855)	(37)	**(36,850)**
Inter-segment eliminations	–	(37)	–	37	–
Segment loss	$ (23,188)	$ (807)	$ (12,855)	$ –	**(36,850)**
Income and other tax recovery					**(8,042)**
Net loss					**$ (28,808)**

Three months ended June 30, 2009	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue					
Petroleum and natural gas sales, net of royalties	$ 36,382	$ –	$ –	$ –	$ 36,382
	36,382	–	–	–	36,382
Expenses					
Operating expense, production tax and transportation	14,532	–	–	–	14,532
General and administrative	–	621	4,266	–	4,887
Stock-based compensation	–	–	177	–	177
Depletion, depreciation and accretion	35,753	58	238	–	36,049
Exploration	1,552	174	–	–	1,726
Gain on sale of property, plant and equipment	(320)	–	–	–	(320)
Interest and financing charges	–	–	3,306	–	3,306
Foreign exchange	–	–	(4,389)	–	(4,389)
	51,517	853	3,598	–	55,968
Loss from investments	–	(6,908)	–	–	(6,908)
Other income	670	–	10	–	680
Drilling rig expense	–	(55)	–	–	(55)
Segment loss	$ (14,465)	$ (7,816)	$ (3,588)	$ –	(25,869)
Income and other tax recovery					(23,287)
Net loss					$ (2,582)

($ thousands, except as noted)

Six months ended June 30, 2010	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue					
Petroleum and natural gas sales, net of royalties	$ 80,990	$ –	$ –	$ –	**$ 80,990**
Gain on financial commodity contracts	10,081	–	–	–	**10,081**
	91,071	–	–	–	**91,071**
Expenses					
Operating expense, production tax and transportation	33,815	–	–	–	**33,815**
General and administrative	–	1,324	5,208	–	**6,532**
Stock-based compensation	–	4,110	10,933	–	**15,043**
Depletion, depreciation and accretion	84,419	1,611	347	(1,432)	**84,945**
Exploration and dry hole	12,655	249	–	–	**12,904**
Gain on sale of property, plant and equipment	(397)	227	–	–	**(170)**
Interest and financing charges	–	602	4,974	–	**5,576**
Foreign exchange	–	–	1,008	–	**1,008**
	130,492	8,123	22,470	(1,432)	**159,653**
Income from investments	–	11,975	–	–	**11,975**
Other income (expense)	571	–	(143)	–	**428**
Drilling rig revenue	–	4,925	–	(4,925)	**–**
Drilling rig expense	–	(3,655)	–	3,056	**(599)**
	(38,850)	5,122	(22,613)	(437)	**(56,778)**
Inter-segment eliminations	–	(437)	–	437	**–**
Segment earnings (loss)	$ (38,850)	$ 4,685	$ (22,613)	$ –	**(56,778)**
Income and other tax recovery					**(13,506)**
Net loss					**$ (43,272)**

Six months ended June 30, 2009	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue					
Petroleum and natural gas sales, net of royalties	$ 71,196	$ –	$ –	$ –	$ 71,196
Gain on financial commodity contracts	1,350	–	–	–	1,350
	72,546	–	–	–	72,546
Expenses					
Operating expense, production tax and transportation	39,797	–	–	–	39,797
General and administrative	–	1,224	8,213	–	9,437
Stock-based compensation	–	–	443	–	443
Depletion, depreciation and accretion	66,410	92	473	–	66,975
Exploration	2,696	174	–	–	2,870
Gain on sale of property, plant and equipment	(37)	–	–	–	(37)
Interest and financing charges	–	–	5,899	–	5,899
Foreign exchange	–	–	(5,163)	–	(5,163)
	108,866	1,490	9,865	–	120,221
Loss from investments	–	(10,878)	–	–	(10,878)
Other income	572	–	160	–	732
Drilling rig revenue	–	377	–	(377)	–
Drilling rig expense	–	(1,009)	–	377	(632)
Segment loss	$ (35,748)	$ (13,000)	$ (9,705)	$ –	(58,453)
Income and other tax recovery					(32,188)
Net loss					$ (26,265)

5. Investments

	June 30, 2010 (Shares/Units) (000's)	June 30, 2010	December 31, 2009 (Shares/Units) (000's)	December 31, 2009
Equity accounted investments:				
Trilogy Energy Corp. ("Trilogy")	**24,144**	**$ 110,595**	23,995	$ 104,472
MGM Energy Corp. ("MGM Energy")	**43,834**	**5,708**	43,834	5,876
Paxton Corporation	**1,750**	**4,454**	1,750	4,574
Other		**3,197**		4,280
		123,954		119,202
Available for sale investments:				
MEG Energy Corp. ("MEG")	**3,700**	**101,750**	3,700	101,750
NuLoch Resources Inc.	**6,579**	**10,132**	6,579	5,921
Redcliffe Exploration Inc. ("Redcliffe")		**–**	19,667	7,210
Other		**2,795**		503
		$ 238,631		$ 234,586

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

Three Months Ended June 30	**2010**			2009		
	Equity income (loss)	**Dilution gain**	**Total**	Equity loss	Dilution loss	Total
Trilogy	**$ (115)**	**$ –**	**$ (115)**	$ (6,518)	$ –	$ (6,518)
MGM Energy	**(255)**	**248**	**(7)**	(309)	–	(309)
Paxton Corporation	**(73)**	**–**	**(73)**	(81)	–	(81)
	$ (443)	**$ 248**	**(195)**	$ (6,908)	$ –	(6,908)
Reclassification of accumulated gains from OCI - Redcliffe			**3,499**			–
			$ 3,304			$ (6,908)

Six Months Ended June 30	**2010**			2009		
	Equity income (loss)	**Dilution gain**	**Total**	Equity loss	Dilution loss	Total
Trilogy	**$ 4,787**	**$ 4,109**	**$ 8,896**	$ (8,607)	$ –	$ (8,607)
MGM Energy	**(509)**	**209**	**(300)**	(610)	(1,500)	(2,110)
Paxton Corporation	**(120)**	**–**	**(120)**	(161)	–	(161)
	$ 4,158	**$ 4,318**	**8,476**	$ (9,378)	$ (1,500)	(10,878)
Reclassification of accumulated gains from OCI - Redcliffe			**3,499**			–
			$ 11,975			$ (10,878)

In January 2010, Paramount participated in Trilogy Energy Trust's distribution reinvestment plan ("DRIP"), acquiring an additional 0.1 million units (six months ended June 30, 2009 – 0.9 million units) for $1.2 million.

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

($ thousands, except as noted)

In July 2010, MEG filed a supplemented post-receipt pricing prospectus with securities regulatory authorities in each of the provinces and territories in Canada in connection with its initial public offering of 20 million common shares at a price of $35.00 per share. At June 30, 2010, Paramount carried its investment in MEG at $27.50 per share.

6. Drilling Rig Loan

At June 30, 2010, $28.4 million was outstanding on the drilling rig loan. Unless demanded by the bank, the remaining annual scheduled principal repayments are as follows: 2010 - $1.5 million; 2011 - $4.0 million; 2012 - $5.1 million; 2013 - $5.1 million and 2014 - $12.7 million.

7. Long-Term Debt

	June 30, 2010	December 31, 2009
Canadian Dollar Denominated Debt		
Bank credit facility	**$ 60,544**	$ –
U.S. Dollar Denominated Debt		
8 ½ percent US Senior Notes due 2013 (US$90.2 million)	**95,656**	94,394
	156,200	94,394
Unamortized debt financing costs	**(610)**	(739)
	$ 155,590	$ 93,655

Bank Credit Facility

In April 2010, Paramount renewed its credit facility with the borrowing base and lender commitments remaining at $125 million. The credit facility is available on a revolving basis to April 30, 2011 and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for an additional year, at which time the facility would be due and payable. At June 30, 2010 the amount available under the credit facility was reduced by $16.4 million for outstanding undrawn letters of credit.

In July 2010, the borrowing base and lender commitments under the credit facility were increased from $125 million to $160 million.

8. Asset Retirement Obligations

	Six months ended June 30, 2010	Twelve months ended December 31, 2009
Asset retirement obligations, beginning of period	**$ 103,462**	$ 87,237
Liabilities incurred	**2,188**	2,693
Liabilities settled	**(2,413)**	(4,050)
Disposal of properties	**(348)**	(88)
Accretion expense	**4,363**	8,603
Revision in estimated costs of abandonment	**–**	9,334
Assumed on Redcliffe acquisition	**4,581**	–
Foreign exchange	**47**	(267)
Asset retirement obligations, end of period	**$ 111,880**	$ 103,462

9. Share Capital

Normal Course Issuer Bid

In November 2008, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a Normal Course Issuer Bid ("NCIB"), commencing November 20, 2008 for a twelve month period. Under the NCIB, Paramount was permitted to purchase for cancellation up to 3,387,456 Common Shares. For the six months ended June 30, 2009, Paramount purchased 615,600 Common Shares under the NCIB for $4.2 million, of which $2.8 million was charged to share capital and $1.4 million was charged to retained earnings.

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

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

Weighted Average Shares Outstanding

	Three months ended June 30		Six months ended June 30	
(thousands of common shares)	**2010**	2009	**2010**	2009
Weighted average common shares outstanding – Basic and diluted	**72,399**	65,976	**72,312**	66,182

($ thousands, except as noted)

10. Stock-Based Compensation

Paramount Options

	Six months ended June 30, 2010		Year ended December 31, 2009	
	Weighted Average Exercise Price	**Number**	Weighted Average Exercise Price	Number
	($/share)		($/share)	
Balance, beginning of period	**$8.61**	**4,571,500**	$14.48	6,117,700
Granted	**17.11**	**19,000**	9.73	2,344,000
Exercised	**7.90**	**(354,300)**	7.89	(121,500)
Cancelled or surrendered	**8.72**	**(118,000)**	18.86	(3,768,700)
Balance, end of period	**$8.71**	**4,118,200**	$8.61	4,571,500
Options exercisable, end of period	**$7.34**	**854,534**	$7.51	1,208,834

11. Financial Instruments and Risk Management

Risk management financial instruments outstanding at June 30, 2010 are as follows:

Instruments	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Gas – AECO Sales	30,000 GJ/d	CAD $5.53/GJ	**$ 6,243**	July 2010 - October 2010
Gas – AECO Purchases	(15,000) GJ/d	CAD $3.87/GJ	**(53)**	July 2010 - October 2010
			$ 6,190	

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

	Six months ended June 30, 2010			Year ended December 31, 2009		
	Commodity	**Foreign Exchange**	**Total**	Commodity	Foreign Exchange	Total
Fair value, beginning of period	**$ 2,187**	**$ –**	**$ 2,187**	$ 9,807	$ 9,883	$ 19,690
Changes in fair value	**10,081**	**–**	**10,081**	5,277	2,322	7,599
Settlements (received)	**(6,078)**	**–**	**(6,078)**	(12,897)	(12,205)	(25,102)
Fair value, end of period	**$ 6,190**	**$ –**	**$ 6,190**	$ 2,187	$ –	$ 2,187

Paramount has an outstanding commitment to sell 3,400 GJ/d of natural gas at $2.73/GJ plus an escalation factor to 2011, which had a fair value loss of $0.9 million at June 30, 2010 (December 31, 2009 – loss of $4.1 million). The Company has designated this contract as normal sales exception, and as a result, does not recognize the fair value of the contract in the Consolidated Financial Statements.

($ thousands, except as noted)

12. Consolidated Statements of Cash Flows – Selected Information

Items not involving cash

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Financial commodity contracts	**$ 5,222**	$ –	**$ (4,003)**	$ 9,807
Stock-based compensation	**7,232**	177	**14,980**	405
Depletion, depreciation and accretion	**45,336**	36,049	**84,945**	66,975
Gain on sale of property, plant and equipment	**(170)**	(320)	**(170)**	(37)
Foreign exchange	**3,418**	(6,727)	**1,233**	(7,624)
Distributions in excess of equity earnings and dilution	**314**	10,387	**–**	20,035
Equity earnings in excess of distributions	**–**	–	**(4,259)**	–
Future income tax	**(8,032)**	(23,170)	**(13,500)**	(31,552)
Other	**86**	197	**153**	361
	$ 53,406	$ 16,593	**$ 79,379**	$ 58,370

Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
	2010	2009	**2010**	2009
Interest paid	**$ 813**	$ 1,069	**$ 5,532**	$ 5,828
Current and other tax paid	**$ 22**	$ 4	**$ 35**	$ 101

Components of cash and cash equivalents

	June 30, 2010	December 31, 2009
Cash	**$ 24,389**	$ 23,250
Cash equivalents	**–**	69,988
	$ 24,389	$ 93,238

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CORPORATE INFORMATION

OFFICERS

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

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

B. K. Lee
Chief Financial Officer

E. M. Shier
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G.W. P. McMillan
Corporate Operating Officer

D.S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

P.R. Kinvig
Controller

L. A. Friesen
Assistant Corporate Secretary

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Calgary, Alberta

J. H.T. Riddell(2)
President and Chief Operating Officer
Paramount Resources Ltd.
Calgary, Alberta

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

D. Jungé C.F.A. (4)
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Bryn Athyn, Pennsylvania

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S. L. Riddell Rose
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Independent Businessman
Calgary, Alberta

A. S. Thomson (1) (4)
Retired
Sidney, British Columbia

B. M. Wylie (2)
Business Executive
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(2) Member of Environmental, Health and Safety Committee
(3) Member of Compensation Committee
(4) Member of Corporate Governance Committee

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The Toronto Stock Exchange ("POU")