



Financial and Operating Highlights ⁽¹⁾

(\$ millions except per share amounts and where stated otherwise)

Three Months Ended	June 30 2007	March 31 2007	Change
Financial			
Petroleum and natural gas sales	80.9	78.8	2.1
Funds flow from operations	18.0	42.8	(24.8)
Per share – diluted	0.25	0.60	(0.35)
Net earnings (loss)	671.0	(16.1)	687.1
Per share – diluted	9.34	(0.23)	9.57
Capital expenditures	42.7	186.8	(144.1)
Market value of long-term investments ⁽²⁾	351.0	855.9	(504.9)
Total assets	1,897.6	1,540.8	356.8
Net debt ⁽³⁾	(131.7)	676.8	808.5
Common shares outstanding (thousands)	70,937	70,888	49
Market capitalization ⁽⁴⁾	1,464.9	1,417.8	47.1
Operating			
Natural gas sale volumes (MMcf/d)	89.5	84.8	4.7
Oil and natural gas liquid sales volumes (Bbl/d)	3,561	3,636	(75)
Total sales (Boe/d)	18,480	17,773	707
Gas weighting	81%	80%	1
Total wells drilled (gross)	1	104	(103)
Success rate ⁽⁵⁾	100%	96%	4

⁽¹⁾ Readers are referred to the advisories concerning forward-looking statements, non-GAAP measures and barrel of oil equivalent conversions under the heading "Advisories" at the end of Management's Discussion and Analysis.

⁽²⁾ Market value of long-term investments was determined using the closing price of Trilogy Energy Trust units and MGM Energy Corp. common shares on the Toronto Stock Exchange (TSX) and book value of the remaining long-term investments.

⁽³⁾ Net debt is calculated and defined in the Liquidity and Capital Resource section of Paramount's Management's Discussion and Analysis for the period ended June 30, 2007.

⁽⁴⁾ Based on the period end closing prices of Paramount Resources Ltd. on the TSX.

⁽⁵⁾ Success rate excludes oil sands evaluation wells and includes the two unsuccessful wells drilled by MGM Energy Corp.

HIGHLIGHTS

Strategic Investments

- On June 29, 2007, Paramount received gross cash proceeds of \$682.4 million on the sale of all 34.1 million shares of North American Oil Sands Corporation (“North American”) it owned, resulting in a before tax gain of \$528.6 million.
- On June 4, 2007, Paramount closed the sale of its oil sands leases and shut-in and producing natural gas rights in the Surmont area (“the Surmont Assets”) for consideration of \$301.7 million subject to closing adjustments. The sale resulted in a before tax gain of \$271.0 million. Total proceeds included a \$75 million note receivable and common shares of MEG Energy Corp. having a value of \$151.7 million.
- Paramount’s affiliate, MGM Energy Corp. (“MGM Energy”) issued approximately 54.7 million common shares on May 30, 2007. Because Paramount did not participate in the equity issuance, its ownership was reduced from 51.7 percent to 20.2 percent resulting in Paramount recognizing a dilution gain of \$4.8 million.

Principal Properties

- Daily sales volumes for the second quarter of 2007 averaged 18,480 Boe/d as compared to 17,773 Boe/d for the first quarter. The increase in sales volumes resulted primarily from new production being brought on in the Kaybob Corporate Operating Unit. This increase was partially offset by production declines and limited access to third party plants in the Grande Prairie Corporate Operating Unit.
- Funds flow from operations was \$60.9 million for the six month period ended June 30, 2007.
- The first of Paramount's two new drilling rigs was in service in North Dakota by the end of July, with the second expected to commence drilling by mid August. Drilling of the first two wells is expected to be completed during September.

Financial Position

- As a result of Paramount’s disposition of its investments in North American, the Surmont Assets, and non-core principal properties for aggregate cash proceeds of approximately \$775 million, Paramount fully paid down its Bank Credit Facility and its \$100 million senior unsecured non-revolving facility by the end of June 2007, with the remaining amount invested in short-term money market instruments.
- Subsequent to June 30, 2007 the Company used its strong financial position to:
 - Prepay the entire amount outstanding under its US\$150 million Term Loan B Facility;
 - Purchase US\$51.5 million principle amount of Paramount’s outstanding 8 1/2 percent US Senior Notes;
 - Purchase 887,500 of Paramount’s common shares under its Normal Course Issuer Bid for total consideration of approximately \$16.5 million; and
 - Invest approximately \$9.0 million in MGM Energy by purchasing 3.3 million common shares issued under MGM Energy’s public offering announced on July 23, 2007.

REVIEW OF OPERATIONS

The following table summarizes Paramount's average daily sales volumes for its principal operations by corporate operating unit for the three months ended June 30, 2007 and March 31, 2007:

Natural Gas Sales (MMcf/d)	Q2 2007	Q1 2007	Change (%)
Kaybob	26.5	21.8	22
Grande Prairie	12.7	13.5	(6)
Northern	29.3	27.3	7
Southern	19.8	20.3	(2)
Other	1.2	1.9	(37)
Total	89.5	84.8	6
Crude Oil and Natural Gas Liquids Sales (Bbl/d)			
Kaybob	523	407	29
Grande Prairie	673	884	(24)
Northern	963	989	(3)
Southern	1,401	1,353	4
Other	1	3	(66)
Total	3,561	3,636	(2)
Total Sales (Boe/d)			
Kaybob	4,937	4,047	22
Grande Prairie	2,791	3,133	(11)
Northern	5,841	5,536	6
Southern	4,713	4,744	(1)
Other	198	313	(37)
Total	18,480	17,773	4

Kaybob

Second quarter 2007 sales volumes for the Kaybob Corporate Operating Unit ("Kaybob") averaged 4,937 Boe/d; comprised of 26.5 MMcf/d of natural gas, and 523 Bbl/d of oil and natural gas liquids ("NGLs"). Average sales volumes for the second quarter were up 22 percent from first quarter average sales volumes of 4,047 Boe/d.

Kaybob's second quarter capital spending of \$13.0 million was focused on completions and facilities work bringing total capital expenditures for the Operating Unit to \$80.2 million for the six months ended June 30, 2007 (\$80.6 million including land). A total of 10 gross (2.7 net) wells were brought on production during the quarter. Paramount started the new compressor and dehydration train at the Musreau 1-13-63-5W6 facility in May as anticipated. This additional compression capacity will be required for incremental production in the Musreau area and is of sufficient capacity for Paramount's anticipated future volumes growth in the area.

Paramount did not participate in the drilling of any wells during the second quarter due to the annual spring road bans restricting heavy equipment from entering the area. Kaybob expects to start drilling wells in early August and anticipates drilling approximately 14 wells (8.4 net) of which 9 will be operated, along with significant completion and facility construction activity during the balance of the year.

Grande Prairie

Second quarter 2007 sales volumes for the Grande Prairie Corporate Operating Unit ("Grande Prairie") averaged 2,791 Boe/d; comprised of 12.7 MMcf/d of natural gas and 673 Bbl/d of crude oil and NGLs. Average sales volumes were down 11 percent from first quarter average sales volumes of 3,133 Boe/d. The decrease in sales volumes was primarily a result of pipeline access restrictions because of pressure differentials at Mirage and a shut down at two third party plants.

Capital expenditures for the second quarter were approximately \$7.0 million. During the second quarter, Grande Prairie incurred costs to tie in 4 wells (2.7 net), recomplete 1 well (1 net) and drill 2 well (0.4 net) at Crooked Creek. The drilling at Crooked Creek was substantially complete at June 30, 2007. At Mirage 4 (2.7 net) wells were brought on early in the second quarter of 2007 at approximately 250 Boe/d net to Paramount.

Northern

Second quarter 2007 sales volumes for the Northern Corporate Operating Unit (“Northern”) averaged 5,841 Boe/d; comprised of 29.3 MMcf/d of natural gas and 963 Bbl/d of crude oil and NGLs. Average sales volumes increased six percent from first quarter average sales volumes of 5,536 Boe/d, primarily as a result of the tie-in of wells during the first quarter. A Haro wellsite was down for approximately one month due to a lightning strike with production resuming by the end of the quarter. Crude oil and NGL volumes were slightly lower as there were pump failures on three wells in the Cameron Hills area. These pumps will be repaired when winter access roads are constructed. The first quarter also included a scheduled plant turnaround at Bistcho. Northern’s production peaks in the second quarter when operations return to full production and the new wells are tied-in.

Capital expenditures for the second quarter of 2007 were \$6.8 million for drilling, completions and facilities activities. Substantially all of Northern’s capital activities are complete for the year due to the winter only access areas. During the remainder of the year, Paramount will be planning for the 2008 capital program.

Southern

For the second quarter of 2007, the Southern Corporate Operating Unit (“Southern”) sales volumes averaged 19.8 MMcf/d of gas, and 1,401 Bbl/d of oil and NGLs for a total of 4,713 Boe/d. Average daily sales volumes for the second quarter were down one percent from the first quarter primarily due to the disposition of non-core assets throughout the latter portion of the second quarter which were producing approximately 3.0 MMcf/d of gas and 100 bbl/d of oil and NGLs.

In the Chain region, Paramount was able to drill one deeper test well, but on the whole was prohibited from any activity due to extremely wet conditions. Paramount anticipates maintaining production at stable rates throughout the year with a minimum of capital expenditures in Chain.

Paramount’s new rigs arrived during the second quarter and were undergoing some changes to conform to North Dakota specifications at June 30, 2007. The first of the two new rigs was in service in by the end of July, with the second expected to commence drilling by mid August. Drilling of the first two wells is expected to be completed during September.

Second quarter capital expenditures totalled \$2.9 million and were lower than expected due to a longer than anticipated breakup followed by a very wet spring. Capital expenditures for the first quarter of 2007 were \$15.3 million, focused mainly on tie-in of wells in the Chain area and non-operated drilling in North Dakota.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") 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, 2007 and Paramount's audited Consolidated Financial Statements and MD&A for the year ended December 31, 2006. Information included in this MD&A and the Consolidated Financial Statements has been presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"), unless otherwise stated.

This document contains forward-looking statements, non-GAAP measures, and disclosures of barrels of oil equivalent volumes. Readers are referred to the advisories concerning such matters under the heading "Advisories" at the end of this MD&A.

This MD&A is dated August 7, 2007. 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. Paramount's principal properties are located in Alberta, the Northwest Territories and British Columbia in Canada, and in Montana and North Dakota in the United States. 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, to focus on natural gas as a commodity, and to selectively enter into joint venture agreements for high risk/high return prospects. In addition, Paramount has spun-out three public entities: Paramount Energy Trust in March, 2003; Trilogy Energy Trust ("Trilogy") in April, 2005; and most recently, MGM Energy Corp. ("MGM Energy") in January 2007.

Financial Highlights

(\$ millions, except as noted)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Funds flow from operations ⁽¹⁾	18.0	65.8	60.9	108.2
Per share - diluted (\$/share)	0.25	0.95	0.85	1.57
Net earnings	671.0	111.9	654.9	119.6
Per share - diluted (\$/share)	9.34	1.61	9.15	1.74
Petroleum and natural gas sales	80.9	73.7	159.7	161.6
Total assets			1,897.6	1,380.8
Long-term debt ⁽²⁾			386.6	384.4
Net debt ^{(1),(2)}			(131.7)	499.6

⁽¹⁾ Funds flow from operations and net debt are non-GAAP measures. Readers are referred to the advisories concerning non-GAAP measures under the heading "Advisories" at the end of this MD&A.

⁽²⁾ Excludes debt financing costs.

Funds Flow From Operations

Paramount's funds flow from operations decreased by \$47.8 million in the second quarter of 2007 to \$18.0 million from \$65.8 million in the second quarter of 2006. This decrease was primarily due to:

- Lower realized gains on financial forward commodity contracts;
- Higher interest expense;
- Lower cash distributions received from Trilogy; and
- Other items shown in the table below.

These items were partially offset by:

- Increases in natural gas sales volumes and realized prices;
- Lower cash stock based compensation expense; and
- Other items shown in the table below.

Funds flow from operations for the six month period ended June 30 decreased \$47.3 million from \$108.2 million in 2006 to \$60.9 million in 2007. Significant variances include, higher interest expense, lower cash distributions from Trilogy, and lower realized natural gas prices in 2007 relative to 2006.

The following table summarizes the primary variances in funds flow from operations between the three and six months ended June 30, 2006 and the three and six months ended June 30, 2007:

<i>(\$ millions)</i>	Three Months Ended June 30 2006 to 2007	Six Months Ended June 30 2006 to 2007
Funds Flow From Operations - 2006	65.8	108.2
<i>Favourable (unfavourable) variance</i>		
Volume variance – natural gas	4.3	6.0
Volume variance – oil and NGLs	0.8	2.4
Price variance – natural gas	2.9	(9.9)
Price variance – oil and NGLs	(0.8)	(0.4)
Realized gain on financial instruments	(29.8)	(6.8)
Royalties	(4.8)	(1.6)
Operating expense	(1.7)	(6.2)
General and administrative expense	(2.4)	(3.9)
Stock-based compensation expense	2.1	4.2
Interest expense	(6.6)	(11.3)
Foreign exchange	(2.2)	(2.7)
Distributions from equity investments	(5.3)	(12.0)
Taxes	(2.0)	(1.2)
Other	(2.3)	(3.9)
Total variance	(47.8)	(47.3)
Funds Flow From Operations - 2007	18.0	60.9

Net Earnings

Paramount's net earnings increased in the second quarter of 2007 to \$671.0 million from net earnings of \$111.9 million in the second quarter of 2006. The increase in net earnings is primarily due to:

- Higher realized gains on disposal of investments as a result of Paramount's disposal of its investment in North American Oil Sands Corporation ("North American") shares;
- Higher realized gains on disposal of property, plant and equipment as a result of the disposal of the Surmont properties; and
- Higher unrealized gains on foreign exchange.

These increases were partially offset by decreases in funds flow from operations as well as:

- Higher tax expense;
- Lower dilution gains;
- Higher depletion, depreciation and accretion; and
- Other items shown in the table below.

Net earnings for the six month period ended June 30 increased \$535.3 million from \$119.6 million in 2006 to \$654.9 million in 2007. Significant variances are consistent with the second quarter and in addition include higher unrealized losses on financial instruments, and higher dry hole expense, primarily from MGM Energy's winter drilling program.

The following table summarizes the primary variances in net earnings between the three and six months ended June 30, 2006 and the three and six months ended June 30, 2007.

<i>(\$ millions)</i>	Three Months Ended June 30 2006 to 2007	Six Months Ended June 30 2006 to 2007
Net Earnings - 2006	111.9	119.6
<i>Favourable (unfavourable) variance</i>		
Impact of variances in funds flow from operations	(47.8)	(47.3)
Unrealized gain (loss) on financial instruments	10.4	(43.6)
Gain (loss) on sale of investments	528.7	528.7
Stock-based compensation – non cash portion	(7.8)	16.7
Exploration	(1.1)	5.3
Dry hole	12.2	(28.7)
Depletion, depreciation and accretion	(8.4)	(7.4)
Unrealized foreign exchange gain (loss)	22.7	28.2
Future income tax (recovery) expense	(149.0)	(121.0)
Income from equity investments and other	(87.5)	(92.2)
Gain on disposal of property, plant, and equipment	280.4	280.2
Non-controlling interest	1.1	11.5
Other	5.2	4.9
Total variance	559.1	535.3
Net Earnings - 2007	671.0	654.9

Significant Events

Investment and Property Dispositions

On June 29, 2007, Paramount received gross cash proceeds of \$682.4 million on the sale of all 34.1 million shares of North American it owned, resulting in a before tax gain of \$528.6 million.

On June 4, 2007, Paramount closed the sale of its oil sands leases and shut-in and producing natural gas rights in the Surmont area of Alberta (“Surmont Assets”) for consideration of \$301.7 million plus closing adjustments, resulting in a before tax gain of \$271.0 million. Total proceeds included \$75 million in cash, a \$75 million interest bearing note receivable due June 30, 2008, and common shares of the purchaser, MEG Energy Corp. (“MEG”), having a value of \$151.7 million. This investment in common shares of MEG allows Paramount and its shareholders to continue to participate in the potential of SAGD development of the Athabasca Oilsands, principally at Surmont and Christina Lake, without the associated capital commitments.

During the quarter Paramount received approximately \$17.5 million from the disposition of non-core principal properties resulting in gains of approximately \$11.2 million.

MGM Spinout and Dilution

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

Through the MGM Spinout:

- Paramount’s shareholders received an aggregate of approximately 2.8 million common shares of MGM Energy (“MGM Shares”) and approximately 14.2 million warrant units of MGM Energy, with each warrant unit consisting of one MGM Energy short term warrant (each, a “Short Term Warrant”) and one MGM Energy longer term warrant (each, a “Longer Term Warrant”);
- Paramount received a demand promissory note and 18.2 million voting Class A Preferred Shares of MGM Energy, which note was subsequently repaid by MGM Energy and which shares were subsequently converted into MGM Shares; and
- MGM Energy became the owner of (i) rights and obligations under an area-wide farm-in agreement (the “Farm-in Agreement”) respecting Mackenzie Delta, Northwest Territories Exploration Licence #394, Exploration Licence #427 and Inuvik Concession Blocks 1 and 2; (ii) oil and gas properties in the Colville Lake / Sahtu area of the Central Mackenzie Valley, Northwest Territories; and (iii) an interest in one well in the Cameron Hills area of the southern portion of the Northwest Territories, all of such property, rights and obligations formerly being owned by Paramount Resources Ltd.

As a result of the MGM Spinout, the carrying value of Paramount’s Common Shares was reduced by \$3.5 million, retained earnings was reduced by \$5.9 million and future tax liability was increased by \$3.3 million. The net book value of the assets transferred by Paramount to MGM Energy was \$45.2 million.

MGM Energy - Basis of Presentation

Until May 29, 2007, Paramount owned greater than 50 percent of the issued and outstanding MGM Shares, and MGM Energy’s financial position, results of operations and cash-flows were included in the consolidated financial statements of Paramount. As a result of the May 30, 2007 issuance of 54.7 million MGM Shares by MGM Energy, Paramount owned approximately 20 percent of the issued and outstanding MGM Shares on May 30, 2007.

Accordingly, subsequent to May 29, 2007, Paramount accounts for its investment in MGM Shares using the equity method.

Financial Information Summary

The following table summarizes amounts in respect of MGM Energy, from January 12, 2007 to May 29, 2007, included in Paramount's consolidated income statement for the six months ended June 30, 2007. The information included in the table below is provided for informational purposes only, and readers are cautioned that all amounts in the stand alone financial statements of MGM Energy do not necessarily agree to the table below as a result of the impact of consolidating and other adjustments made.

<i>(\$ millions)</i>	Paramount excluding MGM Energy	MGM Energy	Paramount Consolidated
Revenue⁽¹⁾	117.9	-	117.9
Expenses			
Operating	43.0	-	43.0
Transportation	8.5	-	8.5
General and administrative	15.7	2.5	18.2
Stock-based compensation	(4.1)	0.8	(3.3)
Depletion, depreciation and accretion	74.9	-	74.9
Exploration	7.3	0.5	7.8
Dry hole	12.8	34.8	47.6
Interest	25.3	0.1	25.4
	183.4	38.7	222.1
Other			
Gain on disposal of assets and other	(320.5)	-	(320.5)
Income from equity investments and other	(556.7)	(0.5)	(557.2)
Income and other tax expense (recovery)	137.6	(7.4)	130.2
Non-controlling interest	(11.6)	-	(11.6)
Net earnings	685.7	(30.8)	654.9

⁽¹⁾ Petroleum and natural gas sales minus loss on financial instruments minus royalties.

Results of Operations

Revenue

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Natural gas sales	60.1	52.9	14	119.0	122.9	(3)
Oil and NGLs sales	20.8	20.8	-	40.7	38.7	5
Total	80.9	73.7	10	159.7	161.6	(1)

Revenue from natural gas, oil and NGLs sales in the second quarter of 2007 was \$80.9 million, an increase of 10 percent from the second quarter of 2006 due largely to higher natural gas production at the Kaybob Corporate Operating Unit (“Kaybob”) and the Southern Corporate Operating Unit (“Southern”) and higher realized natural gas prices. These increases were partially offset by natural gas production decreases at the Northern Corporate Operating Unit (“Northern”) and the Grande Prairie Corporate Operating Unit (“Grande Prairie”) where production has decreased primarily as a result of higher pipeline pressures at Mirage and a shut down at two third party plants.

Revenue for the six month period ended June 30, 2007 was \$159.7 million, a decrease of \$1.9 million from the prior year comparable period of \$161.6 million due primarily to lower year to date realized natural gas prices. The impact of these decreases was largely offset by higher natural gas sales volumes at Kaybob and Southern.

The following table shows the impact of changes in prices and volumes on petroleum and natural gas sales revenue for the three and six months ended June 30, 2007 compared to the three and six months ended June 30, 2006:

(\$ millions)	Natural gas	Oil and NGLs	Total
Revenue – three months ended June 30, 2006	52.9	20.8	73.7
Effect of changes in prices	2.9	(0.8)	2.1
Effect of changes in sales volumes	4.3	0.8	5.1
Revenue – three months ended June 30, 2007	60.1	20.8	80.9

(\$ millions)	Natural gas	Oil and NGLs	Total
Revenue – six months ended June 30, 2006	122.9	38.7	161.6
Effect of changes in prices	(9.9)	(0.4)	(10.3)
Effect of changes in sales volumes	6.0	2.4	8.4
Revenue – six months ended June 30, 2007	119.0	40.7	159.7

Sales Volumes

The following table provides a comparison of average daily sales volumes by corporate operating unit, between the second quarter of 2007 and the second quarter of 2006:

	Three Months Ended June 30								
	2007			2006			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	26.5	523	4,937	14.0	511	2,850	12.5	12	2,087
Grande Prairie	12.7	673	2,791	14.6	532	2,968	(1.9)	141	(177)
Northern	29.3	963	5,841	37.2	999	7,207	(7.9)	(36)	(1,366)
Southern	19.8	1,401	4,713	15.1	1,370	3,885	4.7	31	828
Other	1.2	1	198	2.3	11	387	(1.1)	(10)	(189)
Total	89.5	3,561	18,480	83.2	3,423	17,297	6.3	138	1,183

Second quarter 2007 average daily natural gas sales volumes increased to 89.5 MMcf/d compared to 83.2 MMcf/d in the second quarter of 2006. Volumes increases from new wells brought on production in the Musreau, Smoky, and Resthaven areas of Kaybob, and the Chain area of Southern more than offset volume declines in other corporate operating units, primarily Maxhamish and Bistcho in Northern.

Second quarter 2007 average daily oil and NGLs sales volumes increased to 3,561 Bbl/d compared to 3,423 Bbl/d in the first quarter of 2007, primarily as a result of increases in sales volumes in the Ante Creek and Crooked Creek area of Grande Prairie.

The following table provides a comparison of average daily sales volumes by corporate operating unit, between the six months ended June 30, 2007 and six months ended June 30, 2006:

	Six Months Ended June 30								
	2007			2006			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	24.2	465	4,495	13.8	427	2,725	10.4	38	1,770
Grande Prairie	13.1	778	2,961	15.0	462	2,961	(1.9)	316	-
Northern	28.3	976	5,689	35.9	1,029	7,014	(7.6)	(53)	(1,325)
Southern	20.1	1,379	4,719	15.8	1,450	4,082	4.3	(71)	637
Other	1.6	-	265	2.6	13	443	(1.0)	(13)	(178)
Total	87.3	3,598	18,129	83.1	3,381	17,225	4.2	217	904

Factors resulting in volume variances for the six months ended June 30, 2007 compared to June 30, 2006 are generally consistent with those for the three months period.

Commodity Prices

The table below shows key commodity price benchmarks and foreign exchange rates:

	Three Months Ended			Six Months Ended		
	June 30 2007	June 30 2006	% Change	June 30 2007	June 30 2006	% Change
Natural Gas						
New York Mercantile Exchange (Henry Hub Close) monthly average (US\$/MMbtu)	7.55	6.79	11	7.16	7.88	(9)
AECO monthly average:						
Cdn\$/GJ	6.99	5.95	17	7.03	7.37	(5)
US\$/MMbtu	6.66	5.56	20	6.51	6.83	(5)
Crude Oil						
West Texas Intermediate monthly average (US\$/Bbl)	65.03	70.70	(8)	61.65	67.09	(8)
Edmonton par monthly average (Cdn\$/Bbl)	72.62	78.98	(8)	70.19	74.20	(5)
Foreign Exchange						
Monthly average of Company's banker (Cdn\$/1US\$)	1.0981	1.1224	(2)	1.1346	1.1384	-

In the second quarter of 2007, New York Mercantile Exchange ("NYMEX") natural gas prices increased 11 percent from 2006 levels with prices averaging US\$7.55/MMbtu, compared to US\$6.79/MMbtu in the second quarter of 2006. AECO prices also increased from \$5.95/GJ in 2006 to \$6.99/GJ in 2007. In the second quarter of 2007, crude oil prices continued to retreat from last years record highs, with West Texas Intermediate ("WTI") averaging US\$65.03/Bbl, eight percent lower than in the second quarter of 2006 and the Edmonton par price falling eight percent as well.

Year to date natural gas prices are lower than the prior year comparable period; average NYMEX prices for the first quarter of 2006 were US\$8.98/MMbtu, considerably higher than the current year. Year to date market prices of crude oil are lower in the current year consistent with the current quarter.

Average Realized Prices

	Three Months Ended			Six Months Ended		
	June 30 2007	June 30 2006	% Change	June 30 2007	June 30 2006	% Change
Natural gas (\$/Mcf)	7.35	6.98	5	7.53	8.18	(8)
Oil and NGLs (\$/Bbl)	64.66	66.79	(3)	62.74	63.15	(1)
Total (\$/Boe)	48.08	46.81	3	48.67	51.83	(6)

Paramount's average realized natural gas price for the second quarter of 2007, before realized gains on financial instruments, increased five percent to \$7.35/Mcf compared to \$6.98/Mcf in the second quarter of 2006. Paramount's average realized gas price is based on prices received at the various markets in which it sells natural gas. Paramount's natural gas sales portfolio primarily consists of sales priced at the Alberta spot market, eastern Canadian markets, California markets and a portion to aggregators.

Paramount's average realized oil and NGLs price for the second quarter of 2007, before realized gains on financial instruments, decreased three percent to \$64.66/Bbl as compared to \$66.79/Bbl in the second quarter of 2006. Paramount's Canadian oil and NGLs sales portfolio primarily consists of lease sales priced at Edmonton, adjusted for transportation and quality differentials. Paramount's United States oil and NGLs sales portfolio is sold at the lease with differentials negotiated relative to WTI.

Risk Management

Paramount's outstanding financial forward contracts are disclosed in the consolidated financial statements in Note 13 – Financial Instruments. Paramount has chosen not to designate any of the financial forward contracts as hedges. As a result, such instruments are recorded using the mark-to-market method of accounting whereby instruments are recorded as either an asset or liability with changes in the fair value recognized in net earnings.

The realized and unrealized gain (loss) on financial instruments, including financial forward commodity contracts and the foreign exchange collar, are as follows:

(\$ millions, except as noted)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Realized gain (loss)	0.5	30.3	22.6	29.4
Unrealized gain (loss)	(11.6)	(22.0)	(36.1)	7.4
Total gain (loss)	(11.1)	8.3	(13.5)	36.8
Realized gain (loss) (\$/Boe)	0.30	19.26	6.89	9.42
Unrealized gain (loss) (\$/Boe)	(6.90)	(13.97)	(11.00)	(2.40)
Total gain (loss) (\$/Boe)	(6.60)	5.29	(4.11)	11.82

The following table provides a breakdown of the fair value of financial instruments included in the consolidated balance sheet:

(\$ millions)	June 30, 2007	December 31, 2006
Financial forward commodity contracts – asset	-	18.3
Financial forward commodity contracts – liability	(1.4)	-
Foreign exchange collar	(11.9)	4.5
Net financial instrument asset (liability)	(13.3)	22.8

Royalties

(\$ millions, except as noted)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Natural gas	10.7	7.1	20.1	22.0
Oil and NGLs	3.9	2.7	8.1	4.6
Total	14.6	9.8	28.2	26.6
\$/Boe	8.67	6.21	8.60	8.52
Royalty rate (%)	19.1	13.8	18.7	17.1

Royalties increased to \$14.6 million in the second quarter of 2007 compared to \$9.8 million in the second quarter of 2006, primarily as a result of increased realized royalty rates and increased revenues. The following table shows the impact of changes in revenue and royalty rates on royalty expense for the three and six months ended June 30, 2007 compared to the three and six months ended June 30, 2006:

(\$ millions)	Three months	Six months
Royalties – period ended June 30, 2006	9.8	26.6
Effect of changes in revenue	1.0	(0.6)
Effect of changes in royalty rates	3.8	2.2
Royalties – period ended June 30, 2007	14.6	28.2

Second quarter 2007 royalty rates were higher than the comparable period due to the impact of lower capital spending and operating costs in 2007 in Northern, which are immediately deductible for royalty purposes, and the impact of lower gas cost allowance credits. Royalties for the six months ended June 30, 2007 increased six percent to \$28.2 million and include the impacts of lower realized gas prices in the first quarter of 2007 and higher royalty holidays compared to the first quarter of 2006.

Operating Expense

(\$ millions, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Operating expense	20.4	18.7	9	43.0	36.8	17
\$/Boe	12.13	11.88	2	13.11	11.81	11

Operating expenses in the second quarter of 2007 were \$20.4 million compared to \$18.7 million in the second quarter of 2006 and increased primarily because of new wells and an increased working interest in the Resthaven plant in Kaybob, and new wells at Grande Prairie. For the six month period ended June 30, 2007 operating expenses have increased \$6.2 million to \$43.0 million, and include plant turnaround costs, workovers and maintenance performed in the first quarter of 2007.

Transportation Expense

(\$ millions, except as noted)	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	% Change	2007	2006	% Change
Transportation expense	4.2	3.5	20	8.5	7.1	20
\$/Boe	2.49	2.22	12	2.58	2.29	13

Transportation expense increased 20 percent to \$4.1 million in the second quarter of 2007 compared to \$3.5 million in the second quarter of 2006, primarily because of increased sales volumes within Kaybob and Southern. Year to date transportation expense is consistent with the current quarter and includes higher first quarter production at Northern.

Netbacks and Funds Flow From Operations

The following table summarizes Paramount's reported netbacks and funds flow from operations:

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenue ⁽¹⁾	76.7	70.2	151.2	154.5
Royalties	(14.6)	(9.8)	(28.2)	(26.6)
Operating expenses	(20.4)	(18.7)	(43.0)	(36.8)
Netback excluding realized financial instruments	41.7	41.7	80.0	91.1
Realized gain (loss) on financial instruments – commodity contracts	0.5	30.3	17.7	29.4
Netback including realized gain (loss) on financial instruments	42.2	72.0	97.7	120.5
Realized foreign exchange gain (loss)	(1.8)	0.5	(2.0)	0.6
Gain on foreign exchange financial instrument	-	-	4.9	-
Gain (loss) on sale of investments	-	-	-	1.2
General and administrative expense	(9.6)	(7.1)	(18.2)	(14.2)
Stock-based compensation expense ⁽²⁾	(1.6)	(3.7)	(2.5)	(6.7)
Interest ⁽³⁾	(13.3)	(7.0)	(24.1)	(13.5)
Exploration - lease rentals	(0.8)	(0.2)	(1.5)	(0.9)
Asset retirement obligation expenditures	(1.3)	(0.2)	(1.9)	(0.4)
Distributions from equity investments	4.5	9.8	9.0	21.0
Current and large corporations tax	(0.3)	1.7	(0.5)	0.6
Funds flow from operations ⁽⁴⁾	18.0	65.8	60.9	108.2

⁽¹⁾ Revenue is presented net of transportation costs and does not include gain / loss on financial instruments.

⁽²⁾ Excluding non-cash stock-based compensation expense.

⁽³⁾ Excluding non-cash interest expense.

⁽⁴⁾ Funds flow from operations is a non-GAAP measure. Readers are referred to the advisories concerning non-GAAP measures under the heading "Advisories" at the end of this MD&A.

The following table shows Paramount's reported netbacks by product type on a per-unit basis and funds flow netback:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Produced gas (\$/Mcf)				
Revenue ⁽¹⁾	6.84	6.55	7.01	7.73
Royalties	(1.31)	(0.93)	(1.27)	(1.46)
Operating expenses	(2.02)	(2.01)	(2.21)	(2.00)
Netback excluding realized financial instruments	3.51	3.61	3.53	4.27
Realized gain (loss) on financial instruments – natural gas contracts	-	4.13	0.96	2.04
Netback including realized gain (loss) on financial instruments	3.51	7.74	4.49	6.31
Conventional oil (\$/Bbl)				
Revenue ⁽¹⁾	64.97	64.71	61.93	61.48
Royalties	(13.29)	(7.14)	(12.25)	(6.20)
Operating expenses	(12.13)	(11.19)	(12.95)	(11.20)
Netback excluding realized financial instruments	39.55	46.38	36.73	44.08
Realized gain (loss) on financial instruments – crude oil contracts	1.91	(4.05)	4.73	2.77
Netback including realized gain (loss) on financial instruments	41.46	42.33	41.46	46.85
Natural gas liquids (\$/Bbl)				
Revenue ⁽¹⁾	63.37	70.96	63.95	66.23
Royalties	(7.02)	(14.24)	(13.45)	(12.43)
Operating expenses	(12.13)	(10.64)	(11.13)	(10.54)
Netback	44.22	46.08	39.37	43.26
All products (\$/Boe)				
Revenue ⁽¹⁾	45.59	44.59	46.09	49.54
Royalties	(8.67)	(6.21)	(8.60)	(8.52)
Operating expenses	(12.13)	(11.88)	(13.11)	(11.81)
Netback excluding realized financial instruments	24.79	26.50	24.38	29.21
Realized gain (loss) on financial instruments - commodity contracts	0.30	19.26	5.39	9.42
Netback including realized gain (loss) on financial instruments	25.09	45.76	29.77	38.63

⁽¹⁾ Revenue is presented net of transportation costs and does not include gain / loss on financial instruments.

Funds Flow from Operations per Boe ⁽³⁾

(\$/Boe)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Netback including realized gain (loss) on financial instruments	\$ 25.09	\$ 45.76	\$ 29.77	\$ 38.63
Realized foreign exchange gain (loss)	(1.05)	0.29	(0.61)	0.23
Gain on foreign exchange financial instrument	-	-	1.49	-
Gain (loss) on sale of investments	-	-	-	0.40
General and administrative expense	(5.69)	(4.51)	(5.54)	(4.57)
Stock-based compensation expense ⁽¹⁾	(0.95)	(2.36)	(0.76)	(2.17)
Interest ⁽²⁾	(7.89)	(4.45)	(7.36)	(4.33)
Exploration- lease rentals	(0.49)	(0.13)	(0.46)	(0.30)
Asset retirement obligation expenditures	(0.80)	(0.11)	(0.57)	(0.11)
Distributions from equity investments	2.68	6.21	2.75	6.75
Current and large corporations tax	(0.17)	1.08	(0.16)	0.19
Funds flow from operations per Boe (\$/Boe) ⁽³⁾	\$ 10.73	\$ 41.78	\$ 18.55	\$ 34.72

⁽¹⁾ Excluding non-cash stock-based compensation expense.

⁽²⁾ Excluding non-cash interest expense.

⁽³⁾ Funds flow from operations per Boe is a non-GAAP measure. Readers are referred to the advisories concerning non-GAAP measures under the heading "Advisories" at the end of this MD&A.

Other Operating Items

General and Administrative Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
(\$ millions)	9.6	7.1	18.2	14.3

General and administrative expense increased to \$9.6 million in the second quarter of 2007 compared to \$7.1 million in the second quarter of 2006. For the six month period general and administrative expenses increased \$3.9 million to \$18.2 million. These increases are due primarily to consolidating MGM Energy to May 30, 2007, impacts of increased staff levels and compensation costs, and decreased recoveries from Trilogy.

Stock-Based Compensation Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
(\$ millions)	3.0	(2.8)	(3.3)	17.6

Paramount recorded stock-based compensation expense of \$3.0 million in the second quarter of 2007 compared to a stock-based compensation recovery of \$2.8 million in the second quarter of 2006. Stock based compensation expense or recovery includes the impacts of time-based vesting of the options and the relative movement of Paramount's share price and Trilogy's unit price over the period.

Depletion, Depreciation and Accretion Expense

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	2007	2006	2007	2006
(\$ millions)	41.4	33.0	74.9	67.5

Depletion, depreciation and accretion (“DD&A”) expense increased to \$41.4 million (\$24.62 per Boe) in the second quarter of 2007 compared to \$33.0 million (\$20.98 per Boe) in the second quarter of 2006, primarily as a result of capital expenditures made by Paramount during 2006 and the first half of 2007. The DD&A expense for the six month period is relatively consistent with the second quarter.

Exploration Expense

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	2007	2006	2007	2006
(\$ millions)	2.5	0.8	7.8	12.6

Exploration expense consists of geological and geophysical costs, seismic, and lease rentals expenses. These costs are expensed as incurred under the successful efforts method of accounting. Exploration expense increased to \$2.5 million in the second quarter of 2007 compared to \$0.8 million in the second quarter of 2006. The 2007 balance includes the impact of consolidating MGM Energy to May 29, 2007.

Dry Hole Expense

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	2007	2006	2007	2006
(\$ millions)	-	12.2	47.6	18.9

Dry hole expense was \$nil for the second quarter of 2007 compared to \$12.2 million in the second quarter of 2006.

Dry hole expense for the six months ended June 30, 2007 related primarily to the MGM Energy winter drilling program where two wells were drilled on lands subject to the Farm-in Agreement when MGM Energy results were consolidated: “Kumak I-25” and “Unipkat M-45”. The Kumak I-25 well was cased and suspended without further testing and the Unipkat M-45 well was abandoned. A total of \$39.8 million of dry hole expense was recorded in respect of Kumak I-25 and Unipkat M-45. In addition, dry hole expense for the six months ended June 30, 2007 includes costs of unsuccessful exploratory wells, primarily within Northern and Grande Prairie.

Interest Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
(\$ millions)	13.9	7.2	25.4	13.8

Interest expense increased to \$13.9 million in the second quarter of 2007 compared to \$7.2 million in the second quarter of 2006 because of higher debt levels, including the addition of Paramount's US\$150 million Term Loan B Facility ("TLB"), in the third quarter of 2006 and \$100 million short-term Bridge Facility at the end of the first quarter of 2007.

Foreign Exchange (Gain)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
(\$ millions)	(32.1)	(11.7)	(36.2)	(10.7)

Paramount recorded a foreign exchange gain of \$32.1 million in the second quarter of 2007 compared to a foreign exchange gain of \$11.7 million in the second quarter of 2006. The 2007 gain is primarily a result of unrealized foreign exchange gains related to US dollar denominated debt, including the US Senior notes and the TLB Facility.

Income from Equity Investments and Other

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
(\$ millions)	541.3	105.0	557.2	133.2

Income from equity investments and other ("Equity Earnings") is comprised of equity earnings/losses, dilution gains/losses, and gains on sale of other investments. Equity Earnings for the three months ended June 30, 2007 included a \$528.6 million gain on the sale of Paramount's investment in North American, which is net of a bonus of 150,000 Common Shares of the Company having a value of \$3.7 million paid to the Chairman and CEO of Paramount under the Company's stock incentive plan, and \$8.4 million of equity earnings from Trilogy. These increases were partially offset by equity losses from North American and MGM Energy.

Second quarter 2006 equity earnings included \$117.4 million of dilution gains from North American and Trilogy. During the second quarter of 2007 Paramount recorded dilution gains of \$4.8 million relating to MGM Energy's issuance of common shares. A total of \$19.2 million of dilution gains were recorded in the first quarter of 2007.

Income and Other Tax Expense (Recovery)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
(\$ millions)				
Current and large corporation tax expense	0.3	(1.8)	0.5	(0.6)
Future income tax expense	148.6	(0.4)	129.7	8.7
Income and other tax expense (recovery)	148.9	(2.2)	130.2	8.1

Current and large corporation tax expense increased to \$0.3 million in the second quarter of 2007 compared to a recovery of \$1.8 million in the second quarter of 2006. The 2006 recovery was primarily a result of changes in tax legislation in respect of large corporation tax. The increase in 2007 future income tax expense is a result of the dispositions of Paramount's investments in North American and the Surmont Assets.

Capital Expenditures

The following table summarizes Paramount's capital expenditures on a consolidated basis. Capital expenditures include all capital expenditures of MGM Energy to May 29, 2007.

(\$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Land	3.2	10.4	10.0	22.5
Geological and geophysical	1.7	1.3	6.3	12.4
Drilling and completions	17.1	41.2	143.2	152.9
Production equipment and facilities	17.2	30.2	67.5	63.2
Exploration and development expenditures	39.2	83.1	227.0	251.0
Property acquisitions	-	10.5	-	35.1
Other	3.5	11.7	2.5	11.9
Capital expenditures	42.7 ⁽¹⁾	105.3 ⁽²⁾	229.5 ⁽³⁾	298.0 ⁽²⁾
Proceeds on property dispositions and other	(92.3)	(2.1)	(92.3)	(2.5)
Net capital expenditures ⁽¹⁾⁽²⁾	(49.6)	103.2	137.2	295.5

⁽¹⁾ Includes capital expenditures incurred by MGM Energy of \$1.0 million from April 1, 2007 to May 29, 2007.

⁽²⁾ Includes capital expenditures incurred by Paramount related to oil sands interests sold to North American during the second quarter of 2006 of \$60.4 million (exploration and development expenditures - \$36.5 million, property acquisitions - \$23.9 million).

⁽³⁾ Includes capital expenditures incurred by MGM Energy from January 12, 2007 to May 29, 2007 of \$30.1 million to May 30, 2007

During the six months ended June 30, 2007, exploration and development expenditures totalled \$227.0 million, which includes \$30.1 million of capital expenditures incurred by MGM Energy from January 12, 2007 to May 30, 2007.

During the first quarter of 2007 and early part of the second quarter of 2007, Paramount executed its planned winter drilling program, focusing its activities on drilling and facilities projects, primarily in Kaybob, Northern and Grande Prairie.

A comparison of the number of wells drilled for the three and six months ended June 30, 2007 and June 30, 2006 is as follows:

(wells drilled)	Three months ended June 30				Six Months Ended June 30			
	2007		2006		2007		2006	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Gas	1	1	37	26	49	32	121	70
Oil	-	-	3	1	9	5	6	3
Oil sands evaluation	-	-	1	1	43	43	122	61
D&A ⁽³⁾	-	-	-	-	4	3	5	4
Total	1	1	41	28	105	83	254	138

⁽¹⁾ "Gross" wells means the number of wells in which Paramount has a working interest or a royalty interest that may be converted to a working interest.

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

⁽³⁾ "D&A" includes the two wells drilled by MGM Energy Corp.

Quarterly Information

(\$ millions, except as noted)	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Funds flow from operations ⁽¹⁾	18.0	42.8	26.1	37.3	65.8	42.4	48.9	50.5
per share – diluted (\$/share)	0.25	0.60	0.38	0.54	0.95	0.63	0.72	0.77
Net earnings (loss)	671.0	(16.1)	(159.6)	22.2	111.9	7.8	37.8	(69.1)
per share - basic (\$/share)	9.46	(0.23)	(2.32)	0.33	1.65	0.12	0.57	(1.05)
per share – diluted (\$/share)	9.34	(0.23)	(2.32)	0.32	1.61	0.12	0.56	(1.05)
Petroleum and natural gas sales	80.9	78.8	73.1	77.9	73.7	87.9	115.1	99.2
Quarterly sales volumes								
Natural gas (MMcf/d)	89.5	84.8	79.0	81.4	83.2	82.9	92.7	98.8
Oil and NGLs (Bbl/d)	3,561	3,636	3,937	3,901	3,423	3,339	3,383	3,158
Total (Boe/d)	18,480	17,773	17,104	17,471	17,297	17,152	18,837	19,624
Quarterly average realized price								
Natural gas (\$/Mcf)	7.35	7.72	7.20	7.07	6.98	9.39	11.24	8.80
Oil and NGLs (\$/Bbl)	64.66	60.84	57.47	69.32	66.79	59.39	61.74	65.95

⁽¹⁾ Funds flow from operations is a non-GAAP measure. Readers are referred to the advisories concerning non-GAAP measures under the heading “Advisories” at the end of this MD&A.

Liquidity and Capital Resources

(\$ millions)	June 30, 2007	December 31, 2006	Change
Working capital (surplus) deficit ⁽¹⁾	(518.4)	84.3	(602.7)
Credit facility	-	85.1	(85.1)
Term Loan B facility ⁽⁴⁾	159.5	174.8	(15.3)
US Senior Notes ⁽⁴⁾	227.1	248.9	(21.8)
Stock-based compensation liability (long-term portion) ⁽²⁾	0.1	0.3	(0.2)
Net debt ⁽³⁾⁽⁴⁾	(131.7)	593.4	(725.1)
Shareholders' equity	1,201.9	563.8	638.1
Total	1,070.2	1,157.2	(87.0)

⁽¹⁾ Excludes current portion of stock-based compensation liability of \$8.3 million at June 30, 2007 (December 2006- \$nil) relating to Paramount Options.

⁽²⁾ Excludes stock-based compensation liability of \$4.8 million relating to Paramount Options at June 30, 2007 (\$27.7 million – December 2006).

⁽³⁾ Net debt is a non-GAAP measure. Readers are referred to the advisories concerning non-GAAP measures under the heading “Advisories” at the end of this MD&A.

⁽⁴⁾ Excludes debt financing costs.

As a result of the previously discussed dispositions of Paramount's investment in North American, the Surmont Assets, and non-core principal properties for aggregate cash proceeds of approximately \$775 million and funds flow from operations of \$60.9 million during the six month period ended June 30, 2007, Paramount fully paid down its Bank Credit Facility and its \$100 million senior unsecured non-revolving facility ("Bridge Facility") by the end of June 2007, with the remaining amount invested in short-term money market instruments.

Subsequent to June 30, 2007 Paramount used its strong financial position to:

- Prepay the entire amount outstanding under its US\$150 million Term Loan B Facility;
- Purchase US\$51.5 million principal amount of Paramount's outstanding 8 1/2 percent US Senior Notes;
- Purchase 887,500 of Paramount's common shares under its Normal Course Issuer Bid for total consideration of approximately \$16.5 million; and
- Invest approximately \$9.0 million in MGM Energy by purchasing 3.3 million common shares issued under MGM Energy's public offering announced on July 23, 2007.

Working Capital

Paramount's working capital position at June 30, 2007 was a surplus of \$518.4 million, excluding the short-term portion of Paramount's stock-based compensation liability, compared to a \$84.3 million deficit at December 31, 2006. Included in working capital at June 30, 2007, was approximately \$452.9 million in cash and cash equivalents, an increase from \$14.4 million at December 31, 2006 and a \$75.0 million short-term note receivable resulting from the disposition of the Surmont Assets.

Short-Term Bank Indebtedness

On March 28, 2007, Paramount closed a six month \$100 million Bridge Facility the full amount of which was drawn at closing. The Bridge Facility was repaid in full on June 29, 2007 and is no longer available.

Bank Credit Facility

On April 30, 2007, Paramount amended its \$200 million credit facility with a syndicate of Canadian banks. Borrowings under the bank credit facility bear interest at a floating rate, based on the lenders' prime rate, bankers' acceptance rate or LIBOR, at the discretion of Paramount, plus an applicable margin dependent on certain conditions. The facility is available on a revolving basis for a period of 364 days, 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 a one year term, at the end of which time the facility would be due and payable. Advances drawn on the credit facility are secured by a first fixed and floating charge over the assets of the Company, excluding approximately 12.8 million of the Trilogy trust units owned by Paramount.

Subsequent to the repayment of the TLB Facility and purchasing of US Senior Notes, the net borrowing base under the facility was increased to \$157 million from \$120 million. The bank syndicate has provided aggregate commitments to lend up to \$125 million under the facility, none of which has been drawn as of August 7, 2007.

At June 30, 2007, Paramount had letters of credit outstanding totalling approximately \$15.3 million. These letters of credit have not been drawn; however, they reduce the amount available to the Company under the Bank Credit Facility.

Term Loan B Facility

The US\$150 million non-revolving TLB Facility was prepaid July 3, 2007 is no longer available to the Company.

US Senior Notes

At June 30, 2007, Paramount had approximately US\$213.6 million (Cdn \$227.1 million) of principal amount outstanding on the 8 1/2 percent US Senior Notes due 2013. The US Senior Notes are secured by 12.8 million Trilogy trust units owned by Paramount, having a market value of approximately \$121.7 million as of June 30, 2007.

Capital Program

The Company's 2007 capital expenditures forecast remains at \$300 million, excluding land, acquisitions, and MGM Energy's capital expenditures. Paramount's capital spending for the remainder of the year will be focused in Kaybob and Southern, including the North Dakota drilling program. It is anticipated the capital spending will be funded by working capital, operations, and available debt capacity.

Share Capital

At August 7, 2007, Paramount had 70.0 million Common Shares outstanding. At August 7, 2007 there were 5.0 million Stock Options (with each entitling the holder to acquire one Common Share) outstanding (0.3 million exercisable), and 0.5 million Holdco options (which do not entitle the holder to any securities of Paramount) outstanding (0.2 million exercisable).

Contractual Obligations and Commitments

Paramount has the following contractual obligations as at June 30, 2007:

(\$ millions)	Recognized in financial statements	Less than 1 Year	1 – 3 years	4 – 5 years	After 5 years	Total
US Senior Notes ⁽¹⁾	Yes	21.0	41.9	41.9	267.6	372.4
Term Loan B Facility ⁽²⁾	Yes	17.1	34.3	34.3	180.4	266.1
Stock-based compensation liability ⁽³⁾	Yes - Partially	14.0	10.3	0.8	-	25.1
Asset retirement obligations ⁽⁴⁾	Yes - Partially	0.6	2.0	2.0	183.4	188.0
Pipeline transportation commitments ⁽⁵⁾	No	16.8	32.0	17.2	58.0	124.0
Capital spending commitment	No	16.0	4.9	0.1	-	21.0
Leases	No	3.2	4.6	3.5	2.7	14.0
Total ⁽⁶⁾		88.7	130.0	99.8	692.1	1,010.6

⁽¹⁾ The amount payable after five years includes interest totalling \$21.0 million (US\$18.2 million). Subsequent to June 30, 2007 US\$51.5 million principal amount of the US Senior notes were repurchased.

⁽²⁾ As at July 3, 2007, Term Loan B Facility was fully prepaid.

⁽³⁾ The liability for stock-based compensation includes the full intrinsic value of vested and unvested options as at June 30, 2007.

⁽⁴⁾ Asset retirement obligations represent management's estimate of the undiscounted cost of future dismantlement, site restoration and abandonment obligations based on engineering estimates and in accordance with existing legislation and industry practices.

⁽⁵⁾ Certain of the pipeline transportation commitments are secured by outstanding letters of credit totalling \$3.7 million at June 30, 2007.

⁽⁶⁾ In addition to the above, Paramount has minimum volume commitments to gas transportation service providers under agreements expiring in various years the latest of which is 2023.

Paramount assigned its rights and obligations under the Farm-in Agreement to MGM Energy as part of the MGM Spinout. Notwithstanding the assignment by Paramount of all of its rights and obligations to MGM Energy, Paramount continues to be jointly and severally liable for the obligations of MGM Energy under the Farm-in Agreement to the extent such obligations are not satisfied by MGM Energy. MGM Energy is obligated to satisfy all of the obligations of Paramount under the Farm-in Agreement and to take whatever steps are necessary to raise sufficient funds to meet such obligations. If MGM Energy is unable to satisfy its obligations under the Farm-in

Agreement and Paramount is thereby required to satisfy such obligations, MGM Energy will be obligated to repay to Paramount, on a demand basis, all amounts expended by Paramount to satisfy such obligations. Any amount owing to Paramount will bear interest at a rate equal to Paramount's cost of capital at the time of expenditure, plus one percent, and will be secured by a charge over all of MGM Energy's assets. At June 30, 2007, MGM Energy estimated that its minimum remaining financial commitment under the Farm-in Agreement was approximately \$120.0 million. On August 3, 2007, MGM Energy closed an issuance of common shares for gross proceeds of \$111.5 million and stated the proceeds will be used, among other purposes, to fund its 2007-2008 oil and gas exploration activities.

Related Party Transactions

Service Agreements

Paramount provides certain operational and administrative services to Trilogy Energy Ltd., a wholly owned subsidiary of Trilogy, and MGM Energy at cost or cost plus 10 percent depending on the applicable services agreement. In addition, as a result of the respective spinouts, certain employees of Trilogy and MGM Energy hold Paramount and / or Holdco Options and, therefore, stock-based compensation accrues to Paramount. The following table summarizes the related party transactions:

(\$ millions)	Six Months Ended June 30, 2007		Six Months Ended June 30, 2006	
	Trilogy	MGM	Trilogy	MGM
Services Agreement	0.6	0.7	1.1	-
Stock-based Compensation	1.4	0.2	(1.1)	-
	2.0	0.9	-	-

Significant Equity Investees

The following table summarizes the assets, liabilities and results of operations of Paramount's significant equity investees at June 30, 2007, and have been derived directly from the investees' financial statements. Amounts summarized do not incorporate adjustments that Paramount makes in applying the equity basis of accounting for such investments. As a result, readers are cautioned that amounts included in the table below cannot be used to directly recalculate Paramount's equity income and net investment respecting such investees.

(\$ millions)	MGM Energy ⁽²⁾		Trilogy	
	June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
Current assets	36.2	1.4	53.2	90.0
Long term assets	243.9	70.3	913.9	994.3
Current liabilities	7.3	6.8	85.6	149.3
Long term liabilities	3.1	4.4	467.7	414.1
Equity	269.7	60.5	413.8	520.9
Three months ended June 30,	2007	2006	2007	2006
Revenue	0.5	-	87.6	89.5
Operating expenses	-	-	23.5	23.4
General and administrative expenses	1.5	-	4.1	3.4
Other expenses	0.8	0.1	122.1	42.9
Net Income(loss), period ended June 30	(1.8)	(0.1)	(62.1)	19.8
Funds flow from operations, period ended June 30	-	-	50.2	35.1
Paramount's proportionate interest ⁽¹⁾ in equity investee	20.2%	n/a	16.2%	16.2%

- ⁽¹⁾ Readers are cautioned that Paramount does not have any direct or indirect interest in or right to the equity investees' assets or revenue nor does Paramount have any direct or indirect obligation in respect of or liability for the equity investees' expenses or obligations, with the exception of Paramount continuing to be jointly and severally liable for the obligations of MGM Energy under the Farm-in Agreement to the extent that such obligations are not satisfied by MGM Energy. The Company is a securityholder of Trilogy and MGM Energy, just like any other securityholder of Trilogy and MGM Energy, and, accordingly, the value of the Company's investment in Trilogy and MGM Energy is based on the value of Trilogy and MGM Energy securities held.
- ⁽²⁾ Paramount spunout MGM Energy January 12, 2007, therefore, the assets, liabilities and equity at December 31, 2006 and results of operations for the three months ended June 30, 2006 are presented on a carve-out basis. Paramount consolidated MGM Energy from January 12, 2007 to May, 29, 2007 and commenced equity accounting for MGM Energy May 30, 2007. See 'MGM Spinout and Dilution' in this MD&A for more details.

Trilogy had 2.9 million trust unit options outstanding (0.1 million exercisable) at June 30, 2007 at exercise prices ranging from \$9.25 to \$23.95 per unit. If all such outstanding trust unit options were exercised, Paramount's proportionate interest in Trilogy would be reduced to 15.8 percent.

MGM Energy had 1.5 million stock options outstanding (nil exercisable) at June 30, 2007 at exercise prices ranging from \$2.95 to \$5.00 per share. MGM Energy also had 14.2 million share purchase warrants outstanding (14.2 million exercisable) at June 30, 2007 having an exercise price of \$6.00 or \$7.50 per share depending upon whether such warrants are exercised for common shares or flow-through common shares of MGM Energy. If all such stock options and warrants were exercised, Paramount's proportionate interest in MGM Energy would be reduced to 17.2 percent.

2007 Outlook

Paramount expects average annual production for 2007 to be 17,500 Boe/d, a decrease of 3,500 Boe/d from previous guidance, primarily as a result of delays bringing behind-pipe volumes on production because of an extremely wet spring and summer, lower production rates from wells brought on in 2007 than originally anticipated, the disposition of non-core producing properties, and delays in the commencement of our North Dakota drilling program.

Critical Accounting Estimates

The preparation of the Consolidated Financial Statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Paramount bases its estimates on historical experience and various other factors that are believed by management to be reasonable under the circumstances. Actual results could differ materially from these estimates.

Readers are referred to Paramount's Management's Discussion and Analysis for the year ended December 31, 2006 for a discussion of critical accounting estimates relating to (i) successful efforts accounting; (ii) reserves estimates; (iii) impairment of petroleum and natural gas properties; (iv) asset retirement obligations; (v) purchase price allocations; and (vi) income taxes and royalty matters.

Changes in Accounting Policies

Financial Instruments

On January 1, 2007, the Company adopted the following sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook: Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", and Section 3865 "Hedges". As required by the new standards, prior periods have not been restated. The adoption of these standards had no material impact on the Company's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

a) *Comprehensive Income*

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). The Company's Consolidated Financial Statements now include a Statement of Comprehensive Income, which includes the components of comprehensive income. For Paramount, OCI is currently comprised of the changes in the market value of short-term investments. The cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"), which is presented as a new category within shareholders' equity.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions. Accordingly, the June 30, 2007 period end unrealized gain on available for sale short-term investments of \$0.1 million is included in the AOCI balance. In addition, the change in the unrealized gain on short-term investments for the six months ended June 30, 2007 of \$0.1 million, is now included in OCI in the Statement of Comprehensive Income.

b) *Financial Instruments*

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

The adoption of the financial instruments standard has been made in accordance with its transitional provisions. Accordingly, at January 1, 2007, \$7.0 million of other assets were reclassified to long-term debt to reflect the adopted policy of capitalizing long-term debt transaction costs within long-term debt. The costs capitalized within long-term debt will be amortized using the effective interest method. Previously, the Company deferred these costs within other assets and amortized them on a straight-line basis over the life of the related long-term debt. The adoption of the effective interest method of amortization had no effect on opening retained earnings.

Financial instrument assets and liabilities are derivative financial instruments classified as "held-for-trading" unless designated for hedge accounting. Additional information on the Company's accounting treatment of derivative financial instruments is contained in Note 1 of the Company's annual audited Consolidated Financial Statements for the year ended December 31, 2006.

Initial Adoption of Accounting Policies

Cash and cash equivalents

Cash and cash equivalents consist of cash and liquid short-term investments with original maturities of three months or less. The short-term investments are classified as held-to-maturity and measured at amortized cost using the effective interest method.

Stock-based Compensation

MGM Energy has granted stock options to its employees and directors, as described in Note 11- Stock-based Compensation – to the Interim Consolidated Financial Statements.

The fair value method is used to recognize compensation expense associated with stock options granted by MGM Energy. Fair values are determined using the Black-Scholes-Merton option-pricing model and relevant assumptions on the date options are granted. Compensation costs are recognized over the vesting period of the options.

Advisories

Forward-looking Statements and Estimates

Certain statements included in this document constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "assume", "based", "believe", "can", "consider", "continue", "depend", "estimate", "expect", "if", "intend", "may", "plan", "project", "result", "upon", "will", "within" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to estimates of future production and capital expenditures, business strategy and objectives, exploration, development and production plans and the timing thereof and operating and other costs.

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

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

- currency, exchange and interest rates; and
- future oil and gas prices.

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

- the ability of Paramount's management to execute its business plan;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations and the adequacy and costs of such capital;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- risks and uncertainties involving the geology of oil and gas deposits;
- risks inherent in Paramount's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of resource estimates and resource life;
- the value and liquidity of Paramount's equity investments and the returns on such equity investments;
- the uncertainty of estimates and projections relating to exploration and development costs and expenses;
- the uncertainty of estimates and projections relating to future production and the results of exploration, development and drilling;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- Paramount's ability to enter into or renew leases;
- health, safety and environmental risks;
- Paramount's ability to secure adequate product transportation;
- imprecision in estimates of product sales and the anticipated revenues from such sales;
- the ability of Paramount to add production and reserves through development and exploration activities;
- weather conditions;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments and changes to royalty regimes and government regulations regarding royalty payments;
- changes in taxation laws and regulations and the interpretation thereof;
- changes in environmental and other regulations and the interpretation thereof;
- the cost of future abandonment activities and site restoration;
- the ability to obtain necessary regulatory approvals;

- risks associated with existing and potential future law suits and regulatory actions against Paramount;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- loss of the services of any of Paramount's executive officers or key employees;
- the ability of Paramount to extend its credit facility on an ongoing basis;
- the requirement to fulfill obligations not fulfilled by MGM Energy Corp. under the farm-in agreement assigned to MGM Energy Corp. in connection with Paramount's spinout of MGM Energy Corp.;
- the impact of market competition; and
- general economic and business conditions;

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

Non-GAAP Measures

In this document, Paramount uses the term "funds flow from operations", "funds flow from operations per share - basic", "funds flow from operations per share - diluted", "operating netback", "funds flow netback per Boe" and "net debt", collectively the "Non-GAAP measures", as indicators of Paramount's financial performance. The Non-GAAP measures do not have standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other issuers.

"Funds flow from operations" is commonly used in the oil and gas industry to assist management and investors in measuring the Company's ability to finance capital programs and meet financial obligations, and refers to cash flows from operating activities before net changes in operating working capital. "Funds flow from operations" includes distributions and dividends received on securities held by Paramount. The most directly comparable measure to "funds flow from operations" calculated in accordance with GAAP is cash flows from operating activities. "Funds flow from operations" can be reconciled to cash flows from operating activities by adding (deducting) the net change in operating working capital as shown in the consolidated statements of cash flows. "Funds flow netback per Boe" is calculated by dividing "funds flow from operations" by the total sales volume in Boe for the relevant period. "Operating netback" equals petroleum and natural gas sales less royalties, operating costs and transportation. The calculation of "Net debt" is shown under the heading "Liquidity and Capital Resources" and excludes the current portion of stock based compensation relating to Paramount options. Management of Paramount believes that the Non-GAAP measures provide useful information to investors as indicative measures of performance.

Investors are cautioned that the Non-GAAP Measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, as set forth above, or other measures of financial performance calculated in accordance with GAAP.

Barrels of Oil Equivalent Conversions

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

Paramount Resources Ltd.
Consolidated Balance Sheets (Unaudited)

(\$ thousands)

	As at June 30 2007	As at December 31 2006
ASSETS (Note 9)		
Current assets		
Cash and cash equivalents	\$ 452,895	\$ 14,357
Short-term investments	77,910	3,890
Accounts receivable	94,779	103,324
Distributions receivable from Trilogy Energy Trust	1,504	2,406
Due from related parties (Note 15)	1,652	-
Financial instruments (Note 13)	-	22,758
Prepaid expenses and other	4,470	3,059
	633,210	149,794
Property, plant and equipment (Note 6)	981,168	983,059
Long-term investments and other assets (Note 7)	270,966	232,948
Goodwill	12,221	12,221
Future income taxes (Note 12)	-	41,002
	\$ 1,897,565	\$ 1,419,024
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 98,273	\$ 227,338
Due to related parties (Note 15)	-	1,476
Financial instruments (Note 13)	13,355	-
Current portion of stock-based compensation liability (Note 11)	11,533	5,243
	123,161	234,057
Long-term debt (Note 9)	380,221	508,849
Asset retirement obligations (Note 10)	76,308	83,815
Stock-based compensation liability (Note 11)	4,885	28,004
Non-controlling interest	150	549
Future income taxes (Note 12)	110,984	-
	695,709	855,274
Commitments and contingencies (Notes 7, 8 and 16)		
Shareholders' Equity		
Share capital	329,253	341,071
Contributed surplus	788	-
Retained earnings	871,689	222,679
Accumulated other comprehensive income	126	-
	1,201,856	563,750
	\$ 1,897,565	\$ 1,419,024

See the accompanying notes to these Interim Consolidated Financial Statements.

Paramount Resources Ltd.

Consolidated Statements of Earnings (Unaudited)

(\$ thousands, except as noted)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenue				
Petroleum and natural gas sales	\$ 80,858	\$ 73,681	\$ 159,679	\$ 161,590
Gain (loss) on financial instruments (Note 13)	(11,087)	8,338	(13,544)	36,835
Royalties	(14,588)	(9,773)	(28,197)	(26,552)
	55,183	72,246	117,938	171,873
Expenses				
Operating	20,396	18,692	43,022	36,823
Transportation	4,184	3,487	8,476	7,139
General and administrative (Note 15)	9,568	7,131	18,166	14,284
Stock-based compensation (Notes 11 and 15)	2,968	(2,789)	(3,290)	17,602
Depletion, depreciation and accretion	41,399	33,020	74,939	67,527
Exploration	2,542	777	7,849	12,618
Dry hole	-	12,189	47,602	18,943
Gain on sale of property, plant and equipment	(282,182)	(1,765)	(282,215)	(1,973)
Interest	13,937	7,153	25,416	13,802
Foreign exchange gain	(32,149)	(11,662)	(36,151)	(10,687)
Provision for doubtful accounts	(2,900)	-	(2,210)	-
Write-down of petroleum and natural gas properties	-	1,334	-	1,334
	(222,237)	67,567	(98,396)	177,412
	277,420	4,679	216,334	(5,539)
Income from equity investments and other (Note 7)	541,307	104,991	557,204	133,242
Non-controlling interest	1,096	10	11,564	17
Earnings before tax	819,823	109,680	785,102	127,720
Income and other tax expense (recovery) (Note 12)				
Current and large corporations tax expense (recovery)	279	(1,750)	525	(626)
Future income tax expense (recovery)	148,578	(444)	129,666	8,708
	148,857	(2,194)	130,191	8,082
Net earnings	\$ 670,966	\$ 111,874	\$ 654,911	\$ 119,638
Net earnings per common share (\$/share)				
Basic	\$ 9.46	\$ 1.65	\$ 9.24	\$ 1.78
Diluted	\$ 9.34	\$ 1.61	\$ 9.15	\$ 1.74
Weighted average common shares outstanding (thousands)				
Basic	70,922	67,981	70,864	67,243
Diluted	71,870	69,658	71,590	68,788

See the accompanying notes to these Interim Consolidated Financial Statements.

Paramount Resources Ltd.
Consolidated Statements of Shareholders' Equity (Unaudited)

(\$ thousands)

	Six Months Ended June 30, 2007	Twelve Months Ended December 31, 2006
Common Shares		
Issued and outstanding: 70,937,175 as at June 30, 2007 (70,278,975 as at December 31, 2006)		
Balance, beginning of period	\$ 341,071	\$ 198,417
Issued on exercise of stock options (Note 11)	13,415	27,749
Issued for cash	-	123,734
Share issuance costs, net of tax benefit	(41)	(1,935)
Tax adjustment on flow-through share renunciations	(21,684)	(6,894)
Adjustment on MGM Spinout (Note 2)	(3,508)	-
Balance, end of period	\$ 329,253	\$ 341,071
Contributed Surplus		
Balance, beginning of period	\$ -	\$ -
Stock based compensation expense on MGM Energy options	788	-
Balance, end of period	\$ 788	\$ -
Retained Earnings		
Balance, beginning of period	\$ 222,679	\$ 238,404
Adjustment on MGM Spinout (Note 2)	(5,901)	-
Share in equity investee capital transactions	-	2,068
Net earnings	654,911	(17,793)
Balance, end of period	\$ 871,689	\$ 222,679
Accumulated other comprehensive income		
Balance, beginning of period	\$ -	\$ -
Unrealized gain on short term investments	126	-
Balance, end of period	\$ 126	\$ -
Total Shareholders' Equity	\$ 1,201,856	\$ 563,750

See the accompanying notes to these Interim Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Unaudited)

(\$ thousands)

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Net earnings	\$ 670,966	\$ 654,911
Other comprehensive income, net of tax	-	-
Unrealized gain (loss) on short-term investments	(9)	126
Comprehensive income	\$ 670,957	\$ 655,037

See the accompanying notes to these Interim Consolidated Financial Statements.

Paramount Resources Ltd.
Consolidated Statements of Cash Flows (Unaudited)

(\$ thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Operating activities				
Net earnings	\$ 670,966	\$ 111,874	\$ 654,911	\$ 119,638
Add (deduct)				
Items not involving cash (Note 14)	(653,291)	(58,628)	(646,088)	(41,650)
Asset retirement obligation expenditures (Note 10)	(1,345)	(179)	(1,885)	(354)
Exploration and dry hole	1,719	12,768	53,938	30,614
Funds flow from operations	18,049	65,835	60,876	108,248
Change in non-cash working capital (Note 14)	21,746	68,301	13,039	71,797
Cash from operating activities	39,795	134,136	73,915	180,045
Financing activities				
Net change in bank indebtedness	(189,258)	4,036	(78,628)	40,441
Common shares issued, net of issuance costs	120	463	3,346	58,028
MGM Energy shares issued, net of issuance costs (Note 2)	-	-	78,546	-
Cash (used in) from financing activities	(189,138)	4,499	3,264	98,469
Investing activities				
Capital expenditures (Note 5)	(42,697)	(105,362)	(229,532)	(297,969)
Proceeds on sale of property, plant and equipment	92,318	2,142	92,318	2,513
Long-term investments	-	(475)	-	(475)
Reorganization costs and other	(1,479)	-	(2,553)	-
Proceeds on disposal of investment (net)	678,711	-	678,711	-
Return of capital, net of non-controlling interest	329	16,104	519	19,761
Change in non-cash working capital (Note 14)	(147,737)	(51,044)	(127,700)	(2,344)
Change in basis of presentation - MGM Energy (Note 2)	(50,404)	-	(50,404)	-
Cash from (used in) investing activities	529,041	(138,635)	361,359	(278,514)
Increase in cash and cash equivalents	379,698	-	438,538	-
Cash and cash equivalents, beginning of period	73,197	-	14,357	-
Cash and cash equivalents, end of period	\$ 452,895	\$ -	\$ 452,895	\$ -

Supplemental cash flow information (Note 14).

See the accompanying notes to these Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

1. Summary of Significant Accounting Policies

The unaudited Interim Consolidated Financial Statements include the accounts of Paramount Resources Ltd. and its subsidiaries (“Paramount” or the “Company”), are stated in Canadian dollars, and have been prepared following the same accounting policies and methods of their application as Paramount’s audited consolidated financial statements as at and for the year ended December 31, 2006, except as disclosed in Notes 3 and 4. Paramount conducts its business through two main business segments: principal properties and strategic investments.

Certain information and disclosures normally required to be included in notes to the 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, 2006.

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

2. MGM Spinout

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

Through the MGM Spinout:

- Paramount’s shareholders received an aggregate of approximately 2.8 million common shares of MGM Energy (“MGM Shares”) and approximately 14.2 million warrant units of MGM Energy, with each warrant unit consisting of one MGM Energy short term warrant (each, a “Short Term Warrant”) and one MGM Energy longer term warrant (each, a “Longer Term Warrant”);
- Paramount received a demand promissory note and 18.2 million voting Class A Preferred Shares of MGM Energy, which note was subsequently repaid by MGM Energy and which shares were subsequently converted into MGM Shares; and
- MGM Energy became the owner of (i) rights and obligations under an area-wide farm-in agreement (the “Farm-in Agreement”) respecting Mackenzie Delta, Northwest Territories Exploration Licence #394, Exploration Licence #427 and Inuvik Concession Blocks 1 and 2; (ii) oil and gas properties in the Colville Lake / Sahtu area of the Central Mackenzie Valley, Northwest Territories; and (iii) an interest in one well in the Cameron Hills area of the southern portion of the Northwest Territories, all of such property, rights and obligations formerly being owned by Paramount.

As a result of the MGM Spinout the carrying value of Paramount’s common shares was reduced by \$3.5 million, retained earnings was reduced by \$5.9 million and future income tax liability was increased by \$3.3 million. The net book value of the assets transferred by Paramount to MGM Energy was \$45.2 million.

MGM Energy Warrants and Issuances of MGM Shares

Each warrant issued by MGM Energy entitled or entitles, as the case may be, the holder to purchase one MGM Energy Share or one flow-through MGM Energy Share as described below. Each Longer Term Warrant was not

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

exercisable, and was not separable from the corresponding Short Term Warrant included in the warrant unit, unless the corresponding Short Term Warrant was exercised.

Each Short Term Warrant entitled the holder thereof to acquire, at the holder's option, either (i) one MGM Energy Share at a price of \$5.00; or (ii) one flow-through MGM Energy Share at a price of \$6.25 and was exercisable until February 16, 2007. A total of 7.9 million Short-Term Warrants were exercised for MGM Shares and 5.9 million Short Term Warrants were exercised for flow-through MGM Shares for aggregate gross proceeds to MGM Energy of \$76.5 million.

As a result of the exercise of the Short Term Warrants, 13.8 million Longer Term Warrants were separated from the corresponding Short Term Warrants and became exercisable. Each Longer Term Warrant entitles the holder thereof to acquire, at the holder's option, either (i) one MGM Energy Share at a price of \$6.00; or (ii) one flow-through MGM Energy Share at a price of \$7.50. The Longer Term Warrants expire on September 30, 2007.

MGM Energy - Basis of Presentation

Until May 29, 2007, Paramount owned greater than 50 percent of the issued and outstanding MGM Shares, and MGM Energy's financial position, results of operations and cash-flows were included in the consolidated financial statements of Paramount. As a result of the May 30, 2007 issuance of 54.7 million MGM Energy common shares by MGM Energy, Paramount owned approximately 20 percent of the issued and outstanding MGM Shares on May 30, 2007. Accordingly, subsequent to May 29, 2007, Paramount accounts for its investment in MGM Shares using the equity method.

3. Changes in Accounting Policies

Financial Instruments

On January 1, 2007, Paramount adopted the following sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook: Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", and Section 3865 "Hedges". As required by the new standards, prior periods have not been restated. The adoption of these standards had no material impact on Paramount's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

Comprehensive Income

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). Paramount's Consolidated Financial Statements now include a Statement of Comprehensive Income, which includes the components of comprehensive income. For Paramount, OCI is currently comprised of the changes in the market value of available for sale short-term investments. The cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"), which is presented as a new category within shareholders' equity.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions. Accordingly, as at June 30, 2007 an unrealized gain on short-term investments of \$0.1 million is included in the AOCI. In addition, the change in the unrealized gain on short-term investments for the six months ended June 30, 2007 of \$0.1 million, is now included in OCI in the Statement of Comprehensive Income.

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by Paramount in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

The adoption of the financial instruments standard has been made in accordance with its transitional provisions. Accordingly, at January 1, 2007, \$7.0 million of other assets were reclassified to long-term debt to reflect the adopted policy of capitalizing long-term debt transaction costs within long-term debt. The costs capitalized within long-term debt will be amortized using the effective interest method. Previously, Paramount deferred these costs within other assets and amortized them on a straight-line basis over the life of the related long-term debt. The adoption of the effective interest method of amortization had no effect on opening retained earnings.

Derivative financial instruments are classified as "held-for-trading" unless designated for hedge accounting. Additional information on the Company's accounting treatment of derivative financial instruments is contained in Note 1 of the Company's annual audited Consolidated Financial Statements for the year ended December 31, 2006.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

4. Update to Accounting Policies and Practices and Recent Accounting Pronouncements

Cash and cash equivalents

Cash and cash equivalents consist of cash and liquid short-term investments with original maturities of three months or less.

Stock-based Compensation

MGM Energy has granted stock options to its employees and directors, as described in Note 11- Stock-based Compensation.

The fair value method is used to recognize compensation expense associated with stock options granted by MGM Energy. Fair values are determined using the Black-Scholes-Merton option-pricing model and relevant assumptions on the date options are granted. Compensation costs are recognized over the vesting period of the options.

Recent Accounting Pronouncement – Capital Disclosures

As of October 1, 2007 Paramount will be required to adopt new Section 1535 – *Capital Disclosures*. Section 1535 requires companies to disclose their objectives, policies and procedures for managing capital, as well as whether externally imposed capital requirements have been complied with.

5. Segmented Information

Paramount has defined its continuing operations into the following segments established by senior management to assist in resource allocation, assessing operating performance and achieving long-term strategic objectives:

- **Principal Properties:** Principal properties consist of the Northern Corporate Operating Unit (“COU”) which includes properties in Northern Alberta, the Northwest Territories and British Columbia, the Grande Prairie COU, the Kaybob COU, and the Southern COU, which includes properties in Southern Alberta, Saskatchewan, and Montana and North Dakota in the United States. Goodwill is also included in Principal Properties.
- **Strategic Investments:** Strategic investments include investments in other entities, including affiliates, and development stage properties and assets where there is no near-term expectation of production; but a longer-term value proposition, based on spin-outs, sales, or future revenue generation.
- **Corporate:** Corporate is comprised of income and expense items, including general and administrative expense, interest expense and taxes that have not been specifically allocated to principal properties or strategic investments.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

Three Months Ended June 30, 2007	Principal Properties	Strategic Investments	Corporate	Total
Revenue				
Petroleum and natural gas sales, net of royalties	\$ 66,270	\$ -	\$ -	\$ 66,270
Gain (loss) on financial instruments	1,445	-	(12,532)	(11,087)
	67,715	-	(12,532)	55,183
Expenses				
Operating and transportation	24,580	-	-	24,580
General and administrative	-	1,812	7,756	9,568
Stock-based compensation	-	268	2,700	2,968
Depletion, depreciation and accretion	41,370	29	-	41,399
Exploration	1,574	968	-	2,542
Gain on sale of property, plant and equipment	(11,200)	(270,982)	-	(282,182)
Interest	-	-	13,937	13,937
Foreign exchange gain	-	-	(32,149)	(32,149)
Provision for doubtful accounts	(2,900)	-	-	(2,900)
	53,424	(267,905)	(7,756)	(222,237)
Income from equity investments and other	-	541,307	-	541,307
Non-controlling interest	137	959	-	1,096
Segment earnings	\$ 14,428	\$ 810,171	\$ (4,776)	819,823
Income and other tax expense				148,857
Net earnings				\$ 670,966
Capital Expenditures	\$ 36,766	\$ 2,312	\$ 3,619	\$ 42,697
Total Assets at June 30, 2007	\$ 1,516,220	\$ 350,137	\$ 31,208	\$ 1,897,565

Three Months Ended June 30, 2006	Principal Properties	Strategic Investments	Corporate	Total
Revenue				
Petroleum and natural gas sales, net of royalties	\$ 63,908	\$ -	\$ -	63,908
Gain on financial instruments	8,338	-	-	8,338
	72,246	-	-	72,246
Expenses				
Operating and Transportation	22,179	-	-	22,179
General and administrative	-	123	7,008	7,131
Stock-based compensation	-	-	(2,789)	(2,789)
Depletion, depreciation and accretion	33,020	-	-	33,020
Exploration	777	-	-	777
Dry hole	2,816	9,373	-	12,189
Gain on sale of property, plant and equipment	(1,765)	-	-	(1,765)
Interest	-	-	7,153	7,153
Foreign exchange gain	-	-	(11,662)	(11,662)
Write-down of properties	1,334	-	-	1,334
	58,361	9,496	(290)	67,567
Income from equity investments and other	-	104,991	-	104,991
Non-controlling interest	10	-	-	10
Segment earnings	\$ 13,895	\$ 95,495	\$ 290	109,680
Income and other tax recovery				(2,194)
Net earnings				\$ 111,874
Capital Expenditures	\$ 93,635	\$ -	\$ 11,727	\$ 105,362
Total Assets at June 30, 2006	\$ 1,146,380	\$ 219,361	\$ 15,015	\$ 1,380,756

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

Six Months Ended June 30, 2007	Principal Properties	Strategic Investments	Corporate	Total
Revenue				
Petroleum and natural gas sales, net of royalties	\$ 131,482	\$ -	\$ -	\$ 131,482
Loss on financial instruments	(2,050)	-	(11,494)	(13,544)
	129,432	-	(11,494)	117,938
Expenses				
Operating and Transportation	51,498	-	-	51,498
General and administrative	-	3,725	14,441	18,166
Stock-based compensation	-	822	(4,112)	(3,290)
Depletion, depreciation and accretion	74,792	147	-	74,939
Exploration	4,210	3,639	-	7,849
Dry hole	7,778	39,824	-	47,602
Gain on sale of property, plant and equipment	(11,233)	(270,982)	-	(282,215)
Interest	-	-	25,416	25,416
Foreign exchange gain	-	-	(36,151)	(36,151)
Provision for doubtful accounts	(2,210)	-	-	(2,210)
	124,835	(222,825)	(406)	(98,396)
Income from equity investments and other	-	557,204	-	557,204
Non-controlling interest	152	11,412	-	11,564
Segment earnings	\$ 4,749	\$ 791,441	\$ (11,088)	785,102
Income and other tax expense				130,191
Net earnings				\$ 654,911
Capital Expenditures	\$ 181,023	\$ 42,185	\$ 6,324	\$ 229,532

Six Months Ended June 30, 2006	Principal Properties	Strategic Investments	Corporate	Total
Revenue				
Petroleum and natural gas sales, net of royalties	\$ 135,038	\$ -	\$ -	\$ 135,038
Gain on financial instruments	36,835	-	-	36,835
	171,873	-	-	171,873
Expenses				
Operating and Transportation	43,962	-	-	43,962
General and administrative	-	811	13,473	14,284
Stock-based compensation	-	-	17,602	17,602
Depletion, depreciation and accretion	67,527	-	-	67,527
Exploration	9,824	2,794	-	12,618
Dry hole	9,570	9,373	-	18,943
Gain on sale of property, plant and equipment	(1,973)	-	-	(1,973)
Interest	-	-	13,802	13,802
Foreign exchange loss	-	-	(10,687)	(10,687)
Write-down of properties	1,334	-	-	1,334
	130,244	12,978	34,190	177,412
Income from equity investments and other	-	133,242	-	133,242
Non-controlling interest	17	-	-	17
Segment earnings	\$ 41,646	\$ 120,264	\$ (34,190)	127,720
Income and other tax expense				8,082
Net earnings				\$ 119,638
Capital Expenditures	\$ 229,593	\$ 56,506	\$ 11,870	\$ 297,969

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

6. Property, Plant and Equipment

	June 30, 2007			December 31, 2006
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$ 957,311	\$ (437,035)	\$ 520,276	\$ 548,985
Gas plants, gathering systems and production equipment	534,345	(104,663)	429,682	404,987
Other	44,826	(13,616)	31,210	29,087
	\$1,536,482	\$ (555,314)	\$ 981,168	\$ 983,059

Included in property, plant and equipment are asset retirement costs, net of accumulated depletion and depreciation, of \$52.2 million (December 31, 2006 - \$52.9 million). Capitalized costs associated with non-producing petroleum and natural gas properties totalling approximately \$291.2 million (December 31, 2006 - \$335.4 million) are currently not subject to depletion.

On June 4, 2007, Paramount closed the sale of its oil sands leases and shut-in and producing natural gas rights in the Surmont area of Alberta for consideration of \$301.7 million plus closing adjustments, resulting in a before tax gain of \$271.0 million. Total proceeds included \$75.0 million in cash, a \$75.0 million interest bearing note receivable due no later than June 30, 2008 and common shares of the purchaser, MEG Energy Corp. ("MEG"), having a value of \$151.7 million. The note receivable is included in short-term investments. Paramount's investment in the MEG common shares is included in long-term investments and accounted for using the cost method.

For the six months ended June 30, 2007, Paramount expensed \$47.6 million in dry hole costs (2006 - \$18.9 million). Approximately \$7.0 million of the dry hole costs expensed related to prior year capital projects that were determined in the current year to have no future economic value.

Continuity of Suspended Exploratory Well Costs

	Six Months Ended June 30, 2007
Balance beginning of period	\$ 157,773
Additions pending the determination of proved reserves	55,463
Reclassifications to proved reserves	(17,435)
Wells costs charged to dry hole expense	(7,034)
Wells sold	(23,898)
Change in basis of presentation - MGM Energy (Note 2)	(66,502)
Balance end of period	\$ 98,367

Aging of Capitalized Exploratory Well Costs

	June 30, 2007
Exploratory well costs that have been capitalized for a period of one year or less	\$ 70,176
Exploratory well costs that have been capitalized for a period of greater than one year	28,191
Balance at June 30, 2007	\$ 98,367
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	68

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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At June 30, 2007, the capitalized costs of suspended wells primarily relate to projects where infrastructure decisions are dependent upon environmental conditions and production capacity, or where Paramount is continuing to assess reserves and their potential development.

7. Long-Term Investments and Other Assets

	June 30, 2007		December 31, 2006	
	(Shares/Units)		(Shares/Units)	
	(000's)		(000's)	
Equity accounted investments:				
Trilogy Energy Trust ("Trilogy")	15,035	\$ 61,906	15,035	\$ 60,821
MGM Energy Corp.	18,200	55,261	-	-
Private oil and gas company ("Privateco")	2,709	2,042	2,709	2,042
North American Oil Sands Corporation ("North American")	-	-	34,121	161,626
		<u>119,209</u>		<u>224,489</u>
Cost accounted investments:				
MEG Energy Corp. (Note 6)	3,700	151,700	-	-
Deferred financing costs and other assets, net of amortization (Note 3)		57		8,459
		<u>\$ 270,966</u>		<u>\$ 232,948</u>

Income From Equity Investments and Other

The following table provides a summary of the components of income from equity investments and other income:

	Three Months Ended June 30, 2007			
	Trilogy	North American	MGM Energy	Total
Equity income (loss)	\$ 8,354	\$ (794)	\$ (148)	\$ 7,412
Dilution gain	-	-	4,840	4,840
	\$ 8,354	\$ (794)	\$ 4,692	\$ 12,252
Gain on sale of investments and other				<u>529,055</u>
				<u>\$ 541,307</u>

	Six Months Ended June 30, 2007			
	Trilogy	North American	MGM Energy	Total
Equity income (loss)	\$ 10,634	\$ (6,047)	\$ (148)	\$ 4,439
Dilution gain (loss)	-	(5,496)	29,512	24,016
	\$ 10,634	\$ (11,543)	\$ 29,364	\$ 28,455
Gain on sale of investments and other				<u>528,749</u>
				<u>\$ 557,204</u>

During the three months ended March 31, 2007, North American filed renunciation documents with the tax authorities relating to flow-through shares it had issued during 2006, resulting in Paramount recording a dilution loss of \$5.5 million before tax.

In June 2007, Paramount sold its shares in North American for gross cash proceeds of \$682.4 million, resulting in a before tax gain of \$528.6 million. This gain is net of a bonus of 150,000 common shares of Paramount having a value of \$3.7 million paid to the chairman and CEO of Paramount under the Company's stock incentive plan in connection with the sale.

As a result of equity issuances by MGM Energy during the three months ended March 31, 2007, Paramount's equity interest in MGM Energy was reduced to approximately 51.7 percent by March 31, 2007 resulting in Paramount

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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recording dilution gains of approximately \$24.7 million before tax for the three months ended March 31, 2007. An equity issuance by MGM Energy during the three months ended June 30, 2007 reduced Paramount's equity interest in MGM Energy to approximately 20.2 percent at May 30, 2007, resulting in a dilution gain of approximately \$4.8 million before tax. Paramount ceased consolidating MGM Energy on May 30, 2007 and commenced accounting for its investment in MGM Energy using the equity method.

8. Short-Term Bank Indebtedness

On March 28, 2007, Paramount closed a six month \$100 million senior unsecured non-revolving short-term bank facility (the "Bridge Facility"). The full amount of the Bridge Facility was drawn at closing. On June 29, 2007, the Bridge Facility was fully repaid and cancelled.

9. Long-Term Debt

	June 30, 2007	December 31, 2006
Canadian Dollar Denominated Debt		
Credit facilities	\$ -	\$ 85,118
U.S. Dollar Denominated Debt		
Term Loan B Facility due 2012 (US\$150.0 million)	159,510	174,810
8 1/2 percent US Senior Notes due 2013 (US\$213.6 million)	227,135	248,921
	386,645	508,849
Debt financing costs	(6,424)	-
	\$ 380,221	\$ 508,849

Credit Facilities

On April 30, 2007, Paramount amended its \$200 million credit facility with a syndicate of Canadian banks, \$120 million of which is available, after adjustments to the gross borrowing base for US Senior Notes and Term Loan B Facility ("TLB") service costs at June 30, 2007. Borrowings under the credit facility bear interest at floating rates based on the lender's prime rate, bankers' acceptance rate or LIBOR at the discretion of Paramount plus an applicable margin. The facility is available on a revolving basis for a period of 364 days, 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 a one year term, at the end of which time the facility would be due and payable. Advances drawn on Paramount's credit facility are secured by a first fixed and floating charge over the assets of the Company, excluding approximately 12.8 million of the Trilogy units. At June 30, 2007, Paramount had undrawn letters of credit outstanding totaling approximately \$15.3 million which reduce the amount available to the Company under the credit facility.

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10. Asset Retirement Obligations

	Six Months Ended June 30, 2007	Year Ended December 31, 2006
Asset retirement obligations, beginning of period	\$ 83,815	\$ 66,203
Reduction on disposal of properties	(10,607)	(2,949)
Liabilities incurred	4,920	6,684
Revision in estimated costs of abandonment	(2,361)	7,352
Liabilities settled	(1,885)	(779)
Accretion expense	3,374	7,304
Change in basis of presentation - MGM Energy (Note 2)	(948)	-
Asset retirement obligations, end of period	\$ 76,308	\$ 83,815

The total future asset retirement obligation was estimated by management based on Paramount's net ownership in all wells and facilities, estimated work to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The undiscounted asset retirement obligations associated with Paramount's oil and gas properties at June 30, 2007 are \$188.0 million (December 31, 2006 - \$187.8 million), which have been discounted using credit-adjusted risk-free rates between 7 7/8 percent and 8 7/8 percent. The majority of these obligations are not expected to be settled for several years, or decades, in the future and will be funded from general Company resources at that time.

11. Stock-based Compensation

Paramount Options

Paramount has a stock option plan (the "Plan") that enables the Board of Directors or its Compensation Committee to grant to key Paramount employees and directors options to acquire common shares of the Company ("Paramount Options"). The exercise price of a Paramount Option is no lower than the closing market price of the common shares on the day preceding the date of grant. Upon exercise of options under the Plan, optionholders may be entitled to receive, at the election of the employee, either a share certificate for the common shares or a cash payment in an amount equal to the positive difference, if any, between the market price and the exercise price of the number of common shares in respect of which the option is exercised. Paramount, however, can refuse to accept a cash surrender. When options are surrendered for cash, the cash settlement paid reduces the previously accrued liability. Differences between the cash settlement amount and the liability accrued are recognized in earnings as stock-based compensation expense. Options granted generally vest over four years and have a four and a half year contractual life.

Paramount Options

	Weighted Average Exercise Price	Options
	(\$ / share)	
Balance, December 31, 2006	\$ 19.41	4,468,925
Granted	20.87	1,556,500
Exercised	5.62	(699,800)
Cancelled	27.44	(201,500)
Balance, June 30, 2007	\$ 21.42	5,124,125
Options exercisable, June 30, 2007	\$ 19.12	338,150

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

Holdco Options

As a result of the 2005 spinout of Trilogy, Paramount transferred 2.3 million of the Trilogy trust units it received through the spinout to a wholly owned, non-public subsidiary of Paramount (“Holdco”).

Each Holdco option entitles the holder thereof to acquire from Paramount, common shares of Holdco (each a “Holdco Option”). Holdco’s shares are not listed for trading on any stock exchange. As a result, holders of Holdco Options have the right, alternatively, to surrender options for cancellation in return for a cash payment from Paramount. The amount of the payment in respect of each Holdco share subject to the surrendered option is the difference between the fair market value of a Holdco share at the date of surrender and the exercise price. The fair market value of a Holdco share is based on the fair market value of the Trilogy trust units it holds and any after-tax cash and investments (resulting from distributions on the Trilogy trust units).

Holdco Options

	Weighted Average Exercise Price	Options
	(\$ / share)	
Balance, December 31, 2006	\$ 6.72	737,625
Exercised	4.75	(201,750)
Cancelled	16.37	(16,000)
Balance, June 30, 2007	\$ 7.06	519,875
Options exercisable, June 30, 2007	\$ 7.05	168,000

Additional information about stock options outstanding at June 30, 2007 is as follows:

Exercise Prices	Outstanding			Exercisable	
	Number	Weighted Average Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
		(years)	(\$ / share)		(\$ / share)
Paramount Options					
\$4.33-\$10.00	386,875	1.0	\$ 5.26	93,250	\$ 4.63
\$10.01-\$20.00	1,763,550	2.5	13.97	115,100	13.91
\$20.01-\$30.00	1,478,200	4.1	21.39	10,800	25.49
\$30.01-\$43.25	1,495,500	3.1	34.41	119,000	34.92
Total	5,124,125	3.0	\$ 21.42	338,150	\$ 19.12
Holdco Options					
\$4.58-\$6.00	331,875	0.9	\$ 4.73	121,500	\$ 4.77
\$6.01-\$10.00	56,500	1.4	7.24	6,000	6.51
\$10.03-\$16.37	131,500	1.9	12.87	40,500	13.96
Total	519,875	1.2	\$ 7.06	168,000	\$ 7.05

The current portion of stock-based compensation liability of \$11.5 million at June 30, 2007 represents the value, using the intrinsic value method, of vested stock options and stock options that will vest during the following twelve months.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

MGM Energy Options

MGM Energy has a stock option plan for key employees and directors of MGM Energy. During the period from January 12, 2007, to May 29, 2007, while Paramount's investment in MGM Energy was accounted for using the consolidation method, compensation expense of \$0.8 million and a contributed surplus amount of \$0.8 million was recorded by Paramount in respect of the MGM Energy plan.

12. Income Taxes

The following table reconciles income taxes calculated at the Canadian statutory rate to Paramount's recorded income tax expense:

	Three months ended June 30, 2007	Six months ended June 30, 2007
Net income before tax	\$ 819,823	\$ 785,102
Effective Canadian statutory income tax rate	31.18%	31.18%
Expected income tax expense	\$ 255,621	\$ 244,795
Increase (decrease) resulting from:		
Non-deductible Canadian Crown payments	52	101
Statutory and other rate differences	(1,151)	(1,169)
Non-taxable portion of gains	(118,008)	(118,555)
Income from equity investments and other	(2,559)	(3,860)
De-recognition of future tax assets	19,313	15,099
Stock based compensation	(4,291)	(6,091)
Other	(120)	(129)
Income tax expense	\$ 148,857	\$ 130,191

Components of Future Income Tax Liability

	June 30, 2007
Timing of partnership items	\$ (44,991)
Property, plant and equipment	(109,505)
Asset retirement obligations	21,883
Stock-based compensation liability	3,753
Non-capital and net operating losses carried forward	1,369
Other	16,507
Future income tax liability	\$ (110,984)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

13. Financial Instruments

The following table presents a reconciliation of the change in the unrealized and realized gains and losses on financial instruments:

	Six Months Ended June 30, 2007	Year Ended December 31, 2006
Fair value of contracts, beginning of period	\$ 22,758	\$ (4,613)
Change in fair value of contracts, including contracts entered into during the period	(13,544)	69,569
Fair value of contracts realized during the period (gain) / loss	(22,569)	(42,198)
Fair value of contracts, end of period	\$ (13,355)	\$ 22,758

Commodity Price Contracts

At June 30, 2007, Paramount was a party to the following financial forward commodity contracts:

	Amount	Price	Term
<i>Sales Contracts</i>			
WTI Fixed Price	1,000 Bbl/d	US\$67.50/Bbl	January 2007 – December 2007
WTI Fixed Price	1,000 Bbl/d	US\$67.51/Bbl	January 2007 – December 2007

Foreign Exchange Contracts

During the six months ended June 30, 2007, Paramount entered into a foreign exchange collar for settlement on August 20, 2007. The floor price of the foreign exchange collar is CDN \$1.1900/US\$1, and the ceiling price is CDN \$1.1415/US\$1 based on an underlying amount of US\$150 million. In February 2007, Paramount settled a foreign exchange collar for gross proceeds of \$4.9 million.

Fair values of financial assets and liabilities

Borrowings under bank credit facilities and the TLB Facility are market rate based, thus, their respective carrying values approximate fair value. Paramount's US Senior Notes were trading at approximately 103.0 percent as at June 30, 2007. Fair values for derivative instruments are determined based on the estimated cash payment or receipt necessary to settle the contract at period-end. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices available to Paramount.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

14. Consolidated Statements of Cash Flows – Selected Information

(a) *Items not involving cash*

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Gain on sale of investments	\$ (528,684)	\$ -	\$ (528,684)	\$ -
Unrealized loss (gain) on financial instruments	11,585	21,982	36,113	(7,476)
Stock-based compensation – non cash portion	1,376	(6,507)	(5,620)	10,828
Depletion, depreciation and accretion	41,399	33,020	74,939	67,527
(Gain) on sale of property, plant and equipment	(282,182)	(1,765)	(282,215)	(1,973)
Unrealized foreign exchange gain	(33,923)	(11,212)	(38,154)	(9,966)
Provision for doubtful accounts	(2,900)	-	(2,210)	-
Equity earnings in excess of cash distributions	(7,740)	(95,219)	(19,603)	(110,955)
Future income tax (recovery)	148,578	(444)	129,666	8,708
Write-down of petroleum & natural gas properties	-	1,334	-	1,334
Non-controlling interest	(1,096)	(10)	(11,564)	(17)
Other	296	193	1,244	340
	\$ (653,291)	\$ (58,628)	\$ (646,088)	\$ (41,650)

(b) *Changes in non-cash working capital*

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Short-term investments	\$ 641	\$ (3)	\$ 196	\$ 5,599
Accounts receivable	18,537	(11,348)	10,303	(9,744)
Distributions receivable from Trilogy	-	752	902	9,021
Prepaid expenses	(1,379)	(3,457)	(1,419)	(2,744)
Account payable and accrued liabilities	(149,508)	24,544	(127,506)	62,595
Due to related parties	(308)	6,769	(3,163)	4,726
Change in basis of presentation – MGM Energy (Note 2)	6,026	-	6,026	-
	\$ (125,991)	\$ 17,257	\$ (114,661)	\$ 69,453
Operating activities	\$ 21,746	\$ 68,301	\$ 13,039	\$ 71,797
Investing activities	(147,737)	(51,044)	(127,700)	(2,344)
	\$ (125,991)	\$ 17,257	\$ (114,661)	\$ 69,453

(c) *Supplemental cash flow information*

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Interest paid	\$ 11,877	\$ 2,480	\$ 28,976	\$ 14,938
Large corporations and other taxes paid	\$ 327	\$ 4,170	\$ 816	\$ 4,545

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

15. Other Related Party Transactions

Service Agreements

Paramount provides certain operational and administrative services to Trilogy Energy Ltd., a wholly owned subsidiary of Trilogy, and MGM Energy at cost or cost plus 10 percent, respectively depending on the applicable services agreement. Amounts charged to Trilogy and MGM Energy have been reflected as a reduction in Paramount's general and administrative expense. In addition, as a result of the respective spinouts, certain employees of Trilogy and MGM Energy hold Paramount and Holdco stock options and, therefore, stock-based compensation costs accrue to Paramount. The table below summarizes related transactions with related parties:

	Six Months Ended June 30, 2007		Six Months Ended June 30, 2006	
	Trilogy	MGM Energy	Trilogy	MGM Energy
Services Agreement	624	734	1,057	-
Stock-based Compensation	1,402	167	(1,096)	-
	2,026	901	(39)	-

16. Commitments and Contingencies

Paramount assigned its rights and obligations under the Farm-in Agreement to MGM Energy as part of the MGM Spinout. Notwithstanding the assignment by Paramount of all of its rights and obligations to MGM Energy, Paramount continues to be jointly and severally liable for the obligations of MGM Energy under the Farm-in Agreement to the extent such obligations are not satisfied by MGM Energy. MGM Energy is obligated to satisfy all of the obligations of Paramount under the Farm-in Agreement and to take whatever steps are necessary to raise sufficient funds to meet such obligations. If MGM Energy is unable to satisfy its obligations under the Farm-in Agreement and Paramount is thereby required to satisfy such obligations, MGM Energy will be obligated to repay to Paramount, on a demand basis, all amounts expended by Paramount to satisfy such obligations. Any amount owing to Paramount will bear interest at a rate equal to Paramount's cost of capital at the time of expenditure, plus one percent, and will be secured by a charge over all of MGM Energy's assets. At June 30, 2007, MGM Energy estimated that its minimum remaining financial commitment under the Farm-in Agreement was approximately \$120.0 million. On August 3, 2007, MGM Energy closed an issuance of common shares for gross proceeds of \$111.5 million and stated the proceeds will be used, among other purposes, to fund its 2007-2008 oil and gas exploration activities.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(\$ thousands, except as noted)

17. Subsequent Events

Subsequent to June 30, 2007 Paramount entered into a financial forward contract to sell 1,000 barrels per day of crude oil at US\$73.48 per barrel for a term of January 1, 2008 to December 31, 2008.

On July 3, 2007, Paramount prepaid the entire amount outstanding under its US\$150 million TLB Facility for a cash payment of \$163.4 million, including a two percent premium and accrued interest.

Paramount invested \$9.0 million in 3.3 million common shares of MGM Energy pursuant to a public offering closed by MGM Energy August 3, 2007. As a result, Paramount owns 21.5 million common shares of MGM Energy representing approximately 16.7 percent of MGM Energy's outstanding shares as of August 3, 2007.

During July 2007, Paramount made open market purchases of US \$51.5 million principal amount of its US Senior Notes.

On May 2, 2007, the Company received regulatory approval for a Normal Course Issuer Bid ("NCIB") commencing on May 7, 2007 for a 12 month period. Under the NCIB, the Company may purchase for cancellation up to 3,298,526 of its common shares, representing approximately 4.65 percent of the 70.9 million common shares outstanding as of April 30, 2007. During the month of July, Paramount repurchased 887,500 of its common shares under the NCIB for a total cost of approximately \$16.5 million. Security holders may obtain a copy of the notice, without charge, by contacting Paramount Resources Ltd.

SHAREHOLDER INFORMATION

OFFICERS

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

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

B. K. Lee
Chief Financial Officer

C. E. Morin
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

C. G. Folden
Corporate Operating Officer

G.W. P. McMillan
Corporate Operating Officer

D.S. Purdy
Corporate Operating Officer

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

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

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

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

D. Jungé C.F.A. ⁽⁴⁾
Chairman of the Board
Pitcairn Trust Company
Jenkintown, Pennsylvania

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

W. B. Macinnes, Q.C. ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
Retired
Calgary, Alberta

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

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

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

A.S. Thomson ⁽¹⁾⁽⁴⁾
President
Touche, Thomson & Yeoman
Investment Consultants Ltd.
Calgary, Alberta

B. M. Wylie ⁽²⁾
Business Executive
Calgary, Alberta

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Environmental, Health
and Safety Committee

⁽³⁾ Member of Compensation Committee

⁽⁴⁾ Member of Corporate Governance Committee

⁽⁵⁾ Paramount Energy Operating Corp. is a wholly
owned subsidiary of Paramount Energy Trust

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The Bank of Nova Scotia
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Royal Bank of Canada
Calgary, Alberta

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REGISTRAR AND TRANSFER AGENT

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Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange (“POU”)