FINANCIAL AND OPERATING HIGHLIGHTS [(1)]

($ millions, except as noted)

	Three Months Ended			Six Months Ended		
	June 30 2009	June 30 2008	Change %	**June 30 2009**	June 30 2008	Change %
Financial						
Petroleum and natural gas sales	**40.2**	102.9	(61%)	**80.4**	179.9	(55%)
Funds flow from operations	**13.7**	46.3	(70%)	**31.3**	70.5	(56%)
Per share – diluted ($/share)	**0.21**	0.68	(69%)	**0.47**	1.04	(55%)
Net loss	**(2.6)**	(31.9)	92%	**(26.3)**	(69.9)	62%
Per share – diluted ($/share)	**(0.04)**	(0.47)	91%	**(0.40)**	(1.03)	61%
Exploration and development capital expenditures	**5.4**	10.5	(49%)	**60.9**	74.6	(18%)
Investments [(2)]				**260.2**	467.7	(44%)
Total assets				**1,078.8**	1,203.3	(10%)
Net debt [(3)]				**128.2**	48.0	167%
Common shares outstanding (thousands)				**65,947**	67,739	(3%)
Operating						
Sales volumes:						
Natural gas (MMcf/d)	**59.1**	67.7	(13%)	**55.1**	66.7	(17%)
Oil and NGLs (Bbl/d)	**3,512**	3,611	(3%)	**3,456**	3,711	(7%)
Total (Boe/d)	**13,362**	14,895	(10%)	**12,641**	14,835	(15%)
Gas weighting	**74%**	76%		**73%**	75%	
Average realized price:						
Natural gas ($/Mcf)	**4.03**	10.54	(62%)	**4.82**	9.13	(47%)
Oil and NGLs ($/Bbl)	**57.83**	115.55	(50%)	**51.74**	102.14	(49%)
Total wells drilled (net)	**-**	4	-	**16**	20	(20%)

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

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SECOND QUARTER OVERVIEW

- Second quarter funds flow from operations decreased by $32.6 million from the prior year to $13.7 million due primarily to a $45.9 million decrease in netback. The prior year included $12.9 million in natural gas financial contract payments and higher Corporate costs.

- Second quarter net loss was $2.6 million compared to $31.9 million in 2008. The current quarter Principal Property loss included the impacts of lower prices and lower production. The prior year included the impacts of unrealized financial commodity contract losses. Strategic Investment losses were slightly higher in 2009 and Corporate costs were lower due to lower stock-based compensation expenses and foreign exchange gains in the current year.

Principal Properties

- The Kaybob COU commenced production of seven (3.4 net) natural gas wells that were drilled and tied in prior to the end of the first quarter. Kaybob has elected to delay commencing production from two (2.0 net) additional wells drilled and tied in during the first quarter in anticipation of higher gas prices.
- The Grande Prairie COU continued developing facility capacity at Gold Creek-Karr in anticipation of further drilling by the Company.
- The Northern COU temporarily shut-in wells producing approximately 400 Boe/d, pending an improvement in natural gas prices.
- In the third quarter, the Southern COU anticipates commencing the completion of the final North Dakota well drilled in 2008 using improvements identified following a review of previous completion results.
- Exploration and development capital spending decreased to $5.4 million from $10.5 million in the second quarter of 2008.
- Realized prices declined by 62 percent for natural gas and 50 percent for crude oil and NGLs from the second quarter of 2008.
- Netback decreased to $21.9 million in the second quarter of 2009 from $67.8 million in 2008.

Strategic Investments

- Moved the newly constructed third drilling rig to Alberta, where in the third quarter, it has commenced drilling a 100% owned well in the Grande Prairie area.
- Invested in Redcliffe Exploration Inc. ("Redcliffe"), a publicly traded oil and gas company. Paramount owned approximately 15 percent of Redcliffe's Class A shares as of July 20, 2009.

Corporate

- Corporate general and administrative costs decreased to $4.3 million from $5.3 million in the second quarter of 2008.
- Renewed Paramount's credit facility, with a borrowing base and lender commitment of $125 million.

REVIEW OF OPERATIONS

Paramount's average daily sales volumes by corporate operating unit for the three months ended June 30, 2009 and 2008 are summarized below:

	Three months ended June 30								
	2009			2008			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**21.0**	**397**	**3,892**	19.3	567	3,782	1.7	(170)	110
Grande Prairie	**8.4**	**868**	**2,265**	13.1	582	2,769	(4.7)	286	(504)
Northern	**18.9**	**632**	**3,785**	19.8	872	4,166	(0.9)	(240)	(381)
Southern	**10.8**	**1,613**	**3,411**	14.4	1,590	3,991	(3.6)	23	(580)
Other	**-**	**2**	**9**	1.1	–	187	(1.1)	2	(178)
Total	**59.1**	**3,512**	**13,362**	67.7	3,611	14,895	(8.6)	(99)	(1,533)

Kaybob

Kaybob Corporate Operating Unit ("COU") second quarter sales volumes increased 3 percent from 2008 to 3,892 Boe/d consisting of 21.0 MMcf/d of natural gas and 397 Bbl/d of crude oil and NGLs**.** The increase was mainly due to bringing wells on production in April in the Smoky, Resthaven and Musreau areas that were drilled and tied in during the first quarter. The incremental volumes were partially offset by natural production declines during the quarter. Commencement of the new production was deferred from March until April to qualify for the Alberta royalty incentive program announced in March of this year. Paramount has elected to delay commencing production from two additional wells drilled and tied in during the first quarter in anticipation of higher gas prices.

Activities were limited during the second quarter due to the annual spring road bans restricting heavy equipment from entering the area.

The Kaybob COU continues to focus its efforts on reducing per-well drilling, completion, equipping, and tie-in costs. In addition to the anticipated reduction in cost for materials and services due to reduced industry activity, Paramount expects to also realize savings this fall and winter by drilling additional directional wells from existing locations thus, eliminating road and lease construction costs and significantly reducing the equipping and tie-in costs.

Grande Prairie

Grande Prairie COU second quarter sales volumes were 2,265 Boe/d, a decrease of 18 percent from 2008, primarily because 2008 included a one time increase of approximately 500 Boe/d resulting from the resolution of a dispute with a joint venture partner. Increased oil production at Crooked Creek from waterflood operations and increased liquids rich gas production at Karr partially offset natural declines at Mirage.

Total capital expenditures in the Grande Prairie COU for the second quarter were approximately $3 million, excluding land. The Grande Prairie COU continued to expand facilities and add infrastructure in the Karr region, based on encouraging drilling results achieved to date.

At Crooked Creek, two (1.3 net) wells commenced production in the second quarter, with satisfactory, but restricted production rates. At Ante Creek, a low cost workover and facility optimization were successful in adding 150 boe/d (net) of production. Additional workovers are being reviewed for execution in the remainder of 2009.

Northern

Northern COU sales volumes decreased 9 percent to 3,785 Boe/d due primarily to natural declines. The reduction also includes the impact of shutting in properties in East Negus and Haro offset by increases in Bistcho over the second quarter of 2008.

Production commenced in April from two of the three Bistcho wells drilled in the first quarter. The third well is expected to start production late in the fourth quarter.

During the quarter, the Northern COU shut-in approximately 400 Boe/d of production in the East Negus and Haro areas due to low gas prices and the high proportion of variable operating costs at those facilities. Paramount anticipates restarting production later in the year or when gas prices warrant. Increased production from the two new wells at Bistcho are expected to permit Northern to maintain planned annual production rates. The Northern COU is continuing a property review and investigating methods to reduce operating expenses. The Company believes that the consultation process between the Crown and affected communities in the Cameron Hills area is nearing conclusion and anticipates receiving formal notice of this from the Crown in the third quarter.

The Northern COU's 2009 capital program of approximately $10 million is substantially complete with minimal expenditures planned for the remainder of the year as the properties are predominately accessible only during winter.

Southern

Southern COU sales volumes decreased 15 percent to 3,411 Boe/d consisting of 10.8 MMcf/d of natural gas and 1,613 Bbl/d of crude oil and NGLs. The decrease was mainly due to declines at Chain and Delia in Alberta. Oil production increased in the second quarter of 2009 as a result of production from the new wells drilled as part of the 2008 United States drilling program.

The Southern COU's capital expenditures for the quarter were limited as the Company has suspended the United States drilling program until input costs are lower, well completion results are improved, and commodity prices warrant additional spending.

The Company continued to evaluate the 2008 Bakken drilling program, and has identified several improvements that can be made to drilling and completion practices. The last well drilled in 2008 will be completed during the third quarter of 2009 utilizing different fluids and modified techniques compared to the previous wells. The Southern COU is also reviewing the potential of recompleting several of the Bakken wells drilled in 2008 to increase reserve recoveries and production rates. Paramount continues to believe its North Dakota properties can be a significant growth platform.

The majority of Southern's 2009 capital budget is scheduled to be spent during the latter half of the year on a 17 well shallow gas drilling program at Chain. However, the program is subject to ongoing review in light of gas prices.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated August 5, 2009, 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, 2009 and Paramount's audited Consolidated Financial Statements and MD&A for the year ended December 31, 2008. Amounts are presented in Canadian dollars unless otherwise stated. The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles (''GAAP") in Canada.

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

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

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

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

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

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

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

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

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

Second Quarter 2009 Highlights

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
($ millions, except as noted)				
Financial				
Petroleum and natural gas sales	**40.2**	102.9	**80.4**	179.9
Funds flow from operations	**13.7**	46.3	**31.3**	70.5
per share - diluted ($/share)	**0.21**	0.68	**0.47**	1.04
Net (loss) earnings	**(2.6)**	(31.9)	**(26.3)**	(69.9)
per share - basic ($/share)	**(0.04)**	(0.47)	**(0.40)**	(1.03)
per share - diluted ($/share)	**(0.04)**	(0.47)	**(0.40)**	(1.03)
Total assets			**1,078.8**	1,203.3
Long-term debt			**135.7**	93.8
Net debt			**128.2**	48.0
Operational				
Sales volumes				
Natural gas (MMcf/d)	**59.1**	67.7	**55.1**	66.7
Oil and NGLs (Bbl/d)	**3,512**	3,611	**3,456**	3,711
Total (Boe/d)	**13,362**	14,895	**12,641**	14,835
Average realized price				
Natural gas ($/Mcf)	**4.03**	10.54	**4.82**	9.13
Oil and NGLs ($/Bbl)	**57.83**	115.55	**51.74**	102.14
Wells drilled (net)	**-**	4	**16**	20

Second Quarter Overview

Principal Properties

- The Kaybob COU commenced production of seven (3.4 net) natural gas wells that were drilled and tied in prior to the end of the first quarter. Kaybob has elected to delay commencing production from two (2.0 net) additional wells drilled and tied in during the first quarter in anticipation of higher gas prices.
- The Grande Prairie COU continued developing facility capacity at Gold Creek-Karr in anticipation of further drilling by the Company.
- The Northern COU temporarily shut-in wells producing approximately 400 Boe/d, pending an improvement in natural gas prices.
- In the third quarter, the Southern COU anticipates commencing the completion of the final North Dakota well drilled in 2008 using improvements identified following a review of previous completion results.
- Exploration and development capital spending decreased to $5.4 million from $10.5 million in the second quarter of 2008.
- Realized prices declined by 62 percent for natural gas and 50 percent for crude oil and NGLs from the second quarter of 2008.
- Netback decreased to $21.9 million in the second quarter of 2009 from $67.8 million in 2008.

Strategic Investments

- Moved the newly constructed third drilling rig to Alberta, where in the third quarter, it has commenced drilling a 100% owned well in the Grande Prairie area.
- Invested in Redcliffe Exploration Inc. ("Redcliffe"), a publicly traded oil and gas company. Paramount owned approximately 15 percent of Redcliffe's Class A shares as of July 20, 2009.

Corporate

- Corporate general and administrative costs decreased to $4.3 million from $5.3 million in the second quarter of 2008.
- Renewed Paramount's credit facility, with a borrowing base and lender commitment of $125 million.

Segment Earnings (Loss)

($ millions)	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Principal Properties	**(14.5)**	(20.6)	**(35.8)**	(37.8)
Strategic Investments	**(7.8)**	(6.2)	**(13.0)**	(20.1)
Corporate	**(3.6)**	(19.0)	**(9.7)**	(34.4)
Taxes	**23.3**	13.9	**32.2**	22.4
Net Loss	**(2.6)**	(31.9)	**(26.3)**	(69.9)

- Second quarter net loss was $2.6 million compared to $31.9 million in 2008. The current quarter Principal Property loss included the impacts of lower prices and lower production. The prior year included the impacts of unrealized financial commodity contract losses. Strategic Investment losses were slightly higher in 2009 and Corporate costs were lower due to lower stock-based compensation expenses and foreign exchange gains in the current year.
- Year to date net loss was $26.3 million compared to $69.9 million in the prior year. The Principal Properties loss was comparable to the prior year and includes the impact of $71.1 million of lower netback. The prior year included $71.4 million of financial commodity contract losses. The current year includes lower stock based compensation and general and administrative costs as well lower Strategic Investment losses.

Funds Flow From Operations

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

($ millions, except as noted)	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Cash from operating activities	**21.7**	40.5	**39.9**	73.6
Change in non-cash working capital	**(8.0)**	5.8	**(8.6)**	(3.1)
Funds flow from operations	**13.7**	46.3	**31.3**	70.5
Funds flow from operations ($/Boe)	**11.29**	34.15	**13.69**	26.10

- Second quarter funds flow from operations decreased by $32.6 million from the prior year to $13.7 million due primarily to a $45.9 million decrease in netback. The prior year included $12.9 million in natural gas financial contract payments and higher Corporate costs.
- Year to date funds flow from operations decreased by $39.2 million and include the impacts of lower netback after settlement of financial commodity contracts of $44.8 million partially offset by lower Corporate segment costs.

Principal Properties

Netbacks and Segment Earnings (Loss)

	Three months ended June 30				Six Months ended June 30			
($ millions, except as noted)	**2009**		2008		**2009**		2008	
		($/boe)		($/boe)		**($/boe)**		($/boe)
Petroleum and natural gas sales	**40.2**	**33.04**	102.9	75.92	**80.4**	**35.14**	179.9	66.62
Royalties	**(3.8)**	**(3.12)**	(15.5)	(11.43)	**(9.2)**	**(4.02)**	(28.8)	(10.66)
Operating expense and production tax	**(11.2)**	**(9.21)**	(15.9)	(11.74)	**(32.7)**	**(14.31)**	(40.9)	(15.12)
Transportation	**(3.3)**	**(2.74)**	(3.7)	(2.73)	**(7.1)**	**(3.09)**	(7.7)	(2.86)
Netback	**21.9**	**17.97**	67.8	50.02	**31.4**	**13.72**	102.5	37.98
Settlements of financial commodity contracts	**-**	**-**	(12.9)	(9.52)	**11.2**	**4.88**	(15.1)	(5.61)
Netback including settlements of financial commodity contracts	**21.9**	**17.97**	54.9	40.50	**42.6**	**18.60**	87.4	32.37
Other Principal Property items (see below)	**(36.4)**		(75.5)		**(78.4)**		(125.2)	
Segment loss	**(14.5)**		(20.6)		**(35.8)**		(37.8)	

Petroleum and Natural Gas Sales

	Three months ended June 30			Six months ended June 30		
($ millions)	**2009**	2008	% Change	**2009**	2008	% Change
Natural gas sales	**21.7**	64.9	(67)	**48.0**	110.9	(57)
Oil and NGLs sales	**18.5**	38.0	(51)	**32.4**	69.0	(53)
Total	**40.2**	102.9	(61)	**80.4**	179.9	(55)

Second quarter revenue from natural gas, oil and NGLs sales in 2009 was $40.2 million, down 61 percent from 2008 due to the impact of lower prices and sales volumes. Year to date revenue was $80.4 million, down 55 percent from the prior year comparable period due to lower prices and volumes.

The impact of changes in prices and volumes on petroleum and natural gas sales revenue for the three and six months ended June 30, 2009 are as follows:

Three Months

($ millions)	Natural gas	Oil and NGLs	Total
Three months ended June 30, 2008	64.9	38.0	102.9
Effect of changes in prices	(35.0)	(18.3)	(53.3)
Effect of changes in sales volumes	(8.2)	(1.2)	(9.4)
Three months ended June 30, 2009	**21.7**	**18.5**	**40.2**

Six Months

($ millions)	Natural gas	Oil and NGLs	Total
Six months ended June 30, 2008	110.9	69.0	179.9
Effect of changes in prices	(43.0)	(31.5)	(74.5)
Effect of changes in sales volumes	(19.9)	(5.1)	(25.0)
Six months ended June 30, 2009	**48.0**	**32.4**	**80.4**

Sales Volumes

	Three months ended June 30								
	2009			2008			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**21.0**	**397**	**3,892**	19.3	567	3,782	1.7	(170)	110
Grande Prairie	**8.4**	**868**	**2,265**	13.1	582	2,769	(4.7)	286	(504)
Northern	**18.9**	**632**	**3,785**	19.8	872	4,166	(0.9)	(240)	(381)
Southern	**10.8**	**1,613**	**3,411**	14.4	1,590	3,991	(3.6)	23	(580)
Other	**-**	**2**	**9**	1.1	–	187	(1.1)	2	(178)
Total	**59.1**	**3,512**	**13,362**	67.7	3,611	14,895	(8.6)	(99)	(1,533)

Second quarter natural gas sales volumes decreased to 59.1 MMcf/d in 2009 compared to 67.7 MMcf/d in 2008. The decrease was primarily a result of production declines at Chain in Southern and Mirage and Ante Creek in Grande Prairie. Other decreases included the impact of various 2008 property sales and property shut-ins in Northern. Offsetting the decreases were higher production at Smoky and Resthaven in Kaybob, Gold Creek-Karr in Grande Prairie and Bistcho in Northern, as wells drilled in the first quarter were brought on production in April. Grande Prairie's 2008 second quarter volumes included a one time increase of approximately 2.6 MMcf/d related to the resolution of a dispute regarding the payout status of a well.

Second quarter crude oil and NGLs sales volumes decreased to 3,512 Bbl/d in 2009 compared to 3,611 Bbl/d in 2008 primarily as a result of declines at Cameron Hills in Northern partially offset by increases from waterflood at Crooked Creek, the 2009 drilling program at Gold Creek-Karr in Grande Prairie, and increases from Southern's 2008 North Dakota drilling program.

	Six months ended June 30								
	2009			2008			Change		
	Natural Gas	**Oil and NGLs**	**Total**	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	**Bbl/d**	**Boe/d**	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	**19.3**	**475**	**3,697**	19.8	668	3,963	(0.5)	(193)	(266)
Grande Prairie	**8.1**	**832**	**2,184**	11.0	636	2,465	(2.9)	196	(281)
Northern	**16.5**	**485**	**3,227**	19.6	816	4,074	(3.1)	(331)	(847)
Southern	**11.2**	**1,664**	**3,530**	15.0	1,588	4,087	(3.8)	76	(557)
Other	**-**	**-**	**3**	1.3	3	246	(1.3)	(3)	(243)
Total	**55.1**	**3,456**	**12,641**	66.7	3,711	14,835	(11.6)	(255)	(2,194)

Year to date natural gas sales volumes decreased to 55.1 MMcf/d in 2009 compared to 66.7 MMcf/d in 2008. The decrease was primarily a result of production declines at Chain in Southern and at Cameron Hills and Clarke Lake in Northern. Other decreases included normal production declines across properties as well as the impacts of various 2008 property sales, which were partially offset by new production from the 2008/2009 capital program.

Year to date crude oil and NGLs sales volumes decreased to 3,456 Bbl/d in 2009 compared to 3,711 Bbl/d in 2008 as a result of declines at Cameron Hills in Northern partially offset by increases from waterflood at Crooked Creek in Grande Prairie and North Dakota in Southern.

Average Realized Prices

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	**2009**	2008	% Change
Natural gas ($/Mcf)	**4.03**	10.54	(62)	**4.82**	9.13	(47)
Oil and NGLs ($/Bbl)	**57.83**	115.55	(50)	**51.74**	102.14	(49)
Total ($/Boe)	**33.04**	75.92	(56)	**35.14**	66.62	(47)

Commodity Prices

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

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	**2009**	2008	% Change
Natural Gas						
New York Mercantile Exchange						
(Henry Hub Close) (US$/MMbtu)	**3.60**	10.93	(67)	**4.25**	9.48	(55)
AECO (Cdn$/GJ)	**3.47**	8.87	(61)	**4.41**	7.82	(44)
Crude Oil						
West Texas Intermediate (US$/Bbl)	**59.62**	123.98	(52)	**51.39**	110.94	(54)
Edmonton par (Cdn$/Bbl)	**66.16**	126.25	(48)	**57.19**	112.19	(49)
Foreign Exchange						
Cdn$/1US$	**1.167**	1.010	16	**1.206**	1.007	20

Commodity Price Management

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

Settlements of financial commodity contracts are as follows:

	Three months ended June 30		Six months ended June 30	
($ millions, except as noted)	**2009**	2008	**2009**	2008
(Paid) received on settlement				
Gas contracts	**-**	(6.8)	**11.2**	(6.8)
Crude contracts	**-**	(6.1)	**-**	(8.3)
Total	**-**	(12.9)	**11.2**	(15.1)

At June 30, 2009, Paramount did not have any financial commodity contracts outstanding. Paramount has a long-term physical contract expiring in 2011, to sell 3,400 GJ/d of natural gas at a fixed price of $2.52/GJ plus an escalation factor, which has a fair value loss of $4.6 million at June 30, 2009.

Royalties

	Three months ended June 30			Six months ended June 30		
($ millions, except as noted)	**2009**	2008	% Change	**2009**	2008	% Change
Natural gas	**1.3**	9.4	(86)	**3.4**	18.0	(81)
Oil and NGLs	**2.5**	6.1	(59)	**5.8**	10.8	(46)
Total	**3.8**	15.5	(75)	**9.2**	28.8	(68)
Royalty rate (%)	**9.4**	15.1	(38)	**11.5**	16.0	(28)

Second quarter royalties decreased to $3.8 million in 2009 compared to $15.5 million in 2008. Natural gas royalties decreased by 86 percent, primarily as a result of lower natural gas revenue and lower royalty rates in connection with Alberta's new royalty framework ("NRF") because of low market prices and rate adjustments for deep wells. Second quarter oil and NGLs royalties also declined due to lower revenue and lower production.

Consistent with the second quarter, year to date natural gas royalties declined by 81 percent and include the impacts of lower natural gas revenue, lower royalty rates in connection with the NRF in Alberta, and starting production of eight (4.7 net) wells in the second quarter to qualify for a lower Alberta royalty rate. Oil and NGLs royalties also decreased consistent with the second quarter.

The impact of changes in revenue and royalty rates on royalty expense for the three and six months ended June 30, 2009 is as follows:

Three Months

($ millions)	Total
Three months ended June 30, 2008	15.5
Effect of changes in revenue	(9.4)
Effect of changes in royalty rates	(2.3)
Three months ended June 30, 2009	**3.8**

Six Months

($ millions)	Total
Six months ended June 30, 2008	28.8
Effect of changes in revenue	(15.9)
Effect of changes in royalty rates	(3.7)
Six months ended June 30, 2009	**9.2**

Operating Expense and Production Tax

	Three months ended June 30			Six months ended June 30		
($ millions)	**2009**	2008	% Change	**2009**	2008	% Change
Operating expense	**10.9**	15.1	(28)	**31.8**	39.4	(19)
Production tax	**0.3**	0.8	(63)	**0.9**	1.5	(40)
Total	**11.2**	15.9	(30)	**32.7**	40.9	(20)

Operating expense in the second quarter of 2009 decreased to $10.9 million compared to $15.1 million in 2008 and reflect one time adjustments for lower than expected first quarter operating expenses including turnaround costs at Cameron Hills and Bistcho in Northern and lower than expected waterflood costs at Crooked Creek in Grande Prairie. Current quarter operating costs also decreased due to lower overall production, property sales, facility decommissioning, well shut-ins, and increased third party processing income in Grande Prairie and Northern.

Year to date operating expenses decreased by $7.6 million; primarily due to lower turnaround, decommissioning, and other operating costs in Northern.

Current year production tax in the United States has decreased consistent with lower prices and includes refunds related to low production wells.

Transportation Expense

	Three months ended June 30			Six months ended June 30		
($ millions)	**2009**	2008	% Change	**2009**	2008	% Change
Transportation expense	**3.3**	3.7	(11)	**7.1**	7.7	(8)

Second quarter transportation expense decreased to $3.3 million in 2009 compared to $3.7 million in 2008, primarily as a result of lower production volumes. Transportation costs include the expenses of shipping gas to sales points in California and the United States East coast. Transportation costs per Boe increased in the current year due to having less production volume over similar fixed costs.

Other Principal Property Items

	Three months ended June 30		Six months ended June 30	
($ millions)	**2009**	2008	**2009**	2008
Depletion, depreciation and accretion	**35.8**	30.1	**66.4**	57.2
Exploration	**1.6**	1.6	**2.7**	5.4
Dry hole	**-**	-	**-**	5.3
Loss (gain) on sale of property plant and equipment	**(0.3)**	0.3	**-**	0.8
Commodity contracts – net of settlements	**-**	43.4	**9.8**	56.2
Other items	**(0.7)**	0.1	**(0.5)**	0.3
Total	**36.4**	75.5	**78.4**	125.2

Depletion, depreciation and accretion expense for the second quarter increased to $35.8 million or $29.40/Boe in 2009 compared to $30.1 million or $22.20/Boe in 2008.

Exploration expense decreased consistent with a lower 2009 capital budget. The 2008 dry hole expense related primarily to unsuccessful wells in Northern and Grande Prairie.

Strategic Investments

	Three months ended June 30		Six months ended June 30	
($ millions)	**2009**	2008	**2009**	2008
Loss from investments	**(6.9)**	(5.9)	**(10.9)**	(18.6)
Drilling, net	**(0.2)**	0.2	**(0.8)**	(0.7)
Other (expense) income	**(0.7)**	(0.5)	**(1.3)**	(0.8)
Segment Loss	**(7.8)**	(6.2)	**(13.0)**	(20.1)

Strategic Investments at June 30, 2009 include the following:

- investments in Trilogy, MGM Energy, Nuloch Resources Inc., and Paxton Corporation;
- oil sands resources at Hoole, shares of MEG Energy Corp. and carbonate bitumen holdings; and
- drilling rigs operated by Paramount's wholly owned subsidiary, Paramount Drilling U.S. LLC ("Paramount Drilling") in the United States, and Fox Drilling in Canada.

The second quarter 2009 loss from equity investments included $6.5 million of equity losses related to Trilogy compared to $5.0 million in 2008. The 2008 six month period also included $4.5 million of dilution losses related to MGM Energy.

Paramount owns three drilling rigs: two are located in the United States, and the newly constructed third rig was moved to Canada during the second quarter for completion and commissioning. The Company has commenced drilling with the third rig as part of Grande Prairie's Gold Creek-Karr deep well program in the third quarter. Because of current project economics, Paramount is not presently drilling in North Dakota. The previously disclosed third party drilling contract has been cancelled.

Corporate

	Three months ended June 30		Six months ended June 30	
($ millions)	**2009**	2008	**2009**	2008
General and administrative	**4.3**	5.3	**8.2**	13.3
Stock-based compensation	**0.2**	11.0	**0.4**	13.9
Interest and financing charges	**3.3**	2.4	**5.9**	5.1
Debt extinguishment and other	**-**	-	**-**	1.3
Foreign exchange (gain) loss	**(4.4)**	0.3	**(5.2)**	2.4
Other (income) expense	**0.2**	-	**0.4**	(1.6)
Corporate costs	**3.6**	19.0	**9.7**	34.4

Second quarter Corporate segment net costs were $3.6 million in 2009 compared to $19.0 million in 2008. General and administrative costs decreased primarily due to lower personnel costs. Interest and financing charges increased over the prior year three and six month periods as the Company has drawn on its credit facility.

Capital Expenditures

	Three months ended June 30		Six months ended June 30	
($ millions)	**2009**	2008	**2009**	2008
Geological and geophysical	**1.5**	1.6	**2.7**	5.3
Drilling and completions	**1.5**	8.9	**38.8**	56.4
Production equipment and facilities	**2.4**	–	**19.4**	12.9
Exploration and development expenditures	**5.4**	10.5	**60.9**	74.6
Land and property acquisitions	**1.5**	1.8	**2.8**	4.0
Cash proceeds on dispositions	**(0.3)**	(6.2)	**(0.5)**	(12.6)
Principal Properties	**6.6**	6.1	**63.2**	66.0
Strategic Investments	**1.8**	5.1	**8.9**	5.1
Corporate	**-**	0.5	**-**	0.7
Net capital expenditures	**8.4**	11.7	**72.1**	71.8

Second quarter exploration and development expenditures were $5.4 million compared to $10.5 million in 2008. Spending in the second quarter was primarily related to facility development and drilling for

Grande Prairie's deep gas program at Gold Creek-Karr. The 2009 exploration and development budget remains at $90 million and capital spending for the remainder of the year is expected to be primarily directed at Grande Prairie's Gold Creek-Karr and Valhalla projects, the Resthaven and Musreau area in Kaybob, and Chain in Southern Alberta. The budget remains flexible and depending upon future economic conditions, the Company may increase or decrease planned spending. Northern's capital program is substantially complete for 2009.

Strategic Investments capital expenditures during the quarter included $1.7 million for the third drilling rig resulting in year to date expenditures of $6.9 million. The Company also spent $2.0 million in the first quarter drilling seven oil sands evaluation wells at Hoole.

Wells drilled are as follows:

	Three months ended June 30				Six months ended June 30			
(wells drilled)	**2009**		2008		**2009**		2008	
	Gross[(1)]	**Net**[(2)]	Gross[(1)]	Net[(2)]	**Gross**[(1)]	**Net**[(2)]	Gross[(1)]	Net[(2)]
Gas	**1**	**-**	4	1	**14**	**8**	20	10
Oil	**-**	**-**	4	3	**1**	**1**	14	9
Oil sands evaluation	**-**	**-**	-	-	**7**	**7**	-	-
Dry and abandoned	**-**	**-**	-	-	**-**	**-**	2	1
Total	**1**	**-**	8	4	**22**	**16**	36	20

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

Liquidity and Capital Resources

($ millions)	**June 30, 2009**	December 31, 2008	Change
Working capital surplus [(1)]	**(8.4)**	(12.9)	4.5
Credit facility	**31.8**	-	31.8
US Senior Notes (excluding unamortized financing fees)	**104.8**	110.4	(5.6)
Net debt	**128.2**	97.5	30.7
Share capital	**300.0**	302.7	(2.7)
Contributed surplus	**2.7**	2.4	0.3
Retained earnings	**445.3**	473.4	(28.1)
Accumulated Other Comprehensive Income	**1.2**	-	1.2
Total	**877.4**	876.0	1.4

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

The current economic environment remains challenging and uncertain. The global recession, weak natural gas prices, changing regulations, volatile financial markets and limited access to capital markets continue to influence Paramount's business environment and future plans.

Working Capital

Paramount's working capital surplus at June 30, 2009 was $8.4 million compared $12.9 million at December 31, 2008. Included in working capital at June 30, 2009 was $22.1 million in cash and cash equivalents. The decrease in working capital is primarily due to capital spending, partially offset by credit facility drawings, funds flow from operations and $12.2 million received on the foreign exchange collar settlement.

Paramount expects to finance the remainder of its 2009 operations, contractual obligations, and capital expenditures from funds flow from operations, existing cash and cash equivalents, and borrowing capacity.

Bank Credit Facility

During the second quarter of 2009, Paramount renewed its credit facility. Both the borrowing base and lender commitments are $125 million. The credit facility is available on a revolving basis to April 30, 2010 and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for an additional year, at which time the facility would be due and payable. The amount available under the credit facility is reduced by $16.4 million for outstanding undrawn letters of credit.

As of June 30, 2009, $31.8 million was drawn on the credit facility.

US Senior Notes

At June 30, 2009 the outstanding balance of Paramount's 8.5% US Senior Notes remains at US$90.2 million ($104.8 million).

Share Capital

In November 2008, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a Normal Course Issuer Bid ("NCIB"), commencing November 20, 2008 for a twelve month period. Under the NCIB, Paramount may purchase for cancellation up to 3,387,456 Common Shares. For the six months ended June 30, 2009, Paramount purchased 615,600 Common Shares under the NCIB for a total cost of $4.2 million.

At July 31, 2009, Paramount had 65,947,093 Common Shares and 3,719,000 Stock Options outstanding (648,167 exercisable).

Quarterly Information

	2009		2008				2007	
($ millions, except as noted)	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	**40.2**	**40.2**	54.7	83.5	102.9	77.0	61.8	61.9
Funds flow from operations	**13.7**	**17.6**	68.2	40.9	46.3	24.2	22.9	21.7
per share - diluted ($/share)	**0.21**	**0.27**	1.01	0.60	0.68	0.36	0.33	0.31
Net earnings (loss)	**(2.6)**	**(23.7)**	(150.5)	103.9	(31.9)	(38.0)	(156.5)	(82.2)
per share - basic ($/share)	**(0.04)**	**(0.36)**	(2.23)	1.53	(0.47)	(0.56)	(2.29)	(1.17)
per share - diluted ($/share)	**(0.04)**	**(0.36)**	(2.23)	1.53	(0.47)	(0.56)	(2.29)	(1.17)
Sales volumes								
Natural gas (MMcf/d)	**59.1**	**51.1**	53.4	57.3	67.7	65.8	67.6	73.5
Oil and NGLs (Bbl/d)	**3,512**	**3,398**	3,298	3,657	3,611	3,811	2,984	3,977
Total (Boe/d)	**13,362**	**11,912**	12,202	13,206	14,895	14,775	14,248	16,231
Average realized price								
Natural gas ($/Mcf)	**4.03**	**5.73**	7.43	8.65	10.54	7.68	6.43	5.31
Oil and NGLs ($/Bbl)	**57.83**	**45.38**	60.04	112.64	115.55	89.44	79.77	70.99

Significant Items Impacting Quarterly Results

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

Second quarter 2009 earnings include increased future income tax recoveries and lower operating expenses.

First quarter 2009 earnings include lower Corporate costs and Strategic Investment losses.

Fourth quarter 2008 earnings include a $54.9 million write-down of petroleum and natural gas properties and goodwill and a $96.9 million investment impairment provision.

Third quarter 2008 earnings include $79.6 million of mark-to-market gains on financial commodity contracts and $29.8 million of equity investment income.

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

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

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

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

Significant Equity Investees

The following table summarizes the assets, liabilities and results of operations of Paramount's significant equity investees. The amounts summarized have been derived directly from the investees' financial statements as at and for the periods ended June 30, 2009 and 2008, and do not include Paramount's adjustments when applying the equity method of investment accounting. As a result, the amounts included in the table below cannot be used to derive Paramount's equity income and net investment in Trilogy and MGM Energy.

($ millions, except as noted)	Trilogy		MGM Energy	
As at June 30	**2009**	2008	**2009**	2008
Current assets	**56.2**	75.1	**16.4**	26.7
Long term assets	**869.0**	901.8	**242.1**	255.2
Current liabilities	**58.5**	155.9	**7.9**	10.5
Long term liabilities	**481.1**	488.0	**2.7**	1.7
Equity	**385.6**	333.0	**247.8**	269.7
Six months ended June 30	**2009**	2008	**2009**	2008
Revenue	**120.6**	252.1	**0.2**	1.5
Expenses	**142.9**	267.2	**43.3**	68.0
Tax expense (recovery)	**(8.4)**	3.0	**-**	(16.6)
Net Loss	**(13.8)**	(18.1)	**(43.1)**	(49.9)
Units/shares outstanding at June 30 (thousands)	**98,295**	96,210	**263,195**	128,944
Paramount's equity interest at June 30[1]	**23.6%**	21.4%	**16.7%**	16.7%

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

Trilogy had 3.8 million trust unit options outstanding (0.3 million exercisable) at June 30, 2009 at exercise prices ranging from $4.85 to $12.88 per unit. MGM Energy had 11.0 million stock options outstanding (2.1 million exercisable) at June 30, 2009 at exercise prices ranging from $0.16 to $5.00 per share.

Outlook Update

The 2009 exploration and development budget of $90 million, excluding land purchases, remains unchanged. The Company's current capital plan remains flexible and, depending upon future economic conditions, the Company may increase or decrease the capital budget. Year to date production of 12,641 Boe/d is consistent with expectations and Paramount continues to forecast annual average production of 12,500 Boe/d based on the current exploration and development budget.

Subsequent Event

In July 2009, Paramount acquired an additional 13.9 million Class A shares of Redcliffe for $3.6 million. As of the closing of Redcliffe's public offering on July 20, 2009, Paramount owned approximately 15 percent of Redcliffe's Class A shares.

Future Accounting Changes

International Financial Reporting Standards

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converted to International Financial Reporting Standards ("IFRS") for fiscal years beginning on January 1, 2011. The Company commenced the IFRS transition process in 2008, which includes four key phases:

- **Project Management** – A steering committee has been established to monitor the transition and a project team has been assembled to research, analyze and implement the transition to IFRS according to the project plan.

- **Diagnostic** - A diagnostic has been completed to identify key differences between existing Canadian GAAP and IFRS, as they relate to the Company.

- **Research and policy design** – This phase will identify policy changes from current practice and includes an analysis of policy alternatives where applicable. This phase is ongoing and expected to be substantially completed during the third quarter of 2009. Currently, the project team is preparing Company specific accounting position papers based on the research conducted. The position papers are being reviewed by the Company's independent auditors for completeness.

- **Implementation** – This phase will include employee and stakeholder training, approval and implementation of accounting policy changes, implementation of new and changed processes, implementation and testing of new systems and controls as well as the preparation of an opening IFRS balance sheet. This phase is expected to commence during the third quarter of 2009.

Paramount's steering committee consists of senior members of management who are responsible for approval of policy recommendations where alternatives are permitted. Through the diagnostic, the Company has identified property plant and equipment as one key difference, among others. Although Paramount follows the successful efforts method of accounting for oil and gas operations, the transition to IFRS will require certain policy, process and disclosure changes, including impairment testing levels and exploration phase accounting. Prior year's impairments and depreciation will also be required to be calculated on a retroactive basis and reversed in certain circumstances.

Other significant differences include, but are not limited to, accounting for stock-based compensation and asset retirement obligations. The project team has completed the preliminary determination of its cash generating units, which will impact impairment and depreciation, and is completing its analysis of other accounting changes.

Advisories

Forward-looking Information

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information in this document includes, but is not limited to: business strategies and objectives, financing plans, planned capital expenditures, future production levels, product pricing, exploration and development plans and the timing thereof, drilling results, operating and other costs, royalty rates and general economic conditions, as they relate to Paramount.

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

- future oil and gas prices and general economic and business conditions;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner to carry out its activities;
- the ability of Paramount to market its oil and natural gas successfully to current and new customers;
- the ability of Paramount to secure adequate product transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals; and
- currency, exchange and interest rates.

Although Paramount believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on such forward-looking information as Paramount can give no assurance that such expectations will prove to be correct. Forward-looking 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 information. These risks and uncertainties include, but are not limited to:

- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- general economic and business conditions;
- the ability of Paramount’s management to execute its business plan;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand for oil and gas;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations and the adequacy and costs of such capital;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resource estimates and reserves life;
- the ability of Paramount to add production and reserves through development and exploration activities;
- the uncertainty of estimates and projections relating to exploration and development costs and expenses, future production and the results of exploration, development and drilling;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- the availability of future growth prospects and Paramount’s expected financial requirements;
- risks inherent in Paramount's marketing operations, including counterparty credit risk;
- Paramount’s ability to obtain equipment, services, supplies and personnel in a timely manner to carry

out its activities;

- Paramount's ability to secure adequate product transportation and storage;
- imprecision in estimates of product sales and the anticipated revenues from such sales;
- weather conditions;
- the possibility that government laws, regulations or policies, including taxation laws, environmental laws and regulatory programs and royalty programs may change or governmental or regulatory approvals may be delayed or withheld;
- the value and liquidity of Paramount's investments in other entities and the returns on such investments;
- uncertainty regarding aboriginal land claims and co-existing with local populations; and
- other risks and uncertainties described elsewhere in this document or in Paramount's other filings with Canadian securities authorities and the United States Securities and Exchange Commission.

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

Non-GAAP Measures

"Funds flow from operations", "Funds flow from operations, per Boe", "Netback", and "Net Debt" are used to assist management in measuring the Company's ability to finance capital programs and meet financial obligations. Funds flow from operations refers to cash flows from operating activities before net changes in operating working capital. Netback equals petroleum and natural gas sales less royalties, operating costs, production taxes and transportation costs. Refer to the calculation of Net Debt in the liquidity and capital resources section of this document. Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, or other measures of financial performance calculated in accordance with GAAP.

Oil and Gas Measures and Definitions

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

PARAMOUNT RESOURCES LTD.

Consolidated Balance Sheet (Unaudited)

($ thousands)

	June 30 2009	December 31 2008
ASSETS		
Current assets		
Cash and cash equivalents	**$ 22,056**	$ 54,131
Accounts receivable	**28,663**	41,319
Risk management assets (Note 8)	**–**	19,690
Prepaid expenses and other	**2,795**	1,661
	53,514	116,801
Property, plant and equipment, net	**773,937**	766,103
Investments (Note 3)	**224,339**	234,423
Future income taxes	**27,031**	27,230
	$ 1,078,821	$ 1,144,557
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 45,157**	$ 84,192
Current portion of stock-based compensation liability (Note 7)	**–**	19
	45,157	84,211
Long-term debt (Note 4)	**135,731**	109,452
Asset retirement obligations (Note 5)	**90,622**	87,237
Future income taxes	**58,153**	85,170
	329,663	366,070
Shareholders' equity (Note 6)		
Share capital	**300,042**	302,727
Contributed surplus	**2,654**	2,398
Retained earnings	**445,295**	473,362
Accumulated other comprehensive loss	**1,167**	–
	749,158	778,487
	$ 1,078,821	$ 1,144,557

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.

Consolidated Statement of Loss (Unaudited)

($ thousands, except as noted)

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Revenue				
Petroleum and natural gas sales	**$ 40,172**	$ 102,911	**$ 80,404**	$ 179,878
Gain (loss) on financial commodity contracts (Note 8)	**–**	(56,371)	**1,350**	(71,393)
Royalties	**(3,790)**	(15,483)	**(9,208)**	(28,778)
	36,382	31,057	**72,546**	79,707
Expenses				
Operating expense and production tax	**11,204**	15,922	**32,721**	40,850
Transportation	**3,328**	3,704	**7,076**	7,725
General and administrative	**4,887**	6,090	**9,437**	15,040
Stock-based compensation	**177**	11,064	**443**	13,874
Depletion, depreciation and accretion	**36,049**	30,971	**66,975**	59,147
Exploration	**1,726**	1,561	**2,870**	5,347
Dry hole	**–**	–	**–**	5,307
(Gain) loss on sale of property, plant and equipment	**(320)**	260	**(37)**	766
Interest and financing charges	**3,306**	2,406	**5,899**	5,095
Foreign exchange (Note 8)	**(4,389)**	347	**(5,163)**	2,430
Debt extinguishment and other	**134**	128	**232**	1,695
	56,102	72,453	**120,453**	157,276
Loss from investments (Note 3)	**(6,908)**	(5,934)	**(10,878)**	(18,638)
Other income	**759**	1,485	**332**	3,834
Loss before tax	**(25,869)**	(45,845)	**(58,453)**	(92,373)
Income and other tax expense (recovery)				
Current and other	**(117)**	255	**(636)**	485
Future	**(23,170)**	(14,208)	**(31,552)**	(22,928)
	(23,287)	(13,953)	**(32,188)**	(22,443)
Net loss	**$ (2,582)**	$ (31,892)	**$ (26,265)**	$ (69,930)
Net loss per common share ($/share) (Note 6)				
Basic and diluted	**$ (0.04)**	$ (0.47)	**$ (0.40)**	$ (1.03)

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.

Consolidated Statement of Cash Flows (Unaudited)

($ thousands)

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Operating activities				
Net loss	**$ (2,582)**	$ (31,892)	**$ (26,265)**	$ (69,930)
Add (deduct)				
Items not involving cash (Note 9)	**16,593**	79,373	**58,370**	134,427
Asset retirement obligation expenditures	**(235)**	(2,754)	**(1,888)**	(5,312)
Exploration and dry hole	**1,726**	1,561	**2,870**	10,654
Debt extinguishment costs	**–**	–	**–**	626
Stock incentive plan	**(1,775)**	–	**(1,775)**	–
	13,727	46,288	**31,312**	70,465
Change in non-cash working capital	**7,985**	(5,773)	**8,585**	3,148
Cash from operating activities	**21,712**	40,515	**39,897**	73,613
Financing activities				
Net draw of revolving long-term debt	**6,229**	–	**31,751**	–
Repayment of long-term debt	**–**	–	**–**	(45,990)
Settlement of foreign exchange contract	**–**	–	**12,205**	(22,335)
Common shares issued, net of issuance costs	**–**	175	**–**	322
Common shares repurchased (Note 6)	**–**	–	**(4,219)**	(84)
Cash from (used in) financing activities	**6,229**	175	**39,737**	(68,087)
Investing activities				
Expenditures on property, plant and equipment and exploration	**(8,662)**	(17,968)	**(72,569)**	(84,443)
Proceeds on sale of property, plant and equipment	**280**	6,204	**449**	12,567
Purchase of investments	**(619)**	(4,881)	**(5,137)**	(33,152)
Settlement of note receivable	**–**	–	**–**	75,000
Change in non-cash working capital	**(29,293)**	(29,593)	**(34,452)**	(12,602)
Cash used in investing activities	**(38,294)**	(46,238)	**(111,709)**	(42,630)
Net decrease in cash and cash equivalents	**(10,353)**	(5,548)	**(32,075)**	(37,104)
Cash and cash equivalents, beginning of period	**32,409**	51,748	**54,131**	83,304
Cash and cash equivalents, end of period	**$ 22,056**	$ 46,200	**$ 22,056**	$ 46,200

Supplemental cash flow information (Note 9)

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.

Consolidated Statement of Shareholders' Equity (Unaudited)

($ thousands, except as noted)

Six months ended June 30	2009			2008		
Share Capital	**Shares (000's)**			Shares (000's)		
Balance, beginning of period	**66,741**	**$**	**302,727**	67,681	$	313,828
Issued on exercise of stock options	–		–	64		1,056
Tax effect of flow-through share renunciations and other	–		–	–		(7,753)
Common Shares repurchased	**(616)**		**(2,815)**	(6)		(30)
Change in unvested Common Shares for stock incentive plan	**(178)**		**130**	–		(656)
Balance, end of period	**65,947**	**$**	**300,042**	67,739	$	306,445
Contributed Surplus						
Balance, beginning of period		**$**	**2,398**		$	1,375
Stock-based compensation expense on investees' options			**256**			551
Balance, end of period		**$**	**2,654**		$	1,926
Retained Earnings						
Balance, beginning of period		**$**	**473,362**		$	593,450
Common shares repurchased			**(1,404)**			(54)
Change in value of unvested Common Shares for stock incentive plan			**(398)**			–
Net loss			**(26,265)**			(69,930)
Balance, end of period		**$**	**445,295**		$	523,466
Accumulated Other Comprehensive Income (Loss)						
Balance, beginning of period		**$**	–		$	(4)
Other comprehensive income (loss), net of tax			**1,167**			7,872
Balance, end of period		**$**	**1,167**		$	7,868
Total Shareholders' Equity		**$**	**749,158**		$	839,705

See the accompanying notes to these Interim Consolidated Financial Statements.

Consolidated Statement of Comprehensive Loss (Unaudited)

($ thousands)

	Three months ended June		**Six months ended June 30**	
	2009	2008	**2009**	2008
Net loss	**$ (2,582)**	$ (31,892)	**$ (26,265)**	$ (69,930)
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on available-for-sale investments	**1,285**	7,774	**1,167**	7,872
Comprehensive loss	**$ (1,297)**	$ (24,118)	**$ (25,098)**	$ (62,058)

See the accompanying notes to these Interim Consolidated Financial Statements.

1. Basis of Presentation

The unaudited Interim Consolidated Financial Statements include the accounts of Paramount Resources Ltd. and its subsidiaries ("Paramount" or the "Company"), are stated in Canadian dollars, and have been prepared in accordance with Canadian Generally Accepted Accounting Principles using accounting policies and methods of application that are consistent with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2008. Paramount conducts its business through two business segments: Principal Properties and Strategic Investments.

Certain information and disclosures normally required to be included in notes to annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited Interim Consolidated Financial Statements should be read in conjunction with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2008.

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

2. Segmented Information

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

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

In the second quarter of 2009, Paramount changed its measurement of Strategic Investments to include an allocation of general and administrative costs incurred in relation to the segment's operations.

($ thousands, except as noted)

Three months ended June 30, 2009	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue					
Petroleum and natural gas sales, net of royalties	$ 36,382	$ –	$ –	$ –	**$ 36,382**
	36,382	–	–	–	**36,382**
Expenses					
Operating expense, production tax and transportation	14,532	–	–	–	**14,532**
General and administrative	–	621	4,266	–	**4,887**
Stock-based compensation	–	–	177	–	**177**
Depletion, depreciation and accretion	35,753	58	238	–	**36,049**
Exploration	1,552	174	–	–	**1,726**
Gain on sale of property, plant and equipment	(320)	–	–	–	**(320)**
Interest and financing charges	–	–	3,306	–	**3,306**
Foreign exchange	–	–	(4,389)	–	**(4,389)**
Debt extinguishment and other	134	–	–	–	**134**
	51,651	853	3,598	–	**56,102**
Loss from investments	–	(6,908)	–	–	**(6,908)**
Other income	804	–	10	–	**814**
Drilling rig expense	–	(55)	–	–	**(55)**
Segment loss	$ (14,465)	$ (7,816)	$ (3,588)	$ –	**(25,869)**
Income and other tax recovery					**(23,287)**
Net loss					**$ (2,582)**

Three months ended June 30, 2008	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue					
Petroleum and natural gas sales, net of royalties	$ 87,428	$ –	$ –	$ –	$ 87,428
Loss on financial commodity contracts	(56,371)	–	–	–	(56,371)
	31,057	–	–	–	31,057
Expenses					
Operating expense, production tax and transportation	19,626	–	–	–	19,626
General and administrative	–	821	5,269	–	6,090
Stock-based compensation	–	–	11,064	–	11,064
Depletion, depreciation and accretion	30,093	462	416	–	30,971
Exploration	1,561	–	–	–	1,561
Loss on sale of property, plant and equipment	260	–	–	–	260
Interest and financing charges	–	–	2,406	–	2,406
Foreign exchange	–	–	347	–	347
Debt extinguishment and other	128	–	–	–	128
	51,668	1,283	19,502	–	72,453
Loss from investments	–	(5,934)	–	–	(5,934)
Other income	–	(18)	505	–	487
Drilling rig revenue	–	4,847	–	(3,127)	1,720
Drilling rig expense	–	(1,970)	–	1,248	(722)
	(20,611)	(4,358)	(18,997)	(1,879)	(45,845)
Inter-segment eliminations	–	(1,879)	–	1,879	–
Segment loss	$ (20,611)	$ (6,237)	$ (18,997)	$ –	(45,845)
Income and other tax recovery					(13,953)
Net loss					$ (31,892)

($ thousands, except as noted)

Six months ended June 30, 2009	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue					
Petroleum and natural gas sales, net of royalties	$ 71,196	$ –	$ –	$ –	**$ 71,196**
Gain on financial commodity contracts	1,350	–	–	–	**1,350**
	72,546	–	–	–	**72,546**
Expenses					
Operating expense, production tax and transportation	39,797	–	–	–	**39,797**
General and administrative	–	1,224	8,213	–	**9,437**
Stock-based compensation	–	–	443	–	**443**
Depletion, depreciation and accretion	66,410	92	473	–	**66,975**
Exploration	2,696	174	–	–	**2,870**
Gain on sale of property, plant and equipment	(37)	–	–	–	**(37)**
Interest and financing charges	–	–	5,899	–	**5,899**
Foreign exchange	–	–	(5,163)	–	**(5,163)**
Debt extinguishment and other	232	–	–	–	**232**
	109,098	1,490	9,865	–	**120,453**
Loss from investments	–	(10,878)	–	–	**(10,878)**
Other income	804	–	160	–	**964**
Drilling rig revenue	–	377	–	(377)	**–**
Drilling rig expense	–	(1,009)	–	377	**(632)**
Segment loss	$ (35,748)	$ (13,000)	$ (9,705)	$ –	**(58,453)**
Income and other tax recovery					**(32,188)**
Net loss					**$ (26,265)**

Six months ended June 30, 2008	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue					
Petroleum and natural gas sales, net of royalties	$ 151,100	$ –	$ –	$ –	$ 151,100
Loss on financial commodity contracts	(71,393)	–	–	–	(71,393)
	79,707	–	–	–	79,707
Expenses					
Operating expense, production tax and transportation	48,575	–	–	–	48,575
General and administrative	–	1,795	13,245	–	15,040
Stock-based compensation	–	–	13,874	–	13,874
Depletion, depreciation and accretion	57,198	1,148	801	–	59,147
Exploration and dry hole	10,654	–	–	–	10,654
Loss on sale of property, plant and equipment	766	–	–	–	766
Interest and financing charges	–	–	5,095	–	5,095
Foreign exchange	–	–	2,430	–	2,430
Debt extinguishment and other	359	–	1,336	–	1,695
	117,552	2,943	36,781	–	157,276
Loss from investments	–	(18,638)	–	–	(18,638)
Other income	–	216	2,411	–	2,627
Drilling rig revenue	–	10,028	–	(7,882)	2,146
Drilling rig expense	–	(4,388)	–	3,449	(939)
	(37,845)	(15,725)	(34,370)	(4,433)	(92,373)
Inter-segment eliminations	–	(4,433)	–	4,433	–
Segment loss	$ (37,845)	$ (20,158)	$ (34,370)	$ –	(92,373)
Income and other tax recovery					(22,443)
Net loss					$ (69,930)

In August 2008, Paramount entered into an agreement with a supplier for the construction of a significant portion of a third drilling rig for US$8.2 million, of which $6.5 million had been paid as of December 31, 2008. In January 2009, the final payment of US$1.7 million was made to the supplier. An individual who indirectly owns part of the supplier is also a director of a company affiliated with Paramount.

3. Investments

	June 30, 2009		December 31, 2008	
	(Shares/Units) (000's)		(Shares/Units) (000's)	
Equity accounted investments:				
Trilogy Energy Trust ("Trilogy")	**23,190**	**$ 103,865**	22,338	$ 113,641
MGM Energy Corp. ("MGM Energy")	**43,834**	**6,394**	43,834	8,328
Paxton Corporation	**1,750**	**4,723**	1,750	4,884
Other		**4,000**		4,000
		118,982		130,853
Available for sale investments :				
MEG Energy Corp.	**3,700**	**101,750**	3,700	101,750
NuLoch Resources Inc.	**6,141**	**2,548**	6,141	1,412
Redcliffe Exploration Inc. ("Redcliffe")	**2,973**	**619**	–	–
Other		**440**		408
		$ 224,339		$ 234,423

Loss from investments is composed of the following:

	Three months ended June 30		**Six months ended June 30**	
	2009	2008	**2009**	2008
Trilogy	**$ (6,518)**	(4,962)	**$ (8,607)**	$ (5,277)
MGM Energy	**(309)**	(988)	**(2,110)**	(13,377)
Paxton Corporation	**(81)**	16	**(161)**	16
	$ (6,908)	(5,934)	**$ (10,878)**	$ (18,638)

In the first quarter of 2009, Paramount participated in Trilogy's distribution reinvestment plan ("DRIP"), acquiring an additional 0.9 million units, increasing its ownership from 23.3 percent at December 31, 2008 to 23.6 percent at June 30, 2009.

In the first quarter of 2009, MGM Energy filed renouncement documents with tax authorities relating to flow-through shares issued during 2008, resulting in Paramount recording a $1.5 million dilution loss.

4. Long-Term Debt

	June 30, 2009	December 31, 2008
Canadian Dollar Denominated Debt		
Bank credit facility	**$ 31,751**	$ –
U.S. Dollar Denominated Debt		
8 1/2 percent US Senior Notes due 2013 (US$90.2 million)	**104,847**	110,448
	136,598	110,448
Unamortized debt financing costs	**(867)**	(996)
	$ 135,731	$ 109,452

In April 2009, Paramount renewed its credit facility. Both the borrowing base and lender commitments are $125 million. The credit facility is available on a revolving basis to April 30, 2010 and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for an additional year, at which time the facility would be due and payable. The amount available under the credit facility is reduced by $16.4 million for outstanding undrawn letters of credit.

The US Senior Notes had a market value of 91.5 percent of their principal amount at June 30, 2009.

5. Asset Retirement Obligations

	Six months ended June 30, 2009	Twelve months ended December 31, 2008
Asset retirement obligations, beginning of period	**$ 87,237**	$ 97,359
Disposal of properties	–	(3,664)
Liabilities incurred	**1,035**	1,920
Revision in estimated costs of abandonment	–	(9,587)
Liabilities settled	**(1,888)**	(8,400)
Accretion expense	**4,335**	8,877
Foreign exchange	**(97)**	732
Asset retirement obligations, end of period	**$ 90,622**	$ 87,237

6. Share Capital

Normal Course Issuer Bid

In November 2008, Paramount received regulatory approval under Canadian securities laws to purchase Common Shares under a Normal Course Issuer Bid ("NCIB"), commencing November 20, 2008 for a twelve month period. Under the NCIB, Paramount may purchase for cancellation up to 3,387,456 Common Shares. For the six months ended June 30, 2009, Paramount purchased 615,600 Common Shares under the NCIB for a total cost of $4.2 million, of which $2.8 million was charged to share capital and $1.4 million was charged to retained earnings. A total of 1,623,900 Common Shares have been purchased by Paramount under the NCIB for a total cost of $11.4 million to June 30, 2009.

Weighted Average Shares Outstanding

	Three months ended June 30		**Six months ended June 30**	
(thousands of Common Shares)	**2009**	2008	**2009**	2008
Weighted average Common Shares outstanding Basic and Diluted	**65,976**	67,729	**66,182**	67,707

($ thousands, except as noted)

7. Stock-based Compensation

Paramount Options

Paramount Options	Six months ended June 30, 2009 Weighted Average Exercise Price	Number	Year ended December 31, 2008 Weighted Average Exercise Price	Number
	($ / share)		($ / share)	
Balance, beginning of period	$ 14.48	6,117,700	$ 19.49	6,430,000
Granted	7.34	1,345,000	7.54	2,551,000
Exercised	7.12	(8,000)	7.66	(292,600)
Cancelled or surrendered	19.01	(3,712,700)	20.88	(2,570,700)
Balance, end of period	$ 7.44	3,742,000	$ 14.48	6,117,700
Options exercisable, end of period	$ 7.57	645,167	$ 12.79	1,708,433

Stock Appreciation Rights

In February 2009, the 1,280,000 stock appreciation rights issued in 2008 were surrendered and cancelled in exchange for the same number of Paramount Options with the same exercise price and vesting terms.

8. Risk Management Assets and Liabilities

As of June 30, 2009, Paramount does not have any financial commodity or foreign exchange contracts outstanding. The changes in fair values of risk management assets and liabilities are as follows:

	Six months ended June 30, 2009			Year ended December 31, 2008		
	Commodity	Foreign Exchange	Total	Commodity	Foreign Exchange	Total
Fair value, beginning of period	$ 9,807	$ 9,883	$ 19,690	$ (6,941)	$ (22,039)	$ (28,980)
Changes in fair value	1,350	2,322	3,672	34,140	16,148	50,288
Settlements paid (received)	(11,157)	(12,205)	(23,362)	(17,392)	15,774	(1,618)
Fair value, end of period	$ –	$ –	$ –	$ 9,807	$ 9,883	$ 19,690

Paramount has an outstanding commitment to sell 3,400 GJ/d of natural gas at $2.52/GJ plus an escalation factor to 2011, which has a fair value loss of $4.6 million at June 30, 2009 (December 31, 2008 – loss of $10.7 million). The Company has designated this contract as normal usage, and as a result, does not recognize the fair value of the contract in the Consolidated Financial Statements.

($ thousands, except as noted)

9. Consolidated Statements of Cash Flows – Selected Information

Items not involving cash

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Financial commodity contracts	**$ –**	$ 43,441	**$ 9,807**	$ 56,245
Stock-based compensation	**177**	7,348	**405**	9,814
Depletion, depreciation and accretion	**36,049**	30,971	**66,975**	59,147
Gain (loss) on sale of property, plant and equipment	**(320)**	260	**(37)**	766
Foreign exchange	**(6,727)**	619	**(7,624)**	2,665
Distributions in excess of equity earnings and dilution	**10,387**	10,822	**20,035**	27,509
Future income tax	**(23,170)**	(14,208)	**(31,552)**	(22,928)
Debt extinguishment, interest and other	**197**	120	**361**	1,209
	$ 16,593	$ 79,373	**$ 58,370**	$ 134,427

Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Interest paid	**$ 1,069**	$ 365	**$ 5,828**	$ 6,692
Current and other tax paid	**$ 4**	$ 293	**$ 101**	$ 683

10. Subsequent Events

In July 2009, Paramount acquired an additional 13.9 million Class A shares of Redcliffe for $3.6 million. As of the closing of Redcliffe's public offering on July 20, 2009, Paramount owned approximately 15 percent of Redcliffe's Class A shares.

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CORPORATE INFORMATION

OFFICERS

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

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

B. K. Lee
Chief Financial Officer

E. M. Shier
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G.W. P. McMillan
Corporate Operating Officer

D.S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

P.R. Kinvig
Controller

L. A. Friesen
Assistant Corporate Secretary

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, Chief Executive Officer and President,
Pitcairn Trust Company
Bryn Athyn, Pennsylvania

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

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

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

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

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

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

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

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

HEAD OFFICE

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

CONSULTING ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

BANKERS

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

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