Paramount Resources Ltd.

Paramount Resources Ltd.: Financial and Operating Results for the Three Months and Nine Months Ended September 30, 2006

CALGARY, ALBERTA - Nov. 9, 2006 /CNW/- Paramount Resources Ltd. (TSX:POU) ("Paramount" or the "Company") is pleased to announce its financial and operating results for the three months and nine months ended September 30, 2006.

Financial and Operating Highlights (1) (thousands of dollars except per share amounts and where stated otherwise)

Three Months Ended September 30, June 30, % 2006 2006 Change

FINANCIAL

Petroleum and natural gas sales 77,866 73,681 6

Funds flow from operations 37,299 65,835 (43) Per share - diluted 0.54 0.95 (43)

Net earnings (2) 22,161 111,874 (80) Per share - diluted 0.32 1.61 (80)

Capital expenditures, excluding acquisitions 104,155 94,827 10

Petroleum and natural gas property acquisitions 4,050 10,535 (62)

Market value of long-term investments (3) 645,591 694,240 (7)

Total assets 1,477,123 1,380,756 7

Net debt (4) 550,581 499,640 10

Common shares outstanding (thousands) 68,055 68,005

Market capitalization (5) 1,829,988 2,448,165 (25)

OPERATING

Natural gas sales volumes (MMcf/d) 81.4 83.2 (2)

Oil and natural gas liquid sales volumes (BBI/d) 3,901 3,423 14

Total sales (Boe/d) 17,471 17,297 1

Gas weighting 78% 80% (2)

Total wells drilled (gross) 84 41 105 Success rate (6) 90% 100% (10) ______

- (1) Readers are referred to the advisories concerning forward-looking statements, non-GAAP measures, and barrels of oil equivalent conversions under the heading "Advisories".
- (2) Net earnings for the three months ended June 30, 2006 included a dilution gain on our investment in North American Oil Sands Corporation ("North American") of \$84.6 million, net of tax, and a tax recovery of \$17.8 million. At September 30, 2006 Paramount's investment in North American had a market value of approximately \$409 million (June 30, 2006 \$409 million), based on the latest private placement for North American, and a carrying value of approximately \$150 million (June 30, 2006 \$148 million) on Paramount's balance sheet.
- (3) Based on the period-end closing prices of Trilogy Energy Trust units on the Toronto Stock Exchange, latest private placement pricing for North American and book value of the remaining long-term investments. As of November 8, 2006, the market value of the long-term investments was \$579.2 million, based on the November 8, 2006 closing price of Trilogy Energy Trust units on the Toronto Stock Exchange, the latest private placement pricing for North American and the September 30, 2006 book value of the remaining long-term investments.
- (4) Net debt is equal to the sum of long-term debt, working capital deficit (surplus) and stock-based compensation liability, excluding the stock-based compensation liability associated with Paramount Options of \$35.5 million at September 30, 2006 (\$50.1 million at June 30, 2006). See Liquidity and Capital Resources section of Paramount's MD&A.
- (5) Based on the period-end closing price of Paramount Resources Ltd. on the Toronto Stock Exchange.
- (6) Success rate excludes oil sands wells.

Significant Events - Q3 2006

- Paramount recently entered into a comprehensive, area wide farm-in agreement ("the Farm-in") respecting Mackenzie Delta, Northwest Territories exploratory properties EL 394, EL 427 and Inuvik Concession Blocks 1 and 2, covering approximately 412,500 hectares, an area about three-quarters the size of Prince Edward Island. Under the agreement, the farm-in company becomes the operator and can earn a 50 percent interest in the properties by drilling 11 wells and shooting a specified amount of 3D Seismic over a period of four years as well as making any required extension payments to the lessor during that period.

Paramount's board of directors has approved in principle a proposed spinout transaction which would result in future activities relating to Paramount's Mackenzie Delta and Colville Lake interests being carried on by a newly created public corporation ("Newco") initially owned by Paramount and its shareholders. It is intended that those interests and a minor interest in a property having proved developed reserves be transferred to Newco and that Paramount's shareholders (other than its U.S. shareholders due to U.S. securities laws) be given the opportunity to purchase additional shares and warrants of Newco. The details of the proposed spinout transaction, including the number and type of Newco securities which Paramount and its shareholders would receive and be entitled to acquire, are in the process of being finalized. A stock exchange listing of the Newco shares and warrants will be sought. The transaction will be subject to the receipt of all required shareholder, court and regulatory approvals as well as third party consents. It is anticipated that the transaction will be effected under a plan of arrangement which is targeted for completion prior to year end. For further details, refer to Paramount's October 19, 2006 press release.

- During the latter part of the quarter, Paramount received regulatory approval to proceed with commingling of natural gas from more than one producing formation in several core areas in the Kaybob corporate operating unit ("COU"), and the Southern COU. This represents a significant positive step towards bringing on additional behind pipe production which was awaiting regulatory approval.
- Operational issues and wet weather delays continued to affect our ability to bring on additional production.
- Paramount closed a US\$150 million Term Loan B Facility (the "Facility"). The Facility has a term of six years, and is secured by all of the common shares of North American Oil Sands Corporation ("North American") owned by Paramount.
- Construction of the two drilling rigs for a US Company in which Paramount holds a 50 percent interest remains on schedule for

completion. We anticipate that the rigs will be completed near the end of the fourth quarter of 2006. Once completed, we plan on dedicating the rigs towards a drilling program beginning in the first half of 2007 in North Dakota. To date, we have identified over 80 locations to be drilled in North Dakota on predominantly 100 percent working interest lands. The limited supply of drilling rigs in the United States has delayed our ability to pursue these opportunities, including the twelve wells we had originally planned to be drilled in 2006.

Review of Operations

The following table summarizes Paramount's average daily sales volumes by COU for the three months ended September 30, 2006 and June 30, 2006:

Natural Gas Sales (MMcf/d)	Change Q3 2006 Q2 2006 (%)
Kaybob Grande Prairie Northwest Alberta / Cameron Hills, Territories Northwest Territories / Northeast Br Southern Northeast Alberta	24.3 25.6 (5) ritish Columbia 11.0 11.6 (5) 14.8 15.1 (2) 1.9 2.3 (17)
Total	81.4 83.2 (2)
Crude Oil and Natural Gas Liquids	Sales (Bbl/d)
Kaybob Grande Prairie Northwest Alberta / Cameron Hills, Territories Northwest Territories / Northeast Br Southern Northeast Alberta	1,327 979 36 ritish Columbia 43 20 115 1,419 1,370 4 1 11 (91)
Total	3,901 3,423 14
Total Sales (Boe/d)	
Kaybob Grande Prairie Northwest Alberta / Cameron Hills, Territories Northwest Territories / Northeast Bi Southern Northeast Alberta Total	3,022 2,850 6 2,995 2,968 1 Northwest 5,376 5,253 2 ritish Columbia 1,874 1,954 (4) 3,882 3,885 - 322 387 (17)

Kaybob

Third quarter 2006 sales volumes for the Kaybob COU averaged 3,022 Boe/d; comprised of 15.6 MMcf/d of natural gas and 412 Bbl/d of crude oil and natural gas liquids. Average sales volumes were up six percent from second quarter 2006 average sales volumes of 2,850 Boe/d.

Capital expenditures for the third quarter of 2006 were \$42.1 million, focused mainly on drilling, completions and facilities work. During the third quarter, Paramount participated in the drilling of 17 gross (8.1 net) wells, all of which were cased for potential gas production. One of these wells is currently producing and the others are awaiting either wellbore completions or the installation of lease equipment and pipelines. Fourteen of the seventeen wells drilled in the third quarter were in the Resthaven, Smoky, Musreau and Kakwa areas.

The Kaybob COU continues to focus the majority of its investments in the Resthaven, Smoky, Musreau and Kakwa areas which all have large resource, multi-zone potential, and are areas where Paramount maintains high working interests in large contiguous land blocks. Paramount expects to continue with significant drilling, completion and construction activity for the remainder of the year as we actively manage our activities to limit land expiries in these core areas.

Regulatory approvals were received near the end of the third quarter for three applications allowing for commingling of natural gas from more than one producing formation. Two of the approvals were for individual wells which have resulted in incremental production of 0.7 MMcf/d net early in the fourth quarter. The third commingling application approval was for a significant portion of Paramount's Resthaven land holdings; the benefits of which we expect to realize over the longer-term, as we expect it will allow Paramount to reduce per well completion costs and will eliminate some future workover expenditures. Based on recent announcements by regulatory authorities, approval of a blanket commingling directive is anticipated in the fourth quarter which we expect to have a similar benefit for the vast majority of Paramount's lands in the Kaybob COU.

Grande Prairie

Third quarter 2006 sales volumes for the Grande Prairie COU averaged 2,995 Boe/d; comprised of 13.8 MMcf/d of natural gas and 699 Bbl/d of crude oil and natural gas liquids. Average sales volumes were up one percent from second quarter 2006 average sales volumes of 2,968 Boe/d. The increase came mainly from the new field discoveries at Crooked Creek and Ante Creek. These increases were partially offset by general declines on existing producing properties.

Capital expenditures for the third quarter of 2006 were \$27.4 million, focused mainly on drilling, completions and facilities work. During the third quarter of 2006, Paramount drilled 10 (5.8 net) wells with 2.4 net successes and completed 10 (8.4 net) wells with test rates that averaged 700 Boe/d net. A total of 6 (4.1 net) wells were put on production during the third quarter with production rates of 605 Boe/d net. We expect to bring on the other wells that were drilled and completed during the third quarter over the next three to six months.

Operational issues with third party plants that had precluded production from being brought on in prior quarters and this quarter have been mainly resolved. Most of the awaited regulatory approvals for well tie-ins have been received during the month of October and the rest are expected to be received in November. With the recent successes Paramount experienced at Crooked Creek and Ante Creek, the level of activity was accelerated above the original forecast to follow up and take advantage of the opportunities. Paramount also accelerated the completions at Mirage.

Paramount expects to drill up to 4 (2.1 net) more wells before year-end following up on recent successes.

Northwest Alberta / Cameron Hills, Northwest Territories

Third quarter 2006 sales volumes for the Northwest Alberta COU averaged 5,376 Boe/d; comprised of 24.3 MMcf/d of natural gas and 1,327 Bbl/d of crude oil and natural gas liquids. Average sales volumes were up two percent from second quarter 2006 average sales volumes of 5,253 Boe/d. Natural gas sales volumes were down five percent while crude oil and natural gas liquids were up 36 percent when compared to the second quarter 2006. The decrease in natural gas sales volumes was due to natural declines. The increased liquid sales volumes came primarily from sales of volumes that were held in inventory.

Capital expenditures for the third quarter of 2006 were \$1.0 million as most of the Northwest Alberta COU properties have winter access only, and the majority of its maintenance and capital programs are done during the winter months. Third quarter capital expenditures focused mainly on seismic in preparation for the winter drilling program in the first quarter of 2007.

Northwest Territories / Northeast British Columbia

Third quarter 2006 sales volumes for the Northwest Territories / Northeast British Columbia COU averaged 1,874 Boe/d; comprised of 11.0 MMcf/d of natural gas and 43 Bbl/d of natural gas liquids. Average sales volumes were down four percent from second quarter 2006 average sales volumes of 1,954 Boe/d. Natural gas sales volumes were down five percent when compared to the second quarter 2006 as a result of a planned 19-day shutdown/turnaround for maintenance at a third-party operated gas plant in July 2006 which affected all four producing areas. During the shutdown, Paramount completed its own facility work at all four producing areas. After production resumed, average monthly production rates for August were the highest to date in 2006.

Capital expenditures for the third quarter of 2006 were \$6.0 million. A new compressor was installed at Maxhamish during the

shutdown in July which will allow increased gas recovery by lowering operating pressures. Also, a compressor at Tattoo was overhauled.

Late in September, the first of four planned wells was drilled and cased at Clarke Lake with encouraging results. We expect to drill the remaining three wells during the fourth quarter and plan that all successful wells will be completed and on production by the end of the year.

Southern

Third quarter 2006 sales volumes for the Southern COU averaged 3,882 Boe/d; comprised of 14.8 MMcf/d of natural gas and 1,419 Bbl/d of crude oil and natural gas liquids. Average sales volumes were consistent with second quarter 2006 average sales volumes of 3,885 Boe/d.

Capital expenditures for the third quarter of 2006 were \$22.5 million, focused mainly on drilling wells in the Chain area (both conventional and coal bed methane ("CBM") wells) and non-operated drilling in North Dakota for oil. During the third quarter of 2006, Paramount drilled 40 (37.5 net) wells in the Chain area bringing our total for the year to 85 (66 net) wells. Paramount expects to drill the remaining 15 wells in our 2006 program during the fourth quarter.

Paramount received regulatory approval from the EUB to commingle coals and sands production in the Horseshoe Canyon formation of the Edmonton group on October 6, 2006. The wells drilled in this program will be tied in through our enlarged low pressure infrastructure, and we expect that all wells will be on production by the end of January 2007. This new target is over a month later than originally planned and is due to a wetter than average fall season in this region.

In the third quarter, we participated in the drilling of 3 (0.32 net) non-operated wells of which two wells were located in North Dakota and the other well located in Montana. All three wells will be completed in the fourth quarter. At the present time we are getting ready for our 2007 drilling program in North Dakota, and are slated to have two rigs running in the first quarter of 2007. Paramount is planning to drill 16 wells in North Dakota during 2007. We are continuing to acquire land in North Dakota, and to date have identified over 80 drilling locations on predominantly 100 percent owned lands.

Northeast Alberta / Oil Sands / Sahtu

Third quarter 2006 sales volumes for the Northeast Alberta COU averaged 322 Boe/d; comprised of 1.9 MMcf/d of natural gas and 1 Bbl/d of crude oil. Average sales volumes were down 17 percent from second quarter 2006 average sales volumes of 387 Boe/d. The Gas Re-Injection & Production Experiment ("GRIPE") pilot at Surmont was shut down for two months due to issues with corrosion and the corrosion inhibition program. These losses were partially offset by a successful workover in conventional gas production. GRIPE is forecast to return to full production in early November.

Capital expenditures for the third quarter of 2006 were \$3.4 million, focused mainly on engineering in our Surmont Oil Sands Development and land acquisitions. During the third quarter, Paramount acquired 148 sections of bitumen rights in the Grosmont or Carbonate Triangle. The Carbonate Triangle is an emerging heavy oil play. In 2007, Paramount will embark on a measured program of reservoir characterization and recovery process development to bring these long term assets to production.

Financial

For the third quarter of 2006, Paramount is reporting net earnings of \$22.2 million (\$0.32 per share diluted); primarily a result of the success of Paramount's commodity price risk management program as evidenced by a reported pre-tax gain on financial instruments of \$24.2 million during the quarter. In addition, the decrease in the share price of Paramount and unit price of Trilogy Energy Trust resulted in a pre-tax non-cash recovery of stock based compensation during the quarter of approximately \$14.7 million.

Funds flow from operations for the third quarter of 2006 totaled \$37.3 million (\$0.54 per share diluted), \$28.5 million lower than funds flow from operations during the second quarter of 2006. This decrease is primarily the result of a decrease in realized gains on financial hedging contracts during the third quarter relative to the second quarter of 2006.

2006 Outlook

Paramount's exit production rate for the third quarter of 2006 was approximately 18,600 Boe/d, with around 3,600 Boe/d behind pipe. Despite our successful 2006 drilling program, we have continued to experience delays in bringing planned production additions on stream; primarily because of delays in obtaining regulatory approvals and weather.

Paramount now estimates 2006 average annual production will be approximately 18,000 Boe/d and that our 2006 exit rate will be approximately 21,800 Boe/d. We expect that our 2006 E&P capital expenditures will be about \$400 million excluding land, capital expenditures on oil sands properties disposed to North American, capital expenditures relating to the Farm-in,

acquisitions and dispositions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with Paramount's unaudited Interim Consolidated Financial Statements as at and for the three and nine months ended September 30, 2006 and Paramount's audited Consolidated Financial Statements for the year ended December 31, 2005. The unaudited Interim Consolidated Financial Statements and the audited Consolidated Financial Statements have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP").

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

This MD&A is dated November 8, 2006. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website atwww.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. Paramount also has properties in Saskatchewan and offshore the East Coast in Canada, and in California, 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 core areas while maintaining a large inventory of undeveloped acreage, to focus on natural gas as a commodity, and to selectively enter into joint venture arrangements for high risk/high return prospects.

Business Environment

The table below shows key commodity price benchmarks for the three and nine months ended September 30, 2006 and September 30, 2005:

Three Mo	nths End	ed Nine	e Months Ende	d
Septe	mber 30	Sep	tember 30	
2006	2005	2006	2005	

Crude Oil

West Texas Intermediate monthly

average (US\$/Bbl) 70.55 63.19 68.29 55.40

Natural Gas

NYMEX (Henry Hub Close) monthly

average (US\$/MMbtu) 6.58 8.49 7.45 7.16 AECO monthly average (Cdn\$/GJ) 5.72 7.75 6.82 7.03

Canadian Dollar - US Dollar Exchange

Rate

Quarterly and nine month average

with Company's banker (Cdn\$/US\$) 1.12 1.20 1.13 1.22

Key Operating Results

Second Quarter 2006 vs. Third Quarter 2006

	Q2 2006	Change	e Q3	2006
Sales volumes				
Natural gas (MMcf/d)		83.2	(1.8)	81.4
Oil and NGLs (Bbl/d)		3,423	478	3,901

Combined (Boe/d)	17,297	174	 17,471
Average prices(1) Natural gas (\$/Mcf) Oil and NGLs (\$/Bbl)	6.98	0.09	7.07
	66.79	2.53	69.32

(\$ thousands)	Change in Q2 2006 Pri	Change in ce/Cost Volume Q3 2006
Revenue(1) Natural gas sales Oil and NGLs sales	52,878 20,803	707 (600) 52,985 793 3,285 24,881
	73,681 1,500	2,685 77,866
Royalties Operating costs Transportation costs	9,773 (42 18,692 3,487	25) 198 9,546 (48) 396 19,040 98 76 3,661
Operating netback	41,729	1,875 2,015 45,619

(1) Before transportation and financial instruments.

Sales volumes - Natural gas sales volumes for the third quarter of 2006 decreased two percent compared with the second quarter of 2006. Average daily natural gas sales volume increases within the Kaybob COU of 11 percent, were more than offset by decreases of other COU's during the third quarter. Kaybob's increased gas sales were primarily a result of new production coming on stream. Declines within other COU's were primarily a result of a planned 19 day shutdown/turnaround at a third party operated plant, continued delays in regulatory approvals, wet weather delays, and general declines. Crude oil and natural gas liquid ("NGL") sales volumes for the third quarter increased 14 percent as compared with the second quarter of 2006 as a result of new production being brought on within the Grande Prairie COU and sales of product from inventory. Paramount continued to experience operational constraints causing delays in bringing on production behind pipe, due to regulatory approvals and wet weather delays.

Average Prices - Average realized natural gas sales prices increased nominally from the second quarter of 2006, while on average oil and NGL prices increased four percent in the same comparative period.

Royalties - Third quarter royalty expense of \$9.5 million was comparable to the second quarter of 2006. Royalties decreased for natural gas, but increased for crude oil and NGLs due to increased sales volumes. Paramount's average royalty rate was 12 percent of sales revenue in the third quarter as compared to 13 percent in the previous quarter.

Operating costs - Operating costs for the third quarter increased to \$19.0 million compared to \$18.7 million for the second quarter of 2006 as a result of continued maintenance and turnaround activity.

Transportation Costs - Transportation costs for the third quarter of 2006 were relatively unchanged compared to the second quarter of 2006.

Third Quarter 2005 vs. Third Quarter 2006

Q3 2005 Change Q3 2006

Sales volumes

 Natural gas (MMcf/d)
 98.8
 (17.4)
 81.4

 Oil and NGLs (Bbl/d)
 3,158
 743
 3,901

Combined (Boe/d)	19,624 (2,153) 17,471
Average prices(1) Natural gas (\$/Mcf) Oil and NGLs (\$/Bbl)	8.80 (1.73) 7.07 65.95 3.37 69.32

(\$ thousands)	Change in Change in Q3 2005 Price/Cost Volume Q3 2006
Revenue(1) Natural gas sales Oil and NGLs sales	80,027 (15,735) (11,307) 52,985 19,160 979 4,742 24,881
	99,187 (14,756) (6,565) 77,866
Royalties Operating costs Transportation costs	21,060 (10,338) (1,176) 9,546 13,116 8,269 (2,345) 19,040 6,125 (2,013) (451) 3,661
Operating netback	58,886 (10,674) (2,593) 45,619

⁽¹⁾ Before transportation and financial instruments.

Sales volumes - Natural gas sales volumes for the third quarter of 2006 declined by 18 percent compared to the third quarter of 2005. The decrease was primarily the result of declines at Liard and Liard West, partially offset by new production brought on as a result of Paramount's Northwest Alberta's winter drilling and maintenance programs and new production brought on by the Kaybob COU.

Crude oil and natural gas liquids production increased 24 percent in the third quarter of 2006 as compared to the third quarter of 2005, primarily as a result of new liquids production from Crooked Creek and Ante Creek.

Average prices - Paramount's average realized natural gas price before financial instruments declined 20 percent in the third quarter of 2006 as compared to the third quarter of 2005. Crude oil and natural gas liquids prices increased 5 percent when comparing the third quarter of 2006 to the same quarter in 2005.

Royalties - Royalties as a percentage of revenue decreased to 12 percent in the third quarter of 2006 as compared to 21 percent in the third quarter of 2005. The primary reason for the reduction in royalty expense during the three months ended September 30, 2006 relative to the comparative period in 2005 is reductions in royalties associated with Northwest Territories properties. Capital and operating costs from our 2006 winter and summer drilling and maintenance programs have an immediate impact in reducing Northwest Territories royalties. In addition, a reduction in the Alberta gas reference price that is used to calculate royalties on Paramount's natural gas production in Alberta resulted in the natural gas royalty rate decreasing to 10 percent in the third quarter of 2006 as compared to 23 percent in the third quarter of 2005. Liquids royalties increased to 18 percent in the third quarter 2006 as compared to 15 percent in the third quarter 2005 as a result of higher prices. Royalties paid increased with the increased liquid sales volumes in the third quarter 2006.

Operating costs - Upward inflationary pressure continues to impact operating costs as evidenced by the increase in operating costs during the third quarter of 2006 in comparison to the third quarter of 2005. In addition, several plant turnarounds and workovers were performed, and activity levels associated with new production coming on at several facilities continued to be high, all contributing to higher operating costs during the third quarter of 2006.

Transportation costs - Transportation costs were lower during the third quarter of 2006 as a result of the termination of fixed price transportation contracts that were in place during the comparative period in 2005.

Year-to-Date September 30, 2005 vs. Year-to-Date September 30, 2006

Spinout Assets - On April 1, 2005, Paramount completed a reorganization pursuant to a plan of arrangement under the Business Corporations Act (Alberta), resulting in the creation of Trilogy Energy Trust ("Trilogy") as a new publicly-traded energy trust (the "Spinout"). Through the Trilogy Spinout, certain properties owned by Paramount that were located in the Kaybob and Marten Creek areas of Alberta, and three natural gas plants operated by Paramount became the property of Trilogy (the "Spinout Assets"). The transfer of the Spinout Assets to Trilogy caused decreases in Paramount's production, revenue, royalties, operating costs and transportation costs.

Paramount's unaudited Interim Consolidated Financial Statements for the nine months ended September 30, 2005 include the results of operations and cash flows of the Spinout Assets for the three months ended March 31, 2005. The following table shows Paramount's reported results for the nine months ended September 30, 2006 and September 30, 2005, separating the results of the Spinout Assets from Paramount's other properties and assets ("PRL Properties") for the nine months ended September 30, 2005:

	Spinout d Assets		2006 rties Change Reported
Sales volumes Natural gas (MMcf/d) Oil and NGLs (Bbl/d)	132.7 4,812	(40.0) (1,632)	92.7 (10.2) 82.5 3,180 376 3,556
Combined (Boe/d)	26,927	(8,305)	18,622 (1,314) 17,308
Average prices(1) Natural gas (\$/Mcf) Oil and NGLs (\$/Bbl)	7.99 59.60	` '	8.21 (0.40) 7.81 62.07 3.36 65.43

Change in Change 2005 Spinout PRL Price/ in 2006 (\$ thousands) Reported Assets (2) Properties Cost Volume Reported Sevenue(1)

Revenue(1)

Natural gas sales 289,250 (81,569) 207,681 (10,134) (21,621) 175,926

Oil and NGLs sales 78,293 (24,399) 53,894 2,917 6,719 63,530

367,543 (105,968) 261,575 (7,217) (14,902) 239,456

(1) Before transportation and financial instruments.

⁽²⁾ These values are presented in order to isolate the variance in the reported results relating to the Spinout Assets. The daily sales volumes for the Spinout Assets were computed by dividing total sales volumes from the Spinout Assets for the three months ended March 31, 2005 by 273.

Sales volumes - Excluding the results of the Spinout Assets, natural gas sales volumes decreased 11 percent for the nine months ended September 30, 2006 as compared to the same period in 2005. Declines from certain gas producing properties in the Northwest Territories were partially offset by new natural gas production from the Kaybob area. Excluding the results of the Spinout Assets, crude oil and natural gas liquids sales volumes increased 12 percent as a result of new liquids production from Crooked Creek and Ante Creek.

Average prices - Paramount's average realized natural gas price for the nine months ended September 30, 2006 was five percent lower than Paramount's average realized natural gas price (excluding the results of the Spinout Assets) for the same period in 2005; this was consistent with decreases in market prices for natural gas. Paramount's average realized crude oil and natural gas liquids price for the nine months ended September 30, 2006, was five percent higher (excluding the results of the Spinout Assets).

Royalties - Excluding the results of the Spinout Assets, royalties as a percentage of petroleum and natural gas sales remained constant for the nine months ended September 30, 2006 as compared to the same period in 2005. Higher average commodity prices resulted in increased royalties for the nine month period ended September 30, 2005. However, these were offset by decreased royalties in the Northwest Territories as a result of deductible capital expenditures.

Operating costs - Excluding the results of the Spinout Assets, operating costs increased by 44% for the nine months ended September 30, 2006 as compared to the same period in 2005. Sales volumes decreased for the comparative periods due to operational issues that resulted in some production being shut in 2006. During these periods of decreased production, the company took the opportunity to conduct some significant maintenance activities in the year. The decreased production reported for 2006 also resulted in increased operating costs being reported on a BOE basis.

Transportation costs - Transportation costs were lower during the nine months ended September 30, 2006 as a result of the termination of fixed price transportation contracts that were in place during the comparative period in 2005.

Netbacks

				ths Ended er 30
2	2006 2005	2006	2005	2005
			PRL d Propertion (2)	es
Produced gas (\$/Mcf) Revenue (1) Royalties Operating costs		3.16 7. 01) (1.2 (1.20) (2	41 7.44 0) (1.42) 2.00) (1.1	7.60 (1.27) 8) (1.23)
Operating netback				
Conventional oil (\$/Bb	ol)			
Revenue (1)	68.83 6	64.82 6	3.47 61.5	61.85
Revenue (1) Royalties Operating costs	(10.61)	(8.11) (10.98) (10	.29) (10.55)
Operating netback				
Natural gas liquids (\$	/Bbl)			
Revenue (1)	64.70 6	5.85 6 33) (13	3.70 53.7	70 60.72 5) (20.45)
Revenue (1) Royalties Operating costs	(12.77)	(6.34) (11.38) (6.	90) (7.64)
Operating netback	36.22	44.18	38.66 3	2.05 32.63

All products (\$/Boe)

Revenue (1) 46.16 51.56 48.39 47.19 48.35 Royalties (5.94) (11.67) (7.64) (8.92) (7.94) Operating costs (11.85) (7.27) (11.82) (7.45) (7.81) Operating netback 28.37 32.62 28.93 30.82 _____

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

(2) These values are presented in order to isolate the netbacks relating to properties retained by Paramount, and exclude the results of the Spinout Assets for the three months ended March 31, 2005.

Three Months Ended Nine Months Ended

Funds Flow Netback per Bo (\$/Boe)	2006	2005	2006	200		r 30
Operating netback					30.82	
Realized gain (loss) on financial instruments	1.	65 (2.	00)	6.77	0.46	
Realized foreign exchange	gain	0.08	-	0.18	-	
Gain on sale of investments	5	0.02	1.30	0.27	0.71	
General and administrative	(1)	(5.20)	(3.74)	(6.22	(2.77)	
Interest(2)	(5.37)	(3.76)	(4.68)	(2.74	, ` <i>´</i>	
Lease rentals	(0.50)	(0.36)) (0.3	7) (0.	, 30)	
Asset retirement obligation	, ,	` ,	•	, ,	,	
expenditures	(0.11)	(0.28)	(0.1	1) (0.	10)	
Distributions from equity	, ,	, ,		, ,	,	
investments	5.61	4.75	6.36	2.1	5	
Current and large corporation	ons tax	(1.35)	(0.57	7) (0.3	3) (0.52)	
					, ()	
Funds flow netback (\$/Boe)	(3)	23.20	27.96	30.8	0 27.71	

Funds flow netback (\$/Boe)(3) 23.20 27.96 30.80 27.71

Other Operating Items

Depletion and Depreciation Expense

	Three Months Ended Nine Months Ended September 30 September 30 2006 2005
\$ thousands	37,899 42,454 102,540 140,529
\$/Boe	23.58 23.52 21.70 19.12

Depletion and depreciation expense decreased by \$4.6 million for the three months ended September 30, 2006, as compared to the corresponding period in 2005. This decrease was primarily the result of lower production volumes during the third quarter

⁽¹⁾ Excluding non-cash general and administrative expense.

⁽²⁾ Excluding non-cash interest expense.

⁽³⁾ Funds flow netback is equal to funds flow from operations divided by Boe production for the relevant period.

of 2006 as compared to the third quarter of 2005.

Depletion and depreciation expense decreased \$38.0 million for the nine months ended September 30, 2006 as compared to the corresponding period in 2005. This decrease was primarily due to the inclusion of the operating results of the Spinout Assets for the period January 1, 2005 to March 31, 2005 prior to the closing of the Trilogy Spinout. Excluding the impact of the Trilogy Spinout, depletion and depreciation expense for the nine month period of 2006 decreased by \$2.3 million when compared to the nine month period ended September 30, 2005. The decrease is mainly the result of lower production in 2006.

Dry Hole Costs

Under the successful efforts method of accounting for petroleum and natural gas properties, costs of drilling exploratory wells are initially capitalized and, if subsequently determined to be unsuccessful, are charged to dry hole expense. Other exploration costs, including geological and geophysical costs and annual lease rentals on non-producing properties, are charged to exploration expense as incurred. Dry hole costs for the third quarter of 2006 amounted to \$7.2 million related mainly to the write off of costs incurred on wells drilled by the Grande Prairie and Southern COU's. For the nine months ended September 30, 2006 dry hole costs totaled \$26.2 million.

Geological and Geophysical Expense

Geological and geophysical expenses decreased during the quarter ended September 30, 2006 to \$1.2 million from \$2.8 million in the same period during 2005 as a result of reduced seismic activity and seismic sales.

General and Administrative Expense

T (\$ thousands)	hree Months Septembe 2006		Nine Mon Septembe 2006		d
General and administrat before stock-based com Stock-based compensat	npensation	6,909	5,797	21,191	15,149
expense	(14,661)	52,436	2,941	66,156	
General and administrat	ive expense	(7,752)	58,233	24,132	81,305

For the three months ended September 30, 2006 general and administrative expense before stock-based compensation increased by \$1.1 million versus the same period in 2005. This increase is the result of higher salary costs.

For the nine months ended September 30, 2006 general and administrative expense before stock-based compensation increased by \$6.0 million. This increase is primarily due to higher staff levels in 2006 as compared to 2005.

Paramount uses the intrinsic value method to recognize compensation expense associated with its outstanding Paramount Options and Holdco Options. Applying this method, a liability is accrued over the vesting period of the options, based on the difference between the exercise price of the options and the market price or fair value of the underlying securities. The liability is revalued at the end of each reporting period to reflect changes in market prices or fair values of the underlying securities.

For the three months ended September 30, 2006 stock-based compensation was a \$14.7 million recovery as compared to a \$52.4 million expense in the same period in 2005. Stock-based compensation expense for the nine months ended September 30, 2006 was \$2.9 million as compared to \$66.2 million in the same period in 2005. The decrease in the stock-based compensation expense during the period ended September 30, 2006 is primarily a result of a decline in the market price of both Paramount shares and Trilogy Energy Trust units on September 30, 2006 relative to the market price of such securities on September 30, 2005.

Interest Expense

Interest expense for the three months ended September 30, 2006 was \$8.8 million, which represents an increase of approximately \$1.6 million when compared to the same period in 2005. The increase is due to higher average borrowing levels in 2006, including the closing of a US\$150 million Term Loan B Facility (see Liquidity and Capital Resources).

For the nine months ended September 30, 2006 interest expense totaled \$22.6 million, a \$2.0 million increase from \$20.6 million in the same nine month period of 2005. Similarly, the increase is attributable to higher average credit facility borrowing levels, and the closing of the Term Loan B facility during the nine months ended September 30, 2006 as compared to the same period of 2005.

Income on Equity Investments

During the second quarter of 2006, Paramount closed a transaction whereby it vended its interest in certain oil sands properties and other assets to North American Oil Sands Corporation ("North American") for approximately 50 percent of the then outstanding common shares of North American and aggregate cash consideration of approximately \$17.5 million. The transaction was measured at the carrying value of the properties transferred of \$63.1 million, including a deferred credit of \$6.5 million. In association with the transaction, a gain of approximately \$1.2 million was recorded representing the reduction in Paramount's economic interest following the transaction. The remainder of the cash consideration was recognized as a return of Paramount's investment in North American is accounted for using the equity method.

Paramount records its share of the equity income (loss) of North American and the Private Oil & Gas Company net of tax because both enterprises are corporations and are liable for the tax on this income (loss). Paramount records its share of Trilogy's equity income (loss) on a before-tax basis and the tax expense (recovery) on that equity income (loss) is presented as a component of Paramount's tax expense (recovery) because Trilogy is a trust and Paramount's share of Trilogy's income (loss) is ultimately taxable to Paramount.

As a result of equity issuances completed by North American during the nine months ended September 30, 2006, Paramount's interest in North American was reduced from approximately 50 percent to approximately 36 percent, resulting in Paramount recording dilution gains of \$102.3 million before tax.

As a result of equity issuances completed by Trilogy during the nine months ended September 30, 2006, including issuances of units under its distribution reinvestment plan, Paramount's equity interest in Trilogy was reduced from approximately 18 percent at the beginning of the year to approximately 16 percent, resulting in Paramount recording total dilution gains of \$18.2 million before tax.

Income Taxes

For the nine months ended September 30, 2006, Paramount's current and large corporation tax expense totaled \$1.5 million as compared to an expense of \$3.8 million in the same period of 2005. The future income tax expense recorded in the third quarter of 2006 totaled \$0.6 million (future income tax expense of \$9.3 million for the nine months ended 2006) as compared to a recovery of \$25.5 million during the same period of 2005 (future income tax recovery of \$44.9 million for the nine months ended September 30, 2005).

Risk Management

Paramount's financial success is dependent upon the discovery, development and production of petroleum and natural gas reserves and the economic environment that creates a demand for petroleum and natural gas. Paramount's ability to execute its strategy is dependent on the amount of cash flow that can be generated and reinvested into its capital program. To protect cash flow against commodity price volatility, Paramount will, from time to time, enter into financial and/or physical commodity price hedges. Any such hedging transactions are restricted for periods of one year or less and the aggregate volumes under such hedging transactions are limited to a cumulative maximum of 50 percent of Paramount's forecast production for the duration of the relevant period, determined on a barrel of oil equivalent basis.

During the three months ended September 30, 2006, Paramount entered into a foreign exchange collar for settlement on February 26, 2007. The floor price of the foreign exchange collar is CDN \$1.1364/US \$1, and the ceiling price is CDN \$1.0822/US \$1 based on an underlying amount of US \$150 million. At September 30, 2006 the collar was in an aggregate fair value gain position of approximately \$0.4 million.

Paramount's outstanding financial forward contracts are set out in the unaudited Interim Consolidated Financial Statements in Note 9 - Financial Instruments and Note 13 - Subsequent Events. 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 in the Consolidated Balance Sheet as either an asset or liability with changes in the fair value recognized in net earnings. Paramount's outstanding physical commodity contracts are set out in the unaudited Interim

Consolidated Financial Statements in Note 12 - Commitments. The impact of fixed price physical sales contracts are reflected in petroleum and natural gas sales.

Paramount recorded a gain on financial instruments during the third quarter of 2006 of \$24.2 million, an increase of \$68.2 million from the total loss on financial instruments report during the third quarter of 2005 of \$44.0 million. For the nine months ended September 30, 2006 Paramount recorded a gain on financial instruments of \$61.1 million, an increase of \$119.3 million as compared to the same period in 2005. Certain financial instruments were terminated during the third quarter of 2006 prior to their maturity resulting in an increase to cash flow from operations of \$3.6 million during the quarter. See Note 9 - Financial Instruments in the notes to the unaudited Interim Consolidated Financial Statements.

During the three months ended September 30, 2006, Paramount terminated the following financial forward commodity contract prior to its maturity:

Α	Amount	Price	Term	_
Sales Contracts NYMEX Fixed Price	10,0	00 MMBtu/d	US\$ 10.28	Nov 2006 - Mar 2007

Capital Expenditures

(\$ thousands)	ree Months Ended Nine Months Ended September 30 September 30 2006 2005 2006 2005
Land Geological and geophysic Drilling and completions Production equipment and	6,696 11,540 29,243 42,490 cal 1,220 2,825 13,575 9,987 62,771 39,373 215,695 185,756 d facilities 31,056 8,547 94,270 70,331
Exploration and developm expenditures	nent 101,743 62,285 352,783 308,564
Property acquisitions Proceeds from property d Other	4,050 - 39,108 11,087 ispositions (4,254) (641) (6,767) (1,364) 2,412 206 14,283 1,516
Net capital expenditures	103,951 61,850 399,407 319,803

During the second quarter of 2006, Paramount vended its interest in certain oil sands properties to North American (the "Oil Sands Properties") in exchange for approximately 50 percent of the outstanding common shares of North American and cash consideration of \$17.5 million. Capital expenditures, including acquisitions, relating to the Oil Sands Properties totaled \$57.3 million for the nine months ended September 30, 2006 (inception-to-date capital expenditures, including acquisitions - \$80.9 million).

Since the second quarter of 2006 Paramount did not incur additional capital expenditures related to the oil sands interests transferred to North American, as additional expenditures required to develop these oil sands assets were borne solely by North American. Paramount's exploration and development expenditures on these oil sands assets in 2006 totaled approximately \$36.5 million. Paramount expects that future capital expenditures will be used towards acquisition of new leases and the development of our 100 percent owned oil sands leases in the Surmont area of Northeast Alberta.

For the nine months ended September 30, 2006, exploration and development expenditures totaled \$352.8 million as compared to \$308.6 million in the same period of 2005. A comparison of the number of wells drilled for the three and nine months ended September 30, 2006 and September 30, 2005 is as follows:

Three Months Ended Nine Months Ended (wells September 30 September 30 drilled) 2006 2005 2006 2005

Gross(1) Net(2) Gross(1) Net(2) Gross(1) Net(2) Gross(1) Net(2) Natural gas 71 52 77 29 192 123 224 118 3 1 10 Oil 2 5 15 7 Oil sands evaluation 123 62 23 14 3 2 9 16 10 Dry holes 8 5 13 84 60 83 32 338 199 278 149 _____

.....

- (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 therein.

Relative to the third quarter of 2005, Paramount drilled a similar number of gross wells during the three months ended September 30, 2006, however, Paramount generally had a higher working interest in the wells drilled.

Quarterly Information

(\$ thousands, except per si amounts)		Months Sep 30 2006	Jun 30	Mar 31 2005	Dec 31
Petroleum & natural gas sa Revenue, net(1) Net earnings (loss)	92,5	84 72,	246 100	87,909 ,865 112 764 37,	,422
Net earnings (loss) per con - basic - diluted	nmon sh 0.33 0.32).57).56	

⁽¹⁾ Represents revenue after gain/loss on financial instruments, royalties and gain on sale of investments and other.

(\$ thousands, except per stamounts)	nare) Jun	-	Dec 31
Petroleum & natural gas sa Revenue, net(1) Net earnings (loss) before discontinued operations Net earnings (loss) from discontinued operations	36,5	96 96 9,066)	,581 [^] 1 12,934	48 176,508 15,741 174 (45,558) (4,060
Net earnings (loss)	(69,0	066) 12	2,934 ((45,558) (17	7,753)
Net earnings (loss) before discontinued operations pe common share - basic - diluted	er N/A N/A	N/A N/A	N/A N/A	(0.30) (0.30)	

(1.05) 0.20

(0.72) (0.28)

Net earnings (loss) per common share

- basic

The success of Paramount's risk management program addressing the risk of commodity price volatility has been the primary cause behind the increase in net revenue between the third quarter and second quarter of 2006. In comparison to the second quarter of 2006 Paramount's financial instruments increased in value by approximately \$21.6 million during the third quarter. Of this total increase, Paramount realized a net gain of \$3.6 million into cash flow, while retaining the remaining financial instrument contracts to protect the Company against continued decreases in commodity prices. The decrease in net earnings between the third quarter and second quarter of 2006 was due primarily as a result of the absence of significant dilution gains on our equity investments. See Third Quarter 2006 vs. Second Quarter 2006 comparison under "Key Operating Results".

Liquidity and Capital Resources

(\$ thousands)	September 30 December 31 2006 2005
Working capital deficit (1) Credit facility Term Loan B facility US notes Stock-based compensation liab - Holdco Options	\$ 43,363 \$ 70,683 98,464 105,479 167,655 - 238,733 248,409 bility (2) 2,366 4,105
Net debt (3)	550,581 428,676
Share capital Retained earnings	269,796 198,417 382,271 238,404
Total	\$ 1,202,648

- Includes current portion of stock-based compensation liability of \$15.2 million at September 30, 2006 (\$27.3 million at December 31, 2005).
- (2) Since August 2005, Paramount has generally declined an optionholder's request for a cash payment relating to vested Paramount Options, thereby necessitating optionholders to exercise their vested Paramount Options, and to pay the aggregate exercise price of their stock options to Paramount as consideration for the issuance by Paramount of Common Shares. Paramount expects that this will continue. As a result, the stock-based compensation liability associated with Paramount Options amounting to \$35.5 million has been excluded from the computation of Net debt at September 30, 2006 (\$46.6 million at December 31, 2005).
- (3) Net debt includes the stock-based compensation liability associated with Holdco Options totaling \$17.6 million at September 30, 2006 (\$31.4 million at December 31, 2005).

Working Capital

Paramount's working capital position at September 30, 2006 was a \$43.4 million deficit as compared to a \$112.1 million deficit at June 30, 2006. The primary reason for the decrease in Paramount's working capital deficit since the second quarter of 2006 was the closing of the Term Loan B Facility, providing net proceeds to Paramount of \$162.7 million.

Represents revenue after gain/loss on financial instruments, royalties and gain on sale of investments and other.

Bank Credit Facility

The size of Paramount's bank credit facility is based on among other things, the value of Paramount's petroleum and natural gas assets reserves. During the third quarter of 2006 a mid term credit review was completed, the total size of the facility remained at \$200 million following completion of the review.

Bank debt outstanding as at September 30, 2006 on Paramount's bank credit facilities was \$98.5 million.

Term Loan B Facility

On August 28, 2006 Paramount closed a six year non-revolving US \$150 million Term Loan B Facility. The full amount of this Facility was drawn upon closing. The Facility is secured by all of the common shares of North American held by Paramount.

Paramount may repay all or a portion of the Term Loan B Facility at any time, however, the Company is not required to repay the Facility prior to the maturity of the six year term. If any of the North American shares pledged as security are sold, Paramount must make an offer to repay an amount of the Facility equal to the net proceeds of such a sale. Repayments during the first and second years are subject to premiums of 2% and 1% of principal, respectively. Subsequent repayments are not subject to premiums.

Borrowings under the Term Loan B Facility bear interest at floating rates, based on LIBOR, the US Federal Funds rate or the US Base Rate set by the Administrative Agent. So long as the Term Loan B Facility is not in default, Paramount has discretion with respect to the basis upon which interest rates are set.

US Senior Notes

At September 30, 2006 Paramount had \$238.7 million (US \$213.6 million) outstanding principal amount of 8 1/2 percent Senior Notes due in 2013 (the "Senior Notes"). The Senior Notes are secured by approximately 12.7 million Trilogy trust units owned by Paramount, which had a market value of \$198.6 million at September 30, 2006(A). These Trilogy trust units are reflected in Long-term investments and other assets in Paramount's Consolidated Balance Sheet. In addition, there are 2.3 million Trilogy trust units held by Paramount relating to its obligations under Holdco Options, which had market value of \$35.5 million at September 30, 2006,(A) and are likewise reflected in Long-term investments and other assets in Paramount's Consolidated Balance Sheet. Paramount's obligations respecting its previously existing 7 7/8 percent US Senior Notes due 2010 and 8 7/8 percent US Senior Notes due 2014 were extinguished during 2005 as a result of a notes exchange offer and open market repurchases.

(A) Based on the closing price of Trilogy trust units on the Toronto Stock Exchange on September 29, 2006. As of November 8, 2006, the aggregate market value of the 15.0 million Trilogy Trust Units owned by Paramount was \$169.1 million based on the November 8, 2006 closing price of Trilogy Trust Units on the Toronto Stock Exchange.

Share Capital

On March 30, 2006, Paramount completed a private placement of 600,000 common shares issued on a flow through basis at \$52.00 per share, and a private placement of 600,000 common shares at \$41.72 per share for total gross proceeds of \$56.2 million.

At November 7, 2006, Paramount had 68,185,825 Class A Common Shares outstanding. At November 7, 2006 there were 4,615,075 Paramount Options outstanding (976,100 exercisable) and 761,375 Holdco Options outstanding (287,250 exercisable).

Contractual Obligations

Paramount has the following contractual obligations as at September 30, 2006 (8):

Recognized Less

in financial than 1 - 3 4 - 5 After 5

(\$ thousands) statements 1 Year years years years Total

US Senior Notes (1) Yes 20,292 40,585 40,585 269,171 370,633 Bank Credit

facility (2) Yes 5,514 101,221 - - 106,735

Term Loan B Facility (3)

Yes 16,531 33,062 33,062 182,808 265,463

Stock-based

compensation

Yes -Partially 39,887 30,080 40 - 70,007 liability (4)

Asset retirement

obligations (5) Yes -Partially - - - 142,625 142,625

Pipeline

transportation

No 18,007 21,974 10,018 50,741 100,740 commitments (6)

Capital spending

No 31,439 400 - - 31,839 commitment No 4,032 6,050 4,448 2,706 17,236 Leases

Total (7) 135,702 233,372 88,153 648,051 1,105,278 _____

(1) The amounts payable within the next five years represent the estimated annual interest payment on the Senior Notes. The amount payable for the Senior Notes after five years also includes interest payable thereon totaling \$30.4 million (US\$27.2 million).

- (2) Advances bear floating rate interest based on the Bankers' Acceptance Rate, Canadian Prime Rate, LIBOR or the US Base Rate. Paramount has discretion with respect to the basis upon which interest rates are set. As at September 30, 2006 the interest rate on the bank credit facility was approximately 5.6% and the principle outstanding was \$98.5M. The principle outstanding and period ending interest rate have been assumed for interest calculations in future periods.
- (3) Borrowings bear floating rate interest based on LIBOR, the US Federal Funds rate or the US Base Rate set by the Administrative Agent. Paramount has discretion with respect to the basis upon which interest rates are set. As at September 30, 2006 the interest rate on the facility was 9.86%. This rate has been assumed for interest calculations in future periods. The amount payable for the Term Loan after five years also includes interest payable thereon totaling \$15.2 million (US\$13.6 million).
- (4) The liability for stock-based compensation includes the full intrinsic value of vested and unvested options as at September 30, 2006. Paramount has the alternative to issue shares on Paramount Options being exercised by employees instead of paying the intrinsic value of vested Paramount options. The full intrinsic value of Paramount options included above is \$50.8 million.
- (5) 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.
- (6) Certain of the pipeline transportation commitments are secured by outstanding letters of credit totaling \$20.9 million as at September 30, 2006.
- (7) 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.
- (8) Excludes obligations under Farm-in arrangement see below.

During the third guarter of 2006, Paramount entered into an area wide farm-in agreement respecting certain Mackenzie Delta, Northwest Territories exploratory properties (the "Farm-in"). Under the agreement, Paramount can earn a 50% interest in such properties by drilling 11 wells within a four-year period and making certain continuation payments, the aggregate of which will range between \$11 million and \$21 million depending upon certain future events. Paramount also has an obligation to shoot approximately \$50 million of 3D seismic. If Paramount fully satisfies all of the drilling commitments under the agreement, the Company will also earn a 50% interest in three discoveries previously made in the Mackenzie Delta by the counterparties to the farm-in agreement.

Paramount is contractually obligated to drill five exploratory wells; two wells during the 2006 - 2007 drilling season, and three wells during the 2007 - 2008 drilling season, having aggregate estimated costs of approximately \$95 million. Once Paramount has drilled these five exploratory wells, Paramount may elect to stop further drilling and earn a reduced interest in the farm-in lands. In such event, Paramount would remain responsible for the aforementioned seismic commitment and continuation payments. To September 30, 2006, Paramount has incurred approximately \$0.6 million associated with commitments under the Farm-in.

Funding of 2006 Capital Program

Paramount anticipates that the remainder of its planned 2006 capital program will be funded from cash flows from operations, borrowings under its credit facilities, and through other sources of funds which may include incurring additional debt, issuing additional equity, or dispositions of properties or other assets.

Related Party Transactions

Trilogy Energy Trust

At September 30, 2006, Paramount held approximately 15 million trust units of Trilogy representing approximately 16 percent of the issued and outstanding trust units of Trilogy at such time. In addition to the Trilogy trust units held by Paramount, Trilogy and Paramount have certain common members of management and directors. The following transactions have been recorded at the exchange amounts:

- Paramount provided certain operational, administrative, and other services to Trilogy Energy Ltd., a wholly-owned subsidiary of Trilogy, pursuant to a services agreement dated April 1, 2005 (the "Services Agreement"). The Services Agreement had an initial term ending March 31, 2006. The Services Agreement was renewed on the same terms and conditions to March 31, 2007. Under the Services Agreement, Paramount is reimbursed for all reasonable costs (including expenses of a general and administrative nature) incurred by Paramount in providing the services. The reimbursement of expenses is not intended to provide Paramount with any financial gain or loss. For the three and nine months ended September 30, 2006, the amount of costs subject to reimbursement under the Services Agreement were \$0.4 million and \$1.5 million respectively, which have been reflected as a reduction in Paramount's general and administrative expenses.
- As a result of the Trilogy Spinout, certain employees and officers of Trilogy hold Paramount Options and Holdco Options. The stock-based compensation relating to these options for the nine months ended September 30, 2006 amounted to a recovery of \$0.9 million, of which \$0.8 million was recorded as a recovery to general and administrative expense and \$0.1 million was charged against equity in net earnings of Trilogy.
- Paramount recorded distributions from Trilogy Energy Trust totaling \$9.0 million for the three months ended and \$30.1 million for the nine months ended September 30, 2006. Distributions receivable of \$3.0 million relating to distributions declared by Trilogy in September 2006 were accrued at September 30, 2006 and received in October 2006.
- During the nine months ended September 30, 2006, Paramount also had other transactions in the normal course of business with Trilogy. The net amount due from Trilogy arising from the above related party transactions as at September 30, 2006 was \$6.0 million. At December 31, 2005 Paramount had a net payable position to Trilogy of \$6.4 million. Included in such balances is a crown royalty deposit claim of \$5.5 million which, when refunded to Paramount, will be paid to Trilogy.

Drilling Company

During the second quarter of 2006, Paramount and a private company controlled by Paramount's Chairman and Chief Executive Officer (the "Private Company") formed a company in the United States ("Drillco") to supply drilling services to a United States subsidiary of Paramount. Paramount owns 50 percent of Drillco, and the Private Company owns 50 percent of Drillco. Drillco has entered into a contract for the purchase of two drilling rigs. In connection with the purchase of the drilling rigs, the Private Company extended demand loans having an aggregate principal amount of \$11.0 million (US\$9.9 million) to Drillco. The loans bear interest at a US bank's Prime interest rate plus 0.5 percent. The principal amount of the loans, plus accrued interest of \$0.4 million (US \$0.3 million) is included in the Due to Related Parties balance in the consolidated financial statements.

Other

Drillco has entered into a contract with a company (the "Supplier") for the construction of two drilling rigs under a cost-plus fee arrangement. An individual who is a part-owner of the Supplier is also a director of another company affiliated with Paramount. Estimated costs to construct the two drilling rigs total US\$18 million, including a US\$2 million fee due and payable to the Supplier upon delivery. In addition to the estimated cost of materials and construction, other incremental costs required to complete, deliver and prepare the rigs for full operation are estimated at approximately US\$6.0 million.

During the second quarter of 2006 two officers and a director of Paramount participated in private equity placements undertaken by North American; purchasing an aggregate 146,667 shares of North American for \$1.8 million.

On March 30, 2006, Paramount completed the private placement of 600,000 Common Shares at a price of \$41.72 per share to companies controlled by Paramount's Chairman and Chief Executive Officer for gross proceeds of \$25.0 million. Also, during

the first quarter of 2006 certain employees, officers, and directors of Paramount purchased an aggregate 8,500 flow-through common shares issued by Paramount for gross proceeds to Paramount of \$0.4 million.

Risks and Uncertainties

Companies involved in the exploration for and production of oil and natural gas face a number of risks and uncertainties inherent in the industry. Paramount's performance is influenced by a number of factors including but not limited to commodity prices, transportation and marketing constraints and government regulation and taxation.

Natural gas prices are influenced by the North American supply and demand balance as well as transportation capacity constraints. Seasonal changes in demand, which are largely influenced by weather patterns, also affect the price of natural gas.

Stability in natural gas pricing is available through the use of short and long-term contract arrangements. Paramount utilizes a combination of these types of contracts, as well as spot markets, in its natural gas pricing strategy. As the majority of Paramount's natural gas sales are priced to US markets, the Canada/US exchange rate can strongly affect revenue.

Oil prices are influenced by global supply and demand conditions as well as by worldwide political events. As the price of oil in Canada is based on a US benchmark price, variations in the Canada/US exchange rate further affect the price received by Paramount for its oil.

Paramount's access to oil and natural gas sales markets is restricted, at times, by pipeline capacity. In addition, it is also affected by the proximity of pipelines and availability of processing equipment. Paramount attempts to control as much of its marketing and transportation activities as possible in order to minimize any negative impact from these external factors.

The oil and gas industry is subject to extensive controls, royalties, regulatory policies and income taxes imposed by the various levels of government. These controls and policies, as well as income tax laws and regulations, are amended from time to time. Paramount is unable to control government intervention, royalties, or taxation levels in the oil and gas industry; however, it operates in a manner intended to ensure that it is in compliance with regulations and is able to respond to changes as they occur.

Paramount's operations are subject to the risks normally associated with the oil and gas industry including hazards such as unusual or unexpected geological formations, high reservoir pressures and other conditions involved in drilling and operating wells. Paramount attempts to minimize these risks using prudent safety programs and risk management, including insurance coverage against potential losses.

Paramount recognizes that the industry is faced with an increasing awareness with respect to the environmental impact of oil and gas operations. Paramount has reviewed the environmental risks to which it is exposed and has determined that there is no current material impact on Paramount's operations; however, the cost of complying with environmental regulations is increasing. Paramount intends to ensure continued compliance with all environmental legislation.

Financial Instruments

During the third quarter of 2006, Paramount entered into the following derivative financial instruments:

Amount Price Term

Purchase Contracts

NYMEX Fixed Price 10,000 MMBtu/d US\$ 9.16 November 2006

- March 2007

Foreign Exchange Collar

European Option on Floor CDN \$1.1364/US \$1 February CDN - US US\$ 150 million Ceiling CDN \$1.0822/US \$1 2007 expiry

Refer to the unaudited Interim Consolidated Financial Statements - Note 9 - Financial Instruments, for listing of all financial forward contracts outstanding at September 30, 2006.

Subsequent to September 30, 2006, Paramount entered into the following Financial forward commodity contracts:

	Amount Price	Term	
Purchase Contracts NYMEX Fixed Price	10.000 MMBtu/d	LIS\$5 85	November 2006
NYMEX Fixed Price NYMEX Fixed Price	10,000 MMBtu/d 10,000 MMBtu/d	US\$7.52	November 2006 November 2006
NTIVIEXTIAGGITICG	-,	ch 2007	November 2000

On October 19, 2006 Trilogy Energy Trust announced that it expects to pay monthly distributions of \$0.16 per Trust unit for the remainder of 2006. Prior to this announcement Trilogy had a monthly distribution of \$0.20 per Trust unit. The reduction in Trilogy's monthly distribution amount commences with the October 2006 distribution, which is payable on November 15, 2006, and will reduce Paramount's anticipated cash flow received from its investment in Trilogy.

Subsequent to September 30, 2006, Paramount entered into a Take or Pay Agreement with Drillco (see Related Party Transactions) under which Drillco will provide, for a period of three years, the services of two drilling rigs, including all necessary equipment, materials, supplies, services and labour to drill and complete the wells in Paramount's U.S. drilling program. Paramount's obligations under the Take or Pay Agreement are expected to commence in the 1st quarter of 2007. The commitment under this agreement totals \$19 million (US \$17 million) per year.

Paramount and the Private Company have entered into discussions regarding the potential acquisition by Paramount of the Private Company's interest in Drillco

On October 19, 2006, Paramount announced that its Board of Directors had approved in principle a proposed spinout transaction which would result in future activities relating to the Farm-in and Colville Lake, Northwest Territories interests, presently owned by Paramount, being carried on by a newly created public corporation ("Newco") initially owned by Paramount and its shareholders. The details of the proposed spinout transaction, including the number and type of Newco securities which Paramount and its shareholders would receive and be entitled to acquire, have not yet been finalized. The transaction will be subject to the receipt of required shareholder, court and regulatory approvals as well as third party consents.

2006 Outlook and Sensitivity Analysis

The following table sets forth Paramount's current estimate of 2006 production and capital expenditures:

18,000 21,900
400 45

⁽¹⁾ Excludes capital expenditures related to the Farm-in, land and acquisitions.

Paramount's results are affected by external market factors, such as fluctuations in the price of crude oil and natural gas, foreign exchange rates, and interest rates. The following table provides projected estimates of the sensitivity of Paramount's funds flow from operations for the remaining three months ending December 31, 2006 to changes in commodity prices, the Canadian/US dollar exchange rate and interest rates:

Sensitivity (1)(2)	Funds Flow Effect (\$ m	illions)
\$0.25/GJ change in AECO gas US\$1.00 change in the WTI oil \$0.01 change in the Canadian/L1 percent change in prime rate of	orice JS dollar exchange rate	3.5 0.5 1.0 1.3
(1) Includes the impact of finance at November 8, 2006, and incommodity concertain forward commodity concertain forward curve commodated September 28, 2006.	cludes the impact of the sontracts - see Subsequen	ettlement of t Events.
The following assumptions were	e used in the sensitivity (a	above):
2006 Annual Average Productio Natural gas Crude oil/liquids		
2006 Average Prices Natural gas Crude oil (WTI)	\$5.34/Mcf US\$64.08/E	ВЫ
2006 Exchange Rate (C\$/US\$)		\$1.12
Cash taxes	Nil	

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, 2005 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.

Recent Accounting Pronouncements

Non-Monetary Transactions

On January 1, 2006, Paramount prospectively adopted Section 3831 "Non-monetary Transactions" of the CICA Handbook

issued by the Canadian Institute of Chartered Accountants. Under this standard, a commercial substance test replaced the culmination of the earnings process test as the criteria for fair value measurement, and fair value measurement was clarified. Adoption of this new accounting standard did not have a material impact on the unaudited Interim Consolidated Financial Statements as at and for the period ended September 30, 2006.

Paramount Resources Ltd. Interim Consolidated Financial Statements (Unaudited) As at and for the Three and Nine Months Ended September 30, 2006

Paramount Resources Ltd. Consolidated Balance Sheets (Unaudited) (thousands of dollars) As at As at September 30 December 31 2006 2005 ASSETS (Note 5) Current Assets Short-term investments (Market value: Sept 30, 2006 \$4,705; Dec 31, 2005 - \$16,176) \$ 3,902 \$ 14,048 Accounts receivable 105,820 92,772 Distributions receivable from Trilogy Energy Financial instruments (Note 9)

24 452

Due from related particular in the state of Due from related parties (Note 9) 24,452
Prepaid expenses and other 7,286 3,869 150,462 125,160 -----Property, Plant and Equipment (Note 3)
Property, plant and equipment, at cost
Accumulated depletion and depreciation

1,557,546 1,314,651
(469,173) (400,072) 1,088,373 914,579 _____ 12,221 12,221 Goodwill Long-term investments and other assets (Note 4) 226,067 Future income taxes - 2,923 \$1,477,123 \$1,111,350 LIABILITIES AND SHAREHOLDERS' EQUITY **Current Liabilities** \$ 167,157 \$ 155,076 Accounts payable and accrued liabilities Due to related parties (Note 10) 11,449 6,439 Financial instruments (Note 9) - 7,056 Current portion of stock-based compensation liability (Note 8) 15,219 27,272 _____ 193,825 195,843 Long-term debt (Note 5) 504,852 353,888 Asset retirement obligations (Note 6) 69,997 66,203

Deferred credit - 6,528

Stock-based compensation liability (Note 8) 37,895 50,729

Non-controlling interest 546 1,338

Future income taxes (Note 11) 17,941 -

Commitments and Contingencies (Notes 5, 9, 12 and 13)

631,231 478,686

Shareholders' Equity
Share capital (Note 7)
Issued and outstanding: 68,054,575 common shares

(Dec 31, 2005 - 66,221,675 common shares) 269,796 198.417 Retained earnings 382,271 238,404 652,067 436,821 _____ \$1.477.123 \$1.111.350 See accompanying notes to the Interim Consolidated Financial Statements (unaudited). Paramount Resources Ltd. Consolidated Statements of Earnings (Loss) and Retained Earnings (Unaudited) (thousands of dollars except per share amounts) Three Months Ended Nine Months Ended September 30 September 30 2006 2005 2006 2005 Petroleum and natural gas sales \$77,866 \$99,187 \$239,456 \$367,543 Gain (loss) on financial instruments (Note 9) 24,236 (43,956) 61,071 (58,276) Royalties (9,546) (21,060) (36,098) (65,604) Gain on sale of investments and 28 2,355 1,264 5,185 other 92,584 36,526 265,693 248,848 -----Expenses Expenses
Operating 19,040 ...,
Transportation 3,661 6,125 10,800 20,0
8,821 7,172 22,623 20,607 19,040 13,116 55,863 54,801 3,661 6,125 10,800 20,666 (recovery)/expense (Notes 8 and 10) (7,752) 58,233 24,132 81,305 Provision for doubtful accounts 4,090 - 4,090 Lease rentals 804 642 1,752 2,233 Geological and geophysical 1,222 2,825 12,893 9,987 Dry hole 7,219 10,966 26,162 16,469 (Gain)/loss on sale of property, (25) 134 (1,997) (866) plant and equipment Accretion of asset retirement 1,455 943 4,341 3,724 obligations Depletion and depreciation 37,899 42,454 102,540 140,529 Write-down of petroleum and natural gas properties - - 1,334 Unrealized foreign exchange loss/(gain) 2,006 (13,369) (7,960) 5,842 Realized foreign exchange (gain) (123) (116) (845) (14,307) Premium on redemption of US debt - - - 53,114 · 78,317 129,125 255,728 394,104 Income (loss) from equity investments Equity income (loss) (Note 4) 7,607 (891) 22,192 2,421 Dilution gain (Note 4) 3,065 - 120,484 Non-controlling interest (31) - (14) Earnings (loss) before income taxes 24,908 (93,490) 152,627 (142,835) -----Income and other tax expense (recovery) Current and large corporations tax 2,171 1,032 1,545 3,797 expense Future income tax expense (recovery) 576 (25,456) 9,283 (44,942) 2,747 (24,424) 10,828 (41,145)

Net earnings (loss) 22,161 (69,066) 141,799 (101,690)

Retained earnings, beginning of 358,452 343,971 238,404 322,107 period Adjustment due to Trust Spinout - 100 - 54,588 Share in equity investee capital transactions 1,658 - 2,068 -----Retained earnings, end of period \$382,271 \$275,005 \$382,271 \$275,005 ______ Net earnings (loss) per common share - basic \$ 0.33 \$ (1.05) \$ 2.10 \$ (1.58) - diluted \$ 0.32 \$ (1.05) \$ 2.04 \$ (1.56) - diluted \$ 0.32 \$ (1.05) \$ 2.04 \$ (1.58) -----Weighted average common shares outstanding (thousands) 68,033 65,737 67,509 64,476 basic - diluted 69,706 65,737 69,384 64,476 See accompanying notes to the Interim Consolidated Financial Statements (Unaudited). Paramount Resources Ltd. Consolidated Statements of Cash Flows (Unaudited) (thousands of dollars) Three Months Ended Nine Months Ended September 30 September 30 2006 2005 2006 2005 _____ Operating activities \$ 22,161 \$(69,066) \$141,799 \$(101,690) Net earnings (loss) Add (deduct) non-cash and other items: Non-cash loss/(gain) on financial instruments (21,590) 40,354 (29,065) 61,680 Non-cash general and administrative expense (16,108) 51,475 (5,235) 60,949 Provision for doubtful accounts 4,090 - 4,090 1,222 2,825 12,893 9,987 Geological and geophysical Dry hole costs 7,219 10,966 26,162 16,469 Loss/(gain) on sale of property, plant and equipment (25) 134 (1,997) (866) Accretion of asset retirement obligations 1,455 943 4,341 3,724 Asset retirement obligations (180) (506) (534) (720) expenditures Depletion and depreciation 37,899 42,454 102,540 140,529 Write-down of petroleum and natural gas properties - - 1,334 Unrealized foreign exchange loss (gain) 2,006 (13,369) (7,960) 5,842 Realized foreign exchange gain - (116) - (14,307) (loss) on US debt 193 393 488 489 Amortization of other assets Premium on redemption of US debt - - - 53,114 Dilution gain (Note 4) (3,065) - (120,484) -Equity (income) loss (Note 4) (7,607) 891 (22,192) (2,421) Non-controlling interest 31 - 14 Distributions from equity investments 9,022 8,570 30,071 15,787 Future income tax expense (recovery) 576 (25,456) 9,283 (44,942) Funds flow from operations 37,299 50,492 145,548 203,624

capital (50,365) (3,985) (5,559) 16,973

Net change in operating working

Bank loans - draws 117,474 99,594 299,149 324,494 Bank loans - repayments (164,930) (95,771) (306,164) (419,199)

Proceeds on issuance of US debt - net of issuance costs 162,652 - 162,652 (4,782) Open market purchases of US debt - (1,088) - (1,088) Premium on exchange of US debt - - (45,077)

Cost of reorganization - - (4,000) Receipt of funds from Trust - - 220,000 Spinout Common shares issued, net of issuance costs 287 39,831 58,315 49,411 115,483 42,566 213,952 119,759 Cash flows provided by operating and financing activities 102,417 89,073 353,941 340,356 Investing activities Property, plant and equipment expenditures (104,155) (62,491) (367,066) (310,080) Petroleum and natural gas (4,050) - (39,108) (11,087) property acquisitions Proceeds on sale of property, plant and equipment 4,254 641 6,767 1,364 Cost of equity investments - (375) (475) (6,590)

Return of capital received, net of non-controlling interest 367 - 20,128 Net change in investing working capital 1,167 (26,848) 25,813 (13,963) Cash flows used in investing activities (102,417) (89,073) (353,941) (340,356) Cash, end of period \$ - \$ - \$ ------Interest paid \$ 12,126 \$ 13,151 \$ 27,064 \$ 24,247 Current and large corporation taxes paid 744 1,032 5,289 3,797 _____

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(all tabular amounts expressed in thousands of dollars except as otherwise noted)

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent Canadian energy company that explores for, develops, processes, transports and markets petroleum and natural gas. Paramount's principal properties are located in Alberta, the Northwest Territories and British Columbia.

On April 1, 2005, Paramount completed a reorganization pursuant to a plan of arrangement under the Business Corporations Act (Alberta), resulting in the creation of Trilogy Energy Trust ("Trilogy") as a new publicly-traded energy trust (the "Trilogy Spinout"). Through the Trilogy Spinout, among other things:

- Certain properties owned by Paramount that were located in the Kaybob and Marten Creek areas of Alberta and three natural gas plants operated by Paramount became property of Trilogy ("Spinout Assets"); and
- Paramount received an aggregate \$220 million in cash (including a \$30 million settlement of working capital accounts) and 79.1 million units of Trilogy (64.1 million of such units being ultimately received by Paramount shareholders) as consideration for the Spinout Assets and related working capital adjustments.

Paramount's comparative unaudited Interim Consolidated Financial Statements for the nine months ended September 30, 2005 include the results of operations and cash flows relating to the Spinout Assets for the period January 1, 2005 to March 31, 2005.

1. Summary of Significant Accounting Policies

The unaudited Interim Consolidated Financial Statements of Paramount 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 for the year ended December 31, 2005, except as disclosed in Note 2. The financial statements of a 50 percent-owned development stage company established during the second quarter of 2006 to supply drilling services have been consolidated into Paramount's financial statements as a variable interest entity. Any expected accumulated losses of this entity cannot be determined at the present time.

Certain information and disclosures normally required to be included in the 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 for the year ended December 31, 2005.

The timely preparation of the unaudited Interim Consolidated Financial Statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions and use judgment that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Such estimates primarily relate to unsettled transactions and events as of the date of the unaudited Interim Consolidated Financial Statements. Accordingly, actual results could differ materially from those estimates.

2. Change in Accounting Policy

On January 1, 2006, Paramount prospectively adopted Section 3831 "Non-monetary Transactions" of the CICA Handbook issued by the Canadian Institute of Chartered Accountants. Under this standard, a commercial substance test replaced the culmination of the earnings process test as the criteria for fair value measurement, and fair value measurement was clarified. Adoption of this new accounting standard did not have a material impact on the unaudited Interim Consolidated Financial Statements as at and for the three and nine months ended September 30, 2006.

3. Property, Plant and Equipment

	Septem 200		December 3 2005	1
		n and Net	Book Net Bo Value Value	
Gas plants, gat systems and p	\$ 1,069,305 hering roduction 457,837	(83,327)	77) \$ 696,128 374,510 (17,735 4,5	303,871
Total	\$ 1,557,546	\$ (469,173)	\$1,088,373 \$	3 914,579

Capital costs associated with non-producing petroleum and natural gas properties and equipment under construction totaling approximately \$328 million (December 31, 2005 - \$320 million) are currently not subject to depletion.

4. Long-term Investments and Other Assets

.	September 30 2006	Decer 2005	nber 31
Equity accounted investments:			
Trilogy Energy Trust	\$ 66,	476	\$ 51,665
North American Oil Sands Co	rporation		
("North American")	150,4	414	-
Private oil and gas company		2,042	623
	218,932	52,28	8

Deferred financing costs, ne	t of amortization	n 7,135	4,179
	\$ 226,067	\$ 56,467	

The following table provides a continuity of Paramount's equity accounted investments:

Nine Months	Ended	Santambar	30	2006
MILLE MOULTIS	Ellueu	September	SU.	2000

Energy North Oil & Gas Trust American Company Total	
On a minute belower	
Opening balance \$51,665 \$ - \$623 \$52,288 Initial carrying value	
of investment - 46,932 - 46,932 Share in investee's other capital	
transactions - 2,068 - 2,068 Equity income (loss)	
for the period 21,662 (889) 1,419 22,192 Future income tax	
recovery on equity	
income 5,121 - 5,121 Distributions (30,071) (30,071)	
Dilution gain (see below) 18,181 102,303 - 120,484 Stock-based compensation (expense) - Trilogy	
employees (82) (82)	
Closing balance \$ 66,476 \$ 150,414 \$ 2,042 \$ 218,93	32

On April 11, 2006 Paramount closed a transaction whereby it vended its interest in certain oil sands properties and other assets to North American for approximately 50 percent of the then outstanding common shares of North American and aggregate cash consideration of approximately \$17.5 million. The transaction was measured at the carrying value of the properties transferred of \$63.1 million, including a deferred credit of \$6.5 million. In association with the transaction, a gain of approximately \$1.2 million was recorded representing the reduction in Paramount's economic interest following the transaction. The remainder of the cash consideration was recognized as a return of Paramount's investment in North American. Paramount's investment in North American is accounted for using the equity method.

Paramount records its share of the equity income (loss) of North American and the Private Oil & Gas Company net of tax because both enterprises are corporations and are liable for the tax on this income (loss). Paramount records its share of Trilogy's equity income (loss) on a before-tax basis and the tax expense (recovery) on that equity income (loss) is presented as a component of Paramount's tax expense (recovery) because Trilogy is a trust and Paramount's share of Trilogy's income (loss) is ultimately taxable to Paramount.

As a result of equity issuances completed by North American during the nine months ended September 30, 2006 Paramount's equity interest in North American was reduced from approximately 50 percent to approximately 36 percent, resulting in Paramount recording dilution gains of approximately \$102.3 million before tax.

As a result of equity issuances completed by Trilogy during the nine months ended September 30, 2006, including under Trilogy's distribution reinvestment plan, Paramount's equity interest in Trilogy was reduced from approximately 18 percent at the beginning of the year to approximately 16 percent, resulting in Paramount recording dilution gains totaling \$18.2 million before tax.

5. Long-Term Debt

September 30 December 31 2006 2005 Credit facilities - interest rate of 5.6 percent as at September 30, 2006 \$ 98,464 \$ 105,479 (December 31, 2005 - 4.9 percent) 8 1/2 percent US Senior Notes due 2013 238,733 248,409 (US \$213.6 million) Term Loan B Facility due 2012 (US \$150.0 million) - interest rate of 9.86% as at September 30, 2006 167,655 \$ 504,852 \$ 353,888 ______

Bank Credit Facilities

At September 30, 2006 Paramount had a \$200 million committed credit facility with a syndicate of Canadian banks, \$133 million after adjustments for US Notes and Term Loan B Facility service costs. Borrowings under the credit facility bear interest at floating rates at the lenders' prime rate, bankers' acceptance rate or LIBOR, at the discretion of Paramount, plus an applicable margin depending on certain conditions. The facilities are available on a revolving basis for a period of 364 days from March 30, 2006 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 12.8 million of the Trilogy units and all of the North American shares owned by Paramount.

Paramount had letters of credit outstanding totaling \$20.9 million at September 30, 2006. These letters of credit have not been drawn; however they reduce the amount available to the Company under the credit facility.

Term Loan B Facility

On August 28, 2006 Paramount closed a six year US \$150 million non-revolving Term Loan B Facility. The full amount of this Facility was drawn upon closing. The Facility is secured by all of the common shares of North American owned by Paramount.

Paramount may repay all or a portion of the Term Loan B Facility at any time, however, the Company is not required to repay the Facility prior to the maturity of the six year term. If any of the North American shares pledged as security are sold, Paramount must make an offer to repay an amount of the Term Loan B Facility equal to the net proceeds of such a sale. Repayments during the first and second years are subject to premiums of 2% and 1% of principal, respectively. Subsequent repayments are not subject to premiums.

Borrowings under the Term Loan B Facility bear interest at floating rates, based on LIBOR, the US Federal Funds rate or the Base Rate of the Administrative Agent. So long as the Facility is not in default, Paramount has discretion with respect to the basis upon which interest rates are set.

6. Asset Retirement Obligations

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

September 30, 2006 December 31, 2005

Asset retirement obligations,		
beginning of period	\$ 66,203	\$ 101,486
Adjustment resulting from		
the Trilogy Spinout	-	(65,076)
Liabilities incurred	5,934	3,614
Reduction on disposal of prope	rties (5,9	- (147)
Revisions in estimated cost of		
abandonment	-	22,113
Liabilities settled	(534)	(990)
Accretion expense	4,341	5,056
Asset retirement obligations,		
end of period	\$ 69,997	\$ 66,203

7. Share Capital

Class A Common Shares	Shares	Amount
Balance at December 31, 2005 Issued on exercise of stock optio	66,221,675 ns 632,900	\$ 198,417 22,979
Issued for cash Share issuance costs, net of tax Tax adjustment on flow-through s	benefit -	56,232 (938)
renunciations	- (6,89	4)
Balance at September 30, 2006	68,054,575	\$ 269,796

On March 30, 2006, Paramount completed the private placement of 600,000 Common Shares issued on a flow-through basis at a price of \$52.00 per share. The gross proceeds of this issue were \$31.2 million. Paramount also completed the private placement of 600,000 Common Shares at a price of \$41.72 per share on the same day to companies controlled by Paramount's Chairman and Chief Executive Officer. The gross proceeds of this issue were \$25.0 million.

8. Stock-based Compensation

The following table provides a continuity of Paramount's stock options for the nine months ended September 30, 2006:

	Paramour	nt Options	Holdco	Option:	S
	Weighted Average Exercise Price C	Weig Avers Exerc Options Pr	age ise	otions	
Balance, begir of period Granted Exercised Cancelled	10.22 34.79 5.46 20.72	3,910,175 1,612,500 (633,150) (154,200)	\$ 5.79 - 5.16 8.06	1,985, - (472,0 (32,5	00)
Balance, end		3.88 4,735,	325 5	5.95 1	,480,875

Options exercisable,

end of period	5.30	436,150	5.42	602,750

Additional information concerning Paramount's stock options outstanding as at September 30, 2006 is as follows:

	Outstanding Exerc		cisable		
Exercise Price	Weighted Average Contractual Number	Aver	hted age cise Price	Average Exercise))
Paramount Opti	ons	(Years))		
\$4.33-\$10.00	1,183,725	1.2	\$ 4.83	418,100	\$ 4.80
\$10.01-\$30.00	1,913,100	3.1	14.01	18,050	16.72
\$30.01-\$43.25	1,638,500	4.1	34.71	-	-
Total 4,	735,325 	2.9 \$	18.88 4	 36,150 \$ 	5.30
Holdco Options \$4.58-\$6.00 \$6.01-\$10.00 \$10.01-\$16.37	95,500	2.2	7.21	,	7.63
Total 1,	480,875	1.6 \$	5.95 60	2,750 \$	5.42

For the nine months ended September 30, 2006, 472,000 Holdco Options were surrendered in exchange for cash payments from Paramount totaling \$8.4 million which reduced the related stock-based compensation liability.

The current portion of stock-based compensation liability of \$15.2 million at September 30, 2006 (December 31, 2005 - \$27.3 million) represents the value, using the intrinsic value method, of vested Holdco Options and Holdco Options vesting within the next twelve months.

For the nine months ended September 30, 2006, Paramount recognized compensation costs of \$8.3 million for the Paramount Options and a recovery of \$5.1 million for the Holdco Options relating to the mark-to-market valuation and time-based vesting of the options. For the three months ended September 30, 2006, Paramount recorded an aggregate \$14.7 million recovery of stock-based compensation expense related to the mark-to-market valuation and time-based vesting of Paramount options and Holdco options. Amounts in respect of stock based compensation expense / recovery are included as a component of general and administrative expense in the Consolidated Statements of Earnings (Loss) and Retained Earnings.

9. Financial Instruments

Paramount has elected not to designate any of its financial instruments as hedges under Accounting Guideline 13 Hedging Relationships ("AcG-13"), and therefore has recognized the fair value of its financial instruments in the unaudited Interim Consolidated Financial Statements.

The changes in fair value associated with the financial instruments are recorded on the consolidated balance sheets with the associated unrealized gain or loss recorded in net earnings. The estimated fair value of all financial instruments is based on quoted prices or, in the absence of quoted prices, third party market indications and forecasts.

unrealized and realized gains and losses on financial instruments:

			Market Gain (Loss)	
Change in fair of contracts re	value corded			
on transition Amortization of deferred fair value of contra			\$ (445) \$ 	411
Net change in f value of contra entered into af transition (mark-to-marke gain (loss))	air icts ter et 21,590	-		
Unrealized gair (loss) on financial instruments Realized gain (loss) on financial instruments	21,590	41	l (40,76	
Net gain (loss) on financial instruments		\$ -	\$ -	\$ (43,956)
	nded Se			September 30, 2005
	Amo	eferred unts on		Total
Change in fair vof contracts recontracts recontract recontracts recontract recontracts recontract recontract recontracts recontract r	Amo Total Tra value corded \$ -	eferred unts on ansition (Market Gain (Loss)	
Change in fair voor contracts recontracts recontracts recontraction of deferred fair value of contraction contraction of contraction contr	Amo Total Tra	eferred unts on ansition (Market Gain (Loss) \$ (1,937)	\$ (1,937)
Change in fair vof contracts recontransition Amortization of deferred fair value of contrativation of contrativation of contrativation of contrativation of contrativation of contrativation (mark-to-mark-to	Amo Total Tra value corded \$ -	eferred unts on ansition (Market Gain (Loss) \$ (1,937)	\$ (1,937) 1,233
Change in fair vof contracts reon transition Amortization of deferred fair value of contracts and transition Net change in for value of contracts and transition (mark-to-mark gain (loss)) Unrealized gair (loss) on financial instruments Realized gain on financial	Amo Total Tra value corded \$ - air cts - air cts ter 29,065	seferred unts on ansition (Market Gain (Loss) \$ (1,937) - - (60,976)	(1,937) 1,233 (60,976)

\$ 61,071 \$ - \$ (58,276)

instruments

At September 30, 2006, Paramount was a party to the following financial forward commodity contracts:

Ar	nount Pri	ce	Term		
Sales Contracts				•	
NYMEX Fixed Price	10,000 MME	3tu/d US\$	10.00	Nov 2006 -	Mar 2007
NYMEX Fixed Price	10,000 MME	3tu/d US\$	10.14	Nov 2006 -	Mar 2007
NYMEX Fixed Price	10,000 MME	3tu/d US\$	10.37	Nov 2006 -	Mar 2007
NYMEX Fixed Price	10,000 MME	3tu/d US\$	10.875	Nov 2006 -	Mar 2007
NYMEX Fixed Price	10,000 MME	3tu/d US\$	11.15	Nov 2006 -	Mar 2007
WTI Fixed Price	1,000 Bbl/d	US\$ 66.04	Feb 2	006 - Dec 2	:006
WTI Fixed Price	1,000 Bbl/d	US\$ 65.64	Feb 2	.006 - Dec 2	:006
Purchase Contracts NYMEX Fixed Price	10,000 MME	Btu/d US\$	9.16	Nov 2006 - I	Mar 2007
Option Contract - Solo AECO Call Option	d 20,000 GJ/	d \$12.50	0 Apr 2	2006 - Oct 20	006

During the three months ended September 30, 2006 Paramount entered into a costless foreign exchange collar for settlement on February 26, 2007. The floor price of the foreign exchange collar is CDN \$1.1364/US \$1, and the ceiling price is CDN \$1.0822/US \$1 based on an underlying amount of US \$150 million.

The aggregate fair value of the above contracts as at September 30, 2006 was a \$24.5 million gain.

During the three months ended September 30, 2006, Paramount terminated the following financial forward commodity contract prior its maturity:

A	mount	Price	Term	
Sales Contracts				-
NYMEX Fixed Price	10,000 N	имВtu/d l	JS\$ 10.28	Nov 2006 - Mar 2007

10. Related Party Transactions

Trilogy Energy Trust

At September 30, 2006, Paramount held approximately 15 million trust units of Trilogy representing approximately 16 percent of the issued and outstanding trust units of Trilogy at such time. In addition to the Trilogy trust units held by Paramount, Trilogy and Paramount have certain common members of management and directors. The following transactions have been recorded at the exchange amounts:

- Paramount provided certain operational, administrative, and other services to Trilogy Energy Ltd., a wholly-owned subsidiary of Trilogy, pursuant to a services agreement dated April 1, 2005 (the "Services Agreement"). The Services Agreement had an initial term ending March 31, 2006. The Services Agreement was renewed on the same terms and conditions to March 31,

2007. Under the Services Agreement, Paramount is reimbursed for all reasonable costs (including expenses of a general and administrative nature) incurred by Paramount in providing the services. The reimbursement of expenses is not intended to provide Paramount with any financial gain or loss. For the three and nine months ended September 30, 2006, the amount of costs subject to reimbursement under the Services Agreement were \$0.4 million and \$1.5 million respectively, which have been reflected as a reduction in Paramount's general and administrative expenses.

- As a result of the Trilogy Spinout, certain employees and officers of Trilogy hold Paramount Options and Holdco Options. The stock-based compensation relating to these options for the nine months ended September 30, 2006 amounted to a recovery of \$0.9 million, of which \$0.8 million was recorded as a recovery to general and administrative expense and \$0.1 million was recognized in equity in net earnings of Trilogy.
- Paramount recorded distributions from Trilogy Energy Trust totaling \$9.0 million for the three months ended and \$30.1 million for the nine months ended September 30, 2006. Distributions receivable of \$3.0 million relating to distributions declared by Trilogy in September 2006 were accrued at September 30, 2006 and received in October 2006.
- During the three and nine months ended September 30, 2006, Paramount also had other transactions in the normal course of business with Trilogy.
- The net amount due from Trilogy arising from the above related party transactions as at September 30, 2006 was \$6.0 million. At December 31, 2005 Paramount had a net payable position to Trilogy of \$6.4 million. Included in such balances is a Crown royalty deposit claim of \$5.5 million which, when refunded to Paramount, will be paid to Trilogy.

Drilling Company

During the second guarter of 2006. Paramount and a private company controlled by Paramount's Chairman and Chief Executive Officer (the "Private Company") formed a company in the United States ("Drillco") to supply drilling services to a United States subsidiary of Paramount. Paramount owns 50 percent of Drillco, and the Private Company owns 50 percent of Drillco. Drillco has entered into a contract for the purchase of two drilling rigs. In connection with the purchase of the drilling rigs, the Private Company extended a demand loan totaling loans having an aggregate principal amount of \$11.0 million (US\$9.9 million) to Drillco. The loans bear interest at a US bank's Prime interest rate plus 0.5 percent. The amount of the loans, plus accrued interest in the amount of \$0.4 million (US\$0.3 million) is included in the Due to Related Parties balance in the consolidated financial statements.

Other

Drillco has entered into a contract with a company (the "Supplier") for the construction of two drilling rigs under a cost-plus fee arrangement. An individual who is a part-owner of the Supplier is also a director of another company affiliated with Paramount. Estimated costs to construct the two drilling rigs total US\$18 million, including a US\$2 million fee due and payable to the Supplier upon delivery. In addition to the estimated cost of materials and construction, other incremental costs required to complete, deliver and prepare the rigs for full operation are estimated at approximately US\$6.0 million.

During the second quarter of 2006 two officers and a director of Paramount participated in private equity placements undertaken by North American; purchasing an aggregate 146,667 shares of North American for \$1.8 million.

On March 30, 2006, Paramount completed the private placement of 600,000 Common Shares at a price of \$41.72 per share to companies controlled by Paramount's Chairman and Chief Executive Officer for gross proceeds of \$25.0 million. Also, during the first quarter of 2006 certain employees, officers, and directors of Paramount purchased an aggregate 8,500 flow-through common shares issued by Paramount for gross proceeds to Paramount of \$0.4 million.

11. Income Taxes

The following table reconciles income taxes calculated at the Canadian statutory rate with the actual income taxes:

> Nine Months Ended September 30, 2006

Net Earnings Before Income Tax Canadian Statutory Rate

\$ 152,627

_____ Expected Income Tax

53,034

Effect on Taxes Resulting from: Other current and large corporation tax Non-deductible Canadian crown payments 317 Canadian resource allowance (625)Recognition of future tax asset (21,242)Effect of tax rate changes (2,064)Non-taxable capital gains (22,743)Stock-based compensation 2.899 1.102 Other \$ 10.828 Effective Tax Rate 7.1%

During the second quarter, the Canadian federal and Alberta governments substantively enacted income tax rate reductions.

12. Commitments

At September 30, 2006, Paramount was a party to the following physical commodity contracts:

Physical Sales Contra	icts Amount	Price	Term
AECO Fixed Price AECO Fixed Price AECO Fixed Price	10,000 GJ/d 10,000 GJ/d 10,000 GJ/d	\$ 6.25 \$ 6.40 \$ 6.58	July 2006 - Oct 2006 July 2006 - Oct 2006 July 2006 - Oct 2006
Physical Purchase Contracts AECO Fixed Price	Amount Price 20,000 GJ/d	ce \$ 5.37	Term Sept 2006 - Oct 2006

During the third quarter of 2006, Paramount entered into an area wide farm-in agreement respecting certain Mackenzie Delta, Northwest Territories exploratory properties (the "Farm-in"). Under the agreement, Paramount can earn a 50% interest in such properties by drilling 11 wells within a four-year period and making certain continuation payments, the aggregate of which will range between \$11 million and \$21 million depending upon certain future events. Paramount also has an obligation to shoot approximately \$50 million of 3D seismic. If Paramount fully satisfies all of the drilling commitments under the agreement, the Company will also earn a 50% interest in three discoveries previously made in the Mackenzie Delta by the counterparties to the farm-in agreement.

Paramount is contractually obligated to drill five exploratory wells; two wells during the 2006 - 2007 drilling season, and three wells during the 2007 - 2008 drilling season, having aggregate estimated costs of approximately \$95 million. Once Paramount has drilled these five exploratory wells, Paramount may elect to stop further drilling and earn a reduced interest in the farm-in lands. In such event, Paramount would remain responsible for the aforementioned seismic commitment and continuation payments. To September 30, 2006, Paramount has incurred approximately \$0.6 million associated with commitments under the Farm-in.

Paramount has commitments with two oilfield service companies to provide drilling services to Paramount on a "take-or-pay" basis. The total estimated minimum commitment in association with these drilling rig contracts is approximately \$5.4 million over a period of two years.

During the third quarter of 2006, Paramount acquired a right to use up to 25 MMcf/d capacity of a processing plant for a fee. Under the contract, Paramount has a use-or-pay obligation for 65 percent of the 25 MMcf/d capacity, 16.25 MMcf/d net.

13. Subsequent Events

Subsequent to September 30, 2006, Paramount entered into the following financial forward commodity contracts:

An	nount	Price	Term	ı
Purchase Contracts				
NYMEX Fixed Price	10,000	MMBtu/d	US\$ 5.85	Nov 2006
NYMEX Fixed Price	10,000	MMBtu/d	US\$ 7.52	Nov 2006
NYMEX Fixed Price	10,000	MMBtu/d	US\$ 7.59	Nov 2006 - Mar 2007

Subsequent to September 30, 2006, Paramount entered into a Take or Pay Agreement with Drillco (see Related Party Transactions) under which Drillco will provide, for a period of three years, the services of two drilling rigs, including all necessary equipment, materials, supplies, services and labour to drill and complete the wells in Paramount's U.S. drilling program. Paramount's obligations under the Take or Pay Agreement are expected to commence in the 1st quarter of 2007. The commitment under this agreement totals \$19 million (US \$17 million) per year.

Paramount and the Private Company have entered into discussions regarding the potential acquisition by Paramount of the Private Company's interest in Drillco.

On October 19, 2006, Paramount announced that its Board of Directors had approved in principle a proposed spinout transaction which would result in future activities relating to the Farm-in and Colville Lake, Northwest Territories interests, presently owned by Paramount, being carried on by a newly created public corporation ("Newco") initially owned by Paramount and its shareholders. The details of the proposed spinout transaction, including the number and type of Newco securities which Paramount and its shareholders would receive and be entitled to acquire, have not yet been finalized. The transaction will be subject to the receipt of required shareholder, court and regulatory approvals as well as third party consents.

Advisories

Information included or incorporated by reference in this Press Release is presented in Canadian dollars unless otherwise stated.

Forward-Looking Statements and Estimates

Certain statements included or incorporated by reference in this press release constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "assume", "based", "becomes", "believe", "can", "continue", "depend", "embark", "emerging", "estimate", "expect", "forecast", "if", "intend", "in the event", "may", "once", "opportunities", "plan", "potential", "projects", "propose", "result", "slated", "targeted", "upon", "will", "within" or similar words suggesting future outcomes or statements regarding an outlook. Forwardlooking statements or information in this press release include but are not limited to estimates of future capital expenditures. business strategy and objectives, reserve quantities, net revenue, estimated future production levels, exploration, development and production plans and the timing thereof, operating and other costs, royalty rates, expectations of the timing and quantum of future cash income taxes, expectations as to how Paramount's working capital deficit and planned 2006 capital program will be funded and sensitivities to Paramount's funds flow from changes in commodity prices, future exchange rates and rates of interest, estimated quantities and net present value of oil sands resources, the anticipated timing for seeking regulatory approvals, expectations of growth in production reserves, undeveloped land and timing thereof, construction of drilling rigs will be complete and placed into service, expectations that "Newco" will be a publicly listed company, the spin-out transaction contemplated will be completed under a plan of arrangement before year end, the estimated resources of properties transferred to Newco, the timing, method of implementation, effect and results of the proposed spinout transaction, the opportunities related to the Mackenzie Delta farm-in agreement, the effect on the success of the proposed Mackenzie Valley pipeline of Paramount entering into the joint venture agreement, Newco's future operations, prospects, management and staffing, or other expectations, plans, goals, objectives, assumptions, information or statements about future events, conditions, results of operations or performance that may constitute forward-looking statements or information under applicable securities legislation.

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 press release, assumptions have been made regarding, among other things:

- 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 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 to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of Paramount to obtain financing on acceptable terms;
- additional funding towards the development of North American's oil sands leases will be borne solely by North American;
- currency, exchange and interest rates;
- future oil and gas prices;
- that "Newco" will be a publicly listed company;
- the spin-out transaction contemplated to "Newco" will be completed; and
- that no significant cash taxes will be paid by Paramount in 2006.
- the ability of Newco to obtain equipment, services, personnel and supplies in a timely manner to carry out its activities;
- the ability of Newco and its industry partners to obtain drilling success consistent with expectations; the ability of Newco to market oil and natural gas successfully;
- the ability of Newco to secure adequate product transportation; the completion of the proposed Mackenzie Valley pipeline;
- the ability of Newco to obtain financing on acceptable terms; 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 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;
- risks and uncertainties involving geology of oil and gas deposits;
- risks inherent in Paramount's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- imprecision of resource estimates and life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- 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;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;

- the ability of Paramount to add production and reserves through development and exploration activities;
- weather;
- general economic and business 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;
- change in taxation laws and regulations and the interpretation thereof;
- risks associated with existing and potential future lawsuits and regulatory actions against Paramount; and
- Newco's ability to secure adequate product transportation;
- the possibility that governmental approvals may be delayed or withheld in respect of the Mackenzie Valley pipeline;
- uncertainties as to the availability and cost of financing to Newco; weather; and general economic and business conditions.
- other risks and uncertainties described elsewhere in this document or in Paramount's other filings with Canadian securities authorities.

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. "Net debt" is calculated as current liabilities minus current assets plus long-term debt and stock-based compensation liability associated with Holdco 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", "Bbl/d", "Bbls/d" and "MMBbl". 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 is a Canadian oil and natural gas exploration, development and production company with operations focused in Western Canada. Paramount's common shares are listed on the Toronto Stock Exchange under the symbol "POU".

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