



Financial and Operating Highlights ⁽¹⁾

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

	Three Months Ended		% Change
	March 31 2007	December 31 2006	
Financial			
Petroleum and natural gas sales	78.8	73.1	8
Funds flow from operations	42.8	26.1	65
Per share – diluted	0.60	0.38	61
Net loss	(16.1)	(159.6)	90
Per share – diluted	(0.23)	(2.32)	86
Capital expenditures	186.8	122.8	53
Market value of long-term investments ⁽²⁾	855.9	582.9	47
Total assets	1,540.8	1,419.0	8
Net debt ⁽³⁾	676.8	593.4	14
Common shares outstanding (thousands)	70,888	70,279	1
Market capitalization ⁽⁴⁾	1,417.8	1,686.7	(16)
Operating			
Natural gas sale volumes (MMcf/d)	84.8	79.0	7
Oil and natural gas liquid sales volumes (Bbl/d)	3,636	3,937	(8)
Total sales (Boe/d)	17,773	17,104	4
Gas weighting	80%	77%	4
Total wells drilled (gross)	104	60	70
Success rate ⁽⁵⁾	96%	90%	7

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

⁽²⁾ March 31, 2007 market value of long-term investments was determined based on the March 30, 2007 closing price of Trilogy Energy Trust units on the

⁽³⁾ Net debt is equal to the sum of long-term debt, working capital deficit and stock based compensation liability (excluding the stock based compensation liability associated with Paramount Options amounting to \$12.3 million at March 31, 2007, (\$27.7 million at December 31, 2006) -- see Liquidity and Capital Resource section of Management's Discussion and Analysis.

⁽⁴⁾ Based on the period end closing prices of Paramount Resources Ltd. on the Toronto Stock Exchange.

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

First Quarter 2007 Highlights

- On January 12, 2007, Paramount successfully completed the spinout of MGM Energy Corp. (“MGM Energy”). As of March 31, 2007, Paramount owned 51.7 percent of the issued and outstanding shares of MGM Energy, and as a result, MGM Energy’s financial position, results of operations and cash flows have been included in Paramount’s consolidated results.
- Funds flow from operations for the first quarter of 2007 totaled \$42.8 million as compared to \$26.1 million for the fourth quarter of 2006. The 64 percent increase in funds flow from operations is primarily a result of an \$11.9 million increase in realized gains on financial instruments, a \$9.1 million decrease in cash stock-based compensation payments, and a \$5.7 million increase in petroleum and natural gas sales, partially offset by increased operating costs in the period.
- Paramount’s net loss for the first quarter of 2007 was \$16.1 million as compared to a net loss of \$159.6 million recorded for the fourth quarter of 2006. The first quarter 2007 net loss included dry hole expense of \$47.6 million. This expense related primarily to the winter drilling program undertaken by Paramount’s subsidiary, MGM Energy, where two wells were drilled on lands subject to the farm-in agreement: Kumak I-25 and Unipkat M-45. A total of \$39.8 million of dry hole expense was recorded in respect of these wells in the first quarter of 2007. The impact of the dry hole expense was partially offset by dilution gains of approximately \$24.7 million, before tax, in respect of MGM Energy.
- Sales volumes for the first quarter of 2007 averaged 17,773 Boe/d as compared to 17,104 Boe/d for the fourth quarter of 2006. The increase in sales volumes resulted primarily from new production being brought on stream in the Kaybob and Southern Corporate Operating Units. These increases were partially offset by production declines in the Grande Prairie Corporate Operating Unit.
- Capital expenditures totaled \$186.8 million for the first quarter of 2007, including \$29.1 million incurred by MGM Energy from January 12, 2007 to March 31, 2007, and \$10.8 million incurred in the development of the company’s oil sands leases in the Surmont area.

Review of Operations

The following table summarizes Paramount's average daily sales volumes by corporate operating unit for the three months ended March 31, 2007 and December 31, 2006:

Natural Gas Sales (MMcf/d)	Q1 2007	Q4 2006	Change (%)
Kaybob	21.8	17.9	22
Grande Prairie	13.5	16.2	(17)
Southern	20.3	14.5	40
Northern	27.3	28.0	(3)
Other	1.9	2.4	(21)
Total	84.8	79.0	7
Crude Oil and Natural Gas Liquids Sales (Bbl/d)			
Kaybob	407	508	(20)
Grande Prairie	884	1,081	(18)
Southern	1,353	1,390	(3)
Northern	989	920	8
Other	3	38	(92)
Total	3,636	3,937	(8)
Total Sales (Boe/d)			
Kaybob	4,047	3,490	16
Grande Prairie	3,133	3,787	(17)
Southern	4,744	3,809	25
Northern	5,536	5,592	(1)
Other	313	426	(27)
Total	17,773	17,104	4

Kaybob

First quarter 2007 sales volumes for the Kaybob Corporate Operating Unit ("Kaybob") averaged 4,047 Boe/d; comprised of 21.8 MMcf/d of natural gas and 407 Bbl/d of crude oil and natural gas liquids. Average sales volumes were up 16 percent from fourth quarter 2006 average sales volumes of 3,490 Boe/d.

Capital expenditures for the first quarter of 2007 were \$67.1 million for drilling, completions and facilities work and an additional \$0.5 million on land and seismic. Kaybob's pace of development continued to be very high during the first quarter of 2007 with Kaybob participating in the drilling of 20 (8.7 net) wells. All wells drilled in the first quarter of 2007 were cased for potential gas production.

Included in the capital expenditures in the first quarter of 2007 was work performed for the expansion of the Musreau 1-13-63-5W6 facility. This work included replacing a rental compressor with a larger purchased unit, which was completed in late April, and the construction of a second dehydration and compression train which is anticipated to be operational in early May. This additional compression capacity was required for the incremental production in the Musreau area and is of sufficient capacity for future growth in Kaybob's volumes in this area. In addition, Kaybob purchased a 7.7 mile 8 inch pipeline in the Resthaven area. This pipeline, which was previously in sales gas service, forms an extension to the gas gathering system backbone in the area and is connected to both the 25 MMcf/d (12.5 MMcf/d net) Resthaven Gas Plant and the 100 MMcf/d (10 MMcf/d net) Smoky plant creating flexibility for Kaybob to utilize our capacity in both facilities.

As of the end of April 2007 a total of 28 (12.4 net) wells were brought on production including four wells that were drilled early in the first quarter of 2007. The remaining 24 wells brought on production were drilled in 2006. Kaybob anticipates the remaining 16 wells drilled in the first quarter will be brought on production during 2007 or early 2008 depending upon accessibility.

Following spring break-up and the associated road bans, Kaybob is currently forecasting continued drilling, completion and construction activity for the balance of the year.

Grande Prairie

First quarter 2007 sales volumes for the Grande Prairie Corporate Operating Unit (“Grande Prairie”) averaged 3,133 Boe/d; comprised of 13.5 MMcf/d of natural gas and 884 Bbl/d of crude oil and natural gas liquids. Average sales volumes were down 17 percent from fourth quarter 2006 average sales volumes of 3,787 Boe/d. The decrease in production came mainly from Ante Creek, Crooked Creek and Mirage areas. Ante Creek experienced production declines due to increasing water rates, but expects production to partially recover once workovers are completed in the second quarter of 2007. Production from the Crooked Creek area was restricted by high pipeline pressures which will be alleviated by a plant upgrade which is expected to be completed during the second quarter of 2007. The Mirage area experienced high production decline rates, primarily due to one well being shut-in in the first quarter due to a water break through. Grande Prairie has scheduled a recompletion for this well in the second quarter of 2007 and anticipates this well will be back on production at lower rates.

Capital expenditures for the first quarter of 2007 were \$18.8 million which included \$6.2 million for land purchases and \$12.6 million for drilling, completions and facilities work. During the first quarter 2007, Grande Prairie participated in the drilling of 5 (2.9 net) wells with 2.6 net successes and completed 4 (2.8 net) wells with test rates that averaged approximately 300 Boe/d net to Paramount. A total of 2 (0.8 net) wells in Grande Prairie were put on production early in the second quarter with production rates of 50 Boe/d. At Mirage 4 (2.7 net) wells were brought on early second quarter of 2007 at about 300 Boe/d net to Paramount.

Southern

First quarter 2007 sales volumes for the Southern Corporate Operating Unit (“Southern”) averaged 4,744 Boe/d; comprised of 20.3 MMcf/d of natural gas and 1,353 Bbl/d of crude oil and natural gas liquids. Average sales volumes were up 25 percent from fourth quarter 2006 average sales volumes of 3,809 Boe/d. The increase was the result of the tie-in of the majority of the Chain wells that were drilled during 2006. The company still has approximately 30 wells left from our 2006 program left to bring on production.

Capital expenditures for the first quarter of 2007 were \$15.3 million, focused mainly on tie-in of wells in the Chain area (both conventional and coal bed methane) and non-operated drilling in North Dakota. In the first quarter the company drilled 15 shallow gas wells and one well targeting a deeper play. These wells will be tied in and placed on production through the second quarter. Southern’s strategy for the Chain area is to maintain production at a stable rate through-out the year with a minimum of incurred capital expenditures.

Summit Resources Inc. (“SRI”), Paramount’s wholly owned United States subsidiary, operates in Montana and North Dakota. During the first quarter, SRI participated in the drilling of 3 (0.6 net) non-operated wells, one in North Dakota and two in Montana.

The wells are anticipated to be on production in the second quarter. The North Dakota drilling program was postponed due to manufacturing delays on the rig building project in China but Paramount is pleased to report that the manufacturing is complete and the rigs have arrived in the United States, with the first well scheduled to be drilled before the end of the second quarter.

Northern

As of January 1, 2007, Paramount formed the Northern Corporate Operating Unit (“Northern”) combining the corporate operating units of NWT / NEBC and Northwest Alberta.

First quarter 2007 sales volumes for Northern averaged 5,536 Boe/d; comprised of 27.3 MMcf/d of natural gas and 989 Bbl/d of crude oil and natural gas liquids. Average sales volumes were down one percent from fourth quarter 2006 average sales volumes of 5,592 Boe/d. The slight decrease was the result of lower production from the Bistcho and Cameron Hills areas as there was a scheduled plant turnaround at Bistcho during the last part of January and early February. This decrease was partially offset by increases from the tie-in of the successful wells drilled during

late 2006 and first quarter of 2007. Northern's production is expected to peak in the second quarter with operations returning to full production and the addition of the newly tied-in wells.

Capital expenditures for the first quarter of 2007 were \$31.1 million for drilling, completions and facilities activities. Northern participated in the drilling of 13 (9.8 net) wells during the first quarter of 2007 mainly in the Bistcho and Cameron Hills areas. The vast majority of Northern's capital activities are complete for the year due to our winter only access areas and we will be spending the remainder of the year planning our 2008 capital program.

Other

At Paramount's Surmont area capital expenditures for the first quarter of 2007 were \$11.9 million, focused mainly on our Surmont oil sands development project which included the drilling 43 delineation wells, of which 31 were cored, and three were cased for water testing purposes. In addition, Paramount also shot five square miles of high resolution 3D seismic data on our 100 percent owned Surmont leases.

Paramount has been in discussions regarding the possible sale of its oil sands leases and shut-in natural gas rights in the Surmont area of Alberta. At this time, there can be no assurance that a disposition will take place.

Financial

Funds flow from operations for the first quarter of 2007 totaled \$42.8 million or \$0.60 per diluted share as compared to \$26.1 million or \$0.38 per diluted share for the fourth quarter of 2006. The 64 percent increase in funds flow from operations is primarily a result of realized gains on financial instruments in the quarter, partially offset by increased operating costs and interest expense in the period.

Net loss for the first quarter of 2007 was \$16.1 million or \$0.26 per diluted share as compared to a net loss of \$159.6 million or \$2.32 per diluted share recorded for the fourth quarter of 2006. The significant increase in earnings was primarily the result of the write down of petroleum and natural gas properties recorded in the fourth quarter of 2006 and a decrease in the future tax recovery that was associated with the property write down.

2007 Outlook

Paramount had a successful first quarter drilling and tie-in program which led to significant production increases from our Kaybob and Southern Corporate Operating Units. The Company's North Dakota drilling program was postponed due to manufacturing delays on the rig building project in China. Paramount is pleased to report that the rigs have arrived in the United States, with the first well scheduled to spud before the end of the second quarter. Paramount continues to be on track to meet our 2007 production guidance of an average of 21,000 Boe/d.

The Company's 2007 forecast capital expenditures budget remains at \$300 million, excluding land and acquisitions, and for clarity, excluding MGM Energy's exploratory expenditures. The remainder of Paramount's 2007 capital budget will be focused in our Kaybob and Southern Corporate Operating Units including the commencement of our North Dakota drilling program.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Interim Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the three months ended March 31, 2007 and Paramount's audited Consolidated Financial Statements and MD&A for the year ended December 31, 2006. Information included in this MD&A and the Consolidated Financial Statements has been presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"), unless otherwise stated.

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

This MD&A is dated May 9, 2007. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

Paramount is an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of petroleum and natural gas. Paramount's principal properties are located in Alberta, the Northwest Territories and British Columbia in Canada, and in Montana and North Dakota in the United States. Management's strategy is to maintain a balanced portfolio of opportunities, to grow reserves and production in Paramount's 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 agreements for high risk/high return prospects. In addition, Paramount has spun-out three public entities: Paramount Energy Trust in March, 2003; Trilogy Energy Trust in April, 2005; and most recently, MGM Energy Corp. ("MGM Energy") in 2007.

Financial Highlights

(\$ millions, except as noted)	Three Months Ended March 31		
	2007	2007 vs 2006	2006
Funds flow from operations ⁽¹⁾	42.8	1%	42.4
per share - diluted (\$/share)	0.60	(5%)	0.63
Net earnings (loss)	(16.1)	(307%)	7.8
per share - basic (\$/share)	(0.23)	(292%)	0.12
per share - diluted (\$/share)	(0.23)	(292%)	0.12
Petroleum and natural gas sales	78.8	(10%)	87.9
Total assets	1,540.8	21%	1,272.7
Long-term debt ⁽²⁾	517.1	32%	391.4
Net debt ^{(1),(2)}	676.8	39%	486.3

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

⁽²⁾ Excludes debt financing costs.

Funds Flow From Operations

Paramount's funds flow from operations increased by 1 percent in the first quarter of 2007 to \$42.8 million from \$42.4 million in the first quarter of 2006. This increase was primarily due to:

- Higher realized gains on financial forward commodity contracts; and
- Higher production.

These increases were partially offset by:

- Decreases in realized natural gas prices;
- Lower cash distributions received from Trilogy Energy Trust;
- Higher interest expense; and
- Other items shown in the table below.

The following table summarizes the primary variances in funds flow from operations between the first quarter of 2007 and the first quarter of 2006:

	<u>\$ millions</u>	<u>% variance</u>
Funds Flow From Operations – Three Months Ended March 31, 2006	42.4	
<i>Favourable (unfavourable) variance</i>		
Volume variance – natural gas	1.3	3
Volume variance – oil and NGLs	1.6	4
Price variance – natural gas	(12.5)	(29)
Price variance – oil and NGLs	0.5	1
Realized gain on financial instruments	23.0	54
Royalties	3.2	7
Operating expense	(4.5)	(11)
General and administrative expense	(1.5)	(3)
Stock-based compensation expense	2.2	5
Interest expense	(4.8)	(11)
Distributions from equity investments	(6.4)	(15)
Other	(1.7)	(4)
Total variance	<u>0.4</u>	<u>1</u>
Funds Flow From Operations – Three Months Ended March 31, 2007	<u>42.8</u>	

Net Earnings (Loss)

Paramount's net earnings decreased by 307 percent in the first quarter of 2007 to a net loss of \$16.1 million from net earnings of \$7.8 million in the first quarter of 2006. In addition to the changes highlighted in the funds flow table above, the decrease in net earnings is primarily due to:

- Higher unrealized loss on financial instruments; and
- Higher dry hole expense, mainly due to the winter drilling program undertaken by Paramount's subsidiary MGM Energy.

These decreases were partially offset by:

- A higher future income tax recovery;
- A higher non-cash stock based compensation recovery; and
- Other items shown in the table below.

The following table summarizes the primary variances in net earnings (loss) between the first quarter of 2007 and the first quarter of 2006.

	\$ millions	% variance
Net Earnings – Three months ended March 31, 2006	7.8	
<i>Favourable (unfavourable) variance</i>		
Impact of variances in funds flow from operations	0.4	5
Unrealized gain (loss) on financial instruments	(54.0)	(695)
Stock-based compensation – non cash portion	24.5	315
Exploration	6.4	83
Dry hole	(40.8)	(524)
Unrealized foreign exchange gain (loss)	5.5	70
Future income tax (recovery) expense	28.1	361
Income from equity investments and other	(4.3)	(56)
Minority interest	10.2	133
Other	0.1	1
Total variance	(23.9)	(307)
Net Loss – Three months ended March 31, 2007	(16.1)	

MGM Spinout

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

Through the MGM Spinout:

- A fraction of each issued and outstanding common share of Paramount Resources Ltd. (each a "Common Share") was exchanged for a Class Y Preferred Share of Paramount Resources Ltd. (each, a "Preferred Share"), with the remaining fraction of each Common Share being changed into one Common Share with the result that holders of Common Shares then held the same number of Common Shares as originally held.
- Paramount's shareholders transferred their Preferred Shares to MGM Energy for common shares of MGM Energy ("MGM Shares"), with Paramount's shareholders receiving an aggregate of approximately 2.8 million MGM Shares, and the Preferred Shares received by MGM Energy being redeemed by Paramount and cancelled;

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

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

MGM Energy Warrants and Private Placement

Each warrant issued by MGM Energy entitled or entitles, as the case may be, the holder to purchase one MGM Share or one flow-through MGM Share as described below. Each Longer Term Warrant was not exercisable, and was not separable from the corresponding Short Term Warrant included in the warrant unit, unless the corresponding Short Term Warrant was exercised.

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

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

In February 2007, MGM Energy completed a private placement of 210,000 MGM Shares at a price of \$5.00 per share and 160,000 MGM Shares issued on a flow-through basis at a price \$6.25 per share, with each MGM Share accompanied by one Longer Term Warrant. The gross proceeds of this issue were \$2.1 million.

Non-Controlling Interest

As a result of the MGM Spinout, exercises of Short Term Warrants and Longer Term Warrants, and MGM Energy's February 2007 private placement, Paramount owned 51.7 percent of the issued and outstanding MGM Shares as of March 31, 2007. Because MGM Energy is a subsidiary of Paramount, its financial position, results of operations and cashflows form part of the consolidated financial statements of Paramount. The 48.3 percent non-controlling interest in MGM Energy's net assets as of March 31, 2007 and the non-controlling interest in MGM Energy's results of operations has been separately reflected in the unaudited Interim Consolidated Financial Statements as "Non-controlling interest".

MGM Energy's common shares and warrants are listed on the Toronto Stock Exchange under the symbols "MGX" and "MGX.WT.B", respectively.

Financial Information Breakdown

The following table summarizes selected financial information from Paramount's consolidated financial statements as at and for the three months ended March 31, 2007, separating amounts relating to MGM Energy from Paramount's consolidated balances. MGM Energy is a consolidated subsidiary of Paramount and as a result, its financial position, results of operations and cashflows form part of the consolidated financial statements of Paramount. The information included in the table below is provided for informational purposes only, and summarizes amounts in respect of MGM Energy as at March 31, 2007 and for the period January 12, 2007 to March 31, 2007 included in the consolidated financial statements of Paramount. Readers are cautioned that all amounts in the legal entity financial statements of MGM Energy do not necessarily agree to the table below as a result of the impact of consolidating and other adjustments made.

<i>(\$ millions)</i>	MGM Energy	Paramount excluding MGM Energy	Paramount Consolidated
Assets			
Cash and cash equivalents	63.1	10.1	73.2
Other current assets	0.5	120.1	120.6
Property, plant and equipment	66.6	1,021.4	1,088.0
Long-term investments and other assets	-	212.8	212.8
Goodwill	-	12.2	12.2
Future income tax asset (liability)	(2.4)	36.4	34.0
	127.8	1,413.0	1,540.8
Liabilities			
Accounts payable and accrued liabilities	27.7	221.4	249.1
Other current liabilities	-	104.2	104.2
Long-term debt	-	510.3	510.3
Asset retirement obligations	0.9	86.2	87.1
Stock-based compensation liability – Long-term portion	-	12.5	12.5
Non-controlling interest	-	48.1	48.1
	28.6	982.7	1,011.3
Revenue⁽¹⁾	-	62.8	62.8
Expenses			
Operating	-	22.6	22.6
Transportation	-	4.3	4.3
General and administrative	0.8	7.8	8.6
Stock-based compensation	0.3	(6.6)	(6.3)
Depletion, depreciation and accretion	-	33.5	33.5
Exploration	0.4	4.9	5.3
Dry hole	34.8	12.8	47.6
Other	-	8.4	8.4
Income from equity investments and other	(0.3)	(15.6)	(15.9)
Income and other tax expense (recovery)	(11.0)	(7.7)	(18.7)
Non-controlling interest	-	(10.5)	(10.5)
	25.0	53.9	78.9

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

Results of Operations

Revenue

(\$ millions)	Three Months Ended			Three Months Ended		
	March 31	December 31	% Change	March 31	March 31	% Change
	2007	2006		2007	2006	
Natural gas sales	58.9	52.3	13	58.9	70.1	(16)
Oil and NGLs sales	19.9	20.8	(4)	19.9	17.8	12
Total	78.8	73.1	8	78.8	87.9	(10)

Revenue from natural gas, oil and NGLs sales in the first quarter of 2007 was \$78.8 million, down 10 percent from the first quarter of 2006 due to the impact of lower realized natural gas prices, partially offset by higher natural gas and liquids sales volumes and higher realized liquids prices.

The following table shows the impact of changes in prices and volumes on petroleum and natural gas sales revenue for the three months ended March 31, 2007 compared to the three months ended March 31, 2006:

(\$ millions)	Natural gas	Oil and NGLs	Total
Revenue – three months ended March 31, 2006	70.1	17.8	87.9
Effect of changes in prices	(12.5)	0.5	(12.0)
Effect of changes in sales volumes	1.3	1.6	2.9
Revenue – three months ended March 31, 2007	58.9	19.9	78.8

Sales Volumes

	Three Months Ended			Three Months Ended		
	March 31	December 31	% Change	March 31	March 31	% Change
	2007	2006		2007	2006	
Natural gas (MMcf/d)	84.8	79.0	7	84.8	82.9	2
Oil and NGLs (Bbl/d)	3,636	3,937	(8)	3,636	3,339	9
Total (Boe/d)	17,773	17,104	4	17,773	17,152	4

Average daily natural gas sales volumes increased two percent to 84.8 MMcf/d in the first quarter of 2007 compared to 82.9 MMcf/d in the first quarter of 2006, primarily as a result of additional wells being tied in and brought on production in the Musreau and Resthaven areas within the Kaybob Corporate Operating Unit, and in the Chain area within the Southern Corporate Operating Unit. These increases were partially offset by decreases in production within the Northern Corporate Operating Unit as a result of a planned plant turnaround at Bistcho and declines in production rates at Liard and Liard West.

Average daily crude oil and NGLs sales volumes increased nine percent to 3,636 Bbl/d in the first quarter of 2007 compared to 3,339 Bbl/d in the first quarter of 2006, primarily as a result of additional wells being tied in and brought on production in the Ante Creek and Crooked Creek areas within the Grande Prairie Corporate Operating Unit. These increases were partially offset by decreases in daily sales volumes within the Northern and Southern Corporate Operating Units.

Paramount's first quarter 2007 exit production was approximately 19,000 Boe/d. The following table provides a comparison of average daily sales volumes by corporate operating unit, between the first quarter of 2007 and the first quarter of 2006:

	Q1 2007			Q1 2006			Change		
	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	21.8	407	4,047	13.5	333	2,581	8.3	74	1,466
Grande Prairie	13.5	885	3,134	15.4	398	2,960	(1.9)	487	174
Northern	27.3	989	5,536	34.6	1,059	6,817	(7.3)	(70)	(1,281)
Southern	20.3	1,354	4,744	16.5	1,544	4,296	3.8	(190)	448
Other	1.9	1	312	2.9	5	498	(1.0)	(4)	(186)
Total	84.8	3,636	17,773	82.9	3,339	17,152	1.9	297	621

First quarter 2007 average daily natural gas sales volumes increased seven percent to 84.8 MMcf/d compared to 79.0 MMcf/d in the fourth quarter of 2006, as increases in daily sales volumes from new wells brought on production in the Chain and Brownfield areas within the Southern Corporate Operating Unit, and in Musreau and Resthaven areas within the Kaybob Corporate Operating Unit, more than offset decreases in daily sales volumes in other corporate operating units, primarily in the Ante Creek area within the Grande Prairie Corporate Operating Unit. During the first quarter of 2007, a total of 12.0 MMcf/d of additional production was brought on from wells at Chain, Musreau, Resthaven, and Smoky.

First quarter 2007 average daily oil and NGLs sales volumes decreased eight percent to 3,636 Bbl/d compared to 3,937 Bbl/d in the fourth quarter of 2006, primarily as a result of decreases in daily sales volumes in the Ante Creek area within the Grande Prairie Corporate Operating Unit and decreases within the Kaybob Corporate Operating Unit.

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

	Q1 2007			Q4 2006			Change		
	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total	Natural Gas	Oil and NGLs	Total
	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d	MMcf/d	Bbl/d	Boe/d
Kaybob	21.8	407	4,047	17.9	540	3,517	3.9	(133)	530
Grande Prairie	13.5	885	3,134	16.2	1,081	3,787	(2.7)	(196)	(653)
Northern	27.3	989	5,536	28.0	921	5,592	(0.7)	68	(56)
Southern	20.3	1,354	4,744	14.5	1,390	3,809	5.8	(36)	935
Other	1.9	1	312	2.4	5	399	(0.5)	(4)	(87)
Total	84.8	3,636	17,773	79.0	3,937	17,104	5.8	(301)	669

Commodity Prices

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

	Three Months Ended			Three Months Ended		
	Mar 31/07	Dec 31/06	% Change	Mar 31/07	Mar 31/06	% Change
Natural Gas						
New York Mercantile Exchange (Henry Hub Close) monthly average (US\$/MMBtu)	6.77	6.55	3	6.77	8.98	(25)
AECO monthly average:						
Cdn\$/GJ	7.07	6.03	17	7.07	8.79	(20)
US\$/MMBtu	6.37	5.61	14	6.37	8.09	(21)
Crude Oil						
West Texas Intermediate monthly average (US\$/Bbl)	58.27	60.22	(3)	58.27	63.48	(8)
Edmonton par monthly average (Cdn\$/Bbl)	67.76	65.14	4	67.76	69.46	(2)
Foreign Exchange						
Canadian Dollar – US Dollar Exchange Rate Monthly average with Company’s banker (Cdn\$/1 US\$)	1.17	1.14	3	1.17	1.15	2

In the first quarter of 2007, crude oil prices retreated from last years record highs, with West Texas Intermediate (“WTI”) averaging US\$58.27/Bbl, eight percent lower than in the first quarter of 2006. In the first quarter of 2007, natural gas prices also declined from 2006 levels with New York Mercantile Exchange (“NYMEX”) gas averaging US\$6.77/MMBtu, 25 percent lower than the NYMEX average in the first quarter of 2006.

Average Realized Prices

	Three Months Ended			Three Months Ended		
	March 31	December 31	% Change	March 31	March 31	% Change
	2007	2006		2007	2006	
Natural gas sales (\$/Mcf)	7.72	7.20	7	7.72	9.39	(18)
Oil and NGLs sales (\$/Bbl)	60.84	57.47	6	60.84	59.39	2
Total (\$/Boe)	49.28	46.48	6	49.28	56.95	(13)

Paramount’s average realized natural gas price for the first quarter of 2007, before realized gains on financial instruments, decreased 18 percent to \$7.72/Mcf compared to \$9.39/Mcf in the first quarter of 2006. Paramount’s average realized natural gas price for the first quarter of 2007, before realized gains on financial instruments, increased seven percent compared to the fourth quarter of 2006. Paramount’s average realized gas price is based on prices received at the various markets in which it sells natural gas. Paramount’s natural gas sales portfolio primarily consists of sales priced at the Alberta spot market, eastern Canadian markets, California markets and a portion to aggregators.

Paramount’s average realized oil and NGLs price for the first quarter of 2007, before realized gains on financial instruments, increased two percent to \$60.84/Bbl as compared to \$59.39/Bbl in the first quarter of 2006. Paramount’s average realized natural gas price for the first quarter of 2007, before realized gains on financial instruments, increased six percent compared to the fourth quarter of 2006. Paramount’s Canadian oil and NGLs sales portfolio primarily consists of lease sales priced in Edmonton, adjusted for transportation and quality differentials. Paramount’s United States oil and NGLs sales portfolio is sold at the lease with differentials negotiated relative to West Texas Intermediate.

Risk Management

Paramount's outstanding forward financial contracts are set out in the consolidated financial statements in Note 13 – Financial Instruments. Paramount has chosen not to designate any of the forward financial 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.

The realized and unrealized gain (loss) on financial instruments, including financial forward commodity contracts and the foreign exchange collar, reflected in the unaudited Interim Consolidated Financial Statements are as follows:

(\$ millions, except as noted)	Three Months Ended March 31		
	2007	2006	% Change
Realized gain (loss) on financial instruments	22.1	(1.0)	2,310
Unrealized gain (loss) on financial instruments	(24.5)	29.5	(183)
Total gain (loss) on financial instruments	(2.4)	28.5	(108)
Realized gain (loss) on financial instruments (\$/Boe)	13.80	(0.62)	2,326
Unrealized gain (loss) on financial instruments (\$/Boe)	(15.34)	19.08	(180)
Total gain (loss) on financial instruments (\$/Boe)	(1.54)	18.46	(108)

Royalties

(\$ millions, except as noted)	Three Months Ended			Three Months Ended		
	March 31	December 31	% Change	March 31	March 31	% Change
	2007	2006		2007	2006	
Natural gas	9.4	5.7	65	9.4	14.9	(37)
Oil and NGLs	4.2	6.2	(32)	4.2	1.9	121
Total	13.6	11.9	14	13.6	16.8	(19)
\$/Boe	8.51	7.54	13	8.51	10.87	(22)
Royalty rate (%)	18.3	17.3	6	18.3	19.9	(8)

Royalties decreased 19 percent to \$13.6 million in the first quarter of 2007 compared to \$16.8 million in the first quarter of 2006, primarily as a result of decreases in Paramount's gas revenue. In addition, Paramount's weighted average royalty rate decreased in the first quarter of 2007 to 18 percent from 20 percent in the first quarter of 2006, primarily as a result of: (i) the impact of crown royalty holidays in the Kaybob Corporate Operating Unit; and (ii) the impact of immediate deductions of operating and capital costs for royalty purposes on frontier lands in the Northwest Territories. Paramount's royalties increased by 14 percent to \$13.6 million in the first quarter of 2007 compared to \$11.9 million for the last quarter of 2006, primarily a result of the impact of lower recorded royalty holidays in the first quarter of 2007 primarily, in the Kaybob Corporate Operating Unit.

The following table shows the impact of changes in revenue and royalty rates on royalty expense for the three months ended March 31, 2007 compared to the three months ended March 31, 2006:

(\$ millions)	Total
Royalties – three months ended March 31, 2006	16.8
Effect of changes in revenue	(1.8)
Effect of changes in royalty rates	(1.4)
Royalties – three months ended March 31, 2007	13.6

Operating Expense

(\$ millions, except as noted)	Three Months Ended			Three Months Ended		
	March 31	December 31	% Change	March 31	March 31	% Change
	2007	2006		2007	2006	
Operating expense	22.6	16.1	40	22.6	18.1	25
\$/Boe	14.14	10.22	38	14.14	11.74	20

Operating expenses increased 25 percent to \$22.6 million in the first quarter of 2007 compared to \$18.1 million in the first quarter of 2006 primarily as a result of a higher amount of activity during the first quarter of 2007, including: a plant turnaround at Bistcho, increased well maintenance and services at other areas in the Northern Corporate Operating Unit, an increased number of workovers mostly in the Kaybob and Northern Corporate Operating Units and new wells coming on production in the Kaybob Corporate Operating Unit. Operating expenses increased 40 percent in the first quarter of 2007 compared to \$16.1 million in the fourth quarter of 2006, as Paramount completed maintenance and workover activities, as described above, at many winter-only access areas.

Transportation Expense

(\$ millions, except as noted)	Three Months Ended			Three Months Ended		
	March 31	December 31	% Change	March 31	March 31	% Change
	2007	2006		2007	2006	
Transportation expense	4.3	3.4	26	4.3	3.7	16
\$/Boe	2.68	2.15	25	2.68	2.37	13

Transportation expense increased 16 percent to \$4.3 million in the first quarter of 2007 compared to \$3.7 million in the first quarter of 2006, primarily because of increased sales volumes within the Kaybob Corporate Operating Unit and other increases within the Northern Corporate Operating Unit.

Netbacks and Funds Flow From Operations

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

(\$ millions)	Q1 2007	Q4 2006	Q1 2006
Revenue ⁽¹⁾	74.5	69.7	84.3
Royalties	(13.6)	(11.9)	(16.8)
Operating expenses	(22.6)	(16.1)	(18.1)
Netback excluding realized financial instruments	38.3	41.7	49.4
Realized gain (loss) on financial instruments	22.1	10.2	(1.0)
Netback including realized gain (loss) on financial instruments	60.4	51.9	48.4
Realized foreign exchange gain (loss)	(0.2)	(0.8)	0.3
Gain (loss) on sale of investments	-	-	1.2
General and administrative expense	(8.6)	(10.2)	(7.2)
Stock-based compensation expense ⁽²⁾	(0.9)	(10.0)	(3.1)
Interest ⁽³⁾	(11.0)	(11.0)	(6.4)
Lease rentals	(0.7)	(0.7)	(0.7)
Asset retirement obligation expenditures	(0.5)	(0.2)	(0.2)
Distributions from equity investments	4.5	7.2	11.2
Current and large corporations tax	(0.2)	(0.1)	(1.1)
Funds flow from operations ⁽⁴⁾	42.8	26.1	42.4

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

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

⁽³⁾ Excluding non-cash interest expense.

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

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

	Q1 2007	Q4 2006	Q1 2006
Produced gas (\$/Mcf)			
Revenue ⁽¹⁾	7.19	6.75	8.93
Royalties	(1.23)	(0.79)	(2.00)
Operating expenses	(2.40)	(1.72)	(1.99)
Netback excluding realized financial instruments	3.56	4.24	4.94
Realized gain (loss) on financial instruments – natural gas	1.99	1.24	(0.08)
Netback including realized gain (loss) on financial instruments	5.55	5.48	4.86
Conventional oil (\$/Bbl)			
Revenue ⁽¹⁾	58.96	58.46	58.30
Royalties	(11.24)	(14.45)	(5.28)
Operating expenses	(13.76)	(9.90)	(11.20)
Netback excluding realized financial instruments	33.96	34.11	41.82
Realized gain (loss) on financial instruments – crude oil	7.34	4.71	(1.51)
Netback including realized gain (loss) on financial instruments	41.30	38.82	40.31
Natural gas liquids (\$/Bbl)			
Revenue ⁽¹⁾	64.56	54.07	60.31
Royalties	(20.15)	(22.64)	(10.16)
Operating expenses	(10.09)	(9.55)	(10.42)
Netback	34.32	21.88	39.73
All products (\$/Boe)			
Revenue ⁽¹⁾	46.59	44.33	54.57
Royalties	(8.51)	(7.54)	(10.87)
Operating expenses	(14.14)	(10.22)	(11.74)
Netback excluding realized financial instruments	23.94	26.57	31.96
Realized gain (loss) on financial instruments	13.80	6.49	(0.62)
Netback including realized gain (loss) on financial instruments	37.74	33.06	31.34

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

Funds Flow from Operations per Boe ⁽³⁾

(\$/Boe)	Q1 2007	Q4 2006	Q1 2006
Netback including realized gain (loss) on financial instruments	\$ 37.74	\$ 33.06	\$ 31.34
Realized foreign exchange gain (loss)	(0.14)	(0.51)	0.18
Gain (loss) on sale of investments	-	-	0.80
General and administrative expense	(5.38)	(6.47)	(4.63)
Stock-based compensation expense ⁽¹⁾	(0.36)	(6.38)	(1.98)
Interest ⁽²⁾	(6.99)	(7.01)	(4.21)
Lease rentals	(0.43)	(0.46)	(0.49)
Asset retirement obligation expenditures	(0.34)	(0.16)	(0.11)
Distributions from equity investments	2.82	4.60	7.30
Current and large corporations tax	(0.15)	(0.09)	(0.73)
Funds flow from operations per Boe (\$/Boe) ⁽³⁾	\$ 26.77	\$16.58	\$27.47

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

⁽²⁾ Excluding non-cash interest expense.

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

Other Operating Items

General and Administrative Expense

	Three Months Ended		
	March 31	March 31	% Change
	2007	2006	
(\$ millions)	8.6	7.2	19

General and administrative expense increased 19 percent to \$8.6 million in the first quarter of 2007 compared to \$7.2 million in the first quarter of 2006. This increase is primarily the result of increased staff levels and compensation costs, and decreased recoveries from Trilogy Energy Trust as a result of decreases in the extent to which Paramount provides services under the services agreement with Trilogy – see “Related Party Transactions” below.

Stock-Based Compensation Expense

	Three Months Ended		
	March 31	March 31	% Change
	2007	2006	
(\$ millions)	(6.3)	20.4	(131)

Paramount recorded a stock-based compensation recovery of \$6.3 million in the first quarter of 2007 compared to stock-based compensation expense of \$20.4 million in the first quarter of 2006. The 2007 stock-based compensation recovery primarily resulted from a decrease in the market price of Paramount’s Common Shares during the first quarter of 2007 relative to the 2006 year-end price of Paramount’s Common Shares.

Depletion, Depreciation and Accretion Expense

	Three Months Ended		
	March 31	March 31	% Change
	2007	2006	
(\$ millions)	33.5	34.5	(3)

Depletion, depreciation and accretion expense decreased three percent to \$33.5 million (\$20.97 per BOE) in the first quarter of 2007 compared to \$34.5 million (\$22.35 per BOE) in the first quarter of 2006, primarily as a result of the impact of the fourth quarter 2006 write-down of petroleum and natural gas properties, partially offset by capital expenditures made by Paramount during 2006 and the first quarter of 2007.

Exploration Expense

	Three Months Ended		
	March 31	March 31	% Change
	2007	2006	
(\$ millions)	5.3	11.8	(55)

Exploration expense consists of geological and geophysical costs, seismic, and lease rentals expenses. These costs are expensed as incurred under the successful efforts method of accounting. Exploration expense decreased 55 percent to \$5.3 million in the first quarter of 2007 compared to \$11.8 million in the first quarter of 2006.

Dry Hole Expense

	Three Months Ended		
	March 31	March 31	% Change
	2007	2006	
(\$ millions)	47.6	6.8	600

Dry hole expense increased 600 percent to \$47.6 million in the first quarter of 2007 compared to \$6.8 million in the first quarter of 2006. Dry hole expense during the first quarter of 2007 related primarily to the winter drilling program undertaken by Paramount's subsidiary MGM Energy, where two wells were drilled on lands subject to the Farm-in Agreement: "Kumak I-25" and "Unipkat M-45". Neither well appeared to contain commercial quantities of hydrocarbons. As a result, the Kumak I-25 well was cased and suspended without further testing and the Unipkat M-45 well was abandoned. A total of \$39.8 million of dry hole expense was recorded in respect of Kumak I-25 and Unipkat M-45 in the first quarter of 2007. In addition, dry hole expense includes costs of unsuccessful exploratory wells, primarily within the Northern and Grande Prairie Corporate Operating Units.

Interest Expense

	Three Months Ended		
	March 31	March 31	% Change
	2007	2006	
(\$ millions)	11.5	6.6	74

Interest expense increased by 74 percent to \$11.5 million in the first quarter of 2007 compared to \$6.6 million in the first quarter of 2006, because of higher debt levels, including the addition of Paramount's US\$150 million Term Loan B Facility in the third quarter of 2006 and higher weighted average interest rates on floating rate indebtedness.

Foreign Exchange (Gain) Loss

	Three Months Ended		
	March 31	March 31	% Change
	2007	2006	
(\$ millions)	(4.0)	1.0	500

Paramount recorded a foreign exchange gain of \$4.0 million in the first quarter of 2007 compared to a foreign exchange loss of \$1.0 million in the first quarter of 2006. The 2007 gain of \$4.0 million is primarily a result of unrealized foreign exchange gains related to US dollar denominated debt.

Income from Equity Investments and Other

	Three Months Ended		
	March 31	March 31	% Change
	2007	2006	
(\$ millions)	15.9	28.3	(44)

Income from equity investments and other ("Equity Earnings") is comprised of equity earnings/losses, dilution gains/losses associated with Paramount's equity investments, and gains on sale of other investments. Equity Earnings decreased 44 percent to \$15.9 million in the first quarter of 2007 compared to \$28.3 million in the first quarter of 2006. During the first quarter of 2007 Paramount recorded aggregate dilution gains of \$24.7 million

relating to MGM Energy's issuance of common shares. These dilution gains were offset by an aggregate equity loss of \$3.0 million and a dilution loss of \$5.5 million associated with Paramount's investment in North American.

Income and Other Tax Expense (Recovery)

(\$ millions)	Three Months Ended		
	March 31 2007	March 31 2006	% Change
Current and large corporation tax expense	0.2	1.1	(82)
Future income tax expense (recovery)	(18.9)	9.2	305
Income and other tax expense (recovery)	(18.7)	10.3	282

Current and large corporation tax expense decreased 82 percent to \$0.2 million in the first quarter of 2007 compared to \$1.1 million in the first quarter of 2006. The future income tax recovery increased 305 percent to \$18.9 million in the first quarter of 2007 compared to an expense of \$9.2 million in the first quarter of 2006.

The determination of Paramount's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. While income tax filings are subject to audits and potential reassessments, management believes adequate provision has been made for all income tax obligations. However, changes in interpretations or judgments may result in an increase or decrease in the Company's income tax provision in the future.

Paramount records future tax assets and liabilities to account for the expected future tax consequences of events that have been recorded in its consolidated financial statements and its tax returns. These amounts are estimates; the actual tax consequences may differ from the estimates due to changing tax rates and regimes, as well as changing estimates of cash flows and capital expenditures in current and future periods. We periodically assess whether our future tax assets are realizable. If Paramount concludes that it is more likely than not that some portion or all of any future tax assets will not be realized, the tax asset will be reduced by a valuation allowance.

Capital Expenditures

The following table summarizes Paramount's capital expenditures on a consolidated basis. Capital expenditures for the first quarter of 2007 include all capital expenditures of Paramount's 51.7% owned subsidiary MGM Energy Corp.

(\$ millions)	Three Months Ended	
	March 31 2007	March 31 2006
Land	6.7	12.1
Geological and geophysical	4.6	11.1
Drilling and completions	126.1	111.7
Production equipment and facilities	50.3	33.0
Exploration and development expenditures	187.7	167.9
Property acquisitions	-	24.5
Proceeds on property dispositions and other	(0.9)	(0.2)
Net capital expenditures	186.8 ⁽¹⁾	192.2 ⁽²⁾

⁽¹⁾ Includes capital expenditures incurred by MGM Energy of \$29.1 million subsequent to the January 12, 2007 MGM Spinout (exploration and development expenditures - \$29.0 million, other - \$0.1 million).

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

During the first quarter of 2007, exploration and development expenditures totalled \$187.7 million, which includes \$29.0 million of capital expenditures incurred by Paramount's 51.7% owned subsidiary MGM Energy from January 12, 2007 to March 31, 2007 relating to exploration activities on lands subject to the Farm-in Agreement. Excluding these amounts, Paramount's first quarter exploration and development expenditures totalled \$158.8 million.

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

A comparison of the number of wells drilled for the three months ended March 31, 2007 and March 31, 2006 is as follows:

(wells drilled)	Three months ended			
	March 31 2007		March 31 2006	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Gas	48	31	84	44
Oil	9	5	3	2
Oil sands evaluation	43	43	121	61
D&A ⁽³⁾	4	3	5	4
Total	104	82	213	111

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

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

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

Quarterly Information

(\$ millions, except as noted)	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Funds flow from operations ⁽¹⁾	42.8	26.1	37.3	65.8	42.4	48.9	50.5	53.2
per share – diluted (\$/share)	0.60	0.38	0.54	0.95	0.63	0.72	0.77	0.81
Net earnings (loss)	(16.1)	(159.6)	22.2	111.9	7.8	37.8	(69.1)	12.9
per share - basic (\$/share)	(0.23)	(2.32)	0.33	1.65	0.12	0.57	(1.05)	0.20
per share - diluted (\$/share)	(0.23)	(2.32)	0.32	1.61	0.12	0.56	(1.05)	0.20
Petroleum and natural gas sales	78.8	73.1	77.9	73.7	87.9	115.1	99.2	91.8
Quarterly sales volumes								
Natural gas (MMcf/d)	84.8	79.0	81.4	83.2	82.9	92.7	98.8	97.7
Oil and NGLs (Bbl/d)	3,636	3,937	3,901	3,423	3,339	3,383	3,158	3,407
Total (BOE/d)	17,773	17,104	17,471	17,297	17,152	18,837	19,624	19,685
Quarterly average realized price								
Natural gas (\$/Mcf)	7.72	7.20	7.07	6.98	9.39	11.24	8.80	8.20
Oil and NGLs (\$/Bbl)	60.84	57.47	69.32	66.79	59.39	61.74	65.95	61.16

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

Liquidity and Capital Resources

(\$ millions)	March 31, 2007	December 31, 2006	Change	
			\$	%
Working capital deficit ⁽¹⁾	159.4	84.3	75.1	89
Credit facility	97.3	85.1	12.2	14
Term loan B facility ⁽⁴⁾	173.2	174.8	(1.6)	(1)
US senior notes ⁽⁴⁾	246.6	248.9	(2.3)	(1)
Stock-based compensation liability ⁽²⁾	0.3	0.3	-	-
Net debt ⁽³⁾⁽⁴⁾	676.8	593.4	83.4	14
Shareholders' equity	529.5	563.8	(34.3)	(6)
Total	1,206.3	1,157.2	49.1	4

⁽¹⁾ Includes current portion of stock-based compensation liability of \$3.9 million at March 2007 (December 2006- \$5.2 million).

⁽²⁾ Since August 2005, Paramount has generally declined optionholders' requests 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 of \$12.3 million has been excluded from the computation of Net Debt at March 31, 2007 (December 2006 - \$27.7 million).

⁽³⁾ Net debt is a non-GAAP measure. Readers are referred to the advisories concerning non-GAAP measures under the heading "Advisories" at the end of this MD&A. Net Debt includes the stock-based compensation liability associated with Holdco Options totalling \$4.2 million in March 2007 (December 2006 - \$5.5 million) as Paramount has accepted optionholders' requests for cash payments, and expects that this will continue.

⁽⁴⁾ Excludes debt financing costs.

On April 27, 2007, Paramount reported that Statoil ASA ("Statoil") had entered into an acquisition agreement with North American whereby Statoil will make an all-cash offer to acquire all of the shares of North American at a price of \$20 per share.

Concurrently with the entering into of the acquisition agreement by Statoil and North American, Paramount entered into a lock-up agreement with respect to all of the North American shares it owns. The lock-up agreement, subject to certain conditions, calls for Paramount to sell the 34.1 million Class A shares of North American that it owns, for aggregate cash consideration of approximately \$682.4 million. Including Paramount, holders representing an aggregate of 69 percent of the North American shares, on a fully diluted basis, have entered into lock-up agreements agreeing to tender their shares to the offer.

The board of directors of North American unanimously approved the offer, recommending that shareholders of North American accept the offer. The offer is subject to regulatory approvals and other customary conditions contained in the formal offer documents. The transaction is expected to close at the end of the second quarter of 2007.

Also on April 27, 2007, Paramount confirmed that it has been in discussions regarding the possible sale of its oil sands leases and shut-in natural gas rights in the Surmont area of Alberta. At this time, there can be no assurance that a disposition will take place.

Consideration is being given to how Paramount's proceeds of disposition will be applied. Uses of proceeds could include, but are not limited to, the repayment of debt, the repurchase of shares, funding Paramount's capital program, strategic acquisitions, and general corporate purposes.

Working Capital

Paramount's working capital position at March 31, 2007 was a \$159.4 million deficit compared to an \$84.3 million deficit at December 31, 2006. Included in Paramount's working capital position at March 31, 2007 is a net working capital surplus of MGM Energy of \$35.0 million. As MGM Energy is an independent public company, its working capital is available only to fund the operations of MGM Energy, and may not be used by Paramount for other purposes. Excluding MGM Energy's working capital position at March 31, 2007, Paramount's working capital deficit was \$194.4 million.

Also included in working capital as of March 31, 2007 is a \$ 1.7 million current liability relating to the mark-to-market value of unsettled financial instruments (December 31, 2006 - \$22.8 million current asset) and a \$100

million bridge loan. The following table provides a breakdown of the fair value of financial instruments included in the consolidated balance sheet as of March 31:

<i>(\$ millions)</i>	March 31, 2007	December 31, 2006	% Change
Financial forward commodity contracts – asset	-	18.3	-
Financial forward commodity contracts – liability	(0.3)	-	-
Foreign exchange collar	(1.5)	4.5	(133)
Net financial instrument asset (liability)	(1.8)	22.8	(108)

The amount ultimately paid or received by Paramount on settlement of the financial instruments is dependent upon underlying crude oil prices, natural gas prices, and the Canadian dollar / United States dollar exchange rate when the contracts are settled.

Short-Term Bank Indebtedness

On March 28, 2007, Paramount closed a six month \$100 million senior unsecured non-revolving credit facility with two Canadian banks (the “Bridge Facility”). The full amount of the Bridge Facility was drawn at closing. Net proceeds were used to provide working capital in the ordinary course of business. Borrowings under the Bridge Facility bear interest at floating rates based on the lenders’ prime rate or bankers’ acceptance rate, at the discretion of Paramount, plus an applicable margin. The applicable margin would increase by 0.5 percent per annum starting June 29, 2007 if the Bridge Facility is not repaid by that time. If the Bridge Facility is not repaid in full within 120 days of closing, the agent for the facility may at its discretion, under certain circumstances, provide a notice to Paramount requiring Paramount to execute an offering of unsecured debt securities in an amount sufficient to repay the Bridge Facility. It is anticipated that this Bridge Facility will be repaid from the proceeds of disposition of certain non-core assets and the North American investment. Drawings under the Bridge Facility, net of issue costs, are included in the March 31, 2007 working capital deficit.

Bank Credit Facility

On March 29, 2007 Paramount’s \$200 million credit facility with a syndicate of Canadian banks was extended for one month.

On March 31, 2007, the net borrowing base available was \$120 million after adjustments to the gross borrowing base for US senior notes and Term Loan B facility service costs. Borrowings under the bank credit facility bear interest at a floating rate, based on the lenders’ prime rate, bankers’ acceptance rate or LIBOR, at the discretion of Paramount, plus an applicable margin dependent on certain conditions.

At March 31, 2007, Paramount had letters of credit outstanding totaling approximately \$16.4 million. These letters of credit have not been drawn; however, they reduce the amount available to the Company under the bank credit facility.

On April 30, 2007, Paramount replaced its existing credit facility with a new \$125 million credit facility with a syndicate of Canadian banks, \$120 million of which is available after adjustments for US senior notes and Term Loan B facility service costs. Borrowings under the new credit facility bear interest at floating rates on the same basis as the credit facility it replaced. The new facility is available on a revolving basis for a period of 364 days, and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for a one year term, at the end of which time the facility would be due and payable. Advances drawn on Paramount’s new credit facility are secured by a first fixed and floating charge over the assets of the company, excluding approximately 12.8 million of the Trilogy Energy Trust units and all of the North American shares owned by Paramount.

Management of Paramount is considering the appropriate bank credit facility size for the Company. Discussions are ongoing with certain Canadian banks with respect to their potential participation in the company’s bank credit facility syndicate.

Term Loan B Facility

In August, 2006, Paramount closed a six year \$US150 million non-revolving Term Loan B Facility (the “TLB Facility”). The full amount of the TLB facility was drawn on closing. The TLB Credit facility is secured by all the common shares of North American owned by Paramount. The sale by Paramount of these shares to Statoil, or any other party, would require Paramount to make an offer to repay the TLB facility out of the proceeds of such a sale.

Paramount may repay all or a portion of the TLB facility at any time, although it is not required to do so prior to maturity. Repayments during the first and second years are subject to premiums of 2% and 1% respectively.

Borrowings under the TLB Facility bear interest at floating rates, based on LIBOR, the US Federal Funds rate of the Base rate of the Administrative Agent. At March 31, 2007, the interest rate on borrowings under the TLB facility was 9.86% per annum. So long as the TLB facility is not in default, Paramount has discretion with respect to the basis upon which interest rates are set. In any event of repayment, holders are entitled to receive any accrued and unpaid interest.

US Senior Notes

At March 31, 2007, Paramount had approximately US \$213.6 million (Cdn \$246.6 million) outstanding principal amount of 8 1/2 percent US Senior Notes due 2013 (the “US Senior Notes”). The US Senior Notes are secured by 12.8 million Trilogy trust units owned by Paramount, having a market value of approximately \$129.7 million as of March 31, 2007, estimated using the closing price for Trilogy trust units on the Toronto Stock Exchange on March 30, 2007. These Trilogy trust units are reflected in Long-term investments and other assets in Paramount’s Consolidated Balance Sheet, and when combined with the other 2.8 million Trilogy trust units held by Paramount relating to its obligations under Holdco Options, have a carrying value of \$59.4 million at March 31, 2007 on Paramount’s Consolidated Balance Sheet.

Share Capital

During the first quarter of 2007, Paramount issued an aggregate 0.6 million Common Shares in connection with the exercise of stock options. Paramount received aggregate cash proceeds of \$3.2 million in connection with the exercise of such stock options.

At May 9, 2007, Paramount had 70.9 million Common Shares outstanding. At May 9, 2007 there were 5.1 million Stock Options (with each entitling the holder to acquire one Common Share) outstanding (0.3 million exercisable), 0.5 million Holdco options (which do not entitle the holder to any securities of Paramount) outstanding (0.2 million exercisable) and 35.2 million MGM Energy options (with each entitling the holder to acquire one MGM Share) outstanding (1.3 million exercisable).

Contractual Obligations

Paramount has the following contractual obligations as at March 31, 2007:

(\$ millions)	Recognized in financial statements	Less than 1 Year	1 – 3 years	4 – 5 years	After 5 years	Total
US Senior Notes ⁽¹⁾	Yes	21.0	41.9	41.9	267.6	372.4
Bank Credit facility ⁽²⁾	Yes	6.3	97.8	-	-	104.1
Short-Term Credit facility ⁽²⁾	Yes	104.7	-	-	-	104.7
Term Loan B Facility ⁽³⁾	Yes	17.1	34.3	34.3	180.4	266.1
Stock-based compensation liability ⁽⁴⁾	Yes - Partially	14.0	10.3	0.8	-	25.1
Asset retirement obligations ⁽⁵⁾	Yes - Partially	0.6	2.0	2.0	182.8	187.4
Pipeline transportation commitments ⁽⁶⁾	No	16.9	20.2	15.7	49.7	102.5
Capital spending commitment	No	27.0	114.9	0.1	-	142.0
Leases	No	3.2	4.6	3.5	2.7	14.0
Total ⁽⁷⁾		210.8	326.0	98.3	683.2	1,318.3

⁽¹⁾The amounts payable within the next five years represent the estimated annual interest payment on the US Senior Notes. The amount payable for the US Senior Notes after five years also includes interest thereon totalling \$21.0 million (US\$18.2 million).

⁽²⁾Advances bear floating rate interest based on the Banker's 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 March 31, 2007, the weighted average interest rate on the bank credit facility was approximately 6.5% and the principle outstanding was \$97.3 million. The principle outstanding and period ending interest rates 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 Base Rate set by the Administrative Agent. Paramount has discretion with respect to the basis upon which interest rates are set. As at March 31, 2007, the interest rate on the facility was 9.9%. This rate has been assumed for interest calculations in future periods. The amount payable for the Term Loan B Facility after five years also includes interest thereon totalling \$7.1 million (US\$6.2 million).

⁽⁴⁾The liability for stock-based compensation includes the full intrinsic value of vested and unvested options as at March 31, 2007.

⁽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 totalling \$3.8 million at March 31, 2007.

⁽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.

Related Party Transactions

Trilogy Energy Trust

At March 31, 2007, Paramount held approximately 15.0 million trust units of Trilogy representing 16.2 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 between Paramount and Trilogy dated April 1, 2005 (the "Services Agreement"). The Services Agreement has been renewed on the same terms and conditions to March 31, 2008. 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 months ended March 31, 2007 the amount of costs subject to reimbursement under the Services Agreement totalled \$0.3 million which has been reflected as a reduction in Paramount's general and administrative expense.
- As a result of the Trilogy Spinout, certain employees and officers of Trilogy hold Paramount Options and Holdco Options. The stock-based compensation expense relating to these options for the three months ended March 31, 2007 totalled \$1.1 million, of which \$0.9 million was charged to stock based compensation expense and \$0.2 million was recognized in equity in net earnings of Trilogy.

- Paramount recorded distributions from Trilogy totalling \$4.5 million for the three months ended March 31, 2007. Distributions receivable of \$1.5 million relating to distributions declared by Trilogy in March 2007 were accrued at March 31, 2007 and received in April 2007.
- During the three months ended March 31, 2007, Paramount also had other transactions in the normal course of business with Trilogy.
- At March 31 2007, Trilogy owed Paramount \$1.4 million, excluding distributions receivable from Trilogy.

Other

MGM Energy completed a private placement to certain directors of MGM Energy of 160,000 flow-through MGM Shares at a price of \$6.25 per share and 210,000 MGM Shares at a price of \$5.00 per share, each accompanied by one Longer Term Warrant, for aggregate gross proceeds of approximately \$2.1 million.

Significant Equity Investees

The following table summarizes the assets, liabilities and results of operations of Paramount's significant equity investees. The amounts summarized in the table below are provided to comply with applicable securities laws and have been derived directly from the investees' financial statements as at and for the three months ended March 31, 2007 and 2006. Amounts summarized do not incorporate adjustments that Paramount makes in applying the equity basis of accounting for such investments. As a result, readers are cautioned that amounts included in the table below cannot be used to directly recompute Paramount's equity income and net investment respecting such investees.

(\$ millions)	Trilogy		North American	
	Three months ended March 31	2006	Three months ended March 31	2006
	2007		2007	
Current assets	63.1	95.0	172.5	30.5
Long term assets	1,013.7	962.4	745.8	111.9
Current liabilities	154.1	150.0	74.9	21.8
Long term liabilities	419.6	228.2	94.2	29.8
Equity	503.1	579.3	749.2	90.8
Revenue	84.7	123.8	2.3	0.2
Operating expenses	22.7	19.9	-	-
General and administrative expenses	4.9	2.4	5.2	0.8
Other expenses	47.7	43.4	0.7	1.2
Net Income, period ended March 31	9.4	58.1	(3.6)	(1.8)
Funds flow from operations, period ended March 31	65.4	64.3	(3.6)	(1.8)
Paramount's proportionate interest ⁽¹⁾ in equity investee at March 31	16.24%	16.40%	33.97%	0%

⁽¹⁾ Readers are cautioned that Paramount does not have any direct or indirect interest in or right to the equity investees' assets or revenue nor does Paramount have any direct or indirect obligation in respect of or liability for the equity investees' expenses or obligations. The company is a securityholder of Trilogy and North American, just like any other securityholder of Trilogy and North American, and, accordingly, the value of the company's investment in Trilogy and North American is based on the value of Trilogy and North American securities held.

Trilogy had 2.9 million trust unit options outstanding (0.1 million exercisable) at March 31, 2007 at exercise prices ranging from \$9.25 to \$23.95 per unit. If all such outstanding trust unit options were exercised, Paramount's proportionate interest in Trilogy would be reduced to 15.8 %.

At March 31, 2007, North American had an outstanding convertible debenture that, if exercised, would increase the outstanding shares of North American by 2.1 million shares. In addition, North American had 4.3 million stock options outstanding (1.2 million exercisable) at March 31, 2007 at exercise prices ranging from \$3.00 to \$13.50 per share. There were also 3.3 million performance warrants outstanding (3.3 million exercisable) at March 31, 2007 at exercise prices ranging from \$3.00 to \$7.50 per share. If the convertible debenture, all outstanding stock options, and all outstanding performance warrants were exercised, Paramount's proportionate interest in North American would be reduced to 31.2 %.

Sensitivity Analysis

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 for the remaining nine months of 2007 of the sensitivity of Paramount's 2007 funds flow from operations to changes in commodity prices, the Canadian/US dollar exchange rate and interest rates:

Sensitivity ⁽¹⁾⁽²⁾	Funds Flow Effect (\$ millions)
\$0.25/Mcf increase in AECO gas price	7.6
US\$1.00/Bbl increase in the WTI oil price	1.6
\$0.01 increase in the Canadian/US dollar exchange rate	1.1
1 percent decrease in prime rate of interest	1.0

⁽¹⁾ Includes the impact of financial hedge contracts existing March 31, 2007.

⁽²⁾ Based on forward curve commodity prices and forward curve estimates dated March 31, 2007.

The following assumptions were used in the sensitivity (above):

2007 Average Production	
Natural gas	96 MMcf/d
Crude oil/liquids	5,000 Bbl/d
2007 Average Prices	
Natural gas	\$6.71/Mcf
Crude oil (WTI)	US\$59.76/Bbl
2007 Exchange Rate (C\$/US\$)	\$1.17
Cash taxes	None

Critical Accounting Estimates

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

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

Changes in Accounting Policies

Financial Instruments

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

Company's net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

Comprehensive Income

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

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions. Accordingly, the March 31, 2007 period end unrealized gain on short-term investments of \$0.1 million is included in the AOCI balance. In addition, the change in the unrealized gain on short-term investments for the three months ended March 31, 2007 of \$0.1 million, is now included in OCI in the Statement of Comprehensive Income.

Financial Instruments

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

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

Cash and cash equivalents are classified as "held-to-maturity" and measured at amortized cost using the effective interest method. Short-term investments are classified as "available-for-sale" and measured at fair value, with changes in those fair values recognized in OCI. Accounts receivable are classified as "loans and receivables". Accounts payable and accrued liabilities, and long-term debt are classified as "other liabilities".

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

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

Initial Adoption of Accounting Policies

As a result of the MGM Spinout, Paramount has updated the following significant accounting policies and practices:

Cash and cash equivalents

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

Stock-based Compensation

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

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

Advisories

Forward-looking Statements and Estimates

Certain statements included in this document constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "assume", "based", "believe", "can", "consider", "continue", "depend", "estimate", "expect", "if", "intend", "may", "plan", "project", "result", "upon", "will", "within" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to estimates of future production and capital expenditures, business strategy and objectives, exploration, development and production plans and the timing thereof, operating and other costs, the expectation that Paramount's disposition of North American shares will close prior to the end of the second quarter of 2007, and the expected timing of wells spud in North Dakota.

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 MD&A, assumptions have been made regarding, among other things:

- the ability of Paramount to obtain required capital to finance its exploration, development and operations;
- the ability of Paramount to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability of Paramount to market its oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability of Paramount to secure adequate product transportation;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals;
- the timing for preparation and mailing of documents to securityholders of North American, the time necessary to satisfy other conditions to the offer and the acceptance of the offer by North American securityholders;
- currency, exchange and interest rates; and
- future oil and gas prices.

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

- the ability of Paramount's management to execute its business plan;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations and the adequacy and costs of such capital;

- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- risks and uncertainties involving the geology of oil and gas deposits;
- risks inherent in Paramount's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of resource estimates and resource life;
- the value and liquidity of Paramount's equity investments and the returns on such equity investments;
- the uncertainty of estimates and projections relating to exploration and development costs and expenses;
- the uncertainty of estimates and projections relating to future production and the results of exploration, development and drilling;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- Paramount's ability to enter into or renew leases;
- health, safety and environmental risks;
- Paramount's ability to secure adequate product transportation;
- imprecision in estimates of product sales and the anticipated revenues from such sales;
- the ability of Paramount to add production and reserves through development and exploration activities;
- weather conditions;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments and changes to royalty regimes and government regulations regarding royalty payments;
- changes in taxation laws and regulations and the interpretation thereof;
- changes in environmental and other regulations and the interpretation thereof;
- the cost of future abandonment activities and site restoration;
- the ability to obtain necessary regulatory approvals;
- risks associated with existing and potential future law suits and regulatory actions against Paramount;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- loss of the services of any of Paramount's executive officers or key employees;
- the ability of Paramount to extend its senior credit facility on an ongoing basis;
- the requirement to fulfill obligations not fulfilled by MGM Energy Corp. under the farm-in agreement assigned to MGM Energy Corp. in connection with Paramount's spinout of MGM Energy Corp.;
- the impact of market competition;
- general economic and business conditions; and
- in respect of Statoil's offer to purchase North American, delays or impediments in the satisfaction of other conditions to the offer, failure by the parties to the transaction to perform their obligations to complete the transaction, the political and economic policies of Canada, Norway and other oil producing countries, general economic and business conditions, global political events and actions, including war, terrorism and sanctions, and adverse changes in taxation regimes.

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

Paramount Resources Ltd.
Consolidated Balance Sheets (Unaudited)
(\$ thousands)

	As at March 31 2007	As at December 31 2006
ASSETS (Note 8)		
Current assets		
Cash and cash equivalents	\$ 73,197	\$ 14,357
Short-term investments	3,673	3,890
Accounts receivable	110,868	103,324
Distributions receivable from Trilogy Energy Trust (Note 15)	1,504	2,406
Due from related parties (Note 15)	1,437	-
Financial instruments (Note 13)	-	22,758
Prepaid expenses and other	3,099	3,059
	193,778	149,794
Property, plant and equipment (Note 5)	1,087,989	983,059
Long-term investments and other assets (Note 6)	212,831	232,948
Goodwill	12,221	12,221
Future income taxes (Note 12)	33,952	41,002
	\$ 1,540,771	\$ 1,419,024
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term bank indebtedness (Note 7)	\$ 98,490	\$ -
Accounts payable and accrued liabilities	249,084	227,338
Due to related parties (Note 15)	-	1,476
Financial instruments (Note 13)	1,771	-
Current portion of stock-based compensation liability (Note 11)	3,878	5,243
	353,223	234,057
Long-term debt (Note 8)	510,340	508,849
Asset retirement obligations (Note 9)	87,139	83,815
Stock-based compensation liability (Note 11)	12,533	28,004
Non-controlling interest	48,076	549
	1,011,311	855,274
Commitments (Notes 7, 8 and 13)		
Shareholders' Equity		
Share capital (Note 10)	328,227	341,071
Contributed surplus	376	-
Retained earnings	200,723	222,679
Accumulated other comprehensive income	134	-
	529,460	563,750
	\$ 1,540,771	\$ 1,419,024

See the accompanying notes to these Interim Consolidated Financial Statements.

Paramount Resources Ltd.

Consolidated Statements of Earnings (Loss) (Unaudited)

(\$ thousands, except as noted)

	Three Months Ended March 31	
	2007	2006
Revenue		
Petroleum and natural gas sales	\$ 78,821	\$ 87,909
Gain (loss) on financial instruments (Note 13)	(2,457)	28,497
Royalties	(13,609)	(16,779)
	62,755	99,627
Expenses		
Operating	22,626	18,131
Transportation	4,292	3,652
General and administrative (Note 15)	8,598	7,153
Stock-based compensation (Notes 11 and 15)	(6,258)	20,391
Depletion, depreciation and accretion	33,540	34,507
Exploration	5,307	11,841
Dry hole	47,602	6,754
(Gain) on sale of property, plant and equipment	(33)	(208)
Interest	11,479	6,649
Foreign exchange (gain) loss	(4,002)	975
Provision for doubtful accounts	690	-
	123,841	109,845
	(61,086)	(10,218)
Income from equity investments and other (Note 6)	15,897	28,251
Earnings (loss) before tax	(45,189)	18,033
Income and other tax expense (recovery) (Note 12)		
Current and large corporations tax expense	246	1,124
Future income tax expense (recovery)	(18,913)	9,152
	(18,667)	10,276
Non-controlling interest	10,467	7
Net earnings (loss)	\$ (16,055)	\$ 7,764
Net earnings (loss) per common share (\$/share)		
Basic	\$ (0.23)	\$ 0.12
Diluted	\$ (0.23)	\$ 0.12
Weighted average common shares outstanding (thousands)		
Basic	70,803	66,498
Diluted	70,803	67,329

See the accompanying notes to these Interim Consolidated Financial Statements.

Paramount Resources Ltd.
Consolidated Statements of Retained Earnings (Unaudited)

(\$ thousands)

	Three Months Ended March 31	
	2007	2006
Retained earnings, beginning of period	\$ 222,679	\$ 238,404
Adjustment on MGM Spinout (Note 2)	(5,901)	-
Net earnings (loss)	(16,055)	7,764
Retained earnings, end of period	\$ 200,723	\$ 246,168

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(\$ thousands)

	Three Months Ended March 31, 2007
Net loss	\$ (16,055)
Other comprehensive income, net of tax	
Unrealized gain on short term investments	134
Comprehensive loss	\$ (15,921)

Consolidated Statements of Accumulated Other Comprehensive Income (Unaudited)

(\$ thousands)

	Three Months Ended March 31, 2007
Accumulated other comprehensive income, beginning of period	\$ -
Unrealized gain on short term investments	134
Accumulated other comprehensive income, end of period	\$ 134

See the accompanying notes to these Interim Consolidated Financial Statements.

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

(\$ thousands)

	Three Months Ended March 31	
	2007	2006
Operating activities		
Net earnings (loss)	\$ (16,055)	\$ 7,764
Add (deduct)		
Items not involving cash (Note 14)	7,205	16,978
Asset retirement obligation expenditures (Note 9)	(540)	(175)
Exploration and dry hole	52,218	17,846
Funds flow from operations	42,828	42,413
Change in non-cash working capital (Note 14)	(8,707)	25,280
Cash from operating activities	34,121	67,693
Financing activities		
Debt – draws	203,300	134,030
Debt – repayments	(92,670)	(97,625)
Common shares issued, net of issuance costs	3,226	57,565
MGM shares issued, net of issuance costs	78,545	-
Cash from financing activities	192,401	93,970
Investing activities		
Additions to property, plant and equipment	(186,835)	(192,607)
Proceeds on sale of property, plant and equipment	-	371
Reorganization costs and other	(1,074)	-
Return of capital received, net of non-controlling interest	190	3,657
Change in non-cash working capital (Note 14)	20,037	26,916
Cash used in investing activities	(167,682)	(161,663)
Increase in cash and cash equivalents	58,840	-
Cash and cash equivalents, beginning of period	14,357	-
Cash and cash equivalents, end of period	\$ 73,197	\$ -

Supplemental cash flow information (Note 14).

See the accompanying notes to these Interim Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Paramount Resources Ltd. is an independent Canadian energy company that explores for, develops, processes, transports and markets petroleum and natural gas. The unaudited Interim Consolidated Financial Statements include the accounts of Paramount Resources Ltd. and its subsidiaries (“Paramount” or the “Company”), are stated in Canadian dollars, and have been prepared following the same accounting policies and methods of their application as Paramount’s audited consolidated financial statements as at and for the year ended December 31, 2006, except as disclosed in Notes 3 and 4. Paramount’s principal properties are located in Alberta, the Northwest Territories and British Columbia in Canada, and in Montana and North Dakota in the United States.

Certain information and disclosures normally required to be included in notes to the annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited Interim Consolidated Financial Statements should be read in conjunction with Paramount’s audited consolidated financial statements as at and for the year ended December 31, 2006.

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: (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (ii) 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. Actual results could differ materially from those estimates.

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

2. MGM Spinout

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

Through the MGM Spinout:

- A fraction of each issued and outstanding common share of Paramount Resources Ltd. (each a “Common Share”) was exchanged for a Class Y Preferred Share of Paramount Resources Ltd. (each, a “Preferred Share”), with the remaining fraction of each Common Share being changed into one Common Share with the result that holders of Common Shares then held the same number of Common Shares as originally held;
- Paramount’s shareholders transferred their Preferred Shares to MGM Energy for common shares of MGM Energy (“MGM Shares”), with Paramount’s shareholders receiving an aggregate of approximately 2.8 million MGM Shares, and the Preferred Shares received by MGM Energy being redeemed by Paramount and cancelled;
- Paramount’s shareholders received approximately 14.2 million warrant units of MGM Energy, with each warrant unit consisting of one MGM Energy short term warrant (each, a “Short Term Warrant”) and one MGM Energy longer term warrant (each, a “Longer Term Warrant”);

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

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

MGM Energy Warrants and Private Placement

Each warrant issued by MGM Energy entitled or entitles, as the case may be, the holder to purchase one MGM Share or one flow-through MGM Share as described below. Each Longer Term Warrant was not exercisable, and was not separable from the corresponding Short Term Warrant included in the warrant unit, unless the corresponding Short Term Warrant was exercised.

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

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

In February 2007, MGM Energy completed a private placement of 210,000 MGM Shares at a price of \$5.00 per share and 160,000 MGM Shares issued on a flow-through basis at a price \$6.25 per share, with each MGM Share accompanied by one Longer Term Warrant. The gross proceeds of this issue were \$2.1 million.

Non-Controlling Interest

As a result of the MGM Spinout, exercises of Short Term Warrants and Longer Term Warrants, and MGM Energy’s February 2007 private placement, Paramount owned 51.7 percent of the issued and outstanding MGM Shares as of March 31, 2007. Because MGM Energy is a subsidiary of Paramount, its financial position, results of operations and cashflows form part of the consolidated financial statements of Paramount. The 48.3 percent non-controlling interest in MGM Energy’s net assets as of March 31, 2007 and the non-controlling interest in MGM Energy’s results of operations has been separately reflected in the Interim Consolidated Financial Statements as “Non-controlling interest”.

3. Changes in Accounting Policies

Financial Instruments

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

Comprehensive Income

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

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions. Accordingly, as at March 31, 2007 unrealized gain on short-term investments of \$0.1 million is included in the AOCI. In addition, the change in the unrealized gain on short-term investments for the three months ended March 31, 2007 of \$0.1 million, is now included in OCI in the Statement of Comprehensive Income.

Financial Instruments

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

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

Cash and cash equivalents are classified as “held-to-maturity” and measured at amortized cost using the effective interest method. Short-term investments are classified as “available-for-sale” and measured at fair value, with changes in those fair values recognized in OCI. Accounts receivable are classified as “loans and receivables”. Accounts payable and accrued liabilities, and long-term debt are classified as “other liabilities”.

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

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

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

As a result of the MGM Spinout, Paramount has updated the following significant accounting policies and practices:

Cash and cash equivalents

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

Stock-based Compensation

MGM Energy has granted stock options to its employees and directors, the details of which are described in Note 11- Stock-based Compensation.

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

Recent Accounting Pronouncement – Capital Disclosures

As of October 1, 2007 Paramount will be required to adopt new Section 1535 – *Capital Disclosures*. Under new section 1535, companies are required to disclose their objectives, policies and procedures for managing capital, as well as whether externally imposed capital requirements have been complied with. Section 1535 was issued in December 2006 and Paramount is assessing the impact this change will have on its future financial statements.

5. Property, Plant and Equipment

	March 31, 2007		December 31, 2006	
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$ 1,041,795	\$ (430,416)	\$ 611,379	\$ 548,985
Gas plants, gathering systems and production equipment	546,829	(98,108)	448,721	404,987
Other	41,207	(13,318)	27,889	29,087
	\$ 1,629,831	\$ (541,842)	\$ 1,087,989	\$ 983,059

Included in property, plant and equipment are asset retirement costs, net of accumulated depletion and depreciation, of \$55.7 million (December 31, 2006 - \$52.9 million). Capitalized costs associated with non-producing petroleum and natural gas properties totaling approximately \$382.9 million (December 31, 2006 - \$335.4 million) are currently not subject to depletion.

For the three months ended March 31, 2007, Paramount expensed \$47.6 million in dry hole costs (2006 - \$6.8 million). A portion of the dry hole costs expensed related to prior year capital projects that were determined in the current year to have no future economic value.

Continuity of Suspended Exploratory Well Costs

	Three Months Ended March 31, 2007
Balance beginning of period	\$ 157,773
Additions pending the determination of proved reserves	55,463
Reclassifications to proved reserves	(16,600)
Wells costs charged to dry hole expense	(7,034)
Balance end of period	\$ 189,602

Aging of Capitalized Exploratory Well Costs

	March 31, 2007
Capitalized exploratory well costs that have been capitalized for a period of one year or less	\$ 84,835
Capitalized exploratory well costs that have been capitalized for a period of greater than one year	104,767
Balance at March 31, 2007	\$ 189,602
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	86

At March 31, 2007, \$66.5 million of the capitalized costs of suspended wells related to Colville Lake in the Northwest Territories. The commerciality of the gas in Colville Lake is being evaluated in conjunction with the planned drilling program and the anticipated timing for construction of the MacKenzie Valley Gas Pipeline. The remaining capitalized costs relate to projects where infrastructure decisions are dependent upon environmental permission and production capacity, or where Paramount is continuing to assess reserves and their potential development, including those relating to oil sands.

6. Long-Term Investments and Other Assets

	March 31, 2007	December 31, 2006
Equity accounted investments:		
Trilogy Energy Trust (“Trilogy”)	\$ 59,409	\$ 60,821
North American Oil Sands Corporation (“North American”)	150,870	161,626
Private oil and gas company (“Privateco”)	2,042	2,042
	212,321	224,489
Deferred financing costs, net of amortization and other (Note 3)	510	8,459
	\$ 212,831	\$ 232,948

Income From Equity Investments and Other

The following table provides a summary of the components of income from equity investments and other included in the consolidated statements of earnings (loss):

	Three Months Ended March 31, 2007		
	Trilogy	North American	Total
Equity income (loss)	\$ 2,280	\$ (5,252)	\$ (2,972)
Dilution gain (loss)	-	(5,496)	(5,496)
	\$ 2,280	\$ (10,748)	\$ (8,468)
Dilution gain - MGM Energy			24,673
Gain on sale of investments and other			(308)
			\$ 15,897

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

As a result of equity issuances by MGM Energy during the three months ended March 31, 2007, Paramount’s equity interest in MGM Energy was reduced to approximately 51.7 percent, resulting in Paramount recording dilution gains of approximately \$24.7 million before tax.

7. Short-Term Bank Indebtedness

On March 28, 2007, Paramount closed a six month \$100 million senior unsecured non-revolving short-term bank facility with two Canadian banks (the “Bridge Facility”). The full amount of the Bridge Facility was drawn at closing. Net proceeds were used to provide working capital in the ordinary course of business. Borrowings under the Bridge Facility bear interest at floating rates based on the lenders’ prime rate or bankers’ acceptance rate, at the discretion of Paramount, plus an applicable margin. The applicable margin would increase by 0.5% starting June 29, 2007 if the Bridge Facility is not repaid by that time. If the Bridge Facility is not repaid in full within 120 day of closing, the agent for the Bridge Facility may at its discretion, under certain circumstances, provide notice to Paramount requiring Paramount to execute an offering of unsecured debt securities in an amount sufficient to repay the Bridge Facility.

8. Long-Term Debt

	March 31, 2007	December 31, 2006
Canadian Dollar Denominated Debt		
Credit facilities	\$ 97,258	\$ 85,118
U.S. Dollar Denominated Debt		
Term Loan B Facility due 2012 (US\$150.0 million)	173,190	174,810
8 1/2 percent US Senior Notes due 2013 (US\$213.6 million)	246,614	248,921
	517,062	508,849
Debt financing costs	(6,722)	-
	\$ 510,340	\$ 508,849

Credit Facilities

On April 30, 2007, Paramount replaced its existing credit facility with a new \$125 million credit facility with a syndicate of Canadian banks, \$120 million of which is available, after adjustments to the gross borrowing base for US Senior Notes and Term Loan B facility service costs. Borrowings under the new credit facility bear interest at floating rates on the same basis as the credit facility it replaced. The new facility is available on a revolving basis for a period of 364 days, and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for a one year term, at the end of which time the facility would be due and payable. Advances drawn on Paramount's new credit facility are secured by a first fixed and floating charge over the assets of the Company, excluding approximately 12.8 million of the Trilogy Energy Trust units and all of the North American shares owned by Paramount.

9. Asset Retirement Obligations

	Three Months Ended March 31, 2007	Year Ended December 31, 2006
Asset retirement obligations, beginning of period	\$ 83,815	\$ 66,203
Reduction on disposal of properties	-	(2,949)
Liabilities incurred	4,888	6,684
Revisions in estimated cost of abandonment	(2,783)	7,352
Liabilities settled	(540)	(779)
Accretion expense	1,759	7,304
Asset retirement obligations, end of period	\$ 87,139	\$ 83,815

The total future asset retirement obligation was estimated by management based on Paramount's net ownership in all wells and facilities, estimated work to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The undiscounted asset retirement obligations associated with Paramount's oil and gas properties at March 31, 2007 are \$195.8 million (December 31, 2006 - \$187.8 million), which have been discounted using credit-adjusted risk-free rates between 7 7/8 percent and 8 7/8 percent. The majority of these obligations are not expected to be settled for several years, or decades, in the future and will be funded from general company resources at that time.

10. Share Capital

Issued and Outstanding

Common Shares	Shares	Amount
Balance December 31, 2006	70,278,975	\$ 341,071
Issued on exercise of stock options (Note 11)	609,200	12,355
Share issuance costs, net of tax benefit		(7)
Tax adjustment on flow-through share renunciations		(21,684)
Adjustment on MGM Spinout (Note 2)		(3,508)
Balance March 31, 2007	70,888,175	\$ 328,227

11. Stock-based Compensation

Paramount Options

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

Paramount Options

	Weighted Average Exercise Price	Options
	<i>(\$ / share)</i>	
Balance, beginning of year	\$ 19.41	4,468,925
Granted	20.20	1,396,500
Exercised	4.75	(609,200)
Cancelled	25.19	(36,000)
Balance, March 31	\$ 21.30	5,220,225
Options exercisable, March 31	\$ 16.40	364,250

Holdco Options

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

Each Holdco option entitles the holder thereof to acquire from Paramount, common shares of Holdco (each a “Holdco Option”). Holdco’s shares are not listed for trading on any stock exchange. As a result, holders of Holdco Options have the right, alternatively, to surrender options for cancellation in return for a cash

payment from Paramount. The amount of the payment in respect of each Holdco share subject to the surrendered option is the difference between the fair market value of a Holdco share at the date of surrender and the exercise price. The fair market value of a Holdco share is based on the fair market value of the Trilogy trust units it holds and any after-tax cash and investments (resulting from distributions on the Trilogy trust units).

Holdco Options

	Weighted Average Exercise Price	Options
	(\$ / share)	
Balance, beginning of year	\$ 6.72	737,625
Exercised	4.72	(94,250)
Cancelled	15.43	(16,000)
Balance, March 31	\$ 6.44	627,375
Options exercisable, March 31	\$ 6.53	239,500

MGM Options

MGM Energy has a stock option plan (the “MGM Plan”) that enables MGM Energy’s Board of Directors or the Compensation Committee thereof to grant to key MGM Energy employees and directors options to acquire MGM Shares (each, an “MGM Option”). The exercise price of an MGM Option is no lower than the closing market price of MGM Shares on the day preceding the date of grant. Upon exercise of the MGM Options, optionholders receive either (i) a share certificate for the MGM Shares; or (ii) a cash payment in an amount equal to the positive difference, if any, between the market price and the exercise price of the number of MGM Shares in respect of which the MGM Option is exercised (a “Cash Surrender”). MGM Energy, however, can refuse to accept a Cash Surrender and therefore require that the holder exercise their vested options for cash and acquire MGM Shares. MGM Options granted generally vest over four years and have a 4.3 year contractual life.

MGM Options

	Weighted Average Exercise Price	Options
	(\$ / share)	
Balance, January 1, 2007	\$ -	-
Granted on MGM Spinout	5.00	1,248,000
Granted	4.60	100,000
Balance, March 31, 2007	\$ 4.97	1,348,000
Options exercisable, March 31, 2007	\$ -	-

Additional information about stock options outstanding at March 31, 2007 is as follows:

Exercise Prices	Outstanding			Exercisable	
	Number	Weighted Average Contractual Life	Weighted Average Exercise Price (\$ / share)	Number	Weighted Average Exercise Price (\$ / share)
Paramount Options					
\$4.33-\$10.00	453,125	1.3	\$ 5.18	122,250	\$ 4.52
\$10.01-\$20.00	1,778,900	2.7	13.90	135,700	14.16
\$20.01-\$30.00	1,430,700	4.3	21.08	13,800	26.26
\$30.01-\$43.25	1,557,500	3.4	34.65	92,500	33.93
Total	5,220,225	3.2	\$ 21.30	364,250	\$ 16.40
Holdco Options					
\$4.58-\$6.00	416,375	1.0	\$ 4.71	186,000	\$ 4.72
\$6.01-\$10.00	73,500	1.7	7.11	7,000	6.43
\$10.03-\$16.37	137,500	2.2	12.86	46,500	13.80
Total	627,375	1.3	\$ 6.44	239,500	\$ 6.53
MGM Options					
\$4.60	100,000	4.0	\$ 4.60	-	\$ -
\$5.00	1,248,000	4.0	5.00	-	-
Total	1,348,000	4.0	\$ 4.97	-	\$ -

The current portion of stock-based compensation liability of \$3.9 million at March 31, 2007 (\$5.2 million at December 31, 2006) represents the value, using the intrinsic value method, of vested Holdco Options and Holdco Options that will vest during the following twelve months. For exercises of Paramount Options, Paramount has generally refused to accept a cash surrender since August 2005 and has therefore required holders of Paramount Options to exercise their vested options and acquire Common Shares. It is MGM Energy's intention to not accept any Cash Surrenders and therefore to require holders of MGM Options to exercise their vested MGM Options and acquire MGM Shares.

The fair value of each MGM Option granted is estimated on the grant date using the Black-Scholes-Merton option-pricing model with weighted average assumptions for grants as follows:

For the three months ended March 31, 2007	
Weighted average fair value of MGM Options granted (\$/MGM Option)	\$ 2.22
Risk-free interest rate	4.04%
Expected lives (years)	4.3
Expected volatility	0.5
Annual dividend per share (\$/Common Share)	\$ 0.00

12. Income Taxes

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

	Three months ended March 31, 2007
Net loss before tax	\$ (45,189)
Effective Canadian statutory income tax rate	31%
Expected income tax (recovery)	\$ (14,090)
Increase (decrease) resulting from:	
Non-deductible Canadian Crown payments	49
Statutory and other rate differences	(18)
Other taxes	(26)
Non-taxable capital (gains) losses	(547)
Income from equity investments and other	1,962
Tax assets not previously recognized	(4,214)
Stock based compensation	(1,800)
Other	17
Income tax (recovery)	\$ (18,667)

Components of Future Income Tax Asset

	March 31, 2007
Timing of partnership items	\$ (51,419)
Property, plant and equipment	76,628
Asset retirement obligations	25,425
Stock-based compensation liability	1,312
Non-capital and net operating losses carried forward	1,393
Other	(19,387)
Future income tax asset	\$ 33,952

13. Financial Instruments

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

	Three Months Ended March 31, 2007	Year Ended December 31, 2006
Fair value of contracts, beginning of period	\$ 22,758	\$ (4,613)
Change in fair value of contracts, including contracts entered into during the period	(2,457)	69,569
Fair value of contracts realized during the period (gain) / loss	(22,072)	(42,198)
Fair value of contracts, end of period	\$ (1,771)	\$ 22,758

Commodity Price Contracts

At March 31, 2007, Paramount was a party to the following financial forward commodity contracts:

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

During the three months ended March 31, 2007, Paramount entered into a costless foreign exchange collar for settlement on August 20, 2007. The floor price of the foreign exchange collar is CDN \$1.1900/US\$1, and the ceiling price is CDN \$1.1415/US\$1 based on an underlying amount of US\$150 million.

Fair values of financial assets and liabilities

Borrowings under bank credit facilities and the TLB Facility are market rate based, thus, their respective carrying values in the Consolidated Financial Statements approximate fair value. Paramount's US Senior Notes were trading at approximately 100.1 percent as at March 31, 2007. Fair values for derivative instruments are determined based on the estimated cash payment or receipt necessary to settle the contract at year-end. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices available to Paramount.

14. Consolidated Statements of Cash Flows – Selected Information

(a) *Items not involving cash*

	Three Months Ended March 31	
	2007	2006
Unrealized loss (gain) on financial instruments	\$ 24,529	\$ (29,458)
Stock-based compensation – non cash portion	(7,165)	17,335
Depletion, depreciation and accretion	33,540	34,507
(Gain) on sale of property, plant and equipment	(33)	(208)
Unrealized foreign exchange loss (gain)	(4,231)	1,246
Provision for doubtful accounts	690	-
Equity earnings in excess of cash distributions	(11,694)	(15,736)
Future income tax (recovery)	(18,913)	9,152
Non-controlling interest	(10,467)	(7)
Other	949	147
	\$ 7,205	\$ 16,978

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

	Three Months Ended March 31	
	2007	2006
Short-term investments	\$ (445)	\$ 5,602
Account receivable	(8,234)	1,604
Distributions receivable from Trilogy Energy Trust	902	8,269
Prepaid expenses	(41)	713
Account payable and accrued liabilities	22,003	38,051
Due to related parties	(2,855)	(2,043)
	\$ 11,330	52,196
Operating activities	\$ (8,707)	\$ 25,280
Investing activities	20,037	26,916
	\$ 11,330	\$ 52,196

(c) *Supplemental cash flow information*

For the three months ended March 31	2007	2006
Interest paid	\$ 17,099	\$ 12,458
Large corporations and other taxes paid	\$ 489	\$ 375

15. Related Party Transactions

(a) *Trilogy Energy Trust*

At March 31, 2007, Paramount held approximately 15.0 million trust units of Trilogy representing 16.2 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 between Paramount and Trilogy dated April 1, 2005 (the "Services Agreement"). The Services Agreement has been renewed on the same terms and conditions to March 31, 2008. 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 months ended March 31, 2007 the amount of costs subject to reimbursement under the Services Agreement totaled \$0.3 million which has been reflected as a reduction in Paramount's general and administrative expense.
- As a result of the Trilogy Spinout, certain employees and officers of Trilogy hold Paramount Options and Holdco Options. The stock-based compensation expense relating to these options for the three months ended March 31, 2007 totaled \$0.5 million, of which \$0.3 million was charged to stock based compensation expense and \$0.2 million was recognized in equity in net earnings of Trilogy.

- Paramount recorded distributions from Trilogy totaling \$4.5 million for the three months ended March 31, 2007. Distributions receivable of \$1.5 million relating to distributions declared by Trilogy in March 2007 were accrued at March 31, 2007 and received in April 2007.
- During the three months ended March 31, 2007, Paramount also had other transactions in the normal course of business with Trilogy.
- At March 31 2007, Trilogy owed Paramount \$1.4 million, excluding distributions receivable from Trilogy.

Other

MGM Energy completed a private placement to certain directors of MGM Energy of 160,000 flow-through MGM Shares at a price of \$6.25 per share and 210,000 MGM Shares at a price of \$5.00 per share, each accompanied by one Longer Term Warrant, for aggregate gross proceeds of approximately \$2.1 million.

16. Subsequent Events

On April 27, 2007, Paramount reported that Statoil ASA (“Statoil”) had entered into an acquisition agreement with North American whereby Statoil will make an all-cash offer to acquire all of the shares of North American at a price of \$20 per share.

Concurrently with the entering into of the acquisition agreement by Statoil and North American, Paramount entered into a lock-up agreement with respect to all of the North American shares it owns. The lock-up agreement, subject to certain conditions, calls for Paramount to sell the 34.1 million Class A shares of North American that it owns, for aggregate cash consideration of approximately \$682.4 million. Including Paramount, holders representing an aggregate of 69 percent of the North American shares, on a fully diluted basis, have entered into lock-up agreements agreeing to tender their shares to the offer.

The board of directors of North American unanimously approved the offer, recommending that shareholders of North American accept the offer. The offer is subject to regulatory approvals and other customary conditions contained in the formal offer documents. The transaction is expected to close at the end of the second quarter of 2007.

The sale by Paramount of North American shares that it owns would require Paramount to make an offer to repay the outstanding Term Loan B Facility in the amount of \$173.2 million (\$150.0 million U.S.) from the proceeds of such sale.

On May 8, 2007, MGM Energy announced that it has entered into an agreement of Purchase and Sale with Encana Corporation (“EnCana”) to acquire EnCana’s interests in certain assets located in the Mackenzie Delta and elsewhere in the Northwest Territories for a purchase price of \$170 million. To fund the purchase, MGM Energy has entered into an agreement with a syndicate of underwriters to issue 47.6 million shares for gross proceeds of \$155.3 million on a bought deal basis. C.H. Riddell, the CEO of Paramount, has indicated his intention to subscribe for a total of \$25 million of the shares under this offering.