

Paramount Resources Ltd.

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

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

### Financial and Operating Highlights (1)

(thousands of dollars except per share amounts and where stated otherwise)

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

#### FINANCIAL

Petroleum and natural gas sales	77,866	73,681	6
Funds flow from operations	37,299	65,835	(43)
Per share - diluted	0.54	0.95	(43)
Net earnings (2)	22,161	111,874	(80)
Per share - diluted	0.32	1.61	(80)
Capital expenditures, excluding acquisitions	104,155	94,827	10
Petroleum and natural gas property acquisitions	4,050	10,535	(62)
Market value of long-term investments (3)	645,591	694,240	(7)
Total assets	1,477,123	1,380,756	7
Net debt (4)	550,581	499,640	10
Common shares outstanding (thousands)	68,055	68,005	-
Market capitalization (5)	1,829,988	2,448,165	(25)

#### OPERATING

Natural gas sales volumes (MMcf/d)	81.4	83.2	(2)
Oil and natural gas liquid sales volumes (BBl/d)	3,901	3,423	14
Total sales (Boe/d)	17,471	17,297	1
Gas weighting	78%	80%	(2)
Total wells drilled (gross)	84	41	105
Success rate (6)	90%	100%	(10)

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

## Significant Events - Q3 2006

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

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

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

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

#### Review of Operations

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

Natural Gas Sales (MMcf/d)	Change		
	Q3 2006	Q2 2006	(%)
Kaybob	15.6	14.0	11
Grande Prairie	13.8	14.6	(5)
Northwest Alberta / Cameron Hills, Northwest Territories	24.3	25.6	(5)
Northwest Territories / Northeast British Columbia	11.0	11.6	(5)
Southern	14.8	15.1	(2)
Northeast Alberta	1.9	2.3	(17)
<b>Total</b>	<b>81.4</b>	<b>83.2</b>	<b>(2)</b>
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<b>Crude Oil and Natural Gas Liquids Sales (Bbl/d)</b>			
Kaybob	412	511	(19)
Grande Prairie	699	532	31
Northwest Alberta / Cameron Hills, Northwest Territories	1,327	979	36
Northwest Territories / Northeast British Columbia	43	20	115
Southern	1,419	1,370	4
Northeast Alberta	1	11	(91)
<b>Total</b>	<b>3,901</b>	<b>3,423</b>	<b>14</b>
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<b>Total Sales (Boe/d)</b>			
Kaybob	3,022	2,850	6
Grande Prairie	2,995	2,968	1
Northwest Alberta / Cameron Hills, Northwest Territories	5,376	5,253	2
Northwest Territories / Northeast British Columbia	1,874	1,954	(4)
Southern	3,882	3,885	-
Northeast Alberta	322	387	(17)
<b>Total</b>	<b>17,471</b>	<b>17,297</b>	<b>1</b>
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#### Kaybob

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

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

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

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

#### Grande Prairie

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

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

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

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

#### Northwest Alberta / Cameron Hills, Northwest Territories

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

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

#### Northwest Territories / Northeast British Columbia

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

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

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

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

#### Southern

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

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

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

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

#### Northeast Alberta / Oil Sands / Sahtu

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

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

#### Financial

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

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

#### 2006 Outlook

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

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

acquisitions and dispositions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

This MD&A is dated November 8, 2006. Additional information concerning Paramount, including its Annual Information Form, can be found on the SEDAR website at [www.sedar.com](http://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. Paramount also has properties in Saskatchewan and offshore the East Coast in Canada, and in California, Montana and North Dakota in the United States. Management's strategy is to maintain a balanced portfolio of opportunities, to grow reserves and production in Paramount's core areas while maintaining a large inventory of undeveloped acreage, to focus on natural gas as a commodity, and to selectively enter into joint venture arrangements for high risk/high return prospects.

### Business Environment

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

	Three Months Ended		Nine Months Ended	
	September 30 2006	September 30 2005	September 30 2006	September 30 2005
<hr/>				
Crude Oil				
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West Texas Intermediate monthly average (US\$/Bbl)	70.55	63.19	68.29	55.40
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Natural Gas				
NYMEX (Henry Hub Close) monthly average (US\$/MMbtu)	6.58	8.49	7.45	7.16
AECO monthly average (Cdn\$/GJ)	5.72	7.75	6.82	7.03
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Canadian Dollar - US Dollar Exchange Rate				
Quarterly and nine month average with Company's banker (Cdn\$/US\$)	1.12	1.20	1.13	1.22
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### Key Operating Results

#### Second Quarter 2006 vs. Third Quarter 2006

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

Combined (Boe/d)	17,297	174	17,471
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Average prices(1)			
Natural gas (\$/Mcf)	6.98	0.09	7.07

(\$ thousands)	Change in Q2 2006	Change in Price/Cost	Volume	Q3 2006
Revenue(1)				
Natural gas sales	52,878	707	(600)	52,985
Oil and NGLs sales	20,803	793	3,285	24,881
	73,681	1,500	2,685	77,866

Royalties	9,773	(425)	198	9,546
Operating costs	18,692	(48)	396	19,040
Transportation costs	3,487	98	76	3,661
Operating netback	41,729	1,875	2,015	45,619

(1) Before transportation and financial instruments.

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

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

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

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

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

#### Third Quarter 2005 vs. Third Quarter 2006

	Q3 2005	Change	Q3 2006
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Sales volumes			
Natural gas (MMcf/d)	98.8	(17.4)	81.4
Oil and NGLs (Bbl/d)	3,158	743	3,901

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

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

(1) Before transportation and financial instruments.

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

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

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

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

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

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

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

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

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

	2005 Spinout	PRL	2006	
	Reported Assets (2)	Properties	Change	Reported
<b>Sales volumes</b>				
Natural gas (MMcf/d)	132.7	(40.0)	92.7	(10.2) 82.5
Oil and NGLs (Bbl/d)	4,812	(1,632)	3,180	376 3,556
Combined (Boe/d)	26,927	(8,305)	18,622	(1,314) 17,308
<b>Average prices(1)</b>				
Natural gas (\$/Mcf)	7.99	(7.46)	8.21	(0.40) 7.81
Oil and NGLs (\$/Bbl)	59.60	(54.77)	62.07	3.36 65.43
<b>Change</b>				
in Change				
	2005 Spinout	PRL	Price/	in 2006
(\$ thousands)	Reported Assets (2)	Properties	Cost	Volume Reported
<b>Revenue(1)</b>				
Natural gas sales	289,250	(81,569)	207,681	(10,134) (21,621) 175,926
Oil and NGLs sales	78,293	(24,399)	53,894	2,917 6,719 63,530
	367,543	(105,968)	261,575	(7,217) (14,902) 239,456
Royalties	65,604	(25,269)	40,335	(1,497) (2,740) 36,098
Operating costs	54,801	(16,123)	38,678	21,424 (4,239) 55,863
Transportation costs	20,666	(4,805)	15,861	(4,241) (820) 10,800
Operating netback	226,472	(59,771)	166,701	(22,903) (7,103) 136,695

(1) Before transportation and financial instruments.

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

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

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

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

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

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

#### Netbacks

	Three Months Ended September 30		Nine Months Ended September 30	
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	2006	2005	2006	2005	2005
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	As Reported	PRL Properties (2)
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#### Produced gas (\$/Mcf)

Revenue (1)	6.65	8.16	7.41	7.44	7.60
Royalties	(0.67)	(2.01)	(1.20)	(1.42)	(1.27)
Operating costs	(2.01)	(1.20)	(2.00)	(1.18)	(1.23)

Operating netback	3.97	4.95	4.21	4.84	5.10
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#### Conventional oil (\$/Bbl)

Revenue (1)	68.83	64.82	63.47	61.50	61.85
Royalties	(11.84)	(8.09)	(8.28)	(8.77)	(6.53)
Operating costs	(10.61)	(8.11)	(10.98)	(10.29)	(10.55)
Operating netback	46.38	48.62	44.21	42.44	44.77

#### Natural gas liquids (\$/Bbl)

Revenue (1)	64.70	65.85	63.70	53.70	60.72
Royalties	(15.71)	(15.33)	(13.66)	(14.75)	(20.45)
Operating costs	(12.77)	(6.34)	(11.38)	(6.90)	(7.64)
Operating netback	36.22	44.18	38.66	32.05	32.63

All products (\$/Boe)				
Revenue (1)	46.16	51.56	48.39	47.19
Royalties	(5.94)	(11.67)	(7.64)	(8.92)
Operating costs	(11.85)	(7.27)	(11.82)	(7.45)
Operating netback	28.37	32.62	28.93	30.82

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

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

	Three Months Ended		Nine Months Ended		
	Funds Flow Netback per Boe		September 30	September 30	
	(\$/Boe)	2006	2005	2006	2005
Operating netback		28.37	32.62	28.93	30.82
Realized gain (loss) on financial instruments		1.65	(2.00)	6.77	0.46
Realized foreign exchange gain		0.08	-	0.18	-
Gain on sale of investments		0.02	1.30	0.27	0.71
General and administrative(1)		(5.20)	(3.74)	(6.22)	(2.77)
Interest(2)		(5.37)	(3.76)	(4.68)	(2.74)
Lease rentals		(0.50)	(0.36)	(0.37)	(0.30)
Asset retirement obligation expenditures		(0.11)	(0.28)	(0.11)	(0.10)
Distributions from equity investments		5.61	4.75	6.36	2.15
Current and large corporations tax		(1.35)	(0.57)	(0.33)	(0.52)
Funds flow netback (\$/Boe)(3)		23.20	27.96	30.80	27.71

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

(2) Excluding non-cash interest expense.

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

#### Other Operating Items

##### Depletion and Depreciation Expense

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

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

of 2006 as compared to the third quarter of 2005.

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

#### Dry Hole Costs

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

#### Geological and Geophysical Expense

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

#### General and Administrative Expense

	Three Months Ended September 30		Nine Months Ended September 30	
(\$ thousands)	2006	2005	2006	2005
<hr/>				
General and administrative expense				
before stock-based compensation	6,909	5,797	21,191	15,149
Stock-based compensation (recovery) expense	(14,661)	52,436	2,941	66,156
General and administrative expense	(7,752)	58,233	24,132	81,305
<hr/>				

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

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

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

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

#### Interest Expense

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

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

#### Income on Equity Investments

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

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

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

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

#### Income Taxes

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

#### Risk Management

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

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

Paramount's outstanding financial forward contracts are set out in the unaudited Interim Consolidated Financial Statements in Note 9 - Financial Instruments and Note 13 - Subsequent Events. Paramount has chosen not to designate any of the financial forward contracts as hedges. As a result, such instruments are recorded using the mark-to-market method of accounting whereby instruments are recorded in the Consolidated Balance Sheet as either an asset or liability with changes in the fair value recognized in net earnings. Paramount's outstanding physical commodity contracts are set out in the unaudited Interim

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

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

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

	Amount	Price	Term
<hr/>			
Sales Contracts			
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 10.28	Nov 2006 - Mar 2007

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#### Capital Expenditures

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

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

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

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

(wells drilled)	Three Months Ended		Nine Months Ended	
	September 30 2006	2005	September 30 2006	2005
<hr/>				
Natural gas	71	52	77	29
Oil	4	2	3	1
Oil sands evaluation	1	1	-	-
Dry holes	8	5	3	2
Total	84	60	83	32
<hr/>				
Gross(1) Net(2)	Gross(1) Net(2)	Gross(1) Net(2)	Gross(1) Net(2)	Gross(1) Net(2)
	71	52	77	29
	192	123	224	118
	5	15	7	
	123	62	23	14
	13	9	16	10
	338	199	278	149
<hr/>				

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

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

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

#### Quarterly Information

(\$ thousands, except per share amounts)	Three Months Ended			
	Sep 30 2006	Jun 30 2006	Mar 31 2006	Dec 31 2005
<hr/>				
Petroleum & natural gas sales	77,866	73,681	87,909	115,127
Revenue, net(1)	92,584	72,246	100,865	112,422
Net earnings (loss)	22,161	111,874	7,764	37,758
<hr/>				
Net earnings (loss) per common share				
- basic	0.33	1.65	0.12	0.57
- diluted	0.32	1.61	0.12	0.56
<hr/>				

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

(\$ thousands, except per share amounts)	Three Months Ended			
	Sep 30 2005	Jun 30 2005	Mar 31 2005	Dec 31 2004
<hr/>				
Petroleum & natural gas sales	99,187	91,848	176,508	177,030
Revenue, net(1)	36,526	96,581	115,741	174,060
Net earnings (loss) before discontinued operations	(69,066)	12,934	(45,558)	(18,873)
Net earnings (loss) from discontinued operations	-	-	-	1,120
Net earnings (loss)	(69,066)	12,934	(45,558)	(17,753)
<hr/>				
Net earnings (loss) before discontinued operations per common share				
- basic	N/A	N/A	N/A	(0.30)
- diluted	N/A	N/A	N/A	(0.30)
<hr/>				
Net earnings (loss) per common share				
- basic	(1.05)	0.20	(0.72)	(0.28)
<hr/>				

- diluted	(1.05)	0.20	(0.72)	(0.28)
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(1) Represents revenue after gain/loss on financial instruments, royalties and gain on sale of investments and other.

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

#### Liquidity and Capital Resources

	September 30 (\$ thousands)	December 31 2006	2005
Working capital deficit (1)	\$ 43,363	\$ 70,683	
Credit facility	98,464	105,479	
Term Loan B facility	167,655	-	
US notes	238,733	248,409	
Stock-based compensation liability (2)			
- Holdco Options	2,366	4,105	
Net debt (3)	550,581	428,676	
Share capital	269,796	198,417	
Retained earnings	382,271	238,404	
Total	\$ 1,202,648	\$ 865,497	

(1) Includes current portion of stock-based compensation liability of \$15.2 million at September 30, 2006 (\$27.3 million at December 31, 2005).

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

(3) Net debt includes the stock-based compensation liability associated with Holdco Options totaling \$17.6 million at September 30, 2006 (\$31.4 million at December 31, 2005).

#### Working Capital

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

## Bank Credit Facility

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

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

## Term Loan B Facility

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

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

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

## US Senior Notes

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

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

## Share Capital

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

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

## Contractual Obligations

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

	Recognized in financial statements	Less than 1 - 3	4 - 5	After 5	
(\$ thousands)		1 Year	years	years	Total
US Senior Notes (1)	Yes	20,292	40,585	40,585	269,171 370,633
Bank Credit facility (2)	Yes	5,514	101,221	-	106,735

Term Loan B						
Facility (3)	Yes	16,531	33,062	33,062	182,808	265,463
Stock-based compensation						
liability (4)	Yes	-Partially	39,887	30,080	40	- 70,007
Asset retirement obligations (5)	Yes	-Partially	-	-	142,625	142,625
Pipeline transportation commitments (6)	No	18,007	21,974	10,018	50,741	100,740
Capital spending commitment	No	31,439	400	-	-	31,839
Leases	No	4,032	6,050	4,448	2,706	17,236
<b>Total (7)</b>		<b>135,702</b>	<b>233,372</b>	<b>88,153</b>	<b>648,051</b>	<b>1,105,278</b>

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

(2) Advances bear floating rate interest based on the Bankers' Acceptance Rate, Canadian Prime Rate, LIBOR or the US Base Rate. Paramount has discretion with respect to the basis upon which interest rates are set. As at September 30, 2006 the interest rate on the bank credit facility was approximately 5.6% and the principle outstanding was \$98.5M. The principle outstanding and period ending interest rate have been assumed for interest calculations in future periods.

(3) Borrowings bear floating rate interest based on LIBOR, the US Federal Funds rate or the US Base Rate set by the Administrative Agent. Paramount has discretion with respect to the basis upon which interest rates are set. As at September 30, 2006 the interest rate on the facility was 9.86%. This rate has been assumed for interest calculations in future periods. The amount payable for the Term Loan after five years also includes interest payable thereon totaling \$15.2 million (US\$13.6 million).

(4) The liability for stock-based compensation includes the full intrinsic value of vested and unvested options as at September 30, 2006. Paramount has the alternative to issue shares on Paramount Options being exercised by employees instead of paying the intrinsic value of vested Paramount options. The full intrinsic value of Paramount options included above is \$50.8 million.

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

(6) Certain of the pipeline transportation commitments are secured by outstanding letters of credit totaling \$20.9 million as at September 30, 2006.

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

(8) Excludes obligations under Farm-in arrangement - see below.

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

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

Farm-in.

#### Funding of 2006 Capital Program

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

#### Related Party Transactions

##### Trilogy Energy Trust

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

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

##### Drilling Company

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

##### Other

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

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

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

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

#### Risks and Uncertainties

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

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

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

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

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

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

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

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

#### Financial Instruments

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

Amount	Price	Term
Purchase Contracts		
NYMEX Fixed Price 10,000 MMBtu/d	US\$ 9.16	November 2006
	- March 2007	

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

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

#### Subsequent Events

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

	Amount	Price	Term
<hr/>			
Purchase Contracts			
NYMEX Fixed Price	10,000 MMBtu/d	US\$5.85	November 2006
NYMEX Fixed Price	10,000 MMBtu/d	US\$7.52	November 2006
NYMEX Fixed Price	10,000 MMBtu/d	US\$7.59	November 2006
			- March 2007

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

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

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

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

#### 2006 Outlook and Sensitivity Analysis

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

Production (Boe/d)	
2006 Average	18,000
2006 Exit	21,900

E&P Capital Expenditures (\$ millions)	
2006 Conventional (1)	400
2006 Oil Sands	45

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

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

Sensitivity (1)(2)	Funds Flow Effect (\$ millions)
\$0.25/GJ change in AECO gas price	3.5
US\$1.00 change in the WTI oil price	0.5
\$0.01 change in the Canadian/US dollar exchange rate	1.0
1 percent change in prime rate of interest	1.3

(1) Includes the impact of financial and physical hedge contracts existing at November 8, 2006, and includes the impact of the settlement of certain forward commodity contracts - see Subsequent Events.

(2) Based on forward curve commodity price and forward curve estimates dated September 28, 2006.

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

2006 Annual Average Production	
Natural gas	86.4 MMcf/d
Crude oil/liquids	3,600 Bbl/d

2006 Average Prices	
Natural gas	\$5.34/Mcf
Crude oil (WTI)	US\$64.08/Bbl

2006 Exchange Rate (C\$/US\$)	\$1.12
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Cash taxes	Nil
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### Critical Accounting Estimates

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

Readers are referred to Paramount's Management's Discussion and Analysis for the year ended December 31, 2005 for a discussion of critical accounting estimates relating to (i) successful efforts accounting; (ii) reserves estimates; (iii) impairment of petroleum and natural gas properties; (iv) asset retirement obligations; (v) purchase price allocations; and (vi) income taxes and royalty matters.

### Recent Accounting Pronouncements

#### Non-Monetary Transactions

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

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

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

Paramount Resources Ltd.  
**Consolidated Balance Sheets (Unaudited)**  
(Thousands of dollars)

## LIABILITIES AND SHAREHOLDERS' EQUITY

## Current Liabilities

Accounts payable and accrued liabilities	\$ 167,157	\$ 155,076
Due to related parties (Note 10)	11,449	6,439
Financial instruments (Note 9)	-	7,056
Current portion of stock-based compensation liability (Note 8)	15,219	27,272
<hr/>		
	193,825	195,843
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Long-term debt (Note 5)	504,852	353,888
Asset retirement obligations (Note 6)	69,997	66,203
Deferred credit	-	6,528
Stock-based compensation liability (Note 8)	37,895	50,729
Non-controlling interest	546	1,338
Future income taxes (Note 11)	17,941	-
<hr/>		
	631,231	478,686

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

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

(Dec 31, 2005 - 66,221,675 common shares)	269,796	198,417
Retained earnings	382,271	238,404
	652,067	436,821
	\$1,477,123	\$1,111,350

See accompanying notes to the Interim Consolidated Financial Statements (unaudited).

Paramount Resources Ltd.  
Consolidated Statements of Earnings (Loss) and Retained Earnings  
(Unaudited)  
(thousands of dollars except per share amounts)

	Three Months Ended September 30 2006	Nine Months Ended September 30 2006	Three Months Ended September 30 2005	Nine Months Ended September 30 2005
<b>Revenue</b>				
Petroleum and natural gas sales	\$ 77,866	\$ 99,187	\$239,456	\$367,543
Gain (loss) on financial instruments (Note 9)	24,236	(43,956)	61,071	(58,276)
Royalties	(9,546)	(21,060)	(36,098)	(65,604)
Gain on sale of investments and other	28	2,355	1,264	5,185
	92,584	36,526	265,693	248,848
<b>Expenses</b>				
Operating	19,040	13,116	55,863	54,801
Transportation	3,661	6,125	10,800	20,666
Interest	8,821	7,172	22,623	20,607
General and administrative (recovery)/expense				
(Notes 8 and 10)	(7,752)	58,233	24,132	81,305
Provision for doubtful accounts	4,090	-	4,090	-
Lease rentals	804	642	1,752	2,233
Geological and geophysical	1,222	2,825	12,893	9,987
Dry hole	7,219	10,966	26,162	16,469
(Gain)/loss on sale of property, plant and equipment	(25)	134	(1,997)	(866)
Accretion of asset retirement obligations	1,455	943	4,341	3,724
Depletion and depreciation	37,899	42,454	102,540	140,529
Write-down of petroleum and natural gas properties	-	-	1,334	-
Unrealized foreign exchange loss/(gain)	2,006	(13,369)	(7,960)	5,842
Realized foreign exchange (gain)	(123)	(116)	(845)	(14,307)
Premium on redemption of US debt	-	-	-	53,114
	78,317	129,125	255,728	394,104
<b>Income (loss) from equity investments</b>				
Equity income (loss) (Note 4)	7,607	(891)	22,192	2,421
Dilution gain (Note 4)	3,065	-	120,484	-
Non-controlling interest	(31)	-	(14)	-
Earnings (loss) before income taxes	24,908	(93,490)	152,627	(142,835)
<b>Income and other tax expense (recovery)</b>				
Current and large corporations tax expense	2,171	1,032	1,545	3,797
Future income tax expense (recovery)	576	(25,456)	9,283	(44,942)
	2,747	(24,424)	10,828	(41,145)
<b>Net earnings (loss)</b>	<b>22,161</b>	<b>(69,066)</b>	<b>141,799</b>	<b>(101,690)</b>

Retained earnings, beginning of period	358,452	343,971	238,404	322,107
Adjustment due to Trust Spinout	-	100	-	54,588
Share in equity investee capital transactions	1,658	-	2,068	-

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Retained earnings, end of period \$382,271 \$275,005 \$382,271 \$275,005

Net earnings (loss) per common share
- basic \$ 0.33 \$ (1.05) \$ 2.10 \$ (1.58)
- diluted \$ 0.32 \$ (1.05) \$ 2.04 \$ (1.58)

Weighted average common shares outstanding (thousands)
- basic 68,033 65,737 67,509 64,476
- diluted 69,706 65,737 69,384 64,476

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See accompanying notes to the Interim Consolidated Financial Statements (Unaudited).

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

	Three Months Ended September 30 2006	Nine Months Ended September 30 2006	September 30 2005	September 30 2005
Operating activities				
Net earnings (loss)	\$ 22,161	\$ (69,066)	\$141,799	\$ (101,690)
Add (deduct) non-cash and other items:				
Non-cash loss/(gain) on financial instruments	(21,590)	40,354	(29,065)	61,680
Non-cash general and administrative expense	(16,108)	51,475	(5,235)	60,949
Provision for doubtful accounts	4,090	-	4,090	-
Geological and geophysical	1,222	2,825	12,893	9,987
Dry hole costs	7,219	10,966	26,162	16,469
Loss/(gain) on sale of property, plant and equipment	(25)	134	(1,997)	(866)
Accretion of asset retirement obligations	1,455	943	4,341	3,724
Asset retirement obligations expenditures	(180)	(506)	(534)	(720)
Depletion and depreciation	37,899	42,454	102,540	140,529
Write-down of petroleum and natural gas properties	-	-	1,334	-
Unrealized foreign exchange loss (gain)	2,006	(13,369)	(7,960)	5,842
Realized foreign exchange gain (loss) on US debt	-	(116)	-	(14,307)
Amortization of other assets	193	393	488	489
Premium on redemption of US debt	-	-	-	53,114
Dilution gain (Note 4)	(3,065)	-	(120,484)	-
Equity (income) loss (Note 4)	(7,607)	891	(22,192)	(2,421)
Non-controlling interest	31	-	14	-
Distributions from equity investments	9,022	8,570	30,071	15,787
Future income tax expense (recovery)	576	(25,456)	9,283	(44,942)
Funds flow from operations	37,299	50,492	145,548	203,624
Net change in operating working capital	(50,365)	(3,985)	(5,559)	16,973
	(13,066)	46,507	139,989	220,597
Financing activities				
Bank loans - draws	117,474	99,594	299,149	324,494
Bank loans - repayments	(164,930)	(95,771)	(306,164)	(419,199)

Proceeds on issuance of US debt				
- net of issuance costs	162,652	-	162,652	(4,782)
Open market purchases of US debt	-	(1,088)	-	(1,088)
Premium on exchange of US debt	-	-	-	(45,077)
Cost of reorganization	-	-	-	(4,000)
Receipt of funds from Trust				
Spinout	-	-	220,000	
Common shares issued, net of issuance costs	287	39,831	58,315	49,411
	115,483	42,566	213,952	119,759
Cash flows provided by operating and financing activities	102,417	89,073	353,941	340,356
Investing activities				
Property, plant and equipment expenditures	(104,155)	(62,491)	(367,066)	(310,080)
Petroleum and natural gas property acquisitions	(4,050)	-	(39,108)	(11,087)
Proceeds on sale of property, plant and equipment	4,254	641	6,767	1,364
Cost of equity investments	-	(375)	(475)	(6,590)
Return of capital received, net of non-controlling interest	367	-	20,128	-
Net change in investing working capital	1,167	(26,848)	25,813	(13,963)
Cash flows used in investing activities	(102,417)	(89,073)	(353,941)	(340,356)
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ 12,126	\$ 13,151	\$ 27,064	\$ 24,247
Current and large corporation taxes paid	744	1,032	5,289	3,797

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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

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

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

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

### 1. Summary of Significant Accounting Policies

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

Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited Interim Consolidated Financial Statements should be read in conjunction with Paramount's audited consolidated financial statements for the year ended December 31, 2005.

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

## 2. Change in Accounting Policy

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

## 3. Property, Plant and Equipment

	September 30 2006	December 31 2005		
	Accumulated Depletion and Cost	Net Book Depreciation	Net Book Value	Net Book Value
<b>Petroleum and natural</b>				
gas properties	\$ 1,069,305	\$ (373,177)	\$ 696,128	\$ 606,185
Gas plants, gathering systems and production				
equipment	457,837	(83,327)	374,510	303,871
Other	30,404	(12,669)	17,735	4,523
<b>Total</b>	<b>\$ 1,557,546</b>	<b>\$ (469,173)</b>	<b>\$ 1,088,373</b>	<b>\$ 914,579</b>

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

## 4. Long-term Investments and Other Assets

	September 30 2006	December 31 2005	
<b>Equity accounted investments:</b>			
Trilogy Energy Trust	\$ 66,476	\$ 51,665	
North American Oil Sands Corporation ("North American")	150,414	-	
Private oil and gas company	2,042	623	
	<b>218,932</b>	<b>52,288</b>	

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

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

Nine Months Ended September 30, 2006

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

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

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

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

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

## 5. Long-Term Debt

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

## Bank Credit Facilities

At September 30, 2006 Paramount had a \$200 million committed credit facility with a syndicate of Canadian banks, \$133 million after adjustments for US Notes and Term Loan B Facility service costs. Borrowings under the credit facility bear interest at floating rates at the lenders' prime rate, bankers' acceptance rate or LIBOR, at the discretion of Paramount, plus an applicable margin depending on certain conditions. The facilities are available on a revolving basis for a period of 364 days from March 30, 2006 and can be extended a further 364 days upon request, subject to approval by the lenders. In the event the revolving period is not extended, the facility would be available on a non-revolving basis for a one year term, at the end of which time the facility would be due and payable. Advances drawn on Paramount's credit facility are secured by a first fixed and floating charge over the assets of the Company, excluding 12.8 million of the Trilogy units and all of the North American shares owned by Paramount.

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

## Term Loan B Facility

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

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

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

## 6. Asset Retirement Obligations

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

Nine Months Ended	Year Ended
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September 30, 2006 December 31, 2005

Asset retirement obligations, beginning of period	\$ 66,203	\$ 101,486
Adjustment resulting from the Trilogy Spinout	- (65,076)	
Liabilities incurred	5,934	3,614
Reduction on disposal of properties	(5,947)	-
Revisions in estimated cost of abandonment	- 22,113	
Liabilities settled	(534) (990)	
Accretion expense	4,341	5,056
Asset retirement obligations, end of period	\$ 69,997	\$ 66,203

## 7. Share Capital

Class A Common Shares	Shares	Amount
Balance at December 31, 2005	66,221,675	\$ 198,417
Issued on exercise of stock options	632,900	22,979
Issued for cash	1,200,000	56,232
Share issuance costs, net of tax benefit	- (938)	
Tax adjustment on flow-through share renunciations	- (6,894)	
Balance at September 30, 2006	68,054,575	\$ 269,796

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

## 8. Stock-based Compensation

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

	Paramount Options		Holdco Options	
	Weighted	Weighted		
	Average	Average		
	Exercise	Exercise		
	Price	Options	Price	Options
Balance, beginning of period	10.22	3,910,175	\$ 5.79	1,985,375
Granted	34.79	1,612,500	-	-
Exercised	5.46	(633,150)	5.16	(472,000)
Cancelled	20.72	(154,200)	8.06	(32,500)
Balance, end of period	18.88	4,735,325	5.95	1,480,875
Options exercisable,				

end of period	5.30	436,150	5.42	602,750
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Additional information concerning Paramount's stock options outstanding as at September 30, 2006 is as follows:

Exercise Price	Outstanding		Exercisable		
	Weighted Average Contractual Number	Weighted Average Exercise Life	Weighted Average Exercise Price	Number	Price
Paramount Options (Years)					
\$4.33-\$10.00	1,183,725	1.2	\$ 4.83	418,100	\$ 4.80
\$10.01-\$30.00	1,913,100	3.1	14.01	18,050	16.72
\$30.01-\$43.25	1,638,500	4.1	34.71	-	-
Total	4,735,325	2.9	\$ 18.88	436,150	\$ 5.30
Holdco Options					
\$4.58-\$6.00	1,188,875	1.4	\$ 4.66	532,250	\$ 4.66
\$6.01-\$10.00	95,500	2.2	7.21	20,500	7.63
\$10.01-\$16.37	196,500	2.7	13.15	50,000	12.51
Total	1,480,875	1.6	\$ 5.95	602,750	\$ 5.42

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

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

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

## 9. Financial Instruments

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

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

unrealized and realized gains and losses on financial instruments:

Three Months Ended      September 30, 2006      September 30, 2005

	Total	Net Deferred Amounts on Transition	Mark-to Market Gain (Loss)	Total
<hr/>				
Change in fair value of contracts recorded on transition	\$ -	\$ -	\$ (445)	\$ (445)
<hr/>				
Amortization of deferred fair value of contracts	-	411	-	411
<hr/>				
Net change in fair value of contracts entered into after transition (mark-to-market gain (loss))	21,590	-	(40,320)	(40,320)
<hr/>				
Unrealized gain (loss) on financial instruments	21,590	411	(40,765)	(40,354)
Realized gain (loss) on financial instruments	2,646	-	-	(3,602)
<hr/>				
Net gain (loss) on financial instruments	\$ 24,236	\$ -	\$ -	\$ (43,956)
<hr/>				

Nine Months Ended      September 30, 2006      September 30, 2005

	Total	Net Deferred Amounts on Transition	Mark-to Market Gain (Loss)	Total
<hr/>				
Change in fair value of contracts recorded on transition	\$ -	\$ -	\$ (1,937)	\$ (1,937)
<hr/>				
Amortization of deferred fair value of contracts	-	1,233	-	1,233
<hr/>				
Net change in fair value of contracts entered into after transition (mark-to-market gain (loss))	29,065	-	(60,976)	(60,976)
<hr/>				
Unrealized gain (loss) on financial instruments	29,065	1,233	(62,913)	(61,680)
Realized gain on financial instruments	32,006	-	-	3,404
<hr/>				
Net gain (loss) on financial instruments	\$ 61,071	\$ -	\$ -	\$ (58,276)
<hr/>				

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

	Amount	Price	Term
<b>Sales Contracts</b>			
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 10.00	Nov 2006 - Mar 2007
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 10.14	Nov 2006 - Mar 2007
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 10.37	Nov 2006 - Mar 2007
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 10.875	Nov 2006 - Mar 2007
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 11.15	Nov 2006 - Mar 2007
WTI Fixed Price	1,000 Bbl/d	US\$ 66.04	Feb 2006 - Dec 2006
WTI Fixed Price	1,000 Bbl/d	US\$ 65.64	Feb 2006 - Dec 2006
<b>Purchase Contracts</b>			
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 9.16	Nov 2006 - Mar 2007
<b>Option Contract - Sold</b>			
AECO Call Option	20,000 GJ/d	\$ 12.50	Apr 2006 - Oct 2006

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

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

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

	Amount	Price	Term
<b>Sales Contracts</b>			
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 10.28	Nov 2006 - Mar 2007

## 10. Related Party Transactions

### Trilogy Energy Trust

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

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

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

- As a result of the Trilogy Spinout, certain employees and officers of Trilogy hold Paramount Options and Holdco Options. The stock-based compensation relating to these options for the nine months ended September 30, 2006 amounted to a recovery of \$0.9 million, of which \$0.8 million was recorded as a recovery to general and administrative expense and \$0.1 million was recognized in equity in net earnings of Trilogy.

- Paramount recorded distributions from Trilogy Energy Trust totaling \$9.0 million for the three months ended and \$30.1 million for the nine months ended September 30, 2006. Distributions receivable of \$3.0 million relating to distributions declared by Trilogy in September 2006 were accrued at September 30, 2006 and received in October 2006.

- During the three and nine months ended September 30, 2006, Paramount also had other transactions in the normal course of business with Trilogy.

- The net amount due from Trilogy arising from the above related party transactions as at September 30, 2006 was \$6.0 million. At December 31, 2005 Paramount had a net payable position to Trilogy of \$6.4 million. Included in such balances is a Crown royalty deposit claim of \$5.5 million which, when refunded to Paramount, will be paid to Trilogy.

#### Drilling Company

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

#### Other

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

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

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

#### 11. Income Taxes

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

Nine Months Ended September 30, 2006	
Net Earnings Before Income Tax	\$ 152,627
Canadian Statutory Rate	34.8%
Expected Income Tax	53,034

Effect on Taxes Resulting from:		
Other current and large corporation tax	150	
Non-deductible Canadian crown payments	317	
Canadian resource allowance	(625)	
Recognition of future tax asset	(21,242)	
Effect of tax rate changes	(2,064)	
Non-taxable capital gains	(22,743)	
Stock-based compensation	2,899	
Other	1,102	
	-----	
	\$ 10,828	
Effective Tax Rate	7.1%	
	-----	

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

## 12. Commitments

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

Physical Sales Contracts	Amount	Price	Term
AECO Fixed Price	10,000 GJ/d	\$ 6.25	July 2006 - Oct 2006
AECO Fixed Price	10,000 GJ/d	\$ 6.40	July 2006 - Oct 2006
AECO Fixed Price	10,000 GJ/d	\$ 6.58	July 2006 - Oct 2006

Physical Purchase Contracts	Amount	Price	Term
AECO Fixed Price	20,000 GJ/d	\$ 5.37	Sept 2006 - Oct 2006

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

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

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

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

### 13. Subsequent Events

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

	Amount	Price	Term
<hr/>			
Purchase Contracts			
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 5.85	Nov 2006
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 7.52	Nov 2006
NYMEX Fixed Price	10,000 MMBtu/d	US\$ 7.59	Nov 2006 - Mar 2007

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

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

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

### Advisories

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

### Forward-Looking Statements and Estimates

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

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

- the ability of Paramount to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability of Paramount to market oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of Paramount to obtain financing on acceptable terms;
- additional funding towards the development of North American's oil sands leases will be borne solely by North American;
- currency, exchange and interest rates;
- future oil and gas prices;
- that "Newco" will be a publicly listed company;
- the spin-out transaction contemplated to "Newco" will be completed; and
- that no significant cash taxes will be paid by Paramount in 2006.
- the ability of Newco to obtain equipment, services, personnel and supplies in a timely manner to carry out its activities;
- the ability of Newco and its industry partners to obtain drilling success consistent with expectations; the ability of Newco to market oil and natural gas successfully;
- the ability of Newco to secure adequate product transportation; the completion of the proposed Mackenzie Valley pipeline;
- the ability of Newco to obtain financing on acceptable terms; and future oil and gas prices.

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

- the ability of management to execute its business plan;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- risks and uncertainties involving geology of oil and gas deposits;
- risks inherent in Paramount's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- imprecision of resource estimates and life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- Paramount's ability to enter into or renew leases;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;

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

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

#### Non-GAAP Measures

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

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

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

#### Barrels of Oil Equivalent Conversions

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

Paramount is a Canadian oil and natural gas exploration, development and production company with operations focused in Western Canada. Paramount's common shares are listed on the Toronto Stock Exchange under the symbol "POU".

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