Paramount resources ltd.

2011 Third Quarter Report

FINANCIAL AND OPERATING HIGHLIGHTS[1]

($ millions, except as noted)

	Three months ended September 30			Nine months ended September 30		
	2011	2010	Change %	**2011**	2010	Change %
Financial[2]						
Petroleum and natural gas sales	**70.5**	44.9	57	**178.4**	138.4	29
Funds flow from operations[3]	**32.8**	24.1	36	**70.2**	72.8	(4)
Per share – diluted ($/share)	**0.42**	0.33	27	**0.91**	1.01	(10)
Net income (loss)	**(22.4)**	6.9	(425)	**(22.1)**	16.3	(236)
Per share – basic and diluted ($/share)	**(0.28)**	0.09	(411)	**(0.29)**	0.22	(232)
Exploration and development expenditures	**107.0**	35.9	198	**321.7**	120.4	167
Investments in other entities – market value[4]				**812.3**	443.7	83
Total assets				**1,737.9**	1,217.1	43
Net debt[5]				**589.6**	221.8	166
Common shares outstanding (thousands)				**79,002**	72,448	9
Operating						
Sales volumes:						
Natural gas (MMcf/d)	**97.8**	62.9	55	**78.2**	56.7	38
NGLs (Bbl/d)	**2,062**	1,145	80	**1,515**	915	66
Oil (Bbl/d)	**2,344**	2,335	–	**2,269**	2,512	(10)
Total (Boe/d)	**20,707**	13,967	48	**16,820**	12,884	31
Average realized price:						
Natural gas ($/Mcf)	**4.16**	4.12	1	**4.27**	4.67	(9)
NGLs ($/Bbl)	**83.68**	59.90	40	**82.59**	68.68	20
Oil ($/Bbl)	**80.06**	68.60	17	**85.52**	71.31	20
Total ($/Boe)	**37.03**	34.96	6	**38.85**	39.36	(1)
Net wells drilled (excluding oil sands evaluation)	**15**	10	50	**35**	34	3
Net oil sands evaluation wells drilled	**–**	–	–	**27**	45	(40)

(1) Readers are referred to the advisories concerning non-GAAP measures and oil and gas definitions in the "Advisories" section of this document.

(2) Paramount adopted International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011 and the Company has applied IFRS as of January 1, 2010 (the "Transition Date") for comparative purposes. Certain prior period amounts have been adjusted to reflect the changes in the Company's accounting policies.

(3) The Company has adjusted its funds flow from operations measure for all periods presented. Refer to the advisories concerning non-GAAP measures in the "Advisories" section of this document.

(4) Based on the period-end closing prices of publicly traded enterprises and the book value of the remaining investments.

(5) Net debt is a non-GAAP measure, it is calculated and defined in the Liquidity and Capital Resources section of Management's Discussion and Analysis.

THIRD QUARTER OVERVIEW

Funds Flow From Operations

- Third quarter 2011 funds flow from operations increased 36 percent to $32.8 million compared to $24.1 million in the third quarter of 2010, as the impact of higher production and a higher netback more than offset higher interest and lower settlements of financial commodity contracts.

Principal Properties

- Average sales volumes in the third quarter of 2011 increased 48 percent to 20,707 Boe/d compared to 13,967 Boe/d in the third quarter of 2010.
- Netback increased 68 percent to $39.1 million in the third quarter of 2011 from $23.3 million in the third quarter of 2010.
- Average sales volumes in the Kaybob COU increased 117 percent to 10,487 Boe/d in the third quarter of 2011 compared to 4,829 Boe/d in the third quarter of 2010.
- Construction of phase one of the Musreau processing plant (45 MMcf/d raw gas capacity) is nearing completion, with an expected start-up in late-November. Design work is being finalized for phase two of the facility, an incremental 190 MMcf/d raw gas capacity (160 MMcf/d sales gas) deep cut liquids extraction facility to be built alongside the initial phase.
- The expansion of the non-operated processing plant at Smoky has now been approved by the partners. The existing 100 MMcf/d (10 MMcf/d net) raw gas capacity facility will be expanded to 300 MMcf/d (60 MMcf/d net) of raw gas and be upgraded to operate as a deep cut liquids extraction facility. The expansion is expected to be complete in late-2013.
- The Grande Prairie COU commissioned a 10 MMcf/d raw gas capacity compression and gathering system at Valhalla in July 2011. Work has commenced to expand the system to 20 MMcf/d of raw gas capacity, which is expected to be brought onstream during the first quarter of 2012.
- The Northern COU completed its first well at Birch in northeast British Columbia with promising results, including significant liquid yields.

Strategic Investments

- The market value of Paramount’s portfolio of investments in other oil and gas entities increased to $980 million at October 31, 2011, primarily due to an increase in the market price of Trilogy Energy Corp. ("Trilogy") shares.
- In July 2011, the Company received an updated independent evaluation of its bitumen resources within the Grand Rapids formation at its Hoole oil sands property in which estimated economic contingent bitumen resources increased 20 percent to 763 million barrels (Best Estimate (P50)). The before-tax net present value of future net revenue of such economic contingent resources, discounted at ten percent (Best Estimate (P50)), increased 49 percent to $2.8 billion.
- Between April 2011 and July 2011 Paramount sold its investments in NuLoch Resources Inc. and Magnum Hunter Resources Corporation for aggregate proceeds of $15.8 million.

Corporate

- On October 20, 2011 Paramount issued 1.6 million flow-through Common Shares for gross proceeds of $62.8 million. On October 25, 2011, the Company announced an offering of 4.5 million Common Shares at a price of $34.75 per share for gross proceeds of $156 million, which is expected to close in mid-November. Proceeds from these two offerings are planned to be used to fund a portion of Paramount's ongoing capital expenditure program, including eligible Canadian exploration expenses and long-lead time capital expenditures for 2012, and for general corporate purposes.

- General and administrative costs per Boe decreased 39 percent to $2.12 per Boe in the third quarter of 2011 compared to $3.48 per Boe in the third quarter of 2010.

REVIEW OF OPERATIONS

Three months ended	September 30, 2011		June 30, 2011		Change %
SALES VOLUMES					
Natural gas (MMcf/d)	**97.8**		77.7		26
NGLs (Bbl/d)	**2,062**		1,504		37
Oil (Bbl/d)	**2,344**		2,110		11
Total (Boe/d)	**20,707**		16,572		25
NETBACK ($ millions, except as noted)		***($/Boe)***		*($/Boe)*	*% Change in $/Boe*
Petroleum and natural gas sales	**70.5**	***37.03***	61.1	*40.52*	*(9)*
Royalties	**(6.6)**	***(3.46)***	(5.2)	*(3.46)*	*–*
Operating expense and production tax	**(18.8)**	***(9.88)***	(15.7)	*(10.40)*	*(5)*
Transportation	**(6.0)**	***(3.16)***	(5.3)	*(3.52)*	*(10)*
Netback	**39.1**	***20.53***	34.9	*23.14*	*(11)*
Financial commodity contract settlements	**0.9**	***0.46***	(0.7)	*(0.47)*	*198*
Netback including financial commodity contract settlements	**40.0**	***20.99***	34.2	*22.67*	*(7)*

Paramount's average sales volumes increased 25 percent to 20,707 Boe/d in the third quarter of 2011 compared to 16,572 Boe/d in the previous quarter, primarily as a result of production increases from new wells in the Kaybob and Grande Prairie COUs and from wells added through the acquisition of ProspEx Resources Ltd. ("ProspEx"). The outages at third party processing facilities and pipelines that impacted the Company's production in the second quarter did not affect third quarter production. Additional unscheduled service interruptions have occurred in the Kaybob and Grande Prairie COUs subsequent to the end of the third quarter. Paramount's ongoing investment in infrastructure projects is expected to reduce its reliance on third party facilities and the impact of unplanned operational disruptions.

The third quarter netback increased 12 percent to $39.1 million compared to $34.9 million in the previous quarter. The impact of increased production volumes and lower per unit operating and transportation costs was partially offset by lower natural gas and oil prices.

KAYBOB

Three months ended	September 30, 2011		June 30, 2011		Change %
Sales Volumes					
Natural gas (MMcf/d)		**55.7**		43.5	28
NGLs (Bbl/d)		**1,180**		847	39
Oil (Bbl/d)		**28**		102	(73)
Total (Boe/d)		**10,487**		8,204	28
Exploration and Development Expenditures[(1)] ($ millions)					
Exploration, drilling, completions and tie-ins		**42.5**		14.0	204
Facilities and gathering		**15.7**		4.4	257
		58.2		18.4	216
	Gross	**Net**	Gross	Net	
Wells drilled	**4**	**3**	5	3	
Wells placed on production	**2**	**2**	–	–	

(1) Before deduction of Alberta drilling royalty credits

Average daily sales volumes in the Kaybob COU during the third quarter of 2011 were 10,487 Boe/d, an increase of 28 percent compared to the prior quarter. This was primarily the result of new wells being brought on in Musreau and Resthaven, and a full quarter of production from wells added through the ProspEx acquisition. Subsequent to September 30, 2011, unscheduled service interruptions occurred at third party pipelines and non-operated processing plants that impacted October production at Musreau and Smoky.

The Company is in the initial stages of the exploration of its liquids-rich Montney rights in the Deep Basin, with four (3.5 net) wells drilled to date, of which two (1.5 net) have been completed. The first well had a test rate in excess of 10 MMcf/d and was placed on production in July with first month average sales volumes of 6.0 MMcf/d of natural gas and 90 Bbl/MMcf of associated liquids. The second well was completed in late October with a test rate of 12 MMcf/d of natural gas (liquid yields information is not yet available). The remaining two wells are planned to be completed and tied-in during the fourth quarter. The Company continues to acquire Montney mineral rights, and currently holds 216 (185 net) sections in Musreau and Resthaven.

Paramount has completed and tied-in 12 (8.2 net) Cretaceous Falher and Dunvegan formation wells during the first nine months of 2011. Subsequent to quarter end an additional three (1.8 net) Falher wells were completed and brought on production and Paramount currently has an additional eight (6.0 net) Falher and Dunvegan wells awaiting completion and tie-in.

The Kaybob COU is currently operating five drilling rigs on its Deep Basin properties, and anticipates drilling up to five (3.7 net) wells during the fourth quarter, including one (1.0 net) Montney well.

The Company is continuing its plans to expand its processing capacity in the Deep Basin, as current production levels have exceeded Company-owned and third-party firm service processing capacities. Construction of the first phase of the Paramount operated processing plant at Musreau (45 MMcf/d raw gas capacity) is progressing on-budget and is expected to start-up in late-November 2011. With its continued positive drilling results, the Company is finalizing the design of phase two of the facility, an incremental 190 MMcf/d raw gas capacity (160 MMcf/d sales gas) deep cut liquids extraction facility to be built alongside the initial phase. It is anticipated that this expansion will be completed during the second quarter of 2013. The addition of deep cut facilities adds significant value to natural gas production due to the price premium realized from the extraction of ethane, propane and butane volumes that would otherwise be sold in solution.

In addition, the expansion of the non-operated processing plant at Smoky has now been approved by the partners. The existing 100 MMcf/d (10 MMcf/d net) raw gas capacity facility will be expanded to 300 MMcf/d (60 MMcf/d net) of raw gas and be upgraded to operate as a deep cut liquids extraction facility. Initially, compression capacity for 200 MMcf/d will be installed, with an additional 100 MMcf/d of compression to be added when production volumes reach capacity, thereby deferring a portion of the capital costs. The expansion is expected to be complete in late-2013.

Paramount anticipates that by the end of 2011 it will have 55 MMcf/d of Company-owned and firm-service third-party processing capacity at Musreau and approximately 20 MMcf/d of Company-owned processing capacity in the Resthaven/Smoky area. This aggregate 75 MMcf/d of processing capacity will be maintained throughout 2012 and into 2013 until the Musreau and Smoky plant expansions are completed. The Company plans to drill and complete additional wells throughout 2012 and 2013 in preparation for these expansions, and will in the interim produce volumes held behind pipe on interruptible service where capacity is available in an effort to maximize production while additional Company-owned capacities are being constructed.

GRANDE PRAIRIE

Three months ended	September 30, 2011		June 30, 2011		Change %
Sales Volumes					
Natural gas (MMcf/d)	**19.0**		12.6		51
NGLs (Bbl/d)	**611**		560		9
Oil (Bbl/d)	**364**		448		(19)
Total (Boe/d)	**4,142**		3,108		33
Exploration and Development Expenditures[1] ($ millions)					
Exploration, drilling, completions and tie-ins	**26.6**		19.0		40
Facilities and gathering	**7.7**		9.9		(22)
	34.3		28.9		19
	Gross	**Net**	Gross	Net	
Wells drilled	**8**	**5**	3	3	
Wells placed on production	**5**	**4**	3	3	

(1) Before deduction of Alberta drilling royalty credits

Average sales volumes in the Grande Prairie COU increased 33 percent in the third quarter of 2011 to 4,142 Boe/d compared to 3,108 Boe/d in the second quarter of the year, as the new Valhalla compression facility was commissioned in July and additional wells were brought onstream. In October, approximately 2,000 Boe/d of the Company's production at Karr-Gold Creek was shut-in as a result of unscheduled service interruptions at third party facilities. Work is currently ongoing to resolve the interruptions and restore Paramount's production.

The Company's development at Valhalla continued to progress in the third quarter as additional wells were tied into the new compression and gathering system, which by the end of the third quarter was operating in excess of its 10 MMcf/d design capacity. The Company also participated in three (1.7 net) partner operated wells that will not be routed through Paramount's gathering system. One (1.0 net) operated well was drilled at Valhalla in the third quarter and two (1.0 net) wells are planned to be drilled during the fourth quarter. A $4.5 million expansion of the Valhalla compression facility that will increase its capacity to 20 MMcf/d of raw gas is expected to enter service during the first quarter of 2012.

The exploration of Paramount's Karr-Gold Creek property has continued as the Company works to refine the production systems required for the wells to reach optimal performance levels. Operational challenges have continued due to a number of factors including the characteristics of the reservoir, inconsistent production resulting from unplanned third party processing interruptions and delays in the delivery of surface equipment. The Company's field activities at Karr-Gold Creek have been further delayed by the wet conditions that prevailed throughout the summer. Third quarter activities at Karr-Gold Creek included the drilling of three (2.5 net) wells and the tie-in of two (1.0 net) previously drilled wells. In the fourth quarter one (1.0 net) previously drilled well is expected to be completed and brought on production and two (1.3 net) wells are scheduled to be drilled. The completion of two (2.0 net) wells planned for 2011 has been deferred to the first quarter of 2012.

Paramount has drilled two (1.5 net) wells to date at Ante Creek targeting oil from the Montney formation. The first well is producing at approximately 200 Bbl/d (100 Bbl/d net), the maximum currently permitted under regulation. The second well is scheduled to be completed in the fourth quarter. This development has experienced delays due to regulatory issues, production equipment failures and midstream service interruptions. The Company and the operator are developing plans to mitigate these issues.

SOUTHERN

Three months ended	September 30, 2011		June 30, 2011		Change %
Sales Volumes					
Natural gas (MMcf/d)	**12.2**		10.6		15
NGLs (Bbl/d)	**241**		90		168
Oil (Bbl/d)	**1,468**		1,477		(1)
Total (Boe/d)	**3,742**		3,333		12
Exploration and Development Expenditures[1] ($ millions)					
Exploration, drilling, completions and tie-ins	**7.4**		1.8		311
Facilities and gathering	**1.1**		0.5		120
	8.5		2.3		270
	Gross	**Net**	Gross	Net	
Wells drilled	**9**	**7**	5	2	
Wells placed on production	**8**	**3**	2	2	

(1) Before deduction of Alberta drilling royalty credits

The Southern COU's average sales volumes increased by 12 percent in the third quarter of 2011 to 3,742 Boe/d compared to 3,333 Boe/d in the prior quarter as a result of a full quarter of production from wells added through the ProspEx acquisition.

Third quarter 2011 activities in southern Alberta included the drilling of three oil wells which are expected to be completed and tied-in during the fourth quarter. In southern Saskatchewan, Paramount's joint development partner drilled four wells during the third quarter, in addition to the four wells drilled during the second quarter. All eight wells have now been completed and brought on production. Paramount will have a post-payout interest of 45 percent in these wells.

In North Dakota, the Company's joint development partner drilled two wells during the third quarter which are currently being completed. Drilling has also commenced on an additional two wells subsequent to the end of the third quarter. All four of these wells are expected to be brought on production by late-2011.

NORTHERN

Three months ended	September 30, 2011		June 30, 2011		Change %
Sales Volumes					
Natural gas (MMcf/d)	**10.9**		11.0		(1)
NGLs (Bbl/d)	**30**		7		329
Oil (Bbl/d)	**484**		83		483
Total (Boe/d)	**2,336**		1,927		21
Exploration and Development Expenditures[1] ($ millions)					
Exploration, drilling, completions and tie-ins	**5.7**		2.4		133
Facilities and gathering	**0.3**		0.1		200
	6.0		2.5		136
	Gross	**Net**	Gross	Net	
Wells drilled	**–**	**–**	–	–	
Wells placed on production	**–**	**–**	–	–	

(1) Before deduction of Alberta drilling royalty credits

Average sales volumes in the Northern COU during the third quarter of 2011 increased 21 percent from the second quarter of the year, as oil inventory that had accumulated during a third-party pipeline failure was sold following the resumption of service in early-September.

During the third quarter a horizontal exploratory well at Birch was completed with promising results, including significant liquid yields. The Company is currently evaluating alternatives to obtain access to gathering and processing infrastructure in order to be able to produce the well. Potential follow-up drilling locations are being evaluated.

STRATEGIC INVESTMENTS

In July 2011, Paramount received an updated independent evaluation of its bitumen resources within the Grand Rapids formation at its Hoole oil sands property, incorporating the results of the Company's 15 well 2010/2011 winter delineation drilling program, which increased the mapped thickness of the reservoir in some areas, confirmed the continuous nature of the reservoir and extended the boundaries of the exploitable reservoir. The updated evaluation was conducted by the Company's independent reserves evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel"), who had previously evaluated the Hoole oil sands property effective April 30, 2010. The updated evaluation estimates that the Grand Rapids formation within the Company's 100 percent owned Hoole oil sands properties contains approximately 763 million barrels (April 30, 2010 – 634 million barrels) of economic contingent bitumen resources within the Grand Rapids formation (Best Estimate (P50)). The estimated before-tax net present value of future net revenue, discounted at ten percent (Best Estimate (P50)), is $2.8 billion (April 30, 2010 - $1.9 billion). During the remainder of 2011, the Company will continue to finalize its plans for the initial development of the Hoole property and complete the engineering design and environmental impact analysis for the project with a view to submitting a regulatory application for commercial development of the resource by the end of 2011.

In April 2011, Paramount completed a ten well drilling and delineation program at its 100 percent owned Saleski carbonate bitumen property. Paramount has commissioned an independent evaluation of its resources in the Grosmont formation, which is expected to be completed in the fourth quarter. The Company is currently developing plans for the 2011/2012 winter capital program at Saleski, including a further drilling and delineation program and seismic studies.

Paramount plans to drill an initial exploratory shale gas well in the Dunedin area of northeast British Columbia in the 2011/12 winter drilling season. The well will be drilled to a vertical depth of approximately 4,500 meters and will be cored and logged for evaluation. Plans for further shale gas activities will incorporate information obtained from this initial well.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated November 8, 2011, should be read in conjunction with the unaudited Interim Consolidated Financial Statements of Paramount Resources Ltd. ("Paramount" or the "Company") for the three and nine months ended September 30, 2011 and Paramount's audited Consolidated Financial Statements for the year ended December 31, 2010.

This document contains forward-looking information, non-GAAP measures and disclosures of barrels of oil equivalent volumes and economic contingent resources. Readers are referred to the "Advisories" section at the end of this document concerning such matters.

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

Canadian Generally Accepted Accounting Principles ("GAAP"), as issued by the Canadian Institute of Chartered Accountants, were converted to International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company's unaudited Interim Consolidated Financial Statements for the three and nine months ended September 30, 2011 have been prepared in accordance with IAS 34 - Interim Financial Reporting, IFRS 1 - First-time Adoption of IFRS and the IFRS accounting policies the Company expects to adopt in its initial IFRS annual Consolidated Financial Statements as at and for the year ended December 31, 2011. Paramount's IFRS accounting policies and significant accounting judgments, estimates, and assumptions are described in Note 1 and Note 2 to the Company's March 31, 2011 unaudited Interim Consolidated Financial Statements. Note 19 to the Company's March 31, 2011 unaudited Interim Consolidated Financial Statements contains reconciliations of IFRS amounts as of January 1, 2010 (the "Transition Date") and as at and for the twelve months ended December 31, 2010 to amounts previously published in accordance with Canadian GAAP in effect prior to January 1, 2011 ("Previous GAAP").

In order to prepare comparative information, the Company has applied IFRS as of the Transition Date and amounts included in this MD&A related to periods on or after the Transition Date have been adjusted to conform to the Company's IFRS accounting policies. Amounts related to periods prior to the Transition Date included in this MD&A have not been adjusted, and are denoted as being prepared in accordance with Previous GAAP.

About Paramount

Paramount is an independent Canadian energy company involved in the exploration, development, production, processing, transportation and marketing of natural gas, crude oil and natural gas liquids ("NGLs"). Management's strategy is to maintain a balanced portfolio of opportunities, to grow reserves and production in Paramount's Principal Properties while maintaining a large inventory of undeveloped acreage, and to selectively pursue higher risk/higher return prospects.

Paramount has spun-out three public entities: (i) Paramount Energy Trust, now Perpetual Energy Inc., in February, 2003; (ii) Trilogy Energy Trust, now Trilogy Energy Corp. ("Trilogy"), in April, 2005; and (iii) MGM Energy Corp. ("MGM Energy") in January, 2007. Paramount continues to hold investments in the securities of Trilogy and MGM Energy in its portfolio of Strategic Investments.

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

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

- the Kaybob COU, which includes properties in West Central Alberta;
- the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta;
- the Southern COU, which includes properties in Southern Alberta, Saskatchewan, North Dakota and Montana; and
- the Northern COU, which includes properties in Northern Alberta, the Northwest Territories and Northeast British Columbia.

Strategic Investments include: (i) investments in other entities, including affiliates; (ii) investments in development stage assets, including oil sands resources and prospective shale gas acreage, where there is no near-term expectation of production, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation; and (iii) three drilling rigs owned by Paramount's wholly owned subsidiaries Fox Drilling Inc. ("Fox Drilling") in Canada and Paramount Drilling U.S., L.L.C. ("Paramount Drilling") in the United States.

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

All amounts in Management's Discussion and Analysis are presented in millions of Canadian dollars unless otherwise noted.

THIRD QUARTER HIGHLIGHTS[1]

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
FINANCIAL				
($ millions, except as noted)				
Petroleum and natural gas sales	**70.5**	44.9	**178.4**	138.4
Funds flow from operations[2]	**32.8**	24.1	**70.2**	72.8
per share – diluted ($/share)	**0.42**	0.33	**0.91**	1.01
Net income (loss)	**(22.4)**	6.9	**(22.1)**	16.3
per share – basic and diluted ($/share)	**(0.28)**	0.09	**(0.29)**	0.22
Exploration and development expenditures	**107.0**	35.9	**321.7**	120.4
Investments in other entities – market value[3]			**812.3**	443.7
Total assets			**1,737.9**	1,217.1
Long-term debt			**485.4**	203.6
Net debt			**589.6**	221.8
OPERATIONAL				
Sales volumes				
Natural gas (MMcf/d)	**97.8**	62.9	**78.2**	56.7
NGLs (Bbl/d)	**2,062**	1,145	**1,515**	915
Oil (Bbl/d)	**2,344**	2,335	**2,269**	2,512
Total (Boe/d)	**20,707**	13,967	**16,820**	12,884
Net wells drilled (excluding oil sands evaluation)	**15**	10	**35**	34
Net oil sands evaluation wells drilled	**–**	–	**27**	45
FUNDS FLOW FROM OPERATIONS ($/Boe)[2]				
Petroleum and natural gas sales	**37.03**	34.96	**38.85**	39.36
Royalties	**(3.46)**	(3.40)	**(3.60)**	(4.80)
Operating expense and production tax	**(9.88)**	(9.98)	**(10.90)**	(10.82)
Transportation	**(3.16)**	(3.39)	**(3.36)**	(3.68)
Netback	**20.53**	18.19	**20.99**	20.06
Financial commodity contract settlements	**0.46**	3.95	**(0.02)**	3.17
Netback including financial commodity contract settlements	**20.99**	22.14	**20.97**	23.23
General and administrative	**(2.12)**	(3.48)	**(2.82)**	(3.05)
Interest	**(4.74)**	(2.66)	**(5.44)**	(2.52)
Dividends from investments	**1.33**	1.97	**1.80**	2.91
Other	**1.76**	0.75	**0.77**	0.12
	17.22	18.72	**15.28**	20.69

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Principal Properties

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- Netback increased 68 percent to $39.1 million in the third quarter of 2011 from $23.3 million in the third quarter of 2010.
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- Construction of phase one of the Musreau processing plant (45 MMcf/d raw gas capacity) is nearing completion, with an expected start-up in late-November. Design work is being finalized for phase two of the facility, an incremental 190 MMcf/d raw gas capacity (160 MMcf/d sales gas) deep cut liquids extraction facility to be built alongside the initial phase.
- The expansion of the non-operated processing plant at Smoky has now been approved by the partners. The existing 100 MMcf/d (10 MMcf/d net) raw gas capacity facility will be expanded to 300 MMcf/d (60 MMcf/d net) of raw gas and be upgraded to operate as a deep cut liquids extraction facility. The expansion is expected to be complete in late-2013.
- The Grande Prairie COU commissioned a 10 MMcf/d raw gas capacity compression and gathering system at Valhalla in July 2011. Work has commenced to expand the system to 20 MMcf/d of raw gas capacity, which is expected to be brought onstream during the first quarter of 2012.
- The Northern COU completed its first well at Birch in northeast British Columbia.

Strategic Investments

- In July 2011, the Company received an updated independent evaluation of its bitumen resources within the Grand Rapids formation at its Hoole oil sands property in which estimated economic contingent bitumen resources increased 20 percent to 763 million barrels (Best Estimate (P50)). The before-tax net present value of future net revenue of such economic contingent resources, discounted at ten percent (Best Estimate (P50)), increased 49 percent to $2.8 billion.

- Between April 2011 and July 2011 Paramount sold its investments in NuLoch Resources Inc. ("NuLoch") and Magnum Hunter Resources Corporation ("Magnum Hunter") for aggregate proceeds of $15.8 million.

Corporate

- In October 2011, Paramount closed offerings of an aggregate 1.6 million flow-through Common Shares for gross proceeds of $62.8 million. The Company also announced an additional offering of 4.5 million Common Shares for gross proceeds of $156.4 million, which is expected to close on or about November 16, 2011.

- General and administrative costs per Boe decreased 39 percent in the third quarter of 2011 to $2.12 per Boe compared to $3.48 per Boe in the third quarter of 2010.

CONSOLIDATED RESULTS

Net Income (Loss)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Principal Properties	**(1.1)**	(9.2)	**14.9**	(17.4)
Strategic Investments	**(3.4)**	(5.5)	**8.5**	27.3
Corporate	**(22.0)**	(11.4)	**(47.2)**	(32.4)
Tax	**4.1**	33.0	**1.7**	38.8
Net Income (Loss)	**(22.4)**	6.9	**(22.1)**	16.3

The Company recorded a net loss of $22.4 million in the third quarter of 2011 compared to net income of $6.9 million in the same period of 2010, primarily as a result of:

- A $28.9 million decrease in income tax recoveries;
- An increase of $17.3 million in depletion and depreciation;
- A $6.5 million increase in stock-based compensation;
- A $6.0 million increase in operating expenses; and
- An increase of $5.7 million in interest expense;

Partially offset by:

- An increase of $25.6 million in petroleum and natural gas sales; and
- An increase of $5.5 million in gains from financial commodity contracts.

The Company recorded a net loss of $22.1 million in the nine months ended September 30, 2011 compared to net income of $16.3 million in the same period of 2010, primarily as a result of:

- A $37.1 million decrease in income tax recoveries.
- A decrease in income from equity accounted investments in 2011, primarily due to the recognition of $36.8 million of equity earnings in 2010 related to Trilogy's conversion from a trust structure to a corporate structure;
- An increase of $32.8 million in depletion and depreciation;
- An increase of $16.4 million in interest expense; and
- An increase of $12.0 million in operating expenses;

Partially offset by:

- An increase of $40.0 million in petroleum and natural gas sales;
- An increase of $38.9 million in gains recognized on the sale of property, plant and equipment related primarily to the 2011 sale of undeveloped land in North Dakota; and
- An increase of $16.8 million in other income primarily due to the recognition of gains related to transactions in respect of the Company's NuLoch and ProspEx Resources Ltd. ("ProspEx") investments.

Funds Flow From Operations [(1)]

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Cash from operating activities	**47.8**	18.6	**77.8**	48.8
Change in non-cash working capital	**(16.5)**	3.6	**(17.9)**	14.6
Geological and geophysical expenses	**0.8**	1.7	**4.9**	6.7
Asset retirement obligation settlements	**0.7**	0.2	**5.4**	2.7
Funds flow from operations	**32.8**	24.1	**70.2**	72.8
Funds flow from operations ($/Boe)	**17.22**	18.72	**15.28**	20.69

(1) The Company has adjusted its funds flow from operations measure for all periods subsequent to the Transition Date. Refer to the advisories concerning non-GAAP measures in the "Advisories" section of this document.

- Funds flow from operations in the third quarter of 2011 increased $8.7 million compared to the third quarter of 2010, primarily due to the impact of a higher netback, partially offset by higher interest expense and lower commodity contract settlements.

- Year-to-date funds flow from operations in 2011 decreased by $2.6 million compared to 2010, primarily due to higher interest expense and lower commodity contract settlements, partially offset by a higher netback.

On a year-to-date basis, funds flow from operations was reduced by $1.0 million (2010 – $0.3 million) for costs associated with the completion of corporate acquisitions.

PRINCIPAL PROPERTIES

Netback and Segment Earnings (Loss)

	Three months ended September 30				Nine months ended September 30			
	2011		2010		**2011**		2010	
		($/Boe)		*($/Boe)*		***($/Boe)***		*($/Boe)*
Petroleum and natural gas sales	**70.5**	***37.03***	44.9	*34.96*	**178.4**	***38.85***	138.4	*39.36*
Royalties	**(6.6)**	***(3.46)***	(4.4)	*(3.40)*	**(16.5)**	***(3.60)***	(16.9)	*(4.80)*
Operating expense and production tax	**(18.8)**	***(9.88)***	(12.8)	*(9.98)*	**(50.1)**	***(10.90)***	(38.1)	*(10.82)*
Transportation	**(6.0)**	***(3.16)***	(4.4)	*(3.39)*	**(15.4)**	***(3.36)***	(12.9)	*(3.68)*
Netback	**39.1**	***20.53***	23.3	*18.19*	**96.4**	***20.99***	70.5	*20.06*
Financial commodity contract settlements	**0.9**	***0.46***	5.1	*3.95*	**(0.1)**	***(0.02)***	11.2	*3.17*
Netback including financial commodity contract settlements	**40.0**	***20.99***	28.4	*22.14*	**96.3**	***20.97***	81.7	*23.23*
Other principal property items (see below)	**(41.1)**		(37.6)		**(81.4)**		(99.1)	
Segment earnings (loss)	**(1.1)**		(9.2)		**14.9**		(17.4)	

Petroleum and Natural Gas Sales

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Natural gas	**37.4**	23.8	57	**91.3**	72.3	26
NGLs	**15.9**	6.1	161	**34.1**	16.9	102
Oil	**17.2**	15.0	15	**53.0**	49.2	8
	70.5	44.9	57	**178.4**	138.4	29

Petroleum and natural gas sales in the third quarter of 2011 were $70.5 million, an increase of $25.6 million from the third quarter of 2010, primarily due to the impact of higher natural gas and NGLs sales volumes and higher NGLs and oil prices. Year-to-date petroleum and natural gas sales in 2011 were $178.4 million, an increase of $40.0 million from the same period in 2010, primarily due to the impact of higher natural gas and NGLs sales volumes and higher oil and NGLs prices, partially offset by lower natural gas prices and lower oil sales volumes.

The impact of changes in prices and volumes on petroleum and natural gas sales revenue are as follows:

	Natural gas	NGLs	Oil	Total
Three months ended September 30, 2010	23.8	6.1	15.0	44.9
Effect of changes in prices	0.4	4.5	2.5	7.4
Effect of changes in sales volumes	13.2	5.3	(0.3)	18.2
Three months ended September 30, 2011	**37.4**	**15.9**	**17.2**	**70.5**

	Natural gas	NGLs	Oil	Total
Nine months ended September 30, 2010	72.3	16.9	49.2	138.4
Effect of changes in prices	(8.5)	5.7	8.8	6.0
Effect of changes in sales volumes	27.5	11.5	(5.0)	34.0
Nine months ended September 30, 2011	**91.3**	**34.1**	**53.0**	**178.4**

Sales Volumes

	Three months ended September 30											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2011	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %
Kaybob	**55.7**	25.6	118	**1,180**	545	117	**28**	25	12	**10,487**	4,829	117
Grande Prairie	**19.0**	14.7	29	**611**	499	22	**364**	478	(24)	**4,142**	3,425	21
Southern	**12.2**	9.6	27	**241**	77	213	**1,468**	1,380	6	**3,742**	3,067	22
Northern	**10.9**	13.0	(16)	**30**	24	25	**484**	452	7	**2,336**	2,646	(12)
	97.8	62.9	55	**2,062**	1,145	80	**2,344**	2,335	–	**20,707**	13,967	48

Third quarter natural gas sales volumes increased 55 percent to 97.8 MMcf/d in 2011 compared to 62.9 MMcf/d in 2010. NGLs sales volumes increased 80 percent to 2,062 Bbl/d in 2011 compared to 1,145 Bbl/d in the same period of the prior year. Oil sales volumes were 2,344 Bbl/d in 2011 compared to 2,335 Bbl/d in 2010.

Third quarter average sales volumes increased 6,740 Boe/d or 48 percent in 2011 compared to 2010 primarily as a result of new well production from Paramount's 2010/11 capital program in the Deep Basin properties within the Kaybob COU and at Valhalla in the Grande Prairie COU and from new wells added through the acquisition of ProspEx (approximately 2,700 Boe/d). The increases in sales volumes were partially offset by decreases in the Northern COU due to production declines at Cameron Hills and Bistcho.

Subsequent to the end of third quarter, unscheduled service interruptions occurred at third party pipelines and processing facilities in the Kaybob and Grande Prairie COUs which have impacted fourth quarter production volumes.

	Nine months ended September 30											
	Natural Gas (MMcf/d)			**NGLs** (Bbl/d)			**Oil** (Bbl/d)			**Total** (Boe/d)		
	2011	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %	**2011**	2010	Change %
Kaybob	**42.4**	21.8	94	**856**	454	89	**75**	72	4	**7,998**	4,155	92
Grande Prairie	**14.9**	12.7	17	**514**	379	36	**413**	636	(35)	**3,406**	3,128	9
Southern	**10.5**	9.3	13	**128**	59	117	**1,460**	1,352	8	**3,342**	2,973	12
Northern	**10.4**	12.9	(19)	**17**	23	(26)	**321**	452	(29)	**2,074**	2,628	(21)
	78.2	56.7	38	**1,515**	915	66	**2,269**	2,512	(10)	**16,820**	12,884	31

Year-to-date natural gas sales volumes increased 21.5 MMcf/d or 38 percent to 78.2 MMcf/d in 2011 compared to 56.7 MMcf/d in 2010. NGLs sales volumes increased 66 percent to 1,515 Bbl/d in 2011 compared to 915 Bbl/d in the same period of the prior year. Oil sales volumes decreased 10 percent to 2,269 Bbl/d in 2011 compared to 2,512 Bbl/d in 2010.

Year-to-date average sales volumes in 2011 increased 3,936 Boe/d or 31 percent to 16,820 Boe/d compared to 12,884 Boe/d in the same period of 2010. The increase was primarily a result of new well production in the Deep Basin properties within the Kaybob COU from Paramount's 2010/11 capital program and from new wells added through the acquisitions of ProspEx (approximately 1,200 Boe/d) and Redcliffe Exploration Inc. ("Redcliffe") (approximately 400 Boe/d). The increases in sales volumes were partially offset by production declines in the Northern COU, primarily at Cameron Hills and Bistcho, and at Crooked Creek in the Grande Prairie COU.

Average Realized Prices

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Natural gas ($/Mcf)	**4.16**	4.12	1	**4.27**	4.67	(9)
NGLs ($/Bbl)	**83.68**	59.90	40	**82.59**	68.68	20
Oil ($/Bbl)	**80.06**	68.60	17	**85.52**	71.31	20
Total ($/Boe)	**37.03**	34.96	6	**38.85**	39.36	(1)

Commodity Prices

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

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Natural Gas						
AECO (Cdn$/GJ)	**3.53**	3.52	–	**3.55**	4.09	(13)
New York Mercantile Exchange (Henry Hub US$/MMbtu)	**4.20**	4.38	(4)	**4.21**	4.60	(8)
Crude Oil						
Edmonton par (Cdn$/Bbl)	**92.26**	74.76	23	**94.76**	76.61	24
West Texas Intermediate (US$/Bbl)	**89.75**	77.81	15	**95.48**	78.19	22
Foreign Exchange						
$Cdn / 1 $US	**0.98**	1.04	(6)	**0.98**	1.04	(6)

Commodity Price Management

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

Receipts (payments) for the settlement of financial commodity contracts are as follows:

	Three months ended September 30		**Nine months ended September 30**	
	2011	2010	**2011**	2010
Natural gas contracts	**–**	5.1	**–**	11.2
Oil contracts	**0.9**	–	**(0.1)**	–
	0.9	5.1	**(0.1)**	11.2

At September 30, 2011, Paramount had the following financial commodity contracts outstanding:

Instruments	Total Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $93.73/Bbl	**1.3**	October 2011 – December 2011
Oil – NYMEX WTI Swap	500 Bbl/d	US$101.01/Bbl	**2.7**	October 2011 – May 2012
Oil – NYMEX WTI Collar	500 Bbl/d	Floor – US $85.00/Bbl Ceiling – US $116.85/Bbl	**1.3**	October 2011 – May 2012
			5.3	

Subsequent to September 30, 2011, the Company entered into the following additional financial commodity sales contracts:

Instruments	Total Notional	Average Fixed Price	Remaining Term
Oil– NYMEX WTI Swap	500 Bbl/d	US $90.00/Bbl	January 2012– December 2012
Oil– NYMEX WTI Swap	500 Bbl/d	US $93.00/Bbl	January 2012– December 2012

Royalties

	Three months ended September 30				**Nine months ended September 30**			
	2011	***Royalty rate (%)***	2010	*Royalty rate (%)*	**2011**	***Royalty rate (%)***	2010	*Royalty rate (%)*
Royalties	**6.6**	***9.3***	4.4	*9.7*	**16.5**	***9.3***	16.9	*12.2*

Third quarter royalties increased by $2.2 million to $6.6 million in 2011 compared to $4.4 million in 2010. Year-to-date royalties decreased by $0.4 million to $16.5 million in 2011 compared to $16.9 million in 2010. Third quarter 2011 royalties increased due to higher petroleum and natural gas sales revenue. The Company's year-to-date average royalty rate decreased as a result of a greater proportion of production qualifying for Alberta new well royalty incentive programs, the reduction of the maximum Alberta crown royalty rate on oil in Alberta and lower production from properties with higher royalty rates. The year-to-date impact of decreases in royalty rates were partially offset by higher royalties related to higher petroleum and natural gas sales revenue.

Operating Expense and Production Tax

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Operating Expense	**18.2**	12.3	48	**48.2**	36.3	33
Production Tax	**0.6**	0.5	20	**1.9**	1.8	6
Total	**18.8**	12.8	47	**50.1**	38.1	31

Third quarter operating expenses and production tax increased by $6.0 million in 2011 to $18.8 million compared to $12.8 million in the third quarter of 2010. Year-to-date operating expenses and production tax increased $12.0 million to $50.1 million in 2011 compared to $38.1 million in 2010. The increases were primarily related to new wells brought on at Musreau and Smoky in the Kaybob COU and at Valhalla in the Grande Prairie COU and from wells added through the acquisitions of ProspEx and Redcliffe.

Transportation Expense

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Transportation Expense	**6.0**	4.4	36	**15.4**	12.9	19

Third quarter 2011 transportation costs increased to $6.0 million in 2011 compared to $4.4 million in 2010, primarily as a result of a 48 percent increase in sales volumes and increased trucking costs in the Northern COU during a liquids pipeline service interruption. Year-to-date transportation costs increased to $15.4 million in 2011 compared to $12.9 million in 2010 primarily as a result of a 31 percent increase in sales volumes and increased trucking costs in the Northern COU during a liquids pipeline service interruption. Third quarter transportation costs decreased to $3.16 per Boe in 2011 compared to $3.39 per Boe in 2010. Year-to-date transportation costs decreased to $3.36 per Boe in 2011 compared to $3.68 per Boe in 2010. The per unit decrease is primarily due to higher production from properties in the Kaybob and Grande Prairie COUs where transportation costs are lower and decreased production from properties in the Northern COU which have higher transportation costs.

Other Principal Property Items

	Three months ended September		Nine months ended September	
	2011	2010	**2011**	2010
Commodity contracts – net of settlements	**(5.3)**	4.3	**(6.1)**	0.3
Depletion and depreciation	**41.8**	24.8	**102.9**	70.8
Exploration and evaluation	**3.5**	6.6	**19.4**	26.9
(Gain) loss on sale of property, plant and equipment	**0.2**	0.1	**(39.1)**	(0.4)
Accretion of asset retirement obligations	**2.4**	2.0	**7.1**	5.9
Other	**(1.5)**	(0.2)	**(2.8)**	(4.4)
Total	**41.1**	37.6	**81.4**	99.1

Third quarter depletion and depreciation increased to $41.8 million or $21.96 per Boe in 2011 compared to $24.8 million or $19.28 per Boe in the prior year. Year-to-date depletion and depreciation increased to $102.9 million or $22.42 per Boe in 2011 compared to $70.8 million or $20.12 per Boe in the prior year. The increase was primarily due to increased production volumes and costs related to new wells, facilities and gathering systems.

Exploration and evaluation expense includes the cost of expired undeveloped land leases, geological and geophysical costs and dry hole expense. Third quarter exploration and evaluation expense includes expired lease costs of $1.1 million in 2011 compared to $4.7 million in 2010 and year-to-date expired lease costs were $13.9 million in 2011 compared to $12.3 million in 2010. Year-to-date exploration and evaluation expense includes $1.6 million of dry hole expense in 2011 compared to $7.8 million in 2010.

The gain on sale of property, plant and equipment recorded for the nine months ended September 30, 2011 is primarily related to the sale of approximately 6,000 net acres of undeveloped land in North Dakota, unrelated to the farm-out lands, for cash proceeds of US$40 million.

STRATEGIC INVESTMENTS

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Income (loss) from equity-accounted investments	**2.2**	(1.6)	**2.2**	38.0
Drilling rig revenue	**2.8**	1.7	**5.9**	1.7
Drilling rig expense	**(1.2)**	(1.0)	**(3.4)**	(1.6)
General and administrative	**(0.9)**	(1.0)	**(3.1)**	(2.3)
Stock-based compensation	**(5.4)**	(2.6)	**(5.4)**	(6.2)
Interest	**(0.3)**	(0.3)	**(0.9)**	(0.9)
Other income (expense)	**(0.6)**	(0.7)	**13.2**	(1.4)
Segment Earnings (Loss)	**(3.4)**	(5.5)	**8.5**	27.3

Strategic Investments at September 30, 2011 include:

- investments in the shares of Trilogy, MEG Energy Corp. ("MEG"), MGM Energy, Paxton Corporation, and other public and private corporations;
- oil sands resources at Hoole, situated within the western portion of the Athabasca Oil Sands region, and carbonate bitumen holdings in Northeast Alberta, including at Saleski;
- prospective shale gas acreage in the Horn River and Liard Basins in Northeast British Columbia and the Northwest Territories; and
- three drilling rigs operated by Paramount's wholly-owned subsidiaries: Fox Drilling in Canada and Paramount Drilling in the United States.

The third quarter 2011 income from equity-accounted investments of $2.2 million compared to a loss of $1.6 million in the third quarter of 2010. Year-to-date 2011 income from equity-accounted investments was $2.2 million compared to income of $38.0 million in the prior year. In 2010, the Company recorded $36.8 million of equity earnings related to Trilogy's conversion from a trust structure to a corporate structure.

In April 2011, Paramount sold 3.3 million of the NuLoch shares it held for cash proceeds of $8.1 million. The Company recognized a gain on disposition of $5.7 million in other income which previously had been recorded in reserves. In May 2011, Magnum Hunter acquired NuLoch and Paramount's remaining 3.3 million NuLoch shares were exchanged for 1.1 million Magnum Hunter shares. The accumulated unrealized gain of $5.3 million that had been recorded in reserves in respect of the NuLoch shares exchanged was recognized in other income. In July 2011, Paramount sold all 1.1 million of the Magnum Hunter shares it held for $7.7 million cash.

On May 31, 2011, Paramount acquired all 54.9 million of the issued and outstanding shares of ProspEx not already owned in exchange for $64.8 million in cash and the issuance of 2.0 million Paramount Common Shares. ProspEx was a Calgary based natural gas focused company with interests in petroleum and natural gas properties in western Canada. The accumulated gain of $4.4 million to May 31, 2011 that had been recorded in reserves in respect of the Company's investment in the shares of ProspEx was recognized in other income.

The Company's investments in other entities are as follows:

	Carrying Value		Market Value[1]	
	September 30, 2011	December 31, 2010	**September 30, 2011**	December 31, 2010
Trilogy	**120.5**	125.7	**651.9**	297.0
MEG	**143.4**	168.3	**143.4**	168.3
MGM Energy	**2.9**	5.2	**10.5**	8.8
NuLoch	**–**	13.7	**–**	13.7
ProspEx	**–**	7.4	**–**	7.4
Other[2]	**6.5**	7.7	**6.5**	7.7
Total	**273.3**	328.0	**812.3**	502.9

[1] Based on the period-end closing price of publicly-traded investments and book value of remaining investments.
[2] Includes investments in Paxton Corporation and other public and private corporations.

In July 2011, Paramount received an updated independent evaluation of its bitumen resources within the Grand Rapids formation at its Hoole oil sands property, incorporating the results of the Company's 15 well 2010/2011 winter delineation drilling program, which increased the mapped thickness of the reservoir in some areas, confirmed the continuous nature of the reservoir and extended the boundaries of the exploitable reservoir. The updated evaluation was conducted by the Company's independent reserves evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel"), who had previously evaluated the Hoole oil sands property effective April 30, 2010. The updated evaluation estimates that the Grand Rapids formation within the Company's 100 percent owned Hoole oil sands properties contains approximately 763 million barrels (April 30, 2010 – 634 million barrels) of economic contingent bitumen resources within the Grand Rapids formation (Best Estimate (P50)). The estimated before-tax net present value of future net revenue, discounted at ten percent (Best Estimate (P50)), is $2.8 billion (April 30, 2010 - $1.9 billion). During the remainder of 2011, the Company will continue to finalize its plans for the initial development of the Hoole property and complete the engineering design and environmental impact analysis for the project with a view to submitting a regulatory application for commercial development of the resource by the end of 2011.

In April 2011, Paramount completed a ten well drilling and delineation program at its 100 percent owned Saleski carbonate bitumen property. Paramount has commissioned an independent evaluation of its resources in the Grosmont formation, which is expected to be completed in the fourth quarter. The Company is currently developing plans for the 2011/2012 winter capital program at Saleski, including a further drilling and delineation program and seismic studies.

Paramount plans to drill an initial exploratory shale gas well in the Dunedin area of northeast British Columbia during the 2011/12 winter drilling season. The well will be drilled to a vertical depth of approximately 4,500 meters and will be cored and logged for evaluation. Plans for further shale gas activities will incorporate information obtained from this initial well.

Paramount's two Canadian-based drilling rigs continue to drill on Company lands in Alberta. The United States-based drilling rig has been contracted to a third party exploration and development company for the balance of 2011.

CORPORATE

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
General and administrative	**3.1**	3.5	**9.9**	8.4
Stock-based compensation	**9.1**	5.5	**9.9**	15.4
Depletion and depreciation	**0.2**	0.3	**0.3**	0.6
Interest	**8.9**	3.2	**24.6**	8.2
Acquisition transaction costs	**–**	–	**1.0**	0.3
Foreign exchange	**0.7**	(1.1)	**1.5**	(0.6)
Other (income) expense	**–**	–	**–**	0.1
	22.0	11.4	**47.2**	32.4

Third quarter corporate segment net costs increased to $22.0 million in 2011 compared to $11.4 million in 2010, primarily due to increased interest and stock-based compensation.

Year-to-date corporate segment net costs increased to $47.2 million in 2011 compared to $32.4 million in 2010, primarily due to higher interest, foreign exchange and general and administrative expenses, partially offset by lower stock-based compensation.

EXPLORATION AND CAPITAL EXPENDITURES

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Geological and geophysical	**0.6**	1.3	**3.8**	6.2
Drilling, completion and tie-ins	**79.1**	25.7	**210.2**	93.4
Facilities and gathering	**27.3**	8.9	**107.7**	20.8
Exploration and development expenditures	**107.0**	35.9	**321.7**	120.4
Land and property acquisitions	**6.0**	18.9	**26.2**	42.0
Principal Properties	**113.0**	54.8	**347.9**	162.4
Strategic Investments	**3.2**	3.4	**22.0**	14.2
Corporate	**0.1**	–	**0.1**	0.1
	116.3	58.2	**370.0**	176.7

Exploration and development expenditures in the third quarter of 2011 were $107.0 million compared to $35.9 million in the third quarter of 2010. Year-to-date exploration and development expenditures in 2011 were $321.7 million compared to $120.4 million in the same period of 2010. Current year spending focused on drilling and completing wells in the Kaybob COU's Deep Basin development, at Karr-Gold Creek and Valhalla in the Grande Prairie COU and at Birch in the Northern COU. Facilities expenditures primarily related to new plants and gathering systems at Musreau in the Kaybob COU and at Karr-Gold Creek and Valhalla in the Grande Prairie COU.

Year-to-date land and property acquisitions included purchases of Deep Basin undeveloped land in the Kaybob COU totaling $18.5 million.

Strategic investments capital expenditures in 2011 primarily related to the drilling of delineation wells at the Hoole oil sands and Saleski carbonate bitumen properties.

Wells drilled are as follows:

	Three months ended September 30				Nine months ended September 30			
	2011		2010		**2011**		2010	
(wells drilled)	**Gross[(1)]**	**Net[(2)]**	Gross[(1)]	Net[(2)]	**Gross[(1)]**	**Net[(2)]**	Gross[(1)]	Net[(2)]
Gas	**10**	**7**	14	8	**33**	**22**	37	26
Oil	**9**	**7**	7	2	**21**	**12**	9	4
Oil sands evaluation	**–**	**–**	–	–	**28**	**27**	45	45
Dry and abandoned	**1**	**1**	–	–	**1**	**1**	4	4
Total	**20**	**15**	21	10	**83**	**62**	95	79

(1) Gross is 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 is the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage of working interest.

OUTLOOK

Paramount's 2011 annual capital spending budget (excluding land and acquisitions) remains at $450 million, with $425 million allocated to exploration and development spending in the Company's core producing areas and $25 million allocated to the Hoole oil sands and Saleski carbonate bitumen properties. The Company has flexibility within its current capital plan to increase or decrease spending depending upon future economic conditions, among other factors. Certain expenditures related to long lead-time equipment for the 2012 capital program may be incurred in the fourth quarter.

Average sales volumes for the third quarter increased to 20,707 Boe/d and further increases in sales volumes are expected during the fourth quarter as additional wells and the Musreau facility are brought onstream. A wet spring and summer, combined with disruptions at third-party facilities, have impacted the timing of field activities. The Company is also experiencing delays at some expansion projects as equipment deliveries are behind schedule and service equipment and personnel are in short supply. These delays have impacted the timing of expected production additions, primarily at Valhalla and Karr-Gold Creek in the Grande Prairie COU. As a result, the Company anticipates that its previously disclosed 2011 exit rate forecast of approximately 28,000 Boe/d will be achieved in the first quarter of 2012.

LIQUIDITY AND CAPITAL RESOURCES

Paramount manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations. Paramount may adjust its capital structure by issuing or repurchasing shares, altering debt levels, modifying capital programs, acquiring or disposing of assets and participating in joint ventures.

	September 30, 2011	December 31, 2010	Change
Working capital deficit (surplus)[(1)]	**99.8**	(4.8)	104.6
Credit facility	**119.8**	–	119.8
Senior Notes[(2)]	**370.0**	300.0	70.0
Net debt[(3)]	**589.6**	295.2	294.4
Share capital	**599.1**	481.8	117.3
Retained earnings	**106.3**	128.4	(22.1)
Reserves	**42.4**	72.0	(29.6)
Total Capital	**1,337.4**	977.4	360.0

(1) Excludes risk management assets and liabilities, stock-based compensation liabilities and amounts included in accounts payable and accrued liabilities relating to the Company's obligation to renounce qualifying expenditures for flow-through share issuances (September 30, 2011 – nil, December 31, 2010 – $6.1 million).
(2) Excludes unamortized issue premiums and financing costs.
(3) Net debt excludes the $20.0 million deposit on account with the CRA, pending resolution of the Company's notices of objection.

Working Capital

Paramount's working capital deficit at September 30, 2011 was $99.8 million compared to a surplus of $4.8 million at December 31, 2010. The working capital deficit at September 30, 2011 included $5.5 million of cash and cash equivalents, $42.6 million of accounts receivable, $127.7 million of accounts payable and accrued liabilities and the $24.1 million drilling rig loan. The decrease in working capital is primarily a result of the Company's 2011 capital program and the ProspEx acquisition, partially offset by drawings on the Company's bank credit facility, funds flow from operations, proceeds from the Senior Notes offering, equity issuances and the undeveloped land sale in the United States. Two principal payments of an aggregate of $2.8 million were made on the drilling rig loan to September 30, 2011.

Paramount expects to fund its operations, obligations and capital expenditures for the remainder of 2011 with existing cash and cash equivalents, funds flow from operations, drawings on its bank credit facility and with proceeds from the equity offerings.

Bank Credit Facility

In June 2011, Paramount renewed its bank credit facility (the "Facility"), increasing the total credit limit from $160 million to $300 million, which is available in two tranches. The first tranche ("Tranche A") has a borrowing base and lender commitments of $225 million and is available on a revolving basis to June 30, 2012. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due June 30, 2012 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the drilling rig loan. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments.

The Facility bears interest at the lenders' prime lending rates, US base rates, bankers' acceptance or LIBOR rates, as selected at the discretion of Paramount, plus an applicable margin which is dependent upon the Company's debt to cash flow ratio and the tranche under which borrowings are made. The maximum amount that Paramount may borrow under the Facility is subject to periodic review, and is dependent upon the Company's reserves, lenders' projections of future commodity prices and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors. Increases in the borrowing base and lender commitments under Tranche A reduce the credit limit under Tranche B by an equivalent amount.

At September 30, 2011, $119.8 million (December 31, 2010 – nil) was drawn on the Facility. Paramount had undrawn letters of credit outstanding at September 30, 2011 of $26.3 million that reduce the amount available to the Company.

Senior Notes

In February 2011, Paramount completed a public offering of an additional $70 million principal amount of its senior unsecured notes ("Senior Notes") at a price of $1,030 per $1,000 principal amount, of which $1.4 million principal amount was purchased by an entity that is controlled by the Company's Chairman and Chief Executive Officer. As of September 30, 2011, the Company has an aggregate of $370 million principal amount of Senior Notes outstanding. The Senior Notes bear interest at 8.25 percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year and mature on December 13, 2017. The Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company. The net proceeds of the 2011 public offering were used to fund the Company's 2011 capital program and for general corporate purposes.

Share Capital

In April 2011, Paramount issued 1,500,000 Common Shares at a price of $32.50 per share for gross proceeds of $48.8 million pursuant to a public offering. In April 2011, Paramount also issued 150,000 Common Shares on a "flow-through" basis in respect of Canadian development expenses at a price of $36.50 per share for gross proceeds of $5.5 million to a company controlled by the Company's Chairman and Chief Executive Officer. In May 2011, the Company issued 2,000,000 Common Shares in connection with the ProspEx acquisition. In October 2011, Paramount issued 1,450,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") pursuant to a public offering at a price of $40.50 per share for gross proceeds of $58.7 million. Also in October 2011, the Company issued 100,000 Common Shares on a flow-through basis in respect of CEE at a price of $40.50 per share for gross proceeds of $4.1 million to companies controlled by the Company's Chairman and Chief Executive Officer.

In October 2011, Paramount announced that it had entered into an agreement to issue 4,500,000 Common Shares at a price of $34.75 per share for gross proceeds of $156.4 million through a public offering, expected to close on or about November 16, 2011.

At November 4, 2011, Paramount had 80.8 million Common Shares and 4.7 million Stock Options outstanding (2.0 million exercisable).

QUARTERLY INFORMATION

	2011			2010				2009 (Previous GAAP)[1]
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	**70.5**	61.1	46.8	46.0	44.9	44.6	48.9	45.0
Funds flow from operations	**32.8**	23.4	13.9	21.3	24.1	25.2	23.5	18.8
per share – diluted ($/share)	**0.42**	0.29	0.19	0.29	0.33	0.35	0.33	0.27
Net income (loss)	**(22.4)**	12.2	(11.9)	(106.3)	6.9	(17.5)	26.9	(46.4)
per share – basic ($/share)	**(0.28)**	0.16	(0.16)	(1.44)	0.09	(0.24)	0.37	(0.67)
per share – diluted ($/share)	**(0.28)**	(0.02)	(0.16)	(1.44)	0.09	(0.24)	0.37	(0.67)
Sales volumes								
Natural gas (MMcf/d)	**97.8**	77.7	58.7	60.4	62.9	57.0	50.2	47.0
NGLs (Bbl/d)	**2,062**	1,504	968	1,030	1,099	821	775	707
Oil (Bbl/d)	**2,344**	2,110	2,353	2,357	2,381	2,466	2,739	2,966
Total (Boe/d)	**20,707**	16,572	13,097	13,461	13,967	12,787	11,875	11,514
Average realized price								
Natural gas ($/Mcf)	**4.16**	4.43	4.26	4.04	4.12	4.49	5.59	4.85
NGLs ($/Bbl)	**83.68**	83.17	79.29	75.52	59.90	77.26	72.22	67.40
Oil ($/Bbl)	**80.06**	95.64	81.91	75.45	68.60	69.34	75.51	71.85

(1) Financial results prior to the Transition Date were prepared in accordance with Previous GAAP.

Significant Items Impacting Quarterly Results

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

- Third quarter 2011 earnings include $14.6 million of stock based compensation expense, a decrease of $15.4 million in gains on the sale of securities and an increase of $8.3 million in depletion and depreciation.
- Second quarter 2011 earning include the recognition of $15.4 million of gains on investments in securities and a $10.6 million stock-based compensation recovery, partially offset by higher depletion and depreciation and interest.
- First quarter 2011 earnings include gains of $39.6 million on the sale of property, plant and equipment, partially offset by $11.3 million of stock-based compensation charges.
- Fourth quarter 2010 earnings include $33.7 million of stock-based compensation charges, a $57.9 million write-down of petroleum and natural gas properties and goodwill and $11.9 million of expired lease costs.
- Third quarter 2010 earnings include a future income tax recovery of $33.0 million and $8.1 million of stock-based compensation charges.
- Second quarter 2010 earnings include increased depletion, depreciation and accretion expense and $6.8 million of stock-based compensation charges.
- First quarter 2010 earnings include $36.8 million of equity earnings related to Trilogy's conversion from a trust structure to a corporate structure, $8.2 million of dry hole expenses and $6.7 million of stock-based compensation charges.

- Fourth quarter 2009 earnings include $24.3 million of dry hole expenses related to suspended exploratory well costs and a $14.9 million write-down of petroleum and natural gas properties.[1]

(1) Financial results prior to the Transition Date were prepared in accordance with Previous GAAP.

SIGNIFICANT EQUITY INVESTEE

The following table summarizes the assets, liabilities and results of operations of Trilogy. The amounts summarized have been derived directly from Trilogy's financial statements as at and for the periods ended September 30, 2011 and 2010, and do not include Paramount's adjustments in applying the equity method of investment accounting. As a result, the amounts included in the table below cannot be used to derive Paramount's equity income and net investment in Trilogy.

As at September 30	**2011**	2010
Current assets	**58.2**	41.9
Long term assets	**1,151.3**	1,001.6
Current liabilities	**108.0**	76.4
Long term liabilities	**559.5**	408.0
Equity	**542.0**	559.1

Nine months ended September 30	**2011**	2010
Revenue and other	**255.3**	203.3
Expenses	**225.0**	48.2
Tax expense (recovery)	**8.2**	(30.7)
Net earnings (loss)	**22.1**	185.8
Shares/units outstanding, end of period (thousands)	**115,853**	114,717
Paramount's equity interest in Trilogy, end of period[1]	**21%**	21%

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

Trilogy had 4.8 million stock options outstanding (0.8 million exercisable) at September 30, 2011 at exercise prices ranging from $4.85 to $28.43 per share.

CHANGE IN ACCOUNTING POLICIES

IFRS Transition

As noted previously, Canadian GAAP was converted to IFRS effective for fiscal years beginning on or after January 1, 2011. Paramount's unaudited Interim Consolidated Financial Statements as at and for the three and nine months ended September 30, 2011 have been prepared in accordance with IAS 34 - Interim Financial Reporting, IFRS 1 - First-time Adoption of IFRS and the IFRS accounting policies the Company expects to adopt in its initial IFRS annual Consolidated Financial Statements as at and for the year ended December 31, 2011. The adoption of IFRS has not had a material impact on the Company's operations, cash flows, capital expenditures or strategic objectives.

Reconciliations between Previous GAAP amounts and IFRS amounts for the three and nine months ended September 30, 2010 are included in Note 18 to the Company's unaudited Interim Consolidated Financial Statements as at and for three and nine months ended September 30, 2011. A description of the Company's IFRS accounting policies, significant accounting judgments, estimates and assumptions and reconciliations between the Company's 2010 annual amounts prepared in accordance with Previous GAAP and the 2010 IFRS amounts are disclosed in the Company's unaudited Interim Consolidated Financial Statements as at and for the three months ended March 31, 2011.

Summarized reconciliations of Paramount's third quarter 2010 Previous GAAP amounts to IFRS amounts are as follows:

Equity

As at	September 30, 2010
Shareholders' Equity – Previous GAAP	**758.4**
IFRS Adjustments:	
Change in asset retirement obligations	**(81.8)**
Adjustments to PP&E related to impairments and changes in depletion	**(23.7)**
Change in stock-based compensation liability	**(2.1)**
Change in currency translation method related to foreign subsidiaries	**(6.0)**
Adjustments to equity accounted investments - changes in investees' equity due to IFRS	**22.9**
Adjustment to flow-through shares	**(2.2)**
Adjustment to deferred tax	**28.5**
Shareholders' Equity – IFRS	**694.0**

Comprehensive Income

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Comprehensive income (loss) – Previous GAAP	24.9	(16.8)
IFRS Adjustments:		
Adjustments to PP&E related to impairments and changes in depletion	15.2	41.8
Accretion of asset retirement obligations	0.7	1.3
Change in currency translation method related to foreign subsidiaries	(2.1)	(1.1)
Change in stock-based compensation	(0.1)	1.5
Adjustment to flow-through shares	–	(1.4)
Change in income from equity accounted investments	(0.6)	30.5
Adjustment to deferred tax	(3.8)	(9.9)
Comprehensive income (loss) – IFRS	**34.2**	**45.9**

Cash Flows

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Cash from operating activities under Previous GAAP	19.6	52.3
Adjustments under IFRS:		
Exploration costs	(1.7)	(6.7)
Common shares purchased under stock incentive plan	–	2.9
Foreign exchange on cash	0.6	0.3
Cash from operating activities under IFRS	**18.5**	**48.8**
Cash from financing activities under Previous GAAP	50.8	102.6
Adjustments under IFRS:		
Common shares purchased under stock incentive plan	–	(2.9)
Cash from financing activities under IFRS	**50.8**	**99.7**
Cash used in investing activities under Previous GAAP	(72.1)	(225.4)
Adjustments under IFRS:		
Exploration costs	1.7	6.7
Cash used in investing activities under IFRS	**(70.4)**	**(218.7)**
Net decrease	(1.1)	(70.2)
Foreign exchange on cash and cash equivalents	(0.6)	(0.3)
	(1.7)	**(70.5)**

Future Changes in Accounting Standards

As of January 1, 2013, Paramount will be required to adopt certain standards and amendments issued by the International Accounting Standards Board ("IASB") as described below, for which the Company is currently assessing the impact on its Consolidated Financial Statements.

- **IFRS 10, "Consolidated Financial Statements"** is the result of the IASB’s project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

- **IFRS 11, "Joint Arrangements"** is the result of the IASB’s project to replace IAS 31, "Interests in Joint Ventures". The new standard redefines "joint operations" and "joint ventures" and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The Company expects its joint venture arrangements will continue to meet the definition of "joint operations" and that proportionate consolidation of such arrangements will continue under the new standard.

- **IFRS 12, "Disclosure of Interests in Other Entities"** outlines the required disclosures for interests in subsidiaries and joint arrangements. The new standard requires disclosure of information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity’s interests in subsidiaries and joint arrangements.

- **IFRS 13, "Fair Value Measurement"** provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

ADVISORIES

Forward-looking Information

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "estimate", "expect", "plan", "intend", "propose", or similar words suggesting future outcomes or an outlook. Forward looking information in this document includes, but is not limited to:

- expected production volumes and the timing thereof;
- planned exploration and development expenditures, and the timing thereof;
- development plans for Paramount's oil sands leases and the projected timeline for finalizing such plans;
- exploration and development plans and strategies;
- budget allocations and capital spending flexibility;
- adequacy of facilities to transport and process natural gas production;
- estimated resources and the undiscounted and discounted net present value of future net revenues from such resources (including the forecast prices and costs and the timing of expected production volumes and future development capital);
- timing of regulatory applications;
- ability to fulfill future pipeline transportation commitments;
- business strategies and objectives;
- sources of and plans for financing;
- acquisition and disposition plans;
- operating and other costs and royalty rates;
- expected drilling programs, well tie-ins, facility construction and expansions, completions and the timing thereof;
- the anticipated closing of equity offerings and the timing thereof; and
- the outcome of any legal claims, audits, assessments or other regulatory matters or proceedings.

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

- future crude oil, bitumen and natural gas prices and general economic and business conditions;
- the ability of Paramount to obtain required capital to finance its exploration, development and operations;
- the ability of Paramount to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Paramount to market its oil and natural gas successfully to current and new customers;
- estimates of input and labour costs for an oil sands project;
- the ability of Paramount to secure adequate product processing, transportation and storage;
- the ability of Paramount and its industry partners to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals;
- estimated timelines being met in respect of the development of the Hoole oil sands properties;
- access to capital markets and other sources of funding; and
- currency exchange and interest rates.

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

- fluctuations in crude oil, bitumen, natural gas and NGLs prices, foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, costs and expenses and the timing thereof;
- the ability to secure adequate product processing, transportation and storage;
- the uncertainty of exploration, development and drilling;
- operational risks in exploring for, developing and producing crude oil and natural gas, and the timing
- changes to the status or interpretation of laws, regulations or policies;
- changes in environmental laws including emission reduction obligations;
- the receipt and timing of governmental or regulatory approvals;
- changes in general business and economic conditions;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- the effects of weather;
- the ability to fund exploration, development and

thereof;

- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruption or unexpected technical difficulties in designing, developing or operating new or existing facilities;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resource estimates;
- the ability to generate sufficient cash flow from operations and other sources of financing at an acceptable cost to meet current and future obligations, including costs of anticipated projects; operational activities and meet current and future obligations;
- the timing and cost of future abandonment and reclamation activities;
- cleanup costs or business interruptions due to environmental damage and contamination;
- the ability to enter into or continue leases;
- existing and potential lawsuits and regulatory actions; and
- other risks and uncertainties described elsewhere in this document and in Paramount's other filings with Canadian securities authorities, including its Annual Information Form.

The foregoing list of risks is not exhaustive. Additional information concerning these and other factors which could impact Paramount are included in Paramount's most recent Annual Information Form. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities law, Paramount undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Non-GAAP Measures

In this document "Funds flow from operations", "Funds flow from operations - per Boe", "Funds flow from operations per share - diluted", "Netback", "Netback including financial commodity contract settlements", "Net Debt", "Exploration and development expenditures" and "Investments in other entities – market value", collectively the "Non-GAAP measures", are used and do not have any standardized meanings as prescribed by GAAP.

The Company has adjusted its funds flow from operations measure for all periods subsequent to the Transition Date to exclude asset retirement obligation settlements, cash outflows related to the purchase of Paramount's Common Shares under the Company's stock incentive plan and the effect of changes in foreign exchange rates in respect of foreign currency cash and cash equivalent balances. Funds flow from operations refers to cash from operating activities before net changes in operating working capital, geological and geophysical expenses and asset retirement obligation settlements. 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 fund capital programs and meet financial obligations.

Netback equals petroleum and natural gas sales less royalties, operating costs, production taxes and transportation costs. Netback is commonly used by management and investors to compare the results of the Company's oil and gas operations between periods. Net Debt is a measure of the Company's overall debt position after adjusting for certain working capital amounts and is used by management to assess the Company's overall leverage position. Refer to the calculation of Net Debt in the liquidity and capital resources section of this document. Exploration and development expenditures refers to capital expenditures incurred by the Company's COUs (excluding land and property acquisitions). The exploration and development expenditure measure provides management and investors with information regarding the Company's Principal Property spending on drilling and infrastructure projects, separate from land and property acquisition activity.

Investments in other entities – market value reflects the Company's investments in enterprises whose securities trade on a public stock exchange at their period end closing price (e.g. Trilogy, MEG Energy Corp., MGM Energy and others), and all other investments in other entities at book value. Paramount provides this information in its MD&A because the market values of equity-accounted investments, which are significant assets of the Company, are often materially different than their carrying values.

Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, or other measures of financial performance calculated in accordance with GAAP. The Non-GAAP measures are unlikely to be comparable to similar measures presented by other issuers.

Oil and Gas Measures and Definitions

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

This document contains disclosure of certain results of an updated independent evaluation of the Company's contingent bitumen resources from the Grand Rapids formation within the Company's Hoole oil sands property as of April 30, 2011 by McDaniel (the "McDaniel Evaluation"). "Contingent resources" are those quantities of bitumen resources estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are classified as a resource rather than a reserve due to one or more contingencies, such as the absence of regulatory approvals, detailed design estimates or near term development plans. There is no certainty that it will be commercially viable to produce any portion of the contingent resources. For Paramount, contingencies which must be overcome to enable the reclassification of bitumen contingent resources as reserves include finalization of plans for the initial development of the Hoole oil sands properties, regulatory application submission with no major issues raised, access to capital markets and other sources of funding, and intent to proceed by Paramount evidenced by a development plan with major capital expenditures. "Economic contingent resources" are those contingent bitumen resources that are currently economically recoverable based on specific forecasts of commodity prices and costs. There is no certainty that it will be commercially viable to produce any portion of the economic contingent resources. "Best estimate" is considered to be the best estimate of the quantity of resources that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. Those resources that fall within the best estimate have a 50 percent confidence level that the actual quantities recovered will equal or exceed the estimate. The volume of economic contingent resources disclosed represents the Company's share of recoverable volumes before the deduction of royalties.

This document contains certain disclosures of net present values ("NPV") from the McDaniel Evaluation. The NPVs disclosed represent the Company's share of future net revenue, before the deduction of income tax from the economic contingent bitumen resources in the Grand Rapids formation within the Hoole oil sands property. The calculation considers such items as revenues, royalties, operating costs, abandonment costs and capital expenditures. Royalties were calculated based on Alberta's Royalty Framework applicable to oil sands projects in Alberta. The calculation does not consider financing costs and general and administrative costs. The NPVs were calculated assuming natural gas is used as a fuel for steam generation. Revenues and expenditures were calculated based on McDaniel's forecast prices and costs as of April 1, 2011. The estimated net present value of economic contingent resources disclosed does not represent fair market value.

PARAMOUNT RESOURCES LTD.
Consolidated Balance Sheet (Unaudited)
($ thousands)

As at	Note	September 30 2011	December 31 2010 (note 18)
ASSETS			
Current assets			
Cash and cash equivalents	17	**$ 5,510**	$ 74,659
Accounts receivable		**42,619**	33,280
Risk management	16	**5,342**	–
Prepaid expenses and other		**3,812**	2,572
		57,283	110,511
Deposit		**19,993**	19,788
Exploration and evaluation	5	**418,132**	269,084
Property, plant and equipment, net	6	**891,582**	580,334
Equity accounted investments	7	**129,806**	138,300
Investments in securities	8	**143,471**	189,717
Deferred income tax		**61,133**	75,575
Goodwill	9	**16,499**	8,012
		$ 1,737,899	$ 1,391,321
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Drilling rig loan	10	**$ 24,111**	$ 26,880
Accounts payable and accrued liabilities		**127,664**	84,928
Risk management	16	**–**	693
Stock-based compensation	15	**45,928**	46,187
		197,703	158,688
Long-term debt	11	**485,399**	294,205
Asset retirement obligations	12	**284,214**	241,770
Stock-based compensation	15	**22,800**	14,460
		990,116	709,123
Shareholders' equity			
Share capital	13	**599,127**	481,827
Retained earnings		**106,304**	128,375
Reserves	14	**42,352**	71,996
		747,783	682,198
		$ 1,737,899	$ 1,391,321

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.
Consolidated Statement of Comprehensive Income (Loss) (Unaudited)
($ thousands, except as noted)

	Note	Three months ended September 30 2011	Three months ended September 30 2010 (note 18)	Nine months ended September 30 2011	Nine months ended September 30 2010 (note 18)
Petroleum and natural gas sales		**$ 70,544**	$ 44,928	**$ 178,399**	$ 138,433
Royalties		**(6,584)**	(4,369)	**(16,530)**	(16,883)
Revenue		**63,960**	40,559	**161,869**	121,550
Gain on financial commodity contracts	16	**6,163**	662	**5,948**	10,743
		70,123	41,221	**167,817**	132,293
Expenses					
Operating expense and production tax		**18,825**	12,827	**50,057**	38,054
Transportation		**6,020**	4,350	**15,423**	12,939
General and administrative		**4,039**	4,467	**12,971**	10,732
Stock-based compensation	15	**14,556**	8,103	**15,273**	21,590
Depletion and depreciation		**42,650**	25,385	**104,654**	71,832
Exploration and evaluation	5	**3,542**	6,990	**20,415**	27,511
(Gain) loss on sale of property, plant and equipment		**155**	135	**(39,081)**	(196)
Accretion of asset retirement obligations		**2,407**	2,047	**7,114**	5,895
Interest		**9,205**	3,484	**25,478**	9,061
Acquisition transaction costs		**9**	–	**1,044**	267
Foreign exchange		**680**	(1,157)	**1,436**	(597)
		102,088	66,631	**214,784**	197,088
Income (loss) from equity-accounted investments	7	**2,231**	(1,611)	**2,191**	38,008
Other income	3,8	**3,240**	909	**21,025**	4,239
Net loss before tax		**(26,494)**	(26,112)	**(23,751)**	(22,548)
Income tax expense (recovery)					
Current		**12**	18	**46**	12
Deferred		**(4,088)**	(32,994)	**(1,726)**	(38,810)
		(4,076)	(32,976)	**(1,680)**	(38,798)
Net income (loss)		**$ (22,418)**	$ 6,864	**$ (22,071)**	$ 16,250
Other comprehensive income (loss), net of tax	14				
Change in market value of securities		**(37,790)**	28,549	**(30,018)**	30,166
Exchange differences on translation of US subsidiaries		**5,875**	(1,221)	**2,776**	(508)
		(31,915)	27,328	**(27,242)**	29,658
Comprehensive income (loss)		**$ (54,333)**	$ 34,192	**$ (49,313)**	$ 45,908
Net income (loss) per common share ($/share)	13				
Basic and diluted		**$ (0.28)**	$ 0.09	**$ (0.29)**	$ 0.22

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.
Consolidated Statement of Cash Flows (Unaudited)
($ thousands)

	Note	Three months ended September 30 2011	Three months ended September 30 2010 (note 18)	Nine months ended September 30 2011	Nine months ended September 30 2010 (note 18)
Operating activities					
Net income (loss)		**$ (22,418)**	$ 6,864	**$ (22,071)**	$ 16,250
Add (deduct)					
Items not involving cash	17	**51,893**	12,986	**79,035**	39,562
Dividends on equity-accounted investments		**2,535**	2,535	**8,283**	10,250
Asset retirement obligations settled	12	**(698)**	(244)	**(5,402)**	(2,657)
Change in non-cash working capital		**16,524**	(3,563)	**17,933**	(14,620)
Cash from operating activities		**47,836**	18,578	**77,778**	48,785
Financing activities					
Drilling rig loan repayment		**(1,269)**	–	**(2,769)**	(1,000)
Proceeds from Senior Notes, net of issue costs		**(49)**	–	**70,904**	–
Repayment of debt assumed on acquisitions		**–**	–	**(37,824)**	(10,521)
Net draw of revolving long-term debt		**30,206**	50,722	**119,768**	111,266
Common shares issued, net of issue costs		**253**	57	**53,513**	2,832
Common shares purchased under stock incentive plan		**–**	–	**(2,974)**	(2,901)
Cash from financing activities		**29,141**	50,779	**200,618**	99,676
Investing activities					
Property, plant and equipment and exploration		**(115,599)**	(56,008)	**(365,083)**	(169,403)
Proceeds on sale of property, plant and equipment		**119**	102	**44,376**	1,119
Proceeds on sale of investment		**7,727**	–	**16,129**	–
Corporate acquisitions		**–**	–	**(64,759)**	(46,172)
Purchase of investments in securities		**–**	(5,649)	**–**	(9,503)
Equity accounted investments		**–**	–	**–**	(1,200)
Change in non-cash working capital		**17,019**	(8,877)	**21,708**	6,479
Cash used in investing activities		**(90,734)**	(70,432)	**(347,629)**	(218,680)
Net decrease		**(13,757)**	(1,075)	**(69,233)**	(70,219)
Foreign exchange on cash and cash equivalents		**693**	(593)	**84**	(298)
Cash and cash equivalents, beginning of period		**18,574**	24,389	**74,659**	93,238
Cash and cash equivalents, end of period		**$ 5,510**	$ 22,721	**$ 5,510**	$ 22,721

Supplemental cash flow information 17

See the accompanying notes to these Interim Consolidated Financial Statements.

PARAMOUNT RESOURCES LTD.
Consolidated Statement of Shareholders' Equity (Unaudited)
($ thousands, except as noted)

Nine months ended September 30	Note	2011 Shares (000's)	2011	2010 Shares (000's)	2010 (note 18)
Share Capital					
Balance, beginning of period		***75,034***	**$ 481,827**	*72,058*	$ 418,191
Issued		***1,903***	**60,198**	*362*	6,264
Issued on acquisition of ProspEx	3	***2,000***	**57,280**	–	–
Change in unvested common shares for stock incentive plan		***65***	**(178)**	*28*	(253)
Balance, end of period		***79,002***	**$ 599,127**	*72,448*	$ 424,202
Retained Earnings					
Balance, beginning of period			**$ 128,375**		$ 218,386
Net income (loss)			**(22,071)**		16,250
Balance, end of period			**$ 106,304**		$ 234,636
Reserves					
Balance, beginning of period			**$ 71,996**		$ 5,027
Other comprehensive income			**(27,242)**		29,658
Stock-based compensation on investees' options			**(2,402)**		487
Balance, end of period			**$ 42,352**		$ 35,172
Total Shareholders' Equity			**$ 747,783**		$ 694,010

See the accompanying notes to these Interim Consolidated Financial Statements.

1. BASIS OF PRESENTATION

Paramount Resources Ltd. ("Paramount" or the "Company") is an independent, publicly traded, Canadian corporation 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 in Canada, and in North Dakota and Montana in the United States. Paramount has divided its operations into three business segments: Principal Properties, Strategic Investments and Corporate.

Paramount is incorporated and domiciled in Canada. The address of its registered office is 4700, 888 3rd Street S.W., Calgary, Alberta, Canada, T2P 5C5. These unaudited Interim Consolidated Financial Statements are stated in Canadian dollars, except where otherwise noted, and were authorized for issuance by the Audit Committee of Paramount Resources Ltd. on November 8, 2011.

Paramount is the ultimate parent company of the consolidated group of companies. The financial statements of Paramount's subsidiaries and partnerships are prepared on a consistent basis with the parent company in accordance with the Company's accounting policies. All intercompany balances and transactions have been eliminated.

These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 - Interim Financial Reporting and IFRS 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1"). Certain information and disclosures normally required to be included in notes to annual consolidated financial statements have been condensed or omitted.

These unaudited Interim Consolidated Financial Statements should be read in conjunction with Paramount's audited Consolidated Financial Statements as at and for the year ended December 31, 2010 and Paramount's unaudited Interim Consolidated Financial Statements as at and for the three months ended March 31, 2011.

Canadian Generally Accepted Accounting Principles ("GAAP"), as issued by the Canadian Institute of Chartered Accountants, were converted to International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. In order to prepare comparative information, the Company applied IFRS as of January 1, 2010 (the "Transition Date") and the accounting, estimation and valuation policies adopted on conversion to IFRS have been consistently applied to all periods presented herein. Paramount's expected IFRS accounting policies and significant accounting judgments, estimates, and assumptions are described in Note 1 and Note 2 to the Company's March 31, 2011 unaudited Interim Consolidated Financial Statements.

Note 19 to the Company's March 31, 2011 unaudited Interim Consolidated Financial Statements contains reconciliations of IFRS amounts as of the Transition Date and as at and for the twelve months ended December 31, 2010 to amounts previously published in accordance with Canadian GAAP in effect prior to January 1, 2011 ("Previous GAAP"). Reconciliations of IFRS amounts for the three and nine months ended September 30, 2010 to amounts previously published in accordance with Previous GAAP are provided in Note 18 to these unaudited Interim Consolidated Financial Statements.

2. FUTURE CHANGES IN ACCOUNTING STANDARDS

As of January 1, 2013, Paramount will be required to adopt certain standards and amendments issued by the International Accounting Standards Board ("IASB") as described below, for which the Company is currently assessing the impact on its Consolidated Financial Statements.

- **IFRS 11, "Joint Arrangements"** is the result of the IASB's project to replace IAS 31, "Interests in Joint Ventures". The new standard redefines "joint operations" and "joint ventures" and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The Company expects its joint venture arrangements will continue to meet the definition of "joint operations" and that proportionate consolidation of such arrangements will continue under the new standard.

- **IFRS 13, "Fair Value Measurement"** provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

- **IFRS 10, "Consolidated Financial Statements"** is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

- **IFRS 12, "Disclosure of Interests in Other Entities"** outlines the required disclosures for interests in subsidiaries and joint arrangements. The new standard requires disclosure of information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

3. ACQUISITION OF PROSPEX RESOURCES LTD.

On May 31, 2011, Paramount acquired all 54.9 million of the issued and outstanding common shares of ProspEx Resources Ltd. ("ProspEx") not already owned for consideration of $64.8 million cash and the issuance by Paramount of 2.0 million Common Shares. Immediately prior to the acquisition, Paramount owned 5.6 million shares of ProspEx (9 percent voting interest). ProspEx was a publicly traded energy company with the majority of its properties located in Alberta. These financial statements include the results of operations of the acquired business for the period following the closing of the transaction on May 31, 2011.

The acquisition of ProspEx was accounted for using the acquisition method whereby all of the assets acquired and liabilities assumed were recorded at fair value. The following table summarizes the net assets acquired pursuant to the acquisition:

($ thousands, except as noted)

Net assets acquired	
Accounts receivable	**$ 10,302**
Exploration and evaluation	**82,100**
Property, plant, and equipment	**107,485**
Goodwill	**7,509**
Accounts payable	**(11,348)**
Bank debt	**(37,824)**
Asset retirement obligations	**(11,943)**
Deferred income tax liability	**(11,865)**
Other	**279**
Net assets acquired	**$ 134,695**

Cash paid	**$ 64,759**
Paramount Common Shares issued (1)	**57,280**
Fair value of ProspEx shares previously held (2)	**12,656**
Total	**$ 134,695**

(1) Based on 2.0 million Paramount Common Shares issued and the closing price of Paramount Common Shares on the acquisition date of $28.64 per share.
(2) Based on 5.6 million ProspEx shares held by Paramount and the closing price of ProspEx common shares on the acquisition date of $2.25 per share.

Accounts receivable included $4.1 million of revenue receivable and $6.2 million of joint venture receivables. Accounts payable included $10.8 million of trade payables and $0.5 million of royalties payable.

Upon the acquisition of ProspEx, a gain of $4.4 million related to the ProspEx shares held by Paramount at the acquisition date was recognized in other income based on the closing market price of the ProspEx common shares of $2.25. The gain had previously been recorded in other comprehensive income. Goodwill recorded on the acquisition of ProspEx is primarily related to the Company's recognition of deferred income tax liabilities. None of the goodwill is deductible for tax purposes.

Paramount incurred $1.0 million of transaction costs related to the acquisition, which were recognized in acquisition transaction costs in the consolidated statement of comprehensive income.

Since May 31, 2011, the Company recorded $10.6 million of petroleum and natural gas sales in respect of properties added through the ProspEx acquisition. If the acquisition of ProspEx had been completed on January 1, 2011, Paramount's petroleum and natural gas sales for the nine months ended September 30, 2011 would have been $195.3 million. The impact on net income is impracticable to determine.

The allocation of the consideration paid is provisional, and was estimated by management at the time of the preparation of these unaudited Interim Consolidated Financial Statements based on information then available. Amendments may be made to these amounts as the estimates are finalized.

4. SEGMENTED INFORMATION

Paramount's operations are divided into three business segments established by management to assist in resource allocation, to assess operating performance and to achieve long-term strategic objectives:

- **Principal Properties:** Principal properties consist of: (i) the Kaybob Corporate Operating Unit ("COU"), which includes properties in West Central Alberta; (ii) the Grande Prairie COU, which includes properties in the Peace River Arch area of Alberta; (iii) the Southern COU, which includes properties in Southern Alberta, Saskatchewan, North Dakota, and Montana; and (iv) the Northern COU, which includes properties in Northern Alberta, the Northwest Territories and Northeast British Columbia.

($ thousands, except as noted)

- **Strategic Investments:** Strategic investments include: (i) investments in other entities, including affiliates; (ii) investments in development stage assets, including oil sands resources and prospective shale gas acreage, where there is no near-term expectation of production or revenue, but a longer-term value proposition based on spin-outs, dispositions, or future revenue generation; and (iii) three drilling rigs owned by Fox Drilling Inc. and Paramount Drilling U.S., L.L.C., wholly-owned subsidiaries of the Company.

- **Corporate:** Corporate is comprised of income and expense items, including general and administrative expense and interest expense, which have not been specifically allocated to Principal Properties or Strategic Investments.

Three months ended September 30, 2011	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 63,960	$ –	$ –	$ –	**$ 63,960**
Gain (loss) on financial commodity contracts	6,163	–	–	–	**6,163**
	70,123	–	–	–	**70,123**
Expenses					
Operating expense and production tax	18,825	–	–	–	**18,825**
Transportation	6,020	–	–	–	**6,020**
General and administrative	–	924	3,115	–	**4,039**
Stock-based compensation	–	5,427	9,129	–	**14,556**
Depletion and depreciation	41,826	1,503	148	(827)	**42,650**
Exploration and evaluation	3,460	82	–	–	**3,542**
Loss on sale of property, plant and equipment	155	–	–	–	**155**
Accretion of asset retirement obligations	2,395	12	–	–	**2,407**
Interest	–	273	8,932	–	**9,205**
Acquisition transaction costs	–	–	9	–	**9**
Foreign exchange	–	–	680	–	**680**
	72,681	8,221	22,013	(827)	**102,088**
Income (loss) from equity-accounted investments	–	2,231	–	–	**2,231**
Other	1,502	138	–	–	**1,640**
Drilling rig revenue	–	6,127	–	(3,360)	**2,767**
Drilling rig expense	–	(2,837)	–	1,670	**(1,167)**
	(1,056)	(2,562)	(22,013)	(863)	**(26,494)**
Inter-segment eliminations	–	(863)	–	863	**–**
Segment earnings (loss)	$ (1,056)	$ (3,425)	$ (22,013)	$ –	**(26,494)**
Income tax recovery					**4,076**
Net loss					**$ (22,418)**

($ thousands, except as noted)

Three months ended September 30, 2010	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 40,559	$ –	$ –	$ –	$ 40,559
Gain (loss) on financial commodity contracts	662	–	–	–	662
	41,221	–	–	–	41,221
Expenses					
Operating expense and production tax	12,827	–	–	–	12,827
Transportation	4,350	–	–	–	4,350
General and administrative	–	958	3,509	–	4,467
Stock-based compensation	–	2,556	5,547	–	8,103
Depletion and depreciation	24,771	816	266	(468)	25,385
Exploration and evaluation	6,609	381	–	–	6,990
Loss on sale of property, plant and equipment	135	–	–	–	135
Accretion of asset retirement obligations	2,028	19	–	–	2,047
Interest	–	305	3,179	–	3,484
Foreign exchange	–	(43)	(1,114)	–	(1,157)
	50,720	4,992	11,387	(468)	66,631
Income (loss) from equity-accounted investments	–	(1,611)	–	–	(1,611)
Other	290	–	(43)	–	247
Drilling rig revenue	–	3,205	–	(1,498)	1,707
Drilling rig expense	–	(2,121)	–	1,076	(1,045)
	(9,209)	(5,519)	(11,430)	46	(26,112)
Inter-segment eliminations	–	46	–	(46)	–
Segment earnings (loss)	$ (9,209)	$ (5,473)	$ (11,430)	$ –	(26,112)
Income tax recovery					32,976
Net income					$ 6,864

Nine months ended September 30, 2011	**Principal Properties**	**Strategic Investments**	**Corporate**	**Inter-segment Eliminations**	**Total**
Revenue	$ 161,869	$ –	$ –	$ –	**$ 161,869**
Gain (loss) on financial commodity contracts	5,948	–	–	–	**5,948**
	167,817	–	–	–	**167,817**
Expenses					
Operating expense and production tax	50,057	–	–	–	**50,057**
Transportation	15,423	–	–	–	**15,423**
General and administrative	–	3,073	9,898	–	**12,971**
Stock-based compensation	–	5,365	9,908	–	**15,273**
Depletion and depreciation	102,926	4,051	341	(2,664)	**104,654**
Exploration and evaluation	19,349	1,066	–	–	**20,415**
Gain on sale of property, plant and equipment	(39,081)	–	–	–	**(39,081)**
Accretion of asset retirement obligations	7,073	41	–	–	**7,114**
Interest	–	913	24,565	–	**25,478**
Acquisition transaction costs	–	–	1,044	–	**1,044**
Foreign exchange	–	(30)	1,466	–	**1,436**
	155,747	14,479	47,222	(2,664)	**214,784**
Income (loss) from equity-accounted investments	–	2,191	–	–	**2,191**
Other	2,818	15,703	–	–	**18,521**
Drilling rig revenue	–	16,079	–	(10,154)	**5,925**
Drilling rig expense	–	(8,240)	–	4,819	**(3,421)**
	14,888	11,254	(47,222)	(2,671)	**(23,751)**
Inter-segment eliminations	–	(2,671)	–	2,671	**–**
Segment earnings (loss)	$ 14,888	$ 8,583	$ (47,222)	$ –	**(23,751)**
Income tax recovery					**1,680**
Net loss					**$ (22,071)**

($ thousands, except as noted)

Nine months ended September 30, 2010	Principal Properties	Strategic Investments	Corporate	Inter-segment Eliminations	Total
Revenue	$ 121,550	$ –	$ –	$ –	$ 121,550
Gain (loss) on financial commodity contracts	10,743	–	–	–	10,743
	132,293	–	–	–	132,293
Expenses					
Operating expense and production tax	38,054	–	–	–	38,054
Transportation	12,939	–	–	–	12,939
General and administrative	–	2,282	8,450	–	10,732
Stock-based compensation	–	6,196	15,394	–	21,590
Depletion and depreciation	70,775	2,346	611	(1,900)	71,832
Exploration and evaluation	26,859	652	–	–	27,511
(Gain) loss on sale of property, plant and equipment	(422)	226	–	–	(196)
Accretion of asset retirement obligations	5,855	40	–	–	5,895
Interest	–	907	8,154	–	9,061
Acquisition transaction costs	–	–	267	–	267
Foreign exchange	–	–	(597)	–	(597)
	154,060	12,649	32,279	(1,900)	197,088
Income (loss) from equity-accounted investments	–	38,008	–	–	38,008
Other	4,320	–	(143)	–	4,177
Drilling rig revenue	–	8,130	–	(6,423)	1,707
Drilling rig expense	–	(5,777)	–	4,132	(1,645)
	(17,447)	27,712	(32,422)	(391)	(22,548)
Inter-segment eliminations	–	(391)	–	391	–
Segment earnings (loss)	$ (17,447)	$ 27,321	$ (32,422)	$ –	(22,548)
Income tax recovery					38,798
Net income					$ 16,250

Total Assets

As at	**September 30, 2011**	December 31, 2010
Principal Properties	**$ 1,290,158**	$ 816,279
Strategic Investments	**359,414**	397,009
Corporate	**88,327**	178,033
	$ 1,737,899	$ 1,391,321

5. EXPLORATION AND EVALUATION

	Nine months ended September 30, 2011	Twelve months ended December 31, 2010
Balance, beginning of period	**$ 269,084**	$ 151,283
Additions	**151,371**	175,495
Corporate acquisitions	**82,100**	29,754
Transfers to property, plant and equipment	**(66,155)**	(51,828)
Impairment	**–**	(1,739)
Dry hole	**(1,617)**	(8,479)
Expired lease costs	**(13,896)**	(24,247)
Dispositions	**(3,829)**	(586)
Foreign exchange	**1,074**	(569)
Balance, end of period	**$ 418,132**	$ 269,084

($ thousands, except as noted)

Exploration and Evaluation Expense

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Geological and geophysical	**$ 796**	$ 2,258	**$ 4,902**	$ 7,408
Dry hole	**1,620**	–	**1,617**	7,754
Expired lease costs	**1,126**	4,732	**13,896**	12,349
	$ 3,542	$ 6,990	**$ 20,415**	$ 27,511

6. PROPERTY, PLANT AND EQUIPMENT

For the nine months ended September 30, 2011	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, December 31, 2010	$ 873,850	$ 46,146	$ 19,850	**$ 939,846**
Additions	213,977	2,497	71	**216,545**
Corporate acquisitions	107,485	–	–	**107,485**
Transfer from exploration and evaluation	66,592	–	–	**66,592**
Dispositions	(3,623)	–	–	**(3,623)**
Change in asset retirement provision	29,185	–	–	**29,185**
Currency translation differences	2,358	684	25	**3,067**
Cost, September 30, 2011	**1,289,824**	**49,327**	**19,946**	**1,359,097**
Accumulated depletion, depreciation, amortization and write-downs				
Balance, December 31, 2010	$ (333,483)	$ (8,157)	$ (17,872)	**$ (359,512)**
Transfer from exploration and evaluation	(437)	–	–	**(437)**
Depletion, depreciation and amortization	(103,139)	(4,018)	(374)	**(107,531)**
Dispositions	1,146	–	–	**1,146**
Currency translation differences	(906)	(268)	(7)	**(1,181)**
Accumulated depletion, depreciation, amortization and write-downs, September 30, 2011	**(436,819)**	**(12,443)**	**(18,253)**	**(467,515)**
Net book value, December 31, 2010	540,367	37,989	1,978	**580,334**
Net book value, September 30, 2011	**$ 853,005**	**$ 36,884**	**$ 1,693**	**$ 891,582**

For the twelve months ended December 31, 2010	Petroleum and natural gas assets	Drilling rigs	Other	Total
Cost				
Balance, January 1, 2010	$ 641,265	$ 46,840	$ 19,720	$ 707,825
Additions	118,457	1,208	161	119,826
Corporate acquisitions	37,189	–	–	37,189
Transfer from exploration and evaluation	52,375	–	–	52,375
Dispositions	(6,861)	(1,121)	–	(7,982)
Change in asset retirement provision	34,063	–	–	34,063
Currency translation differences	(2,638)	(781)	(31)	(3,450)
Cost, December 31, 2010	873,850	46,146	19,850	939,846
Accumulated depletion, depreciation, amortization and write-downs				
Balance, January 1, 2010	$ (184,315)	$ (3,274)	$ (17,130)	$ (204,719)
Transfer from exploration and evaluation	(547)	–	–	(547)
Depletion, depreciation and amortization	(100,982)	(5,135)	(751)	(106,868)
Write-downs	(54,350)	–	–	(54,350)
Dispositions	6,415	–	–	6,415
Currency translation differences	296	252	9	557
Accumulated depletion, depreciation, amortization and write-downs, December 31, 2010	(333,483)	(8,157)	(17,872)	(359,512)
Net book value, January 1, 2010	456,950	43,566	2,590	503,106
Net book value, December 31, 2010	$ 540,367	$ 37,989	$ 1,978	$ 580,334

At September 30, 2011, $92.5 million (December 31, 2010 – $20.0 million) of capitalized costs related to incomplete development wells and infrastructure projects are currently not subject to depletion.

Year-to-date additions to property, plant and equipment include $2.0 million of capitalized interest for qualifying assets in the construction phase (2010 – nil).

7. EQUITY ACCOUNTED INVESTMENTS

	September 30, 2011			December 31, 2010		
	Shares (000's)	**Carrying Value**	**Market Value[1]**	*Shares (000's)*	Carrying Value	Market Value[1]
Trilogy Energy Corp. ("Trilogy")	***24,144***	**$ 120,489**	**$ 651,897**	*24,144*	$ 125,746	$ 296,975
MGM Energy Corp. ("MGM Energy")	***43,834***	**2,936**	**10,520**	*43,834*	5,222	8,767
Paxton Corporation	***1,750***	**4,065**		*1,750*	4,338	
Other		**2,316**			2,994	
		$ 129,806			$ 138,300	

(1) Based on the period-end price of publicly traded entities.

Income (loss) from equity-accounted investments is composed of the following:

Three months ended September 30	**2011** Equity income (loss)	**2011** Dilution gain	**2011** Total	2010 Equity income (loss)	2010 Dilution gain	2010 Total
Trilogy	**$ 2,571**	**$ –**	**$ 2,571**	$ (1,911)	$ –	$ (1,911)
MGM Energy	**(272)**	**–**	**(272)**	(192)	–	(192)
Paxton Corporation	**(68)**	**–**	**(68)**	(55)	–	(55)
Other	**–**	**–**	**–**	547	–	547
	$ 2,231	**$ –**	**$ 2,231**	$ (1,611)	$ –	$ (1,611)

Nine months ended September 30	**2011** Equity income (loss)	**2011** Dilution gain	**2011** Total	2010 Equity income (loss)	2010 Dilution gain	2010 Total
Trilogy	**$ 2,744**	**$ 774**	**$ 3,518**	$ 34,007	$ 4,109	$ 38,116
MGM Energy	**(1,054)**	**–**	**(1,054)**	(689)	209	(480)
Paxton Corporation	**(273)**	**–**	**(273)**	(175)	–	(175)
Other	**–**	**–**	**–**	547	–	547
	$ 1,417	**$ 774**	**$ 2,191**	$ 33,690	$ 4,318	$ 38,008

8. INVESTMENTS IN SECURITIES

	September 30, 2011 ***Shares (000's)***	**September 30, 2011**	December 31, 2010 *Shares (000's)*	December 31, 2010
MEG Energy Corp.	***3,700***	**$ 143,412**	*3,700*	$ 168,313
NuLoch Resources Inc. ("NuLoch")	**–**	**–**	*6,579*	13,684
ProspEx Resources Ltd.	**–**	**–**	*5,625*	7,369
Other		**59**		351
		$ 143,471		$ 189,717

In April 2011, Paramount sold 3.3 million of the NuLoch shares it held for cash proceeds of $8.1 million. The Company recognized a gain on the disposition of $5.7 million, which previously had been recorded in other comprehensive income. In May 2011, NuLoch was acquired by Magnum Hunter Resources Corp. ("Magnum Hunter") and each of the remaining 3.3 million NuLoch shares held by Paramount was exchanged for 0.3304 of a common share of Magnum Hunter, resulting in Paramount receiving 1.1 million common shares of Magnum Hunter. An accumulated unrealized gain of $5.3 million that had been recorded in other comprehensive income in respect of the NuLoch shares exchanged by Paramount was recognized in other income. In July 2011, Paramount sold all 1.1 million of the Magnum Hunter shares it held for cash proceeds of $7.7 million. The Company recognized a gain on the disposition of $0.1 million, which previously had been recorded in other comprehensive income.

($ thousands, except as noted)

9. GOODWILL

As at	September 30, 2011	December 31, 2010
Carrying value, beginning of period	**$ 8,012**	$ –
Acquisitions	**7,509**	11,589
Additional accrued liability	**978**	–
Impairment	–	(3,577)
Carrying value, end of period	**$ 16,499**	$ 8,012

For the nine months ended September 30, 2011, there were additions to goodwill of $7.5 million in respect of the ProspEx acquisition and $1.0 million in respect of additional liabilities of Redcliffe Exploration Inc. that existed at the date of acquisition.

The carrying amount of goodwill allocated to each of the COUs is as follows:

As at	September 30, 2011	December 31, 2010
Grande Prairie	**$ 9,246**	$ 7,464
Kaybob	**4,307**	548
Southern	**2,506**	–
Northern	**440**	–
	$ 16,499	$ 8,012

10. DRILLING RIG LOAN

At September 30, 2011, $24.1 million (December 31, 2010 - $26.9 million) was outstanding on the drilling rig loan. Unless demanded by the bank, the remaining scheduled principal repayments are as follows: 2011 – $1.2 million; 2012 - $5.1 million; 2013 - $5.1 million and 2014 - $12.7 million.

11. LONG-TERM DEBT

	September 30, 2011	December 31, 2010
Bank credit facility – Tranche A	**$ 119,768**	$ –
8 ¼ percent Senior Notes due 2017	**370,000**	300,000
	489,768	300,000
Unamortized financing costs net of premiums	**(4,369)**	(5,795)
	$ 485,399	$ 294,205

Bank Credit Facility

In June 2011, Paramount renewed its bank credit facility (the "Facility"), increasing the total credit limit from $160 million to $300 million, which is available in two tranches. The first tranche ("Tranche A") has a borrowing base and lender commitments of $225 million and is available on a revolving basis to June 30, 2012. In the event the revolving period is not extended, Tranche A would be available on a non-revolving basis for an additional year, at which time it would be due and payable. The second tranche ("Tranche B") is available on a revolving basis, has a credit limit of up to $75 million and is due June 30, 2012 in the event the due date is not earlier extended. The Facility is secured by a first fixed and floating charge over substantially all of the assets of Paramount, excluding assets securing the drilling rig loan. Balances drawn under Tranche B are secured by the pledge of certain of the Company's equity investments.

($ thousands, except as noted)

The Facility bears interest at the lenders' prime lending rates, US base rates, bankers' acceptance or LIBOR rates, as selected at the discretion of Paramount, plus an applicable margin which is dependent upon the Company's debt to cash flow ratio and the tranche under which borrowings are made. The maximum amount that Paramount may borrow under the Facility is subject to periodic review, and is dependent upon the Company's reserves, lenders' projections of future commodity prices and the market value of equity investments pledged by Paramount from time-to-time under Tranche B, among other factors. Increases in the borrowing base and lender commitments under Tranche A reduce the credit limit under Tranche B by an equivalent amount.

At September 30, 2011, $119.8 million (December 31, 2010 – nil) was drawn on the Facility. Paramount had undrawn letters of credit outstanding at September 30, 2011 of $26.3 million that reduce the amount available to the Company.

Senior Notes

In February 2011, Paramount completed a public offering of an additional $70 million principal amount of its senior unsecured notes ("Senior Notes") at a price of $1,030 per $1,000 principal amount, of which $1.4 million principal amount was purchased by an entity that is controlled by the Company's Chairman and Chief Executive Officer. As of September 30, 2011, the Company has an aggregate of $370 million principal amount of Senior Notes outstanding. The Senior Notes bear interest at 8.25 percent per annum, payable semi-annually in arrears on June 13 and December 13 in each year and mature on December 13, 2017. The Senior Notes are direct senior unsecured obligations of Paramount and rank equally with all other senior unsecured indebtedness of the Company.

12. ASSET RETIREMENT OBLIGATIONS

	Nine months ended September 30, 2011	Twelve months ended December 31, 2010
Asset retirement obligations, beginning of period	**$ 241,770**	$ 195,088
Retirement obligations incurred	**9,382**	25,691
Revisions to estimated retirement costs	**19,839**	21,779
Obligations settled	**(5,402)**	(3,209)
Disposal of properties	**(1,011)**	(9,638)
Accretion expense	**7,114**	7,975
Assumed on corporate acquisition	**11,943**	4,581
Foreign exchange	**579**	(497)
Asset retirement obligations, end of period	**$ 284,214**	$ 241,770

The period-end present value of the asset retirement obligations was determined using a risk-free rate of 2.5 percent (December 31, 2010 – 4.0 percent) and an inflation rate of 2.0 percent (December 31, 2010 – 3.0 percent).

13. SHARE CAPITAL

Weighted Average Common Shares Outstanding

	Three months ended September 30				Nine months ended September 30			
	2011		2010		**2011**		2010	
		Shares (000's)		_Shares (000's)_		***Shares (000's)***		_Shares (000's)_
Net income (loss) - basic	**$ (22,418)**	***78,982***	$ 6,864	_72,439_	**$ (22,071)**	***77,100***	$ 16,250	_72,355_
Dilutive effect of Paramount options	–	–	–	–	–	–	–	–
Net income (loss) - diluted	**$ (22,418)**	***78,982***	$ 6,864	_72,439_	**$ (22,071)**	***77,100***	$ 16,250	_72,355_

Outstanding Paramount Options can be exchanged for the Company's Common Shares in accordance with the terms of the stock option plan. As a result, they are considered potentially dilutive and are included in the calculation of Paramount's diluted net income per share calculation when they are dilutive for the period.

In April 2011, Paramount issued 1,500,000 Common Shares at a price of $32.50 per share for gross proceeds of $48.8 million pursuant to a public offering. In April 2011, Paramount also issued 150,000 Common Shares on a "flow-through" basis in respect of Canadian development expenses at a price of $36.50 per share for gross proceeds of $5.5 million to a company controlled by the Company's Chairman and Chief Executive Officer. In May 2011, the Company issued 2,000,000 Common Shares in connection with the ProspEx acquisition. In October 2011, Paramount issued 1,450,000 Common Shares on a "flow-through" basis in respect of Canadian exploration expenses ("CEE") pursuant to a public offering at a price of $40.50 per share for gross proceeds of $58.7 million. Also in October 2011, the Company issued 100,000 Common Shares on a flow-through basis in respect of CEE at a price of $40.50 per share for gross proceeds of $4.1 million to companies controlled by the Company's Chairman and Chief Executive Officer.

In October 2011, Paramount announced that it had entered into an agreement to issue 4,500,000 Common Shares at a price of $34.75 per share for gross proceeds of $156.4 million through a public offering.

14. RESERVES

Reserves include unrealized gains on the Company's investments in securities, foreign exchange differences on translation of foreign subsidiaries' balances, and stock-based compensation expense on investees' options ("SBC – Investees' Options"). The changes in reserves are as follows:

	Unrealized Gains on Securities	Translation of Foreign Subsidiaries	SBC - Investees' Options	Total Reserves
Balance, December 31, 2010	$ 71,622	$ (2,028)	$ 2,402	**$ 71,996**
Other comprehensive income	(30,018)	2,776	–	**(27,242)**
SBC - Investees' Options	–	–	819	**819**
Reclassification to equity accounted investments	–	–	(3,221)	**(3,221)**
Balance, September 30, 2011	$ 41,604	$ 748	$ –	**$ 42,352**

($ thousands, except as noted)

	Unrealized Gains on Securities	Translation of Foreign Subsidiaries	SBC - Investees' Options	Total Reserves
Balance, January 1, 2010	$ 3,188	$ –	$ 1,839	**$ 5,027**
Other comprehensive income	30,166	(508)	–	**29,658**
SBC – Investees' Options	–	–	487	**487**
Balance, September 30, 2010	$ 33,354	$ (508)	$ 2,326	**$ 35,172**

Other Comprehensive Income

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Unrealized Gains on Securities				
Change in market value of securities	**$ (42,002)**	$ 28,309	**$ (17,478)**	$ 33,557
Reclassification of other comprehensive income to earnings	**(112)**	–	**(15,693)**	(3,433)
Deferred tax	**4,324**	240	**3,153**	42
	(37,790)	28,549	**(30,018)**	30,166
Translation of Foreign Subsidiaries				
Exchange differences on translation of US subsidiaries	**5,615**	(1,496)	**758**	(911)
Reclassification of other comprehensive loss to earnings	**639**	–	**2,965**	–
Deferred tax	**(379)**	275	**(947)**	403
	5,875	(1,221)	**2,776**	(508)
Other comprehensive income (loss)	**$ (31,915)**	$ 27,328	**$ (27,242)**	$ 29,658

15. STOCK-BASED COMPENSATION

Stock Option Plan

	Nine months ended September 30, 2011		Year ended December 31, 2010	
	Weighted Average Exercise Price	**Number**	Weighted Average Exercise Price	Number
	($/share)		($/share)	
Balance, beginning of period	**$ 13.90**	**5,006,300**	$ 8.61	4,571,500
Granted	**30.30**	**168,000**	28.98	1,276,500
Exercised	**8.78**	**(256,350)**	7.90	(683,700)
Forfeited	**17.68**	**(83,000)**	8.74	(158,000)
Balance, end of period	**$ 14.67**	**4,834,950**	$ 13.90	5,006,300
Options exercisable, end of period	**$ 7.98**	**1,110,951**	$ 8.13	1,367,301

The intrinsic value of vested options at September 30, 2011 was $25.4 million (December 31, 2010 - $32.2 million).

Stock Incentive Plan

	Nine months ended September 30, 2011		Twelve months ended December 31, 2010	
Stock incentive plan shares held in trust	***Shares (000's)***		*Shares (000's)*	
Balance, beginning of period	***150***	**$ 410**	*178*	$ 312
Shares purchased	***101***	**2,974**	*178*	2,901
Change in vested and unvested shares	***(166)***	**(2,796)**	*(206)*	(2,803)
Balance, end of period	***85***	**$ 588**	*150*	$ 410

Employee Benefit Costs

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Stock option plan	**$ 14,387**	$ 7,948	**$ 14,227**	$ 19,859
Stock incentive plan	**169**	155	**1,046**	1,731
Stock-based compensation expense	**14,556**	8,103	**15,273**	21,590
Salaries and benefits	**5,015**	4,445	**15,281**	13,902
	$ 19,571	$ 12,548	**$ 30,554**	$ 35,492

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management financial instruments outstanding at September 30, 2011 are as follows:

Instruments	Notional	Average Fixed Price	Fair Value	Remaining Term
Oil – NYMEX WTI Swap	1,000 Bbl/d	US $93.73/Bbl	**$ 1,371**	October 2011 – December 2011
Oil – NYMEX WTI Swap	500 Bbl/d	US $101.01/Bbl	**2,678**	October 2011 – May 2012
Oil – NYMEX WTI Collar	500 Bbl/d	Floor – US $85.00/Bbl Ceiling – US $116.85/Bbl	**1,293**	October 2011 – May 2012
			$ 5,342	

Changes in the fair value of risk management assets and liabilities are as follows:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Fair value, beginning of period	**$ (693)**	$ 2,187
Changes in fair value	**5,948**	10,047
Settlements paid (received)	**87**	(12,927)
Fair value, end of period	**$ 5,342**	$ (693)

Subsequent to September 30, 2011, the Company entered into two additional financial commodity sales contracts:

Instrument	Total Notional	Average Fixed Price	Remaining Term
Oil– NYMEX WTI Swap	500 Bbl/d	US $90.00/Bbl	January 2012– December 2012
Oil– NYMEX WTI Swap	500 Bbl/d	US $93.00/Bbl	January 2012– December 2012

($ thousands, except as noted)

17. CONSOLIDATED STATEMENTS OF CASH FLOWS – SELECTED INFORMATION

Items not involving cash

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Financial commodity contracts	**$ (5,277)**	$ 4,409	**$ (6,036)**	$ 407
Stock-based compensation	**14,542**	8,103	**15,217**	21,525
Depletion and depreciation	**42,650**	25,385	**104,654**	71,832
Exploration and evaluation	**2,746**	5,323	**15,513**	20,804
(Gain) loss on sale of property, plant, and equipment	**155**	135	**(39,081)**	(196)
Accretion of asset retirement obligations	**2,407**	2,047	**7,114**	5,895
Foreign exchange	**802**	(1,303)	**1,010**	(815)
(Income) loss from equity accounted investments	**(2,231)**	1,611	**(2,191)**	(38,008)
Deferred income tax	**(4,088)**	(32,994)	**(1,726)**	(38,810)
Gain on sale of investments	**(112)**	–	**(15,703)**	–
Other	**299**	270	**264**	(3,072)
	$ 51,893	$ 12,986	**$ 79,035**	$ 39,562

Supplemental cash flow information

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Interest paid	**$ 2,483**	$ 5,556	**$ 20,489**	$ 11,088
Current tax paid	**$ –**	$ –	**$ 45**	$ 35

Components of cash and cash equivalents

	September 30, 2011	December 31, 2010
Cash	**$ 5,510**	$ 29,679
Bankers' acceptances	**–**	44,980
	$ 5,510	$ 74,659

18. RECONCILIATION TO PREVIOUS GAAP

Paramount has applied IFRS as of the Transition Date, and all amounts presented in these unaudited Interim Consolidated Financial Statements have been prepared on a consistent basis in accordance with the Company's expected IFRS accounting policies, except where certain IFRS 1 exemptions were utilized. As noted previously, Paramount's March 31, 2011 unaudited Interim Consolidated Financial Statements included a description of the Company's IFRS accounting policies in Note 1 and reconciliations of IFRS amounts to amounts previously published in accordance Previous GAAP as of the Transition Date and as at and for the twelve months ended December 31, 2010 in Note 19.

The following information reconciles comparative amounts for the three and nine months ended September 30, 2010 included in these unaudited Interim Consolidated Financial Statements to amounts that were previously published in accordance with Previous GAAP.

($ thousands, except as noted)

The following table summarizes the adjustments to Paramount's comprehensive income for the three months ended September 30, 2010 prepared under Previous GAAP to the Company's comprehensive income prepared in accordance with IFRS:

Three months ended September 30, 2010	**Previous GAAP**	Reclasses (18a)	PPE (18b)	ARO (18c)	FX (18d)	SBC (18e)	FTS (18f)	Equity Accounting (18g)	Deferred Tax (18h)	**IFRS**
Petroleum and natural gas sales	**$ 44,928**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	**$ 44,928**
Royalties	**(4,369)**	–	–	–	–	–	–	–	–	**(4,369)**
Revenue	**40,559**	–	–	–	–	–	–	–	–	**40,559**
Gain (loss) on financial commodity contracts	**662**	–	–	–	–	–	–	–	–	**662**
	41,221	–	–	–	–	–	–	–	–	**41,221**
Expenses										
Operating expense and production tax	**12,827**	–	–	–	–	–	–	–	–	**12,827**
Transportation	**4,350**	–	–	–	–	–	–	–	–	**4,350**
General and administrative	**4,467**	–	–	–	–	–	–	–	–	**4,467**
Stock-based compensation	**8,061**	–	–	–	–	42	–	–	–	**8,103**
Depletion and depreciation	**47,728**	(7,082)	(15,261)	–	–	–	–	–	–	**25,385**
Exploration and evaluation	**–**	6,970	20	–	–	–	–	–	–	**6,990**
Exploration	**2,238**	(2,238)	–	–	–	–	–	–	–	**–**
(Gain) loss on sale of property, plant & equipment	**361**	–	–	(226)	–	–	–	–	–	**135**
Accretion of asset retirement obligations	**–**	2,350	–	(303)	–	–	–	–	–	**2,047**
Interest	**3,484**	–	–	–	–	–	–	–	–	**3,484**
Foreign exchange	**(1,701)**	544	–	–	–	–	–	–	–	**(1,157)**
	81,815	544	(15,241)	(529)	–	42	–	–	–	**66,631**
Income (loss) from investments	**(967)**	–	–	–	–	–	–	(644)	–	**(1,611)**
Other	**909**	–	–	–	–	–	–	–	–	**909**
Income (loss) before tax	**(40,652)**	(544)	15,241	529	–	(42)	–	(644)	–	**(26,112)**
Income tax expense (recovery)										
Current	**18**	–	–	–	–	–	–	–	–	**18**
Deferred	**(36,999)**	–	–	–	–	–	–	–	4,005	**(32,994)**
	(36,981)	–	–	–	–	–	–	–	4,005	**(32,976)**
Net income (loss)	**(3,671)**	(544)	15,241	529	–	(42)	–	(644)	(4,005)	**6,864**
Other comprehensive income (loss), net of tax										
Change in market value of securities	**28,549**	–	–	–	–	–	–	–	–	**28,549**
Exchange differences on translation of US subsidiaries	**–**	544	–	169	(2,134)	–	–	–	200	**(1,221)**
Comprehensive income (loss)	**$ 24,878**	$ –	$ 15,241	$ 698	$ (2,134)	$ (42)	$ –	$ (644)	$ (3,805)	**$ 34,192**

($ thousands, except as noted)

The following table summarizes the adjustments to Paramount's comprehensive income for the nine months ended September 30, 2010 prepared under Previous GAAP to the Company's comprehensive income prepared in accordance with IFRS:

Nine months ended September 30, 2010	**Previous GAAP**	Reclasses (18a)	PPE (18b)	ARO (18c)	FX (18d)	SBC (18e)	FTS (18f)	Equity Accounting (18g)	Deferred Tax (18h)	**IFRS**
Petroleum and natural gas sales	**$ 138,433**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	**$ 138,433**
Royalties	**(16,883)**	–	–	–	–	–	–	–	–	**(16,883)**
Revenue	**121,550**	–	–	–	–	–	–	–	–	**121,550**
Gain (loss) on financial commodity contracts	**10,743**	–	–	–	–	–	–	–	–	**10,743**
	132,293	–	–	–	–	–	–	–	–	**132,293**
Expenses										
Operating expense and production tax	**38,054**	–	–	–	–	–	–	–	–	**38,054**
Transportation	**12,939**	–	–	–	–	–	–	–	–	**12,939**
General and administrative	**10,999**	(267)	–	–	–	–	–	–	–	**10,732**
Stock-based compensation	**23,104**	–	–	–	–	(1,514)	–	–	–	**21,590**
Depletion and depreciation	**132,673**	(19,061)	(41,780)	–	–	–	–	–	–	**71,832**
Exploration and evaluation	**–**	27,490	21	–	–	–	–	–	–	**27,511**
Exploration	**7,388**	(7,388)	–	–	–	–	–	–	–	**–**
Dry hole	**7,754**	(7,754)	–	–	–	–	–	–	–	**–**
(Gain) loss on sale of property, plant & equipment	**191**	–	–	(387)	–	–	–	–	–	**(196)**
Accretion of asset retirement obligations	**–**	6,713	–	(818)	–	–	–	–	–	**5,895**
Interest	**9,061**	–	–	–	–	–	–	–	–	**9,061**
Acquisition transaction costs	**–**	267	–	–	–	–	–	–	–	**267**
Foreign exchange	**(692)**	95	–	–	–	–	–	–	–	**(597)**
	241,471	95	(41,759)	(1,205)	–	(1,514)	–	–	–	**197,088**
Income from investments	**11,008**	(3,499)	–	–	–	–	–	30,499	–	**38,008**
Other	**740**	3,499	–	–	–	–	–	–	–	**4,239**
Income (loss) before tax	**(97,430)**	(95)	41,759	1,205	–	1,514	–	30,499	–	**(22,548)**
Income tax expense (recovery)										
Current	**12**	–	–	–	–	–	–	–	–	**12**
Deferred	**(50,500)**	–	–	–	–	–	1,405	–	10,285	**(38,810)**
	(50,488)	–	–	–	–	–	1,405	–	10,285	**(38,798)**
Net income (loss)	**(46,942)**	(95)	41,759	1,205	–	1,514	(1,405)	30,499	(10,285)	**16,250**
Other comprehensive income (loss), net of tax										
Change in market value of securities	**33,599**	–	–	–	–	–	–	–	–	**33,599**
Exchange differences on translation of US subsidiaries	**–**	95	–	93	(1,057)	–	–	–	361	**(508)**
Reclass of accumulated (gains) to earnings	**(3,433)**	–	–	–	–	–	–	–	–	**(3,433)**
Comprehensive income (loss)	**$ (16,776)**	$ –	$ 41,759	$ 1,298	$ (1,057)	$ 1,514	$ (1,405)	$ 30,499	$ (9,924)	**$ 45,908**

a) Reclassifications ("Reclasses")

Exploration Expense

For the three months ended September 30, 2010, $2.2 million of exploration expense that had been presented as an individual line item under Previous GAAP is included in exploration and evaluation expense under IFRS. For the nine months ended September 30, 2010 exploration expense of $7.4 million and dry hole expense of $7.8 million are included in exploration and evaluation expense under IFRS.

Depletion and Depreciation

For the three months ended September 30, 2010 write-offs of the cost of expired mineral leases in respect of undeveloped properties of $4.7 million were included in depletion and depreciation expense under Previous GAAP but are included in exploration and evaluation expense under IFRS. For the nine months ended September 30, 2010 $12.3 million of such write-offs was included in exploration and evaluation expense.

Accretion expense for the three months ended September 30, 2010 of $2.4 million related to asset retirement obligations that was included in depletion, depreciation and accretion under Previous GAAP is presented separately under IFRS. For the nine months ended September 30, 2010, $6.7 million of accretion expense is presented separately under IFRS.

Foreign Exchange

For the three months ended September 30, 2010 $0.5 million of foreign exchange expense was reclassified to other comprehensive income. For the nine months ended September 30, 2010 $0.1 million was reclassified to other comprehensive income.

Other Income

The gain on sale of available-for-sale investments for the nine months ended September 30, 2010 of $3.5 million that was included in income (loss) from investments under Previous GAAP is included in other income under IFRS.

b) Property, Plant, and Equipment ("PPE")

Under IFRS, the type and method for calculating reserves used in determining depletion on a unit-of-production basis is not specifically prescribed. Under Previous GAAP, the Company was required to use a reserve estimate based on average commodity prices of the preceding year. On Transition Date, Paramount changed its reserves estimates for calculating depletion to use proved developed reserves based on forecasted commodity prices.

Depletion expense for the three months ended September 30, 2010 was reduced by $15.3 million under IFRS due to reduced carrying values of petroleum and natural gas properties as a result of IFRS impairment adjustments at the Transition Date and the change in the reserves used in calculating unit-of-production depletion. For the nine months ended September 30, 2010, depletion expense was reduced by $41.8 million.

c) Asset Retirement Obligations ("ARO")

Under IFRS, the Company's policy is to re-measure asset retirement obligations at each reporting date using the period-end risk-free rate. Under Previous GAAP, credit-adjusted risk-free rates were applied to each obligation when initially recognized, and that rate was not adjusted for changes in discount rates in future periods. The change in discount rates decreased accretion expense for the three months ended September 30, 2010 by $0.3 million. For the nine months ended September 30, 2010, accretion expense was reduced by $0.8 million.

d) Foreign Exchange Translation ("FX")

Under IFRS, assets and liabilities of subsidiaries with functional currencies that are not the presentation currency are translated at the exchange rate in effect at the end of the reporting period and the resulting exchange differences are recognized in other comprehensive income. Under Previous GAAP, the assets and liabilities of the Company's integrated foreign operations were translated into Canadian dollars using the temporal method, where non-monetary items were translated at historical exchange rates and monetary assets and liabilities were translated at the exchange rate in effect at the end of the reporting period, with resulting exchange differences recognized in earnings.

The impact on OCI for the three months ended September 30, 2010 as a result of the change in translation method was a decrease of $2.1 million. For the nine months ended September 30, 2010 the impact was a decrease of $1.1 million.

e) Stock-based Compensation ("SBC")

Under IFRS, Paramount's stock-based compensation liability related to Paramount Options is re-measured at the end of each period using the Black-Scholes-Merton fair value option pricing model. Under Previous GAAP, the stock-based compensation liability was re-measured at the end of each period using the intrinsic value method, where the liability was calculated based on the amount by which the market price of the Company's Common Shares exceeded the exercise price of outstanding options. As a result of the change in valuation method, Paramount's stock-based compensation expense increased by $0.1 million for the three months ended September 30, 2010. The decrease in stock-based compensation expense for the nine months ended September 30, 2010 was $1.5 million.

f) Flow-through Shares ("FTS")

Under IFRS, proceeds from the issuance of flow-through shares are allocated between the sale of the shares, which are recorded in share capital, and the sale of the tax benefits, which are initially recorded as an accrued liability. The allocation is made based on the difference between the issue price of flow-through shares and the market price of the Common Shares on the date the offering is priced. The liability related to the sale of the tax benefits is reversed as qualifying expenditures intended for renunciation to subscribers are incurred, and a deferred tax liability is recorded. The difference between the deferred tax liability recorded and the liability related to the sale of tax benefits is recognized as deferred tax expense. Under Previous GAAP, when flow-through shares were issued, they were recorded in share capital based on proceeds received. Upon filing the renunciation documents with the tax authorities, a future tax liability was recognized and share capital was reduced for the tax effect of expenditures renounced to subscribers. For the nine months ended September 30, 2010, the impact on deferred income tax expense was an increase of $1.4 million.

($ thousands, except as noted)

g) Equity Accounted Investments ("Equity Accounting")

The equity method of accounting requires an investor to adjust the carrying value of its investment in an investee for the investor's proportionate share of changes in the investee's net assets. For the three months ended September 30, 2010 income from equity-accounted investments decreased by $0.6 million to reflect Paramount's proportionate share of the adjustments Trilogy and MGM Energy recorded in respect of their IFRS transitions. For the nine months ended September 30, 2010 the impact was an increase of $30.5 million.

h) Deferred Income Tax ("Deferred Tax")

Deferred income tax expense for the three months ended September 30, 2010 was increased by $4.0 million as a result of the IFRS adjustments. The impact for the nine months ended September 30, 2010 was an increase in deferred tax expense of $10.3 million. The deferred income tax recovery on foreign exchange differences on translation of the US subsidiaries included in other comprehensive income was $0.2 million for the three months ended September 30, 2010 and $0.4 million for the nine months ended September 30, 2010.

The following table reconciles Shareholders' Equity as at September 30, 2010 under Previous GAAP to Shareholders' Equity prepared in accordance with IFRS:

As at	September 30, 2010
Shareholders' Equity – Previous GAAP	**$ 758,402**
IFRS Adjustments:	
Change in asset retirement obligations	**(81,765)**
Adjustments to PP&E related to impairments and changes in depletion	**(23,655)**
Change in stock-based compensation liability	**(2,126)**
Change in currency translation method related to foreign subsidiaries	**(6,054)**
Adjustments to equity accounted investments - changes in investees' equity due to IFRS	**22,925**
Adjustment to flow-through shares	**(2,196)**
Adjustment to deferred tax	**28,479**
Shareholders' Equity – IFRS	**$ 694,010**

($ thousands, except as noted)

The following table reconciles the Consolidated Statement of Cash Flows prepared under Previous GAAP to the Company's Statement of Cash Flows prepared in accordance with IFRS:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Cash from operating activities under Previous GAAP	$ 19,652	$ 52,293
Adjustments under IFRS:		
Exploration costs	(1,667)	(6,707)
Common shares purchased under stock incentive plan	–	2,901
Foreign exchange on cash	593	298
Cash from operating activities under IFRS	**$ 18,578**	**$ 48,785**
Cash from financing activities under Previous GAAP	$ 50,779	$ 102,577
Adjustment under IFRS:		
Common shares purchased under stock incentive plan	–	(2,901)
Cash from financing activities under IFRS	**$ 50,779**	**$ 99,676**
Cash used in investing activities under Previous GAAP	$ (72,099)	$ (225,387)
Adjustment under IFRS:		
Exploration costs	1,667	6,707
Cash used in investing activities under IFRS	**$ (70,432)**	**$ (218,680)**
Net decrease	(1,075)	(70,219)
Foreign exchange on cash and cash equivalents	(593)	(298)
	$ (1,668)	**$ (70,517)**

CORPORATE INFORMATION

OFFICERS

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

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

B. K. Lee
Chief Financial Officer

E. M. Shier
Corporate Secretary

L. M. Doyle
Corporate Operating Officer

G.W. P. McMillan
Corporate Operating Officer

D.S. Purdy
Corporate Operating Officer

J. Wittenberg
Corporate Operating Officer

P.R. Kinvig
Controller

L. A. Friesen
Assistant Corporate Secretary

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Calgary, Alberta

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President and Chief Operating Officer
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Sidney, British Columbia

B. M. Wylie[2]
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The Royal Bank of Scotland N.V. (Canada) Branch
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Calgary, Alberta
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STOCK EXCHANGE LISTING

The Toronto Stock Exchange ("POU")