

January 22, 2002

**Mackenzie Valley Land
& Water Board**

Indian and Northern Affairs Canada
#16 Yellowknife Airport
Yellowknife, NT X1A 3TA

Attention: Ed Hornby

File _____

JAN 25 2002

Application # MV2000P0055

Copied To KLIPM/EOB/Reg

Finance - Gina Vincett.

**RE: SECURITY DEPOSITS
PIPELINE AND GATHERING SYSTEM
CAMERON HILLS AREA LAND USE PERMIT - MV2000P0055
CAMERON HILLS AREA WATER LICENCE - MV2000L1-0014
OUR FILES: SL004470; SL004471**


As per the covering letters from the Mackenzie Valley Land and Water Board dated January 17, 2002, requesting a \$100,000 security deposit for Land Use Permit MV2000P0055 and a \$50,000 security deposit for Water Licence MV2000L1-0014, enclosed herewith are two Letters of Credit issued on behalf of Paramount Resources Ltd. in favour of the Receiver General for Canada.

Paramount hereby agrees to indemnify and hold harmless her Majesty in Right of Canada from any liability resulting from a breach of any of the terms or conditions of the Territorial Land Use Regulations applicable to operations relative to Paramount's Land Use Permit and Water Licence. Pursuant to the attached Letters of Credit, Paramount promises to pay to the Receiver General for Canada should payment be required by the Minister pursuant to Section 36 of the Territorial Land Use Regulations.

The Letters of Credit have an expiry date of March 31, 2003 and will automatically be renewed by Paramount on an annual basis or until such time as they are no longer required. The renewal documentation will be forwarded to your office prior to the expiry date.

Should you have any questions regarding the above, please contact Shirley Maaskant at (403) 290-3618.

Yours truly,
PARAMOUNT RESOURCES LTD.


Dayle Aspden
Land Administrator

Encl.
x.c. Mackenzie Valley Land and Water Board

IMDC/TOR/S/354064

INTERNATIONAL OPERATIONS, CENTRAL
4 SIMCOE STREET, 3RD FLOOR
TORONTO, ONTARIO
M5T 1T4
TELEX: MCI 62960
IFT: BOFMCAT2
PHONE: 416-867-5552
FAX: (416) 867-7162

DATE OF ISSUE: JANUARY 21, 2002
IRREVOCABLE STANDBY LETTER OF CREDIT

IMDC/TOR/S/354064

APPLICANT:
PARAMOUNT RESOURCES LTD.
30 BANKERS HALL WEST
3-3RD STREET S.W.
CALGARY, ALBERTA T2P 5C5

BENEFICIARY:
RECEIVER GENERAL FOR CANADA
6TH FLOOR, 10 WELLINGTON STREET
HULL, QUEBEC K1A 0H4

AMOUNT: 50,000.00 CAD
FIFTY THOUSAND AND 00/100'S CANADIAN
DOLLARS

RE: SECURITY DEPOSIT 2001/2002

HEREBY AUTHORIZE YOU TO DRAW ON THE BANK OF MONTREAL, INTERNATIONAL
OPERATIONS, CENTRAL, 234 SIMCOE STREET, TORONTO, ONTARIO M5T 1T4 FOR THE ACCOUNT
PARAMOUNT RESOURCES LTD., UP TO AN AGGREGATE AMOUNT OF FIFTY THOUSAND AND
00/100'S CANADIAN DOLLARS (CAD50,000.00), AVAILABLE ON DEMAND.

IN ACCORDANCE WITH THE REQUEST OF OUR CUSTOMER, THE SAID PARAMOUNT RESOURCES LTD.,
THE BANK OF MONTREAL, INTERNATIONAL OPERATIONS, CENTRAL, HEREBY ESTABLISH
GIVE TO YOU AN IRREVOCABLE LETTER OF CREDIT IN YOUR FAVOUR IN THE TOTAL
AMOUNT OF FIFTY THOUSAND AND 00/100'S CANADIAN DOLLARS (CAD50,000.00), WHICH MAY
BE DRAWN UPON US BY YOU, WHICH DEMAND WE SHALL HONOUR WITHOUT ENQUIRING WHETHER
YOU HAVE THE RIGHT AS BETWEEN YOURSELF AND OUR SAID CUSTOMER TO MAKE SUCH DEMAND
WITHOUT RECOGNIZING ANY CLAIM OF OUR SAID CUSTOMER.

NOTWITHSTANDING, HOWEVER, THAT YOU ARE TO DELIVER TO THE BANK OF MONTREAL,
INTERNATIONAL OPERATIONS, CENTRAL, AT SUCH TIME AS A WRITTEN DEMAND FOR PAYMENT
MADE UPON US A CERTIFICATE SIGNED BY YOU CONFIRMING THAT PARAMOUNT RESOURCES
LTD. HAVE DEFAULTED IN THEIR PAYMENT OBLIGATIONS.


THIS LETTER OF CREDIT MUST BE PRESENTED FOR ENDORSEMENT BY US OF THE AMOUNT
DRAWN OR WHEN THE FULL AMOUNT OF THE CREDIT HAS BEEN DRAWN FOR CANCELLATION.

THIS LETTER OF CREDIT WILL CONTINUE UP TO THE 31ST DAY OF MARCH, 2003, AND
IT WILL EXPIRE ON THAT DATE AND YOU MAY CALL FOR PAYMENT OF THE FULL AMOUNT
STANDING UNDER THIS LETTER OF CREDIT AT ANY TIME UP TO THE CLOSE OF BUSINESS
ON THAT DATE.

WE HEREBY AGREE THAT DRAWINGS UNDER THIS LETTER OF CREDIT WILL BE DULY HONoured
ON PRESENTATION, AND SHALL STATE THAT THEY ARE DRAWN ON BANK OF MONTREAL,
INTERNATIONAL OPERATIONS, CENTRAL, 234 SIMCOE STREET, 3RD FLOOR, TORONTO,
ONTARIO, CANADA M5T 1T4, LETTER OF CREDIT NO. IMDC/TOR/S/354064 DATED
JANUARY 21, 2002.

 Original

LETTER OF CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR
MENTARY CREDITS (1993 REVISION, INTERNATIONAL CHAMBER OF COMMERCE, PARIS,
CE, PUBLICATION NO. 500).



SIGNING OFFICER (CLAR)



AUTHORIZED SIGNING OFFICER

THIS DOCUMENT CONSISTS OF 2 PAGE(S).
IMDC/TOR/S/354064

L.C. Adekunle George
page no. 7

Original

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INTERNATIONAL OPERATIONS, CENTRAL
234 SIMCOE STREET, 3RD FLOOR
TORONTO, ONTARIO
M5T 1T4
TELEX: MCI 62960
SWIFT: BOFMCAT2
PHONE: 416-867-5552
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DATE OF ISSUE: JANUARY 21, 2002
IRREVOCABLE STANDBY LETTER OF CREDIT

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APPLICANT:
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CALGARY, ALBERTA T2P 5C5

BENEFICIARY:
RECEIVER GENERAL FOR CANADA
6TH FLOOR, 10 WELLINGTON STREET
HULL, QUEBEC K1A 0H4

AMOUNT: 100,000.00 CAD
ONE HUNDRED THOUSAND AND 00/100'S
CANADIAN DOLLARS

RE: SECURITY DEPOSIT 2001/2002

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PURSUANT TO THE REQUEST OF OUR CUSTOMER, THE SAID PARAMOUNT RESOURCES LTD., WE, THE BANK OF MONTREAL, INTERNATIONAL OPERATIONS, CENTRAL, HEREBY ESTABLISH AND GIVE TO YOU AN IRREVOCABLE LETTER OF CREDIT IN YOUR FAVOUR IN THE TOTAL AMOUNT OF ONE HUNDRED THOUSAND AND 00/100'S CANADIAN DOLLARS (CAD100,000.00), WHICH MAY BE DRAWN UPON US BY YOU, WHICH DEMAND WE SHALL HONOUR WITHOUT ENQUIRING WHETHER YOU HAVE THE RIGHT AS BETWEEN YOURSELF AND OUR SAID CUSTOMER TO MAKE SUCH DEMAND AND WITHOUT RECOGNIZING ANY CLAIM OF OUR SAID CUSTOMER.

PROVIDED, HOWEVER, THAT YOU ARE TO DELIVER TO THE BANK OF MONTREAL, INTERNATIONAL OPERATIONS, CENTRAL, AT SUCH TIME AS A WRITTEN DEMAND FOR PAYMENT IS MADE UPON US A CERTIFICATE SIGNED BY YOU CONFIRMING THAT PARAMOUNT RESOURCES LTD. HAVE DEFAULTED IN THEIR PAYMENT OBLIGATIONS.

THIS LETTER OF CREDIT MUST BE PRESENTED FOR ENDORSEMENT BY US OF THE AMOUNT DRAWN OR WHEN THE FULL AMOUNT OF THE CREDIT HAS BEEN DRAWN FOR CANCELLATION.

THIS LETTER OF CREDIT WILL CONTINUE UP TO THE 31ST DAY OF MARCH, 2003, AND WILL EXPIRE ON THAT DATE AND YOU MAY CALL FOR PAYMENT OF THE FULL AMOUNT OUTSTANDING UNDER THIS LETTER OF CREDIT AT ANY TIME UP TO THE CLOSE OF BUSINESS ON THAT DATE.

WE HEREBY AGREE THAT DRAWINGS UNDER THIS LETTER OF CREDIT WILL BE DULY HONoured UPON PRESENTATION, AND SHALL STATE THAT THEY ARE DRAWN ON BANK OF MONTREAL, INTERNATIONAL OPERATIONS, CENTRAL, 234 SIMCOE STREET, 3RD FLOOR, TORONTO, ONTARIO, CANADA M5T 1T4, LETTER OF CREDIT NO. IMDC/TOR/S/354063 DATED JANUARY 21, 2002.

 Original

THIS LETTER OF CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION, INTERNATIONAL CHAMBER OF COMMERCE, PARIS, FRANCE, PUBLICATION NO. 500).

E. Clarke

SIGNING OFFICER (CLAR)

L.C. Adekunle George

AUTHORIZED SIGNING OFFICER

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IMDC/TDR/S/354063

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