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December 19, 2001

Mr. Marc Lafreniere
Deputy Minister, Indian and Northern Affairs Canada
Terrasses de la Chaudiere
10 Wellington Street
Hull, Quebec K1A 0H4

J.W.A.
DEC 19 2001

Dear Mr. Lafreniere:

Paramount Resources Ltd. is an intermediate oil and gas exploration company that has been active in the Northwest Territories since the 1970s. Our company has accumulated an extensive land position in the following three regions of the Northwest Territories: Fort Liard, Cameron Hills and Colville Lake. To date, our cumulative investment in the Northwest Territories totals several hundred million dollars.

In April of 2001, Paramount had submitted an application to the Mackenzie Valley Land & Water Board ("MVLWB") for a Land Use Permit ("LUP") authorizing the construction of an oil and gas gathering system and trans-border pipeline. The LUP application was referred to the Mackenzie Valley Environmental Impact Review Board ("MVEIRB") for environmental assessment on August 1, 2001. This pipeline development is critical to Paramount's ongoing efforts to develop its oil and gas assets in Cameron Hills and, more importantly, to bring production volumes to market.

The MVEIRB released its Report of Environmental Assessment on the Paramount Resources Ltd. Cameron Hills Gathering System and Pipeline Development ("Report") on December 3, 2001. The Report contains 21 recommendations, obligating Indian and Northern Affairs Canada ("INAC"), the National Energy Board ("NEB") and the MVLWB to impose conditions on Paramount that may be beyond the agencies jurisdiction to impose. Furthermore, this Report appears to address government policy and/or legislation issues, which we believe, should not form part of this regulatory application process.

Paramount has responded to each of the Report's 21 recommendations in the attached Appendix. With several of the recommendations, it is unclear to Paramount how the recommendation mitigates the significant adverse impact and therefore, if the recommendation were not incorporated, how a significant adverse impact would be determined. In general, Paramount could support the intent of 14 of the recommendations, (1,2,3,4,5,6,7,8,10,12,14,19,20,21). We believe that recommendations #12 and #14 should not be regulatory requirements, however, Paramount will honor its

corporate commitment made to local communities to retain a local individual during construction as an environmental monitor and has already submitted traditional knowledge studies complete with a summary of mitigative measures, to the NEB, MVLWB and MVEIRB.

Paramount would support a larger regional approach to environmental data gathering for the Deh Cho rather than the project specific recommendations in #9, 11 and 18. Paramount also supports that the governments and applicable agencies take a lead role, in consultation with industry and communities, to design and implement a more global process.

Of serious concern are recommendations to create a compensation plan and to amend the approved Benefits Plan set out in items 13, 15, 16 and 17. We believe these recommendations are beyond the scope of an environmental assessment and must be deleted from the Report.

Paramount encourages efforts by your officials to work with the Boards to seek changes to the Report, which is, in our view, unacceptable in its present form. We strongly urge you not to re-open an approved Benefits Plan and that the Board be requested to reconsider their recommendations, many of which are far too onerous and, arguably, beyond this particular Board's authority to impose.

As you are aware, time is of the essence. In addition to finalizing issues arising from the Report, Paramount must also obtain several other approvals, as set out below, in order to commence with the construction phase of the gathering system and pipeline. Note that the following table does not incorporate any revision to Paramount's approved Benefits Plan.

Remaining Regulatory Approvals Required By Paramount Prior to Construction

REGULATOR	PERMIT REQUIRED	REMARKS
MVLWB	Land Use Permit	Contingent on recommendations of Report
MVLWB	Water Licence	Contingent on recommendations of Report
NEB	Section 58 for trans-boundary pipeline	Contingent on recommendations of Report and CEAA screening
NEB	Development Plan	<ul style="list-style-type: none"> • Contingent on recommendations of Report • Requires NEB Board approval • Requires Order in Council • Requires Governor in Council
NEB	Canada Oil & Gas Operations Act ("COGOA") - gathering system and facilities	<ul style="list-style-type: none"> • Contingent on recommendations of Report • Development Plan must be approved prior to issuance of COGOA approval

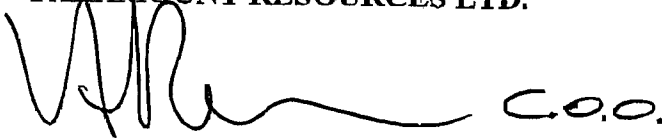
The postponement of this project will have significant adverse consequences to Paramount. It will also severely impact northern communities, given their loss of anticipated employment and investment, as well as the considerable cash infusion that would accompany our project. Specifically, we estimate that the drilling, seismic and gathering/pipeline projects would generate a minimum of 10,000 person days of employment spread over an approximate 90 day period, with many of those employed coming from the north. The loss of these economic benefits arising from the cancellation of the project would detrimentally impact entire communities in the region.

Should you require further information on the foregoing, or on the attachment, Mrs. Shirley Maaskant, Regulatory & Community Affairs Coordinator can be reached at (403) 290-3618.

We are hopeful that, with your timely intervention and with the cooperation of the affected regulators, the necessary approvals can be obtained by mid January 2002 thereby ensuring that Paramount will be afforded the opportunity to complete the project this winter season.

Yours truly,

PARAMOUNT RESOURCES LTD.



C.O.O.

For Clayton H. Riddell, President

Encl:

CC: James Moore, Assistant Deputy Minister, Northern Affairs Program, INAC
Bob Overvold, Regional Director General, NT, INAC
Lorne Tricoteux, Associate Regional Director General, NT, INAC
Michel Mantha, Secretary, NEB
Melody McLeod, Chair, MVLWB
Frank Pope, Alternate Chair, MVEIRB

Appendix

- Recommendation #1 The NEB ensure that Paramount submits revised air quality modeling analysis consistent with the provisions of the AEUB Guide 60 to the NEB, the GNWT, EC and the MVLWB in the event that higher than expected H₂S content is found in the gas. If determined necessary, the NEB should impose mitigative measures.
- Response: Paramount proposes that we work with the National Energy Board to demonstrate that the operations of the facilities will conform to the requirements of the Alberta Energy Utilities Board's Guide 60, "Upstream Petroleum Industry Flaring Guide", and as the NEB is the primary regulator on this issue, that Paramount provide information to the NEB.
- Recommendation #2 The MVLWB and/or the NEB ensure that Paramount consults with the GNWT on the criteria to be used for determining when mitigative measures for rutting should be applied and for selecting which mitigative measures should be applied. These criteria should be included in Paramount's Environmental Protection Plan.
- Response: Paramount anticipates that the MVLWB through terms and conditions imposed on the land use permit will specify an acceptable rutting depth. Paramount will incorporate mitigation in the Environmental Protection Plan. Paramount is prepared to consult with the GNWT prior to construction activity commencing, on the criteria to be used to determine when mitigative measures for rutting shall be applied and for selecting which mitigative measure should be applied.
- Recommendation #3 The MVLWB and/or the NEB ensure that Paramount consults with the GNWT to develop re-vegetation plans for areas that require remedial action. These plans should be filed with the GNWT, the MVLWB and the NEB.
- Response: Paramount is prepared to consult with GNWT to develop re-vegetation plans for areas that require remedial action.
- Recommendation #4 The MVLWB and/or the NEB ensure that Paramount be required to develop and implement a follow-up monitoring program to assess the vegetation recovery in both seeded and unseeded areas. Paramount should periodically produce a report that compares the presence and relative abundance of indigenous and non-indigenous species in the seeded areas versus the unseeded areas. This report should be provided to the local first nations, the GNWT, the MVLWB and the NEB.
- Response: Paramount would develop and implement a program to assess the vegetation recovery in both seeded and unseeded areas. As part of the program, Paramount would compare the presence and relative

abundance of indigenous and non-indigenous species in the seeded and unseeded areas.

Recommendation #5 The MVLWB and/or the NEB ensure that a vegetated buffer zone of 25 meters from the top of the riverbank to the proposed gravel extraction site be maintained.

Response: Paramount would maintain a vegetated buffer zone of 25 metres from the top of the riverbank to the proposed gravel extraction site.

Recommendation #6 The MVLWB and/or the NEB ensure that no gravel excavation occurs below the water table or the present water level of the Cameron River.

Response: Paramount would not excavate below the water table or the present water level of the Cameron River.

Recommendation #7 The MVLWB and/or the NEB ensure that the downstream water flow be maintained at pre-instream work water levels.

Response: Paramount shall maintain the downstream water flow to pre-instream work water levels.

Recommendation #8 The MVLWB and/or the NEB ensure that each pipeline crossing be completed as quickly as possible.

Response: Paramount would construct the pipeline crossings where any water flow is encountered as expediently as possible, consideration being given to construction technique, equipment and personnel availability.

Recommendation #9 The MVLWB and/or the NEB ensure that Paramount implements a wildlife monitoring program that is designed in consultation with EC and the GNWT. The wildlife monitoring program data should be periodically summarized in a report that identifies potential impacts and suggests mitigative measures, if determined necessary. This monitoring report should be provided to the local first nations, EC, the GNWT, the MVLWB and the NEB.

Response: As stated in the MVEIRB EA Report "the GNWT concluded that it concurs with Paramount that the proposed development is not of sufficient scale to cause a decline in regional wildlife populations or biodiversity"

Paramount questions the value of a project specific wildlife monitoring program for the Cameron Hills Project.

Paramount submits that through its mitigative measures described in the environmental impact assessment, disturbance to the wildlife habitat will be minimized. In addition, information from Paramount's environmental impact assessment and from the communities' traditional knowledge studies show that the Cameron Hills plateau is a low usage

area partly due to the low density of wildlife. Therefore a study for this area would have little relative significance to the area from a larger regional perspective.

Paramount suggests that it would be more appropriate for governments to fund a longer term Deh Cho regional wildlife study that would provide wildlife population patterns and distribution. Paramount would be pleased to participate with governments, communities and other industry members in this type of a study.

Recommendation #10 The MVLWB and/or the NEB consult with Paramount and the GNWT to determine an acceptable windrow break frequency and width.

Response: Paramount would consult with the MVLWB, NEB and GNWT to determine an acceptable windrow break frequency.

Recommendation #11 The MVLWB and/or the NEB ensure that Paramount completes a baseline noise survey and additional noise surveys after the commencement of operations. The data collected should be compiled in a report along with any conclusions and if required, mitigative measures. Copies of the report should be provided to the local first nations, EC, the GNWT, the MVLWB and the NEB.

Response: Paramount notes that the MVEIRB acknowledges in the Report that the area supports a low density of wildlife and that there are no human residents in the immediate development area. Therefore Paramount does not see value in performing noise surveys before and after the commencement of production operations.

Recommendation #12 The MVLWB and/or the NEB ensure that Paramount revise its proposed heritage resource discovery process to incorporate the concerns of aboriginal communities, including the hiring of local environmental monitors to identify potential heritage resource discoveries.

Response: Paramount will honor the corporate commitment made to the local communities to retain the services of a community representative to assist in environmental monitoring during construction. We are uncertain as to the regulatory framework that would permit either the MVLWB and/or the NEB to attach this as a regulatory requirement.

Paramount notes that the GNWT is satisfied with Paramount's response plan in regards to archeological finds and that our plan conforms to the requirements of the Northwest Territories Archaeological Sites Regulations and the Prince of Wales Northern Heritage Centre guidelines.

Recommendation #13 INAC ensures that Paramount discusses its proposed compensation plan with the affected communities and the GNWT. Paramount should widen the scope of the compensation plan as required to ensure that reasonable

and credible land and resource use impacts caused by the development and identified by the communities are eligible for compensation.

Response:

It is unclear to Paramount what compensation plan the MVEIRB is referring to. In MVEIRB information response 1.11 Paramount clearly outlined the process that would be followed in the event of an asset loss. In addition, it is unclear to Paramount under which policy or legislation this recommendation is being imposed.

We note that in the October 16, 2001 MVEIRB EA Report for Paramount's Cameron Hills Drilling project, the MVEIRB recommended "If the INAC Benefits Plan does not adequately address the issue of trapper compensation, the GNWT should consider assisting trappers with their compensation concerns." Paramount questions why we are being directed to address this issue, since we assume that the GNWT is adhering to this prior recommendation.

Recommendation #14 The MVLWB and the NEB ensure that Paramount includes mitigative measures in the TK study to address impacts identified by the TK study. The MVLWB and the NEB should obtain copies of the completed TK study from Paramount along with evidence of community approval of the study. The MVLWB and the NEB should ensure that authorization terms and conditions are amended as appropriate to address any impacts identified by the study that have not already been addressed with existing terms and conditions.

Response:

Paramount has already submitted the TK studies, complete with mitigative measures to the MVEIRB, MVLWB and NEB. The TK studies document the information provided by the communities and reference the names of the community members that participated in the study. As the communities are not designated regulatory authorities, we question the necessity of requiring their approval. In addition, this information was provided by the communities.

Recommendation #15 INAC and Paramount amend the Benefits Plan approved by INAC on September 25, 2001 to include the revised compensation plan developed as a result of Review Board Measure #13 or that a separate compensation plan be developed to address these concerns. Should Paramount and the communities be unable to come to an agreement on the contents of the revised compensation plan, then INAC should make the final decision and proceed with its approval of the amended Benefits Plan.

Response:

In addition to our response in #13 above, Paramount has met its requirements evidenced by the fact that our Benefits Plan received Ministerial approval on September 25, 2001. We are strongly opposed to any amendment of our approved Benefits Plan.

Recommendation #16 INAC ensures that the amended Benefits Plan requires Paramount to provide copies of the Annual Reports required by the Benefits Plan to

the GNWT, the Review Board, the MVLWB and the local communities in addition to INAC. The scope of the Annual Reports should be expanded beyond what is currently required. The Annual Reports should detail consultations undertaken, with the local communities, discuss what concerns were raised by the communities, describe how Paramount has addressed or intends to address these concerns and discuss what actions Paramount will take to enhance positive socio-economic impacts and mitigate negative socio-economic impacts.

Response: As stated in response #15, Paramount is opposed to any amendment of our approved Benefits Plan. In addition, it is Paramount's understanding that once an annual report has been accepted by INAC, it becomes a public document. We question if this requirement is recommending that the MVEIRB is assuming a regulatory monitoring roll.

Recommendation #17 The MVLWB, the NEB and INAC do not take any irreversible steps in relation to this development until INAC has accepted this recommendation for an amended Benefits Plan. When complete, a copy of the amended Plan should be provided to each of the potentially impacted communities and to the Review Board, the MVLWB, the NEB, INAC and the GNWT.

Response: Paramount has already stated in responses #15 and #16 that we are opposed to any amendment of our approved Benefits Plan. It is Paramount's understanding that once approved, Benefits Plans are public documents. It appears to Paramount that this recommendation attempts to fetter other Ministers authority. In particular, the NEB, as we would believe that the NEB has already been informed by Minister Nault that Paramount has an approved Benefits Plan.

Recommendation #18 The MVLWB and/or the NEB ensure that Paramount identifies and monitors locations where permafrost is encountered. Paramount is to periodically produce a report and submit it to the GNWT, the MVLWB and the NEB.

Response: Paramount questions the value of monitoring permafrost locations since Paramount has proposed mitigative measures to avoid damage to the pipeline. Other than noting changes to the ground conditions, it is not evident what the MVEIRB has contemplated in regards to an action or a response, if any that would be required once a change has been noted.

Recommendation #19 The MVLWB and/or the NEB ensure that Paramount consults with Environment Canada and the GNWT during the preparation of the Emergency Response Plan.

Response: Paramount has and will continue to consult with Environment Canada and the GNWT during the preparation of the Emergency Response Plan.

Recommendation #20 The MVLWB and/or the NEB ensure that Paramount fulfills the commitments it has made to properly abandon and restore the development area.

Response: Paramount will properly abandon and restore the development area.

Recommendation #21 The MVLWB and/or the NEB ensure that Paramount fulfills the commitments it has made regarding follow-up programs.

Response: Paramount will fulfill its commitments in regards to its follow-up programs.