

May 4, 2021

Mackenzie Valley Land and Water Board
Box 2130
7th Floor - 4922 48th Street
Yellowknife, NT
X1A 2P6

Attention: Andrew Wheeler

**Re: Paramount Resources Ltd. Comments on the Government of the Northwest Territories
Correspondence dated March 10, 2022**

Dear Mr. Wheeler,

Paramount Resources Ltd. ("**Paramount**") is in receipt of your email from the Mackenzie Valley Land and Water Board ("**MVLWB**") of April 13, 2022 (the "**MVLWB Email**") requesting a response and/or recommendation in relation to the correspondence attached to the MVLWB Email from the Government of the Northwest Territories ("**GNWT**") Department of Environment and Natural Resources ("**ENR**") dated March 10, 2022 (the "**Correspondence**"). The MVLWB has requested that Paramount respond by May 4, 2022.

Paramount had no knowledge of the Correspondence prior to receiving the MVLWB Email and was not engaged by the MVLWB regarding the reasonableness of the response date. Further, the Correspondence references Paramount approvals MV2020L1-00007 (Fort Liard East) and MV2021L1-0006 (Fort Liard South) (the "**Licences**"), however the MVLWB has only referenced MV2020L1-0007 in its email. Despite that, Paramount's response herein applies to both Licences/projects and Paramount will provide appropriate specific context for each. Paramount provides the following information and comments below as a response to the Correspondence.

Relevant Legislation, Regulation and Policy

The Correspondence contains a reference to the federal Mine Site Reclamation Policy (CIRNAC 2002) and does not cite any other legislation, regulation, or policy. This policy makes no reference to the oil and gas industry and is solely focused on the mining industry. For example:

"This Policy applies to new and existing mines, whether operating or not, with clearly identified owners/operators. It does not cover orphaned or abandoned sites, which will fall under the proposed Policy on the Management of Contaminated Sites in Canada's North. The Policy applies only to developed mines and to those mining-related activities that take place on mine sites. It does not apply to activities undertaken during the prospecting, exploration or advanced exploration stages of the development of a mineral property"

As the MVLWB is aware, Paramount operates and holds regulatory approvals for oil and gas properties in the Northwest Territories. Paramount maintains that legislation, regulation, policy and tools (such as RECLAIM) designed and implemented for the mining sector should not be applied to the oil and gas sector. As the MVLWB has overarching legislation and regulation that, when combined with the industry specific legislation of the Office of the Oil and Gas Regulator Operations (“OROGO”), creates a comprehensive regulatory framework for the oil and gas industry, it is not appropriate, or necessary, to apply regulations or policy that governs another industry.

The appropriate legislation applicable to Paramount and the Licenses is the *Mackenzie Valley Resource Management Act* (“MVRMA”) and the *Waters Act*, along with their respective Regulations. The MVRMA Regulations state (<https://laws-lois.justice.gc.ca/PDF/SOR-98-429.pdf>):

“Posting of Security

32 (1) The Board may require security to be posted in an amount not exceeding the aggregate of the costs of (a) abandonment of the land-use operation; (b) restoration of the site of the land-use operation; and (c) any measures that may be necessary after the abandonment of the land-use operation.

(2) In setting the amount of security pursuant to subsection (1), the Board may consider (a) the ability of the applicant or prospective assignee to pay the costs referred to in that subsection; (b) the past performance of the applicant or prospective assignee in respect of any other permit; (c) the prior posting of security by the applicant pursuant to other federal legislation in relation to the land-use operation; and (d) the probability of environmental damage or the significance of any environmental damage.”

The *Water Act* Regulations state the following

(<https://www.justice.gov.nt.ca/en/files/legislation/waters/waters.r1.pdf>):

Security

11. (1) The Board may fix the amount of security required to be furnished by an applicant under subsection 35(1) of the Act in an amount not exceeding the aggregate of the costs of (a) abandonment of the undertaking; (b) restoration of the site of the undertaking; and (c) any ongoing measures that may remain to be taken after the abandonment of the undertaking

(2) In fixing an amount of security pursuant to subsection (1), the Board may have regard to (a) the ability of the applicant, licensee or prospective assignee to pay the costs referred to in that subsection; or (b) the past performance by the applicant, licensee or prospective assignee in respect of any other licence.

(3) Security referred to in subsection (1) shall be in the form of (a) a promissory note guaranteed by a bank in Canada and payable to the Government of the Northwest Territories; (b) a certified cheque drawn on a bank in Canada and payable to the Government of the Northwest Territories; (c) a security bond acceptable to the Government of the Northwest Territories; (d) an irrevocable letter of credit from a bank in Canada; or (e) cash

In addition, Paramount notes that the GNWT estimates provided in relation to each of the Licences were significantly higher than those provided by Paramount and not appropriate in the circumstances. Specifically related to MV2020L1-0007, the estimate provided by the GNWT included a project scope that was inaccurate. Despite Paramount providing numerous submissions pointing out the flaws in that estimate, MVLWB incorrectly set the security based upon that estimate.

Timing of the Posting of Security

In cases where security has been posted in relation to a specific project and a new licence is then granted (essentially a renewal) to the same party for the same project with the same or a smaller scope, Paramount suggests that the current system and timing is appropriate and sufficient, especially given that Paramount is a Licence holder that has a long history with the MVLWB in posting of security in accordance with applicable regulations.

Paramount is unsure why it is facing increasing security requests by the GNWT for both Licences, given the projects have prescribed timelines for abandonment of the oil and gas infrastructure (https://www.orogo.gov.nt.ca/sites/orogo/files/resources/orogo_well_suspension_and_abandonment_guidelines_and_interpretation_notes.pdf) and the scope of the Licences also include reclamation and closure/post-closure activities, which only reduces potential liability.

Specific to MV2020L1-0007 (Fort Liard East), as noted above, Paramount maintains that the estimate provided by the GNWT was based on inaccurate project scope, thereby resulting in the MVLWB setting required security in excess of what is required. Paramount will be providing a detailed estimate as part of the Closure and Reclamation Plan for project that is more appropriate. Paramount requests that the security related to this licence will be corrected based on what Paramount will provide prior to the commencement of these activities under the licence, which activities are scheduled for 2022-2023. Paramount will post the determined security amount prior to the commencement of those activities.

For MV2021L-0006 (Fort Liard South), it appears that the GNWT ENR is attempting to amend or appeal the security amount set by the MVLWB without proper process. If that is the case, please advise under what legislation that process will proceed. Additionally, as the MVLWB is aware, based on the activities completed by Paramount at Fort Liard South last winter, Paramount is finalizing an updated Closure and Reclamation Plan for Fort Liard South and an associated revised security estimate. That may provide a more appropriate opportunity for GNWT ENR to provide comments and/or their own revised security estimate in line with the current state of the project.

Additional Matters Related to Setting of Security

In the Correspondence, the GNWT ENR expresses concern that NWT taxpayers are being exposed to liabilities associated with the Licences. Paramount is a substantial and viable entity that is well able to deal with any liabilities associated with the Licences. As a publicly traded company, information on Paramount's corporate health is readily available from a number of online sources to verify this, including Paramount's website ([Financial Reports & Shareholder Meetings \(paramountres.com\)](https://www.paramountres.com)). Additionally, the GNWT and its taxpayers would only ever incur liability if there were no other working interest owners associated with these projects. Historically, when an operating company becomes insolvent the receiver and/or courts look to the other corporate entities involved in the ownership of the relevant assets to take on insolvent companies' ownership. An example that occurred within the jurisdiction of the MVLWB that Paramount was involved in was F-25A. Paramount ultimately became the operator by virtue of a Court Order granted on April 27, 2007 in the Companies Creditor Arrangement Act proceedings initiated by Point North Energy Ltd., such that no liability was incurred by taxpayers. In the case of both Fort Liard South and Fort Liard East the projects have additional working

interest owners, as noted at the GNWT website under the Department of Industry, Tourism and Investment (“ITI”) (<https://www.iti.gov.nt.ca/en/oil-and-gas-licences>).

Paramount also has concerns that, as part of working with the GNWT ENR to determine an appropriate security estimate, it may be required to disclose its expected or anticipated rates/costs from contractors in the region to the GNWT, which could raise concerns with price fixing or collusion by those contractors. Further, often such rates are protected by confidentiality clauses within the agreements with those contractors. Also, the publication of the RECLAIM model and the associated expected GNWT ENR pricing can distort the market by creating expected pricing for certain services that could be otherwise negotiated for a market price by Paramount (and other entities operating in the market). Project proponents in the Mackenzie Valley are at a risk of becoming price takers instead of price setters. GNWT ENR has engaged a private consulting firm to prepare their estimates, has internal capacity, over 20 years of Public Registry information related to the projects and over 20 years of inspection reports by the Federal Government and GNWT Department of Lands to inform their estimate. However, to be clear, Paramount has been and continues to be available to provide clarity on the scope and current state of both Fort Liard South and Fort Liard East.

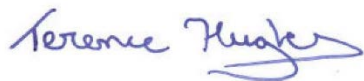
Even working from the same scope of work it is likely that GNWT ENR estimates will exceed the aggregate costs as described in *Section 32 of the MVRMA Regulations* and *Section 11 of the Water Regulations* applicable to Paramount as Paramount believes that government generally tends to pay higher rates than private entities for services, resulting in additional costs to complete the same scope of work. Additionally, certain services already exist within private entities and the location/nature of the projects means GNWT does not have a relationship with the vendors required for all of the services, nor any economies of scale to leverage with them.

Remaining Process

In the MVLWB Email, you describe an additional process that the MVLWB envisions upon receiving this response from Paramount. Paramount would note that this regulatory process is not of its making and the MVLWB has requested Paramount be involved. Paramount requests that the MVLWB engage with Paramount regarding any timelines related to additional Paramount involvement prior to the posting of this response as part of a review and comment period on the Online Review System. Paramount suggests that correspondence regarding further process be conducted via email so that both the MVLWB and Paramount have a documented record of the discussion.

If you have any questions regarding the contents of this letter please do not hesitate to contact the undersigned at terence.hughes@paramountres.com.

Sincerely,
Paramount Resources Ltd.



Terence Hughes
Regulatory and Community Affairs Advisor