

LONE PINE RESOURCES INC.

Investor

v.

THE GOVERNMENT OF CANADA

Party

**NOTICE OF INTENT TO SUBMIT A CLAIM TO ARBITRATION UNDER
CHAPTER ELEVEN OF THE NORTH AMERICAN FREE TRADE AGREEMENT**

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November 8, 2012

1. In accordance with Articles 1118 and 1119 of the North American Free Trade Agreement (the "NAFTA"), and with a view toward resolving this dispute amicably through consultation and negotiation, Lone Pine Resources Inc. ("Lone Pine") respectfully provides the Government of Canada with this Notice of Intent to Submit a Claim to Arbitration under Chapter Eleven of the NAFTA (the "Notice of Intent").

I. INTRODUCTION

2. Lone Pine notifies Canada of its intent to bring an arbitration on behalf of its wholly owned subsidiary, Lone Pine Resources Canada Ltd. (the "Enterprise"), under Article 1117 of the NAFTA for the arbitrary, capricious, and illegal revocation of the Enterprise's valuable right to mine for oil and gas under the St. Lawrence River by the Government of Quebec without due process, without compensation, and with no cognizable public purpose. Canada is responsible for Quebec's acts under the NAFTA and applicable principles of international law.

3. Between 2006 and 2011, Lone Pine, the Enterprise, and their predecessors expended millions of dollars and considerable time and resources in Quebec to obtain the necessary permits and approvals from the Government of Quebec to mine for oil and gas in the province of Quebec, including beneath the St. Lawrence River. Suddenly, and without any prior consultation or notice, the Government of Quebec introduced Bill 18 into the National Assembly on May 12, 2011 to suspend all exploration for oil and gas in the province (except for the purposes of scientific studies onshore). Bill 18 also purported to revoke all permits pertaining to oil and gas resources beneath the St. Lawrence River without a penny of compensation.

4. Over the course of the following month, Lone Pine and the Enterprise attempted to discuss the matter with the Government of Quebec in order to determine the reasons for the

revocation of the permits with a view to finding a mutually acceptable solution. Those efforts were repeatedly rebuffed, and on June 10, 2011 – less than a month after Bill 18 was introduced into the National Assembly – the Act was quietly and quickly passed, receiving Royal Assent on June 13, 2011. Neither Lone Pine nor the Enterprise were given any meaningful opportunity to be heard, any notice that the Act would be passed, or provided any reason or basis for the outright revocation of the Enterprise’s permits relating to oil and gas below the St. Lawrence River. All they were told was that the Act was “a political decision,” and that nothing could be done to prevent it from being passed.

5. The Act is a clear violation of Canada’s obligations under Chapter Eleven of the NAFTA, including Canada’s obligation under Article 1105 to accord U.S. investors with “treatment in accordance with international law, including fair and equitable treatment and full protection and security,” and also of Canada’s obligation under Article 1110 not to expropriate investments of U.S. investors without a public purpose, without due process, and without the payment of compensation. Moreover, Lone Pine and the Enterprise have suffered significant damages as a result of Canada’s violation of Chapter Eleven of the NAFTA.

6. The foregoing violations are set forth in greater detail below, together with the underlying facts. It is Lone Pine’s hope that this dispute can be resolved amicably through consultation and negotiation. However, if such consultation and negotiation is unsuccessful, Lone Pine will pursue arbitration under Chapter Eleven of the NAFTA for all remedies available to it and the Enterprise under law.

II. NAME AND ADDRESS OF THE INVESTOR AND ITS ENTERPRISE

7. Lone Pine is a corporation organized under the laws of the State of Delaware in the United States of America, with its registered office at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, United States of America, and with its principal place of business at Suite 1100, 640 5th Avenue SW, Calgary, Alberta, T2P 3G4, Canada. Lone Pine is an oil and gas exploration, development, and production company, with operations in Alberta, British Columbia, Quebec, and the Northwest Territories.

8. Lone Pine submits this Notice of Intent under Article 1117 of the NAFTA on behalf of its wholly owned subsidiary, the Enterprise. The Enterprise is a corporation organized under the laws of the Province of Alberta, with its principal place of business at Suite 1100, 640 5th Avenue SW, Calgary, Alberta, T2P 3G4, Canada. The Enterprise was previously called Canadian Forest Oil Ltd. until June 30, 2011, when it changed its name.

9. During the periods of time relevant to the instant Notice of Intent, Lone Pine and the Enterprise were wholly owned subsidiaries of Forest Oil Corporation ("Forest Oil"), a corporation organized under the laws of the State of New York in the United States of America, with its principal place of business at 707-17th Street, Suite 3600, Denver, Colorado, 80202, United States of America.

10. In June of 2011, Forest Oil caused Lone Pine and the Enterprise to complete a reorganization, pursuant to which the Enterprise became a wholly owned subsidiary of Lone Pine and Lone Pine completed an initial public offering in which it sold 17.7% of its shares of common stock to the public in the United States and in Canada and it listed its shares of common

stock on the New York Stock Exchange and Toronto Stock Exchange. The remaining 82.3% of Lone Pine's shares of common stock were retained by Forest Oil.

11. In September 2011, Forest Oil distributed its remaining 82.3% interest in Lone Pine *pro rata* to all Forest Oil shareholders. As a result, as of September 30, 2011, Lone Pine became a stand-alone public company whose common stock is listed on the New York Stock Exchange and Toronto Stock Exchange.

III. ISSUES AND THE FACTUAL BASIS FOR THE CLAIM

1. The Utica Shale Gas Basin

12. Shale gas is natural gas that is trapped within fine-grained sedimentary rock called shale. Shale contains tiny pores in which natural gas has become trapped over time. It is accessed and extracted through a process called horizontal drilling and hydraulic fracturing.

13. In this process, a vertical well is drilled to a predetermined depth above a shale gas reservoir, and then drilled at an increasing angle until it meets the reservoir depth. Once it reaches reservoir depth, the wellbore is then drilled horizontally, to a pre-determined length. The shale surrounding the wellbore is then fractured to either intersect and open existing natural fractures in the shale, or to create a new fracture network. This creates pathways by which the natural gas can flow to the wellbore for extraction.

14. Shale containing natural gas can be found in most sedimentary basins throughout Canada. The largest concentration lies within the Western Canada Sedimentary Basin, which extends from northeast British Columbia to southwest Manitoba. Other basins are located in the Arctic, the Northwest Territories, the Yukon, Quebec, Ontario, New Brunswick, and Nova Scotia.

15. In Quebec, the largest known concentration of shale gas lies in the Utica shale gas basin. It has been estimated that in this region alone, some 181 trillion cubic feet of natural gas is trapped in the shale beneath the surface. To put these numbers into context, in 2009 and 2010, Canada produced a total of just 5.26 trillion cubic feet and 5.37 trillion cubic feet of natural gas, respectively. Accordingly, any party holding the right to extract shale gas from the Utica shale gas basin would stand to generate considerable revenues.

16. As set forth in greater detail below, the Enterprise owns 100% interest in a number of Petroleum and Natural Gas Exploration Permits in the Utica shale gas basin. Among these is a Petroleum and Natural Gas Exploration Permit for approximately 11,600 hectares of land beneath the St. Lawrence River that was expropriated by the Government of Quebec and which is the subject of this Notice of Intent, as described below. It has been independently estimated that there exists between 1,870 billion cubic feet and 3,346 billion cubic feet of shale gas in this permit area.

2. The Farmout Agreement

17. In 2006, a Quebec-based company called Junex Inc. (“Junex”) held four Petroleum and Natural Gas Exploration Permits on four blocks of land in the Utica shale gas basin covering a total of some 57,772 hectares: Permit Numbers 1996PG950, 2002PG597, 2002PG596, and 2004PG769 (the “Original Permits”).

18. Forest Oil was interested in the shale gas resources in Quebec and approached Junex in 2006 to secure Junex’s interest in the Original Permits. To this end, on June 5, 2006, Forest Oil and Junex entered into a letter agreement (the “Farmout Agreement”) by which Forest Oil obtained, among other things, an option to earn 100% of the working interest in the Original

Permit areas from the surface to a depth of 743 meters (the “Contract Area”). The salient terms of the Farmout Agreement are as follows:

- Junex agreed to drill and core a well in the Contract Area, and provide a core analysis to Forest Oil, with the costs to be shared by Junex and Forest Oil;
- Upon receipt of the core analysis, Forest Oil would have a period of 6 months to elect to exercise an option to earn an interest in the Contract Area (the “Election Period”);
- In the event that Forest Oil elected to exercise its option, it would have a period of 18 months to spend, cause to be spent, or commit to spend a total sum of \$ [CONFIDENTIAL] on drilling, completions, re-completions, construction of facilities, pipelines, and gathering lines or on geological and geophysical expenses in order to earn 100% interest in the Contract Area (the “Commitment Period”); and
- Upon satisfaction of Forest Oil’s obligation to spend the foregoing \$ [CONFIDENTIAL] during the Commitment Period, Junex was to assign to Forest Oil 100% interest in the Contract Area, and retain an overriding royalty interest of [CONFIDENTIAL]% or to convert that royalty interest into a [CONFIDENTIAL]% working interest after a certain point in time.

3. The River Permit Agreement

19. The St. Lawrence River intersected the areas covered by the Original Permits, and from the outset of its relationship with Junex, it was the intention of Forest Oil to obtain a Petroleum and Natural Gas Exploration Permit for the portion of the St. Lawrence River that lay between them. This area was particularly attractive to Forest Oil because the fault line along the river

constituted a naturally fractured shale formation, thereby providing a likelihood of enhanced gas recovery.

20. On July 28, 2006, shortly after the execution of the Farmout Agreement with Junex, the Enterprise applied to the Quebec Ministry of Natural Resources (the "QMNR") for a Petroleum and Natural Gas Exploration Permit covering approximately 11,600 hectares of land located under the St. Lawrence River (the "River Permit Area"). The Enterprise indicated to the QMNR, among other things, that it planned "to test the shale gas potential of the Utica Formation through horizontal drilling and completion techniques," and that it would subsequently "apply for an Operating Lease and commence development of the project."

21. Following the Enterprise's application, Forest Oil and Junex entered into negotiations to discuss an agreement under which Forest Oil would withdraw its application and Junex would seek a Petroleum and Natural Gas Exploration Permit for the River Permit Area that would be subject to the same terms and conditions specified in the Farmout Agreement. On December 14, 2006, the parties formally agreed to the foregoing terms in writing (the "River Permit Agreement"), and thereafter informed QMNR of the River Permit Agreement.

22. On January 10, 2007, the QMNR wrote to the Enterprise that "[c]onsidering the agreement signed with Junex Inc., we are sending you back the documents regarding your request for an exploration license in the St. Lawrence River." Junex subsequently applied for a Petroleum and Natural Gas Exploration Permit covering the River Permit Area in accordance with the River Permit Agreement.

4. Forest Oil's Satisfaction of its Obligations Under the Farmout Agreement

23. Following the execution of the Farmout Agreement and the River Permit Agreement, Forest Oil expended considerable time, resources, and capital to explore for shale gas in the areas covered by these agreements, and in accordance with the Farmout Agreement obtained 100% of the working interest in the Contract Area, and 100% of Junex's interest in the River Permit Area, which had yet to be obtained but was being processed by the QMNR.

24. Between June and November of 2006, Junex conducted the drilling and core analysis required by the Farmout Agreement, which cost was shared by Junex and Forest Oil. In this process, Forest Oil expended some \$ [CONFIDENTIAL] on coring and related activities. On November 24, 2006, Junex provided a final core analysis to Forest Oil, triggering the Election Period set forth in the Farmout Agreement. On May 10, 2007, and well within the Election Period, Forest Oil elected to exercise its option to earn the interest defined in the Farmout Agreement, triggering the eighteen month Commitment Period.

25. In 2008, and well within the Commitment Period, Forest Oil notified Junex that it had expended greater than the \$ [CONFIDENTIAL] required under the Farmout Agreement, entitling Forest Oil to 100% interest in the Original Permits and the River Permit, when acquired, under the River Permit Agreement. Forest Oil has expended approximately \$ [CONFIDENTIAL] (excluding general & administrative expenses) on drilling, completions, re-completions, construction of facilities, pipelines, and gathering lines or on geological and geophysical expenses in the Contract Area.

5. The Acquisition of the River Permit

26. On March 26, 2009, the QMNR advised Junex that it had approved two Petroleum and Natural Gas Exploration Permits on March 17, 2009: Permit Numbers 2009PG490 and 2009PG492. It is the former of these two permits – 2009PG490 – that was the subject of the River Permit Agreement between Junex and Forest Oil (the “River Permit”). Under the River Permit Agreement, Forest Oil was entitled to 100% of the working interest in the River Permit by virtue of having satisfied its obligations under the Farmout Agreement.

6. Assignment of the Original Permits and the River Permit

27. On April 8, 2009, Forest Oil and the Enterprise entered into an Assignment of Letter Agreement pursuant to which Forest Oil assigned all of its rights, duties, benefits, and obligations in the Farmout Agreement to the Enterprise, effective on October 1, 2007. On April 23, 2009, Forest Oil advised Junex of this fact.

28. On January 28, 2010, Junex and the Enterprise entered into an Assignment Agreement under which Junex assigned the Enterprise its working interest in the River Permit, effective as of March 17, 2009, when the River Permit was issued to Junex by the QMNR. On January 28, 2010, Junex and the Enterprise entered into an Assignment Agreement under which Junex assigned the Enterprise its interest in the Original Permits, effective as of August 19, 2009.

29. On April 19, 2010, Junex applied to the QMNR to request that the interest in the Original Permits and River Permit granted to the Enterprise under the Farmout Agreement be transferred to the Enterprise. On April 21, 2010, the QMNR acknowledged receipt of Junex’s request, and on May 27, 2010, formally transferred those interests to the Enterprise.

7. The Proposed Moratorium on Oil and Gas Development in the St. Lawrence River

30. By the Spring of 2010, a number of interest groups began putting pressure on the Quebec Government to limit shale gas exploration and development activities in the Province. In response to these pressures, the Government of Quebec initiated a *Bureau d'audiences publiques sur l'environnement* ("BAPE") hearing process through which it consulted with members of the public to obtain input on shale gas exploration and development in Quebec. In the late Summer and early Fall of 2010, the BAPE held open houses in three different communities in which shale gas potential was significant: the Chaudiere Appalaches region, the Centre-du-Quebec region, and the Monteregie Est region.

31. The foregoing process resulted in a number of recommendations to the Government of Quebec including, among other things, the strengthening of existing regulatory provisions in relation to shale gas exploration and the undertaking of a strategic environmental assessment on shale gas. The Government of Quebec responded to these recommendations by establishing a strategic environmental assessment committee comprised of experts and representatives from government, municipalities, and industry to evaluate shale gas development in Quebec.

32. Before the strategic environmental assessment was completed, however, and without any consultation with the Enterprise or Junex, the Quebec Minister of Natural Resources, Ms. Natalie Normandeau, announced a proposed moratorium on shale gas exploration and development in the St. Lawrence River on November 9, 2010. Neither the Enterprise nor Junex were notified, much less consulted, prior to Ms. Normandeau's announcement. Indeed, the Enterprise and Junex only learned of the proposed moratorium (for surface access) from an article published in the Montreal Gazette on November 10, 2010.

8. The Expropriation of the River Permit

33. In response to the proposed moratorium, representatives of the Enterprise and Junex met with the Deputy Minister of the QMNR, Mr. Robert Sauvé, and the QMNR's Manager of Exploration, Jean-Yves Laliberte, on January 15, 2011 in Quebec City. At this meeting, the Enterprise and Junex re-iterated that their exploration and development plans for the River Permit areas did not entail any drilling in the St. Lawrence River. Rather, drilling would take place on-shore, and the wellbore would be drilled vertically on-shore then horizontally at depth below the river. These comments made by the Enterprise and Junex appeared to be well-received by Messrs. Sauvé and Laliberte, and the Enterprise and Junex were informed at that meeting that the resources contained in the River Permit would be accessible to them in the future. Additionally, Mr. Sauvé assured the Enterprise and Junex that he would revert to them in short order.

34. However, despite repeated attempts to contact him and messages left for him, the Enterprise was unable to reach Mr. Sauvé and never heard back from him or anyone else at the QMNR regarding the river permits or any other matter connected with Bill 18. Rather, without any further consultation or notice to the Enterprise nor any public announcement, the Government of Quebec introduced Bill 18 in the National Assembly on May 12, 2011. This Bill proposed to revoke all mining rights – including Petroleum and Natural Gas Exploratory Permits – for a stretch of the St. Lawrence River including the area covered by the River Permit. Moreover, the Government of Quebec, through Bill 18, proposed to revoke these rights without offering any compensation whatsoever.

35. On May 20, 2011, the Quebec Oil & Gas Association (“QOGA”) requested that members of the QOGA submit their positions on Bill 18 so the QOGA’s position could be presented to the Government of Quebec and, on May 24, 2011, the Enterprise submitted its position to the QOGA to the effect that Bill 18 amounted to an expropriation without justification or compensation.

36. On May 31, 2011, representatives of the QOGA attended special consultations on Bill 18 conducted by the Committee on Agriculture, Fisheries, Energy and Natural Resources of the Quebec National Assembly. The representatives of the QOGA were told that nothing could be done to change Bill 18, and that “a political decision” had already been made to push it through.

37. On June 10, 2011, less than a month after it had been introduced into the National Assembly without warning, without consultation, and without notice, Bill 18 was quietly and quickly passed in the National Assembly with little ceremony and became law as *An Act to limit oil and gas activities* (the “Act”). Once again, none of the interested parties, including the Enterprise, received any warning or notice the Act was about to be passed, nor were they meaningfully consulted. The Act received Royal Assent on June 13, 2011.

IV. PROVISIONS OF THE NAFTA BREACHED

38. Lone Pine, the Enterprise, and their predecessors invested substantial capital and more than five years of their time and resources to obtain the River Permit to explore for and develop the oil and gas resources beneath the St. Lawrence River. That investment of time and resources was expunged arbitrarily and capriciously in less than a month. No notice was given, no explanation was provided, and no compensation was offered. Lone Pine’s efforts to engage the Government of Quebec were systematically rebuffed and without any explanation or justification – scientific or otherwise – the Government of Quebec arbitrarily revoked what Lone Pine, the

Enterprise, and their predecessors invested so much to obtain. Lone Pine respectfully submits that this constitutes a clear violation of Articles 1110 and 1105 of the NAFTA.

39. Canada, through the actions of Quebec, is responsible for measures inconsistent with its commitments under Chapter Eleven of the NAFTA. The particular breaches of Chapter Eleven of the NAFTA are set forth in greater detail below.

1. Canada's Breach of Article 1110 of the NAFTA - Expropriation

40. Article 1110 of the NAFTA prohibits Canada from directly or indirectly nationalizing or expropriating the investments of a U.S. company in its territory or to take measures tantamount to nationalization or expropriation of such investments, except: (a) for a public purpose; (b) on a non-discriminatory basis; (c) in accordance with due process of law and the minimum standard of treatment under international law; and (d) on the payment of compensation.

41. Canada, through the actions of the Government of Quebec, has violated its obligations under Article 1110 of the NAFTA by enacting legislation that provides for the expropriation of an important right held by Lone Pine, through the Enterprise, as set forth above. This expropriation does not meet at least three of the criteria specified under Article 1110 for such expropriation to be lawful.

42. First, there exists no valid public purpose for the expropriation. No public purpose has ever been advanced for the expropriation by the Government of Quebec, either in the Act itself, or in any public statement before or at the time of its introduction or passage by the Quebec National Assembly. Indeed, the strategic environmental assessment committee that was struck by the Government of Quebec to evaluate the environmental impacts of shale gas exploration

and development pursuant to the BAPE process had yet to conduct its assessment, and had not yet issued a report (the environmental assessment process continues to be ongoing).

43. Second, the expropriation violates international standards of due process. Bill 18 was introduced by Ms. Normandeau into the National Assembly without any notice or consultation with Lone Pine or the Enterprise, and was rushed through the parliamentary process in less than a month without any meaningful consultation with Lone Pine or the Enterprise. Indeed, as stated above, all efforts by Lone Pine to proactively reach out to the Government of Quebec either directly or through the QOGA to try to resolve issues relating to the River Permit were rebuffed or ignored. The manner in which the expropriation of the River Permits was effected is inconsistent with international standards of due process.

44. Finally, the Act does not even pretend to comply with the requirement of Article 1110 that a lawful expropriation be undertaken with appropriate compensation. Indeed, the Act expressly states that it “entails no compensation from the State.”

2. Canada’s Breach of Article 1105 of the NAFTA – Minimum Standard of Treatment

45. Article 1105(1) of the NAFTA obliges Canada to “accord to investments of investors of another Party treatment in accordance with international law, including fair and equitable treatment and full protection and security.”

46. The revocation of the Enterprise’s right to mine for oil and gas beneath the St. Lawrence River violates the principle of fair and equitable treatment under Article 1105. Among other

things, as stated in greater detail above, the illegal expropriation under the Act of the Enterprise's rights was arbitrary, capricious, and without justification of any kind.

47. Furthermore, the Act violated Lone Pine's legitimate expectation of a stable business and legal environment and of treatment equal to other investors. Lone Pine, the Enterprise, and their predecessors expended substantial capital, time and other resources to obtain the River Permit, legitimately expecting that once obtained, the Enterprise would be permitted to exercise its rights under the permit as any other permit-holder in the Province of Quebec. Its rights under the River Permit were suddenly and arbitrarily revoked without explanation and without compensation, thereby frustrating Lone Pine's legitimate expectations.

48. Finally, the Act's revocation of the River Permit amounted to a denial of justice, which qualifies as a further violation of the principle of fair and equitable treatment under Article 1105.

V. RELIEF SOUGHT AND APPROXIMATE AMOUNT OF DAMAGES CLAIMED

49. Lone Pine seeks, through consultation and negotiation with Canada, the revocation of the Act as irreconcilable with Canada's obligations under the NAFTA. If the consultations and negotiations are unsuccessful, Lone Pine will submit, on behalf of the Enterprise, a claim for arbitration seeking, among other things:

- a. damages in an amount to be proven in arbitration proceedings, currently estimated to be in excess of Cdn \$250 million;

- b. the full costs associated with any arbitration proceedings, including all professional and legal fees and disbursements, as well as the fees and disbursements of the arbitral tribunal and any administering institution;
- c. pre-award and post-award interest at a rate to be fixed by an arbitral tribunal;
- d. payment of a sum of compensation equal to any tax consequences of the award, in order to maintain the award's integrity; and
- e. such further relief as an arbitral tribunal may deem just and appropriate.

November 8, 2012

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