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23 October 2013

National Energy Board
444 7th Avenue SW
Calgary, Alberta

Attn: Christy Wickenheiser

Dear Christy,

Thanks you for hosting the meeting last month. We found it very useful. There remain, however, some serious concerns regarding the practical effects of the imposition of blanket cash or near-cash guarantees for a 'worst case scenario'.

We have been in discussions with CAPP and are now engaged with them in their response to the consultation process. There are a number of key issues that they are developing which deal with the the guidelines as currently drafted- which we believe will effectively exclude the vast majority of competent explorers from operating in northern Canada, closing the door to competitive exploration.

With respect to the financial responsibilities and guarantee guidelines currently being proposed, we have the following observations in addition to the CAPP comments:

1. The concept of providing an unfettered line of access to funds estimated to be equivalent to controlling and remediating a 'worst case scenario' environmental or other disaster is something that, if applied across all industries, would prevent most businesses from operating.
2. Applying this concept to the Oil & Gas industry alone is discriminatory. It is highly unlikely that the Canadian Government would require each and every company operating in Canada, from railroad operators to public schools, to cover their 'worst case' disaster scenario with a cash bond. Consequently, the guidelines clearly discriminate against the Oil & Gas industry.
3. The application of this guideline is also discriminatory *within* the Oil & Gas industry, since there is no such requirement, for example, in Alberta.

4. Notwithstanding the above, we contend that the extent of this specific liability, if it is to be applied, should reflect only that element of the operation related to specific oil and gas operations, *not* the marine operations of service vessels under contract to the Oil & Gas operator. In the case of conventional seismic operations, the risks associated with vessel collisions and other accidents of a marine nature would be fully covered by appropriate marine insurance cover, as is standard international practice.
5. We contend that the risks associated with the oil exploration element of seismic operations are restricted to streamer loss and consequent interference with other marine users, including potential adverse impacts on wildlife and/or their harvesting. We believe these would be minimal in overall impact, and would be unlikely to create anything other than a temporary effect during recovery of any streamers by the support vessels.
6. Costing any such impacts is difficult, but could be based on a percentage of the average marine harvest catch value in the vicinity of the seismic operation area. This is not something that can easily be estimated ahead of any incident. However, it is clear that robust insurance cover can be obtained to ensure any such compensation payments are made in good order and that a bond *per se* would be unnecessary.

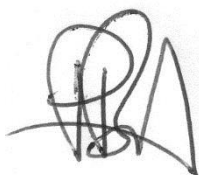
We believe that operational risk associated with conventional marine seismic acquisition is predominantly a *marine* risk and as such would be adequately covered by the insurance carried by the main seismic contractors. For example, Polarcus, who we anticipate will acquire our proposed 2014 survey, hold substantial Protection and Indemnity Insurance along with Pollution and other marine risk cover totalling \$2 billion. This cover is above and beyond any reasonable expectation of a 'worst case scenario' for such an operation.

With respect to drilling operations, this is a significantly more complex matter. As the proposed guidelines stand, there will be an onus on the Operators to pay for an exploration well many times over before it is even spudded and without a more sophisticated approach to this problem, we believe there will be no wells drilled offshore Northern Canada in the foreseeable future.

As mentioned above, we have discussed this consultation process with CAPP and are participating with them in their efforts on behalf of Northern operators to lobby for a reasonable outcome to this process.

We look forward to your comments on this matter and remain,

Yours sincerely,

A handwritten signature in black ink, appearing to be 'PA' with a stylized flourish underneath.

Paul Barrett
Franklin Petroleum Limited