

Stone Energy Corporation's Report on Natural Gas Development

2012

Whereas,

Onshore "unconventional" natural gas production often requires hydraulic fracturing, which typically injects a mix of millions of gallons of water, thousands of gallons of chemicals, and particles deep underground to create fractures through which gas can flow for collection. According to the American Petroleum Institute, "up to 80 percent of natural gas wells drilled in the next decade will require hydraulic fracturing."

The potential impacts of those fracturing operations stem from activities above and below the earth's surface -- including actions that are necessarily part of the life cycle of fracturing and extraction, such as assuring the integrity of well construction, and moving, storing, and disposing of significant quantities of water and toxic chemicals.

According to media reports, "[Pennsylvania] officials...have cited energy companies for more than 2,500 violations associated with fracturing practices and collected \$25.7 million in fines since 2008." High profile contamination incidents have fueled public controversy— which could eliminate the sector's social license to operate in certain areas—and have increased regulatory scrutiny.

Public officials in Pittsburgh, Philadelphia and New York City have called for delays or bans on fracturing. Pennsylvania, West Virginia, Colorado, Wyoming and New York State all tightened regulations and permitting requirements, though state regulations remain uneven. The federal Environmental Protection Agency is studying the potential adverse impact that hydraulic fracturing may have on water quality and public health and the federal Department of Energy is expected to make recommendations to improve fracturing operations.

Proponents believe these potential environmental impacts and increasing regulatory scrutiny could pose threats to our company's license to operate and enhance vulnerability to litigation. Proponents believe our company is not providing sufficient information on associated business risks. Proponents believe Stone Energy Corporation should protect its long-term financial interests by taking measures beyond the existing, inconsistent regulatory requirements to reduce environmental hazards and associated business risks.

Therefore be it resolved:

Shareholders request that the Board of Directors prepare a report by September 1, 2012, at reasonable cost and omitting confidential information such as proprietary or legally prejudicial data, summarizing 1. known and potential environmental impacts of fracturing operations of Stone Energy Corporation; 2. policy options for our company to adopt, above and beyond regulatory requirements and our company's existing efforts, to reduce or eliminate hazards to air, water, and soil quality from fracturing operations, and 3. management's evaluation of the potential magnitude of material risks, short and long term, that this issue may pose to the company's finances or operations.

Supporting statement:

Proponents believe policies explored should include, for example, additional efforts to reduce toxicity of fracturing chemicals, recycle waste water, monitor water quality prior to drilling, cement bond logging, and other structural or procedural strategies to reduce environmental hazards and financial risks. "Potential" includes occurrences that are reasonably foreseeable and worst case scenarios. "Impacts of fracturing operations" encompass the life cycle of activities related to fracturing and associated gas extraction.