

**OFFER OF 100% WORKING INTEREST  
IN NISKU P&NG RIGHTS  
PEMBINA AREA**

**BUSINESS CONSIDERATIONS**

1. Definitions

- a) **"AER"** means the Alberta Energy Regulator;
- b) **"AER Approval"** means the approval by the AER of well licences for not less than three (3) critical sour wells to be drilled on the Nisku Prospect;
- c) **"Bashaw"** means Bashaw Oil Corp., now Clearview Resources Ltd.;
- d) **"Community Benefit"** means the payments to be made by the Oil & Gas Operator (if the AER Approval is obtained) for the benefit of the Rocky Rapids owners and residents as described in Section 12 below;
- e) **"CPE"** means CPE Pembina Lands Ltd., an Alberta corporation, in its capacity of general partner of CPE Pembina Lands LP, an Alberta limited partnership;
- f) **"Easement"** means an easement over the Private Road entitling the Oil & Gas Operator and members of the public to use the Private Road as an egress route out of the area in the event of any emergency during the drilling of Nisku wells on the Nisku Prospect, in the form attached as Schedule C to the Master Agreement;
- g) **"Land Owner"** means Avalie Peck, the land owner of the Private Road;
- h) **"Lease"** means a lease of approximately 3/4 of an acre immediately adjoining the Easement that may be used by the Oil & Gas Operator to station snow clearing vehicles and tracked vehicles during the drilling of Nisku wells on the Nisku Prospect in the form attached as Schedule B to the Master Agreement;
- i) **"Master Agreement"** means that certain agreement dated December 12, 2019 between the Land Owner and CPE pursuant to which the Land Owner has agreed to execute and deliver the Easement and the Lease over the Private Road to an Oil & Gas Operator based upon the conditions set forth therein, which agreement is assignable to an Oil & Gas Operator;
- j) **"Nisku P&NG Rights"** means all of the P&NG Rights in the Nisku Formation covering the Pembina Lands and the West Pembina Lands;
- k) **"Nisku Prospect"** means the Nisku anomaly (or anomalies) principally located on Section 1 Twp 50 Rge 7 W5M and Section 35 Twp 49 Rge 7 W5M;
- l) **"Offered Interest"** means a 100% working interest in the Nisku P&NG Rights subject to a 2% GORR in favour of CPE;
- m) **"Oil & Gas Operator"** means an oil and gas operator with its principal operations in Alberta and having daily oil & gas production of not less than 2,000 boe/d;
- n) **"Pembina Lands"** means Sections 1 & 2 Twp 50 Rge 7 W5M, Sections 34, 35 & 36, Twp 50 Rge 7 W5M, and Sections 6 & 7 Twp 50 Rge 6 W5M, located approximately three (3) miles northeast of Drayton Valley, AB;
- o) **"Private Road"** means that certain private road located on SE 7 Twp 50 Rge 7 W5M which connects the provincial grid road system to the northeast of the Nisku Prospect; and

p) **West Pembina Lands** means Sections 20 & 29 Twp 49 Rge 7 W5M located immediately north of Drayton Valley, AB;

Any terms used herein denoted with initial capital letters and not otherwise defined have the meanings set forth in this Term Sheet.

## **2. Sale of Interest**

CPE wishes to sell the Nisku P&NG Rights and assign its rights under the Master Agreement to an Oil & Gas Operator (the "Purchaser") in consideration of the reservation of a 2% GORR and a cash consideration.

## **3. Retention of Partial Interest**

If agreeable to the Purchaser, CPE is prepared to retain up to a 20% working interest in the Nisku P&NG Rights. This 20% interest would be sold by CPE to a new limited partnership formed by the general partner of CPE (the "New CPE Partnership") which would acquire the 20% working interest on the same terms and conditions as the Purchaser. The New CPE Partnership would principally consist of those existing limited partners of CPE who are prepared to incur the risk of the on-going exploration and development of the Nisku Prospect.

The New CPE Partnership would participate along with the Oil & Gas Operator in the exploration and development of the Nisku Prospect pursuant to a joint operating agreement to be entered into between the parties. Prior to the AER March 2018 Decision, the previous Coast Pacific partnership which owned an interest in the former P&NG Rights had the commitments in place by limited partners to participate as to a 24% working interest in the ongoing exploration and development of the Nisku Prospect.

## **4. Nisku Prospect**

The Nisku Prospect was delineated in 2004 by West Energy Ltd. ("West Energy") by a 3-D seismic shoot covering the Pembina Lands. Subsequently, Highpine Energy Ltd. ("Highpine") shot a similar 3-D program over the Pembina Lands. Both 3-D seismic programs confirm the existence of a significant Nisku anomaly or anomalies over the Pembina Lands principally located on Section 1 Twp 50 Rge 7 W5M and Section 35 Twp 49 Rge 7 W5M. The Nisku Prospect is approximately three (3) miles west of the Nisku L2L pool developed by Grizzly Resources Ltd. et al.

There also exists a Nisku anomaly over Sections 6 and 7 T50 Rge 49 W5M which requires further delineation prior to drilling a well into the anomaly. Prior to discontinuing its Nisku operations in the Pembina area, Daylight Energy Ltd., now Sinopec Canada Ltd. ("Daylight" or "Sinopec"), had applied to the AER to drill a Nisku well in Lsd 1-7 Twp 49 Rge 6 W5M.

In addition, CPE believes that Nisku anomalies exist to the west of the Pembina Lands

although CPE is not in possession of 3-D seismic coverage over these lands. CPE has now acquired the P&NG Rights at two Crown land sales in 2021 covering Sections 20 and 29, T49 R7 W5M where it believes the two (2) principal anomalies are located.

The former geophysicist of Highpine responsible for the Pembina Nisku play was a part of the management team of Bashaw (described below). Bashaw had access to both 3-D seismic programs in making its decision to move forward with an application to the AER to obtain drilling licences for the Nisku Prospect.

## **5. Development History – West Energy**

Both West Energy in 2006 - 2007 and Bashaw in 2015 to 2018 have made applications to the AER (or its predecessor) to obtain drilling licences to test the Nisku Prospect. West Energy was successful in obtaining the licences but on the condition that it build a road to connect the grid road system to the northeast of the Nisku Prospect. West Energy subsequently determined that the cost of building the road to the standards required by Brazeau County was approximately \$10,000,000 thereby materially impacting the economics of the play. Although West Energy made application for drilling licences based upon revised AER regulations reducing the size of the EPZ, prior to actively proceeding with the applications West Energy was acquired by Daylight.

## **6. Development History – Bashaw Oil Corp.**

In 2012 Daylight determined to withdraw from active exploration of Nisku oil prospects. Bashaw Oil Corp. (“Bashaw”), along with Coast Pacific Pembina Lands LP, a former partnership managed by an affiliate of CPE, decided to undertake the exploration and development of the Nisku Prospect after consolidating the land position. The Bashaw Group acquired a 70% working interest and the CPE Group increased its interest to a 30% working interest. Bashaw was operator of the Joint Operating Agreement entered into between the parties. Bashaw, on the advice of Bissett Resource Associates (Bashaw’s emergency planning consultant), took the position that a secondary egress route was not required under the AER regulations. After an eight (8) day hearing in December 2017, the AER, in a decision published on March 28, 2018, denied Bashaw its application for drilling licences (the “AER March 2018 Decision”).

The AER found that both Bashaw’s emergency response plan and resident consultation were deficient. However, in the view of CPE, the principal reason for the denial of the applications was the specific finding by the AER in the AER March 2018 Decision that the provision of a secondary egress for residents in the NE sector was critical to any application for drilling licences in this area. As well, the Rocky Rapids residents in testimony, when met with Bashaw’s evidence during the hearing that approximately \$80 MM of royalties would accrue to Alberta citizens, responded that they were the ones who had “to live with” sour gas wells in their area.

The former P&NG Rights (under which both West Energy and Bashaw had undertaken the drilling licence applications) expired on November 1, 2018.

## 7. AER March 2018 Decision

The AER March 2018 Decision has made it clear that the Nisku Prospect will not be approved by the AER without providing a secondary egress for residents in the NE sector. *However, the AER March 2018 Decision also made it clear that critical sour well development in the Drayton Valley area could be safely undertaken by a qualified operator.* The decision, in so many words, suggested that Bashaw was not the likely successful candidate given its track history with the Rocky Rapids residents.

## 8. Pembina Lands - Nisku P&NG Rights

In January, 2019, CPE posted the Nisku P&NG Rights covering the Nisku Prospect and acquired them on April 3, 2019 for a bonus consideration of \$36,000. The Nisku P&NG Rights have been granted under a four (4) year licence under Licence No. 5419040047 which expires on April 4, 2023 unless commercial reserves have established in the Nisku Formation prior to that time. On July 16, 2019, CPE purchased from Teine Energy Ltd. the Nisku P&NG Rights for Sections 6 & 7, Twp 50 Rge 6 W5M for a cash consideration of \$14,000 reserving to Teine a 2% GORR. As noted, at two Crown Lands Sales in 2021, CPE has now acquired the Nisku P&NG Rights for Sections 20 & 29, Twp 49 Rge 7 W5M.

## 9. West Pembina Lands - Nisku P&NG Rights

In March 2021 CPE posted and acquired the Nisku P&NG Rights covering Section 29 T49 R7 W5M and in August 2021 CPE and posted and acquired the Nisku P&NG Rights covering Section 20 T49 R7 W5M (collectively, the “**West Pembina Lands**”). These were lands that were originally acquired by Bashaw however their P&NG Rights expired at the same time as the original P&NG Rights covering the Pembina Lands. An earlier Coast Pacific entity had owned a 10% interest in the earlier P&NBG Rights and had access to the 3-D seismic as an owner. Based upon the 3-D seismic the anomalies on these lands were considered highly prospective by Bashaw however development may be more complicated by their proximity to the Town of Drayton Valley.

## 10. Private Road

The Private Road is a well-used half-mile private road located on SE/4 Section 7, T50 R6 W5M which connects Township Rd 501A to Range Road 65. Most of the road is flat except for the most northeasterly portion of about 350 yards which ascends up out of the valley to connect with Range Road 65. It is unclear why West Energy did not pursue this route as a secondary egress after it was determined that the new road would cost \$10MM. Our assumption is that West Energy believed that the new emergency response regulations introduced by the ERCB (now AER) meant that the EPZ would no longer require dealing with egress to the northeast because the new EPZ no longer encompassed this area. Bashaw made the decision not to even enquire as to the viability of the Private Road as a secondary egress owing to the mistaken advice of Bissett that a secondary egress route was not required in order to obtain the approval of the AER.

CPE has now entered into the Master Agreement (described below) with Avalie Peck, the surviving owner of the surface rights over SE/4 of Section 7. Avalie Peck's former husband, Dennis McGinn passed away in the fall of 2017 after a lengthy illness. In addition to being the owner of SE/4 Section 7, Avalie Peck has been the President of Drayton Valley Sand & Gravel Ltd. for at least the past 20 years. There is a gravel pit located on the NE/4 of Section 6 which is also owned by her which is used by Drayton Valley Sand & Gravel. At the AER December 2017 hearing, it became clear that gravel trucks regularly use the Private Road for access to the northeast.

In November 2018, CPE retained Stantec Engineering, Road Division, Calgary, AB to evaluate the viability of using the Private Road as a secondary egress. On November 20, 2018, Norris Morgan and an engineer from Stantec travelled the Private Road to gauge its suitability as a secondary egress route. Stantec on November 26, 2018 provided a written report to CPE that the Private Road could easily be utilized for such purpose with minor improvements. In November 2019, the same engineer with Stantec again visited the Private Road (along with Norris Morgan and Avalie Peck) to further examine the road and provide a ballpark estimate of the cost of improvements. Stantec has now provided CPE with a written estimate of approximately \$170,000 in improvement costs (excluding engineering costs).

At this second meeting and after discussions with Av Peck it became clear that a number of years ago Brazeau County improved the road by installing a rubberized membrane over portions of the hill which membrane is now approximately one to two feet below the surface of the road. As well, the Stantec engineer commented while we were at the site that the travel of gravel trucks over his road over the years has substantially compacted it.

## **11. Tracked Vehicle Backup for Private Road**

Stantec found that with the exception of approximately 50 yards at the very top of the hill (where the grade is approximately 8-9%) the remainder of the "hill" portion of the Private Road is below the 8% maximum grade required for public highways in Alberta (with much of it 4-7%). In the AER hearing, some of the residents testified that this hill was "impassable" in rainy or snowy weather. After having now driven this road four (4) times (three (3) times in heavy snow conditions) we think this testimony was highly suspect. In all cases, we passed other vehicles using the road. The Stantec report does not require anything other than a recommendation that snow removal equipment be stationed close to the hill at all critical times.

However, to ensure that the condition of the road in extreme weather conditions is not an issue for the residents in any future resident consultations (or becomes an issue at any future AER hearing) CPE believes it would be advisable for the Oil & Gas Operator to consider stationing two (2) Hagglund BV 206 tracked vehicles (along with operators) on the Lease site at any time when the wells are open to the Nisku Formation for drilling or testing. These BV 206 vehicles, which were originally developed for the Swiss Army, are now used by the Canadian, Swiss and American armies for transport of troops in snowy or

rough terrain. Approximately 100 of them are presently used in the Alberta oil patch to reach difficult destinations. The vehicles and operators can be rented from Low Impact, Valleyview AB (website: lowimpact.com). We visited the Low Impact Valleyview location to examine the vehicles and was provided with a ride in a BV 206 over their “test track”. The BV 206 can safely climb a 60 degree incline (the incline of the Private Road is not more than 20-25 degrees). The articulated caboose of the BV 206 can hold approximately 15 people. The BV 206 can travel up to 50 km/hr and has a lighter impact per square inch than a human.

The Stantec engineer agreed that the provision of these BV 206 vehicles at critical times would fully counter any possible objections of the residents that the Private Road is not safe in severe weather conditions.

## **12. Terms of Master Agreement**

On December 12, 2019, CPE entered into the Master Agreement with Avalie Peck, the sole surviving land owner (the “Land Owner”). Here are the principal terms of the Master Agreement:

- (1) Initial consideration paid to Land Owner: \$15,000;
- (2) Consideration to Land Owner on AER Licence Approval: \$250,000
- (3) Assignment of Master Agreement only to Oil & Gas Operator with production of not less than 2,000 boe/d;
- (4) Conditions required for Land Owner to deliver Oil & Gas Operator the Easement and Lease:
  - (a) Oil & Gas Operator agree in writing with Land Owner to commit to improvements of Private Road of not less than \$100,000;
  - (b) Oil & Gas Operator agree in writing with Land Owner to provide the Community Benefit representing:
    - (i) \$1,000,000 prior to the spudding of the first Nisku well; and
    - (ii) \$1,000,000 upon the commencement of commercial production from the Nisku Prospectto be used for the purposes described in the Master Agreement.

## **13. Community Benefit**

CPE made the business decision that if the residents of Rocky Rapids were to be presented with a third application by an oil and gas corporation to drill critical sour wells in their area, then the Rocky Rapids residents and owners had to be offered a tangible benefit that would benefit all members of the community.

CPE decided that an improvement which would benefit most of the Rocky Rapids residents would be paving parts of the existing gravel grid roads. Township Road 500 (running east-west) is presently a paved road from Highway 22 (Cowboy Trail) east to approximately  $\frac{3}{4}$  mile past the Hamlet of Rocky Rapids. This improvement would extend the pavement east along Township Road 500 as well as provide for some paving on the Range Roads

intersecting with Township Road 500 from the north. This would mean that many of the residents would then have paved access all the way to the Town of Drayton Valley. The specific sections to be paved and the order of paving as agreed with the Land Owner are specifically set forth in the Master Agreement and outlined in Schedule D thereto.

CPE also assumed that it would be more successful in its efforts to obtain an easement over the Private Road if it proposed to the Land Owner that, in addition to the direct compensation to the Land Owner, the Oil & Gas Operator would provide a significant benefit to the Rocky Rapids community. CPE was correct in that assumption.

Here are the principal terms of the Community Benefit contemplated in the Master Agreement:

- 1) **IF** the Oil & Gas Operator is successful in obtaining the AER Approval then the Oil & Gas Operator will establish an *inter vivos* trust (the "Trust") with the trustee ("Trustee"), a lawyer chosen Land Owner, to which Trust it will contribute:
  - a) \$1,000,000 prior to the spudding of the first Nisku well; and
  - b) \$1,000,000 upon the commencement of commercial production from the Nisku Prospect;  
("Trust Funds")
- 2) Trustee will pay the Trust Funds, from time to time, to Brazeau County, for the purpose of paving certain existing gravel grid roads delineated in Schedule D of the Master Agreement;
- 3) The principal other terms of the Trust are set forth in the Master Agreement;
- 4) Stantec estimates that the approximate cost of paving existing grid roads examined would be in the range of \$750,000 per mile therefore resulting in 2 to 3 miles of existing gravel grid roads being paved utilizing the full \$2,000,000;
- 5) The terms of the Community Benefit will be confidential save and except to the extent the Oil & Gas Operator wishes to disclose same. This means that the terms will not have to form part of any final AER decision. Obviously, the Oil & Gas Operator will want to disclose the terms to the Rocky Rapids residents as part of the consultation process to be undertaken by the Oil & Gas Operator;

CPE has determined with the AER that the proposal to pay the Community Benefit does not violate any rules or regulations of the AER. The AER indicated to CPE that in other instances oil and gas corporations have kept the terms of a community benefit confidential by use of the AER alternative dispute resolution process.

#### 14. Capital Costs

The estimated capital costs of the project prepared by Bashaw Oil Corporation in 2017 were as follows:

a.	Drill & Complete three (3) Nisku Oil Wells	\$10,000,000
b.	Drill & Complete Injection Well	\$ 1,850,000
c.	Water Injection Facilities	\$ 1,500,000
d.	Convert one well to Water Injection Well	\$ 500,000
e.	9-35 Surface facilities	\$ 3,000,000
f.	Pipeline to Crossfire 13-2 Battery	<u>\$10,000,000</u>
Total		\$26,850,000

#### 15. Economics Analysis

CPE has retained Insite Engineering, from time to time, to provide estimates of the upside of the Nisku Prospect based upon various assumptions as to reserves, porosity, net pay, recovery factors, processing costs, oil price projections. The proven and probable cases of the Insite Economic Runs are largely based upon the recoverable reserves estimated by Bashaw. The Insite Economic Summary is based upon a proven case of 3,000,000 bbls recoverable reserves and 1,000,000 probable reserves with an upside of possible reserves of 2,000,000 bbls. The possible case increases the assumption of net pay from 15 meters to 22.5 meters. Coast Pacific Pembina Lands LP, another oil and gas partnership managed by CPE Oil & Gas Management Corporation, owns a .8% working interest in the Crossfire L2L pool three (3) miles to the east. Insite was previously provided with the monthly operating statements from Sinopec relating to this interest so that the Insite Economic Run utilizes the same processing and transportation costs charged by Sinopec to that entity.

In addition to the costs described above, the following additional costs have been incorporated into the Insite Economic Summary:

a.	Community Benefit	\$2,000,000
b.	Private Road Improvements	\$ 170,000
c.	Private Road Easement Consideration	<u>\$ 250,000</u>
Total		\$2,420,000

CPE will be pleased to provide the Insite Economic Summary to any interested party. The Insite Economic Summary has been recently updated based upon GLJ January 2022 price projections.

#### 16. Processing / Disposing of Sour Gas

The Insite Economic Summary assumes that the 22% H<sub>2</sub>S content (assumed) of the associated natural gas cap would be processed in the same manner as natural gas from the



Crossfire Nisku pool. The costs used in the Economic Summary were based upon the actual Sinopec statements for the Crossfire wells in that a related Coast Pacific entity owns a 1% working interest in the Crossfire wells. This cost analysis entails the purchase of sweet gas to dilute the 22% H<sub>2</sub>S content down to approximately 7-9% so that it can be transported on the sales line from the Sinopec Crossfire 13-2 Battery to the Buck Lake Sour Gas Processing Plant to the south.

However, had Bashaw been successful in its drilling licence applications, it intended to pursue, as an alternative to the sweet gas dilution/Buck Lake processing method, the purchase from Sinopec of an existing abandoned well located on the 13-2 battery site with the possibility of reinjecting the sour gas back into the Wabamum Formation at that location.

**In November, 2021, CPE determined from the Sinopec landman responsible for this area that Sinopec believes that it is economic for the Crossfire Section 9 wells to recommence production with a process which would reinject the sour gas into an abandoned well bore rather than diluting the sour gas with sweet gas and then transporting it to the Buck Lake Sour Gas Plant.**

***No exploration and development of the Nisku potential can be considered without first negotiating with Sinopec an economic method of either processing or disposing of the sour gas that may be encountered in the Nisku Prospect.***

## **17. Engagement with Rocky Rapids Community**

We think a critical element of obtaining the approval of the AER of applications for drilling licences is engagement with the Rocky Rapids community to: (1) communicate as to the safety and track record of drilling critical sour wells in Alberta since the 1982 Amoco Lodgepole Nisku Blowout about 40 miles to the SW of Drayton Valley; (2) resolve specific issues of certain residents as to their specific needs; (3) explain the viability of the Private Road as a secondary egress route; and (4) describe the proposed Community Benefit.

Based upon our experience with Bashaw regarding the communication with Rocky Rapids residents, we do not believe that a satisfactory job has been done explaining the safety of drilling critical sour wells since the regulations regarding intermediate casing were brought in after the Amoco Lodgepole Blowout. To our knowledge, there has not even been one (1) uncontrolled release of H<sub>2</sub>S in the drilling of a Nisku well since the introduction of the intermediate casing requirements that came out of the Lodgepole Blowout. We appreciate that we may be mistaken but this was based upon questioning two (2) people who should know. One is Neil Darling, RamDar Resource Management Ltd., an experienced sour well drilling engineer qualified under the AER regulations to drill critical sour wells in Alberta. Darling had been retained by Bashaw to drill the Nisku wells and testified at the AER hearing. The other person is Kevin Chow. Kevin is a principal of H<sub>2</sub>Safety, an emergency planning and response consulting firm, and a former partner of Bissett. Kevin also confirmed that none of his partners in H<sub>2</sub>Safety know of any such incident since 1982.

It was only in our meetings with Avalie Peck that we realized that the residents do not understand the mechanics of intermediate casing. It was only when we drew a diagram for her explaining the procedure that she came to understand what it means to “cement intermediate casing”. We found this very surprising that even a sophisticated business woman engaged in servicing the oil and gas business did not understand what intermediate casing really means and the drilling safety it entails.

The Bashaw “town hall” meetings were a poor substitute for a meeting where all interested residents are in a meeting where all questions are aired in front of all other persons (including those opposed to the project). In addition to the information regarding intermediate casing there is other information that we tried to convince Bashaw to present to the residents but they did not. At a 2013 AER hearing on a very similar Nisku well to be drilled into the neighbouring Crossfire L2L pool, the AER required risk assessment evidence to be provided by both Grizzly Resources and by the intervenors (headed by Susan Kelly and Linda McGinn).

Based upon the evidence of both experts the AER decision found that the “lethality risk” of nearby residents was not more than 1 out of 1,000,000, in other words, virtually nil. The AER actually used the words “virtually nil” in their written decision. In fact, the risk assessment expert for the intervenors was more conservative than the one for Grizzly. Susan Kelly and Linda McGinn understand the risk is virtually nil but the Rocky Rapids residents were presented with “skull and cross bones” signs pointing to the proposed well location during the December 2017 AER Hearing.

The president of CPE has developed a good relationship with the Land Owner of the Private Road and would be prepared to assist in obtaining the endorsement of the Rocky Rapids community as to the proposal. This rapport with the Land Owner could serve as a stepping stone in approaching the other residents in the area to obtain a positive response to the proposed development provided that the payment of the Community Benefit is acceptable to the Purchaser of the P&NG Rights. This approach to the community could be either: (1) on a “no names basis” prior to the oil and gas corporation actually agreeing to purchase of the Nisku P&BNG Rights; or (2) after such acquisition by the Purchaser of the Nisku P&NG Rights. The terms of any such engagement would have to be discussed.

## **18. Other Information**

Bashaw amassed a great deal of information both as to a technical nature regarding this project as well as specific information on the individual residents. Bashaw is now amalgamated with Clearview Resources Ltd. As part of a settlement of the final costs of the former project, CPE has an agreement with Clearview that, upon the payment of approximately \$16,000, CPE has a right to be delivered (or to deliver to an Oil & Gas Operator) all of the Bashaw files and technical reports related to the drilling licence applications.