



Overview

CPE Pembina Lands Ltd. (“CPE” or the “Company”) has engaged **Sayer Energy Advisors** to assist the Company with the sale or farmout of its 100% interest in a Nisku prospect in the *Pembina* area of Alberta (the “Property”). The Property is prospective for oil and natural gas production from the Nisku Formation (the “Nisku Prospect”).

The Nisku Prospect has been defined by seismic anomalies which have been identified by two 3D seismic programs shot during the period 2004-2005, one by **West Energy Ltd.** and one by **Highpine Oil & Gas Limited**. Both West Energy and Highpine are predecessor companies to **Sinopec Energy Canada Ltd.** A copy of the 3D seismic which was acquired by **Bashaw Oil Corporation** from Sinopec was used for the basis of the exploration play, following which, Bashaw merged with **Clearview Resources Ltd.** Management presentations relating to the Property, including a review of the interpretations of the 3D seismic data, will be made available to parties that execute a confidentiality agreement.

The Nisku Prospect has been the subject of two separate drilling license applications; one to the then **Alberta Energy Utilities Board** (“AEUB”) by West Energy in 2007 and one by Bashaw to the **Alberta Energy Regulator** (“AER”) in 2017. The target formation is the Nisku reservoir which contains high gravity oil and an associated natural gas cap with significant levels of H₂S (22% by volume). Any wells drilled into the reservoir would be classified as “critical sour wells” by the AER.

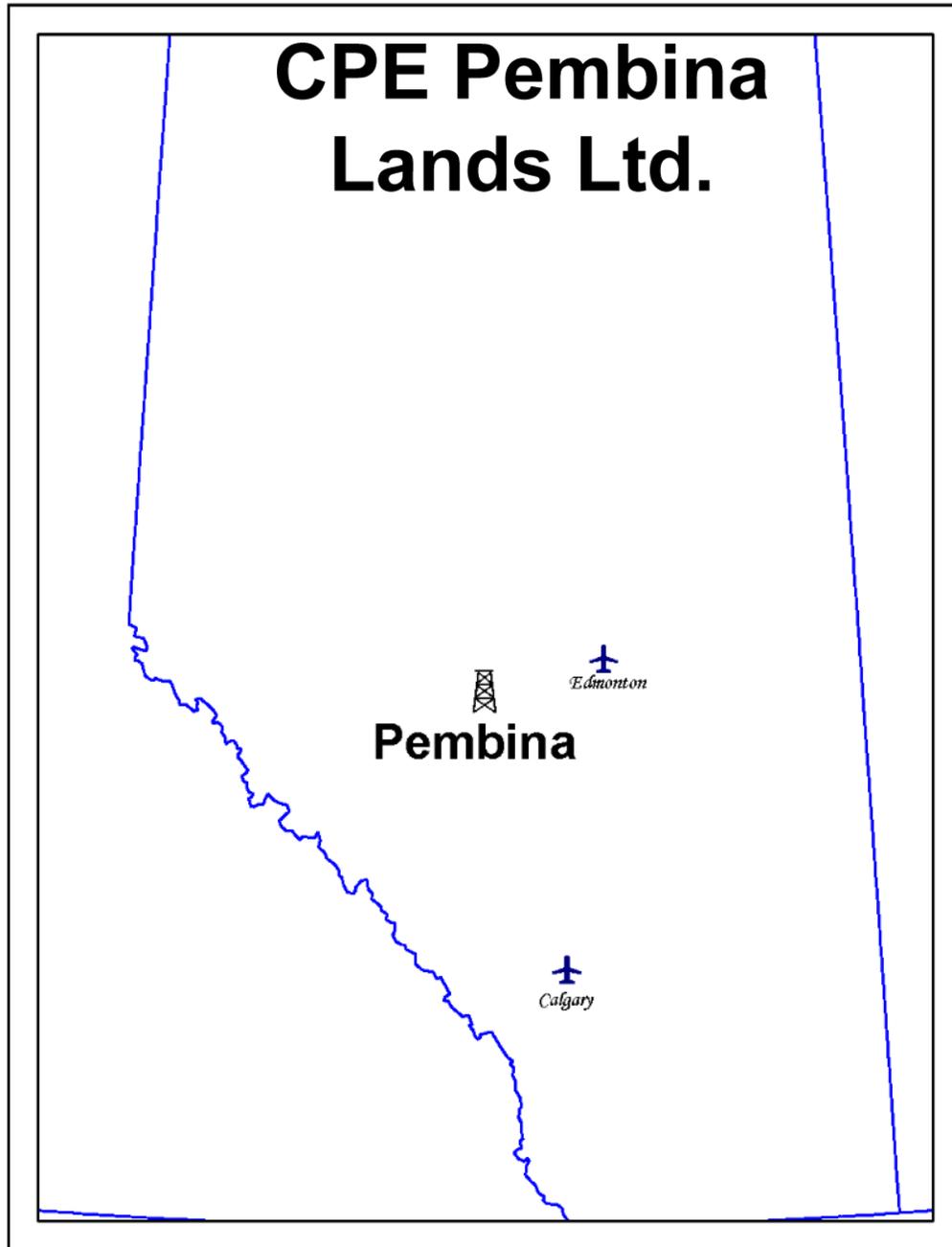
In 2007, the AEUB granted the drilling license applications to West Energy, subject to building a secondary egress road (the “Secondary Egress”) to allow residents in the vicinity of the Property an escape route in the case of a release of H₂S. West Energy elected not to proceed with the drilling licenses due to a subsequent determination that it would cost \$10 million to build the road for Secondary Egress required by Brazeau County. In the case of the Bashaw application, the AER denied the drilling license applications in March 2018 as Bashaw was not prepared to provide residents with a Secondary Egress in combination with a lack of proper consultation with the residents in the area.

The Company believes that it has resolved the issue of the Secondary Egress by obtaining an easement over a private road (the “Private Road”) which connects to the provincial grid roads in the area. CPE has also obtained the opinion of **Stantec Inc.**, that the Private Road, with minor improvements, should fully meet the requirements of the AER for a Secondary Egress.





Overview Map Showing Location of the Divestiture Property





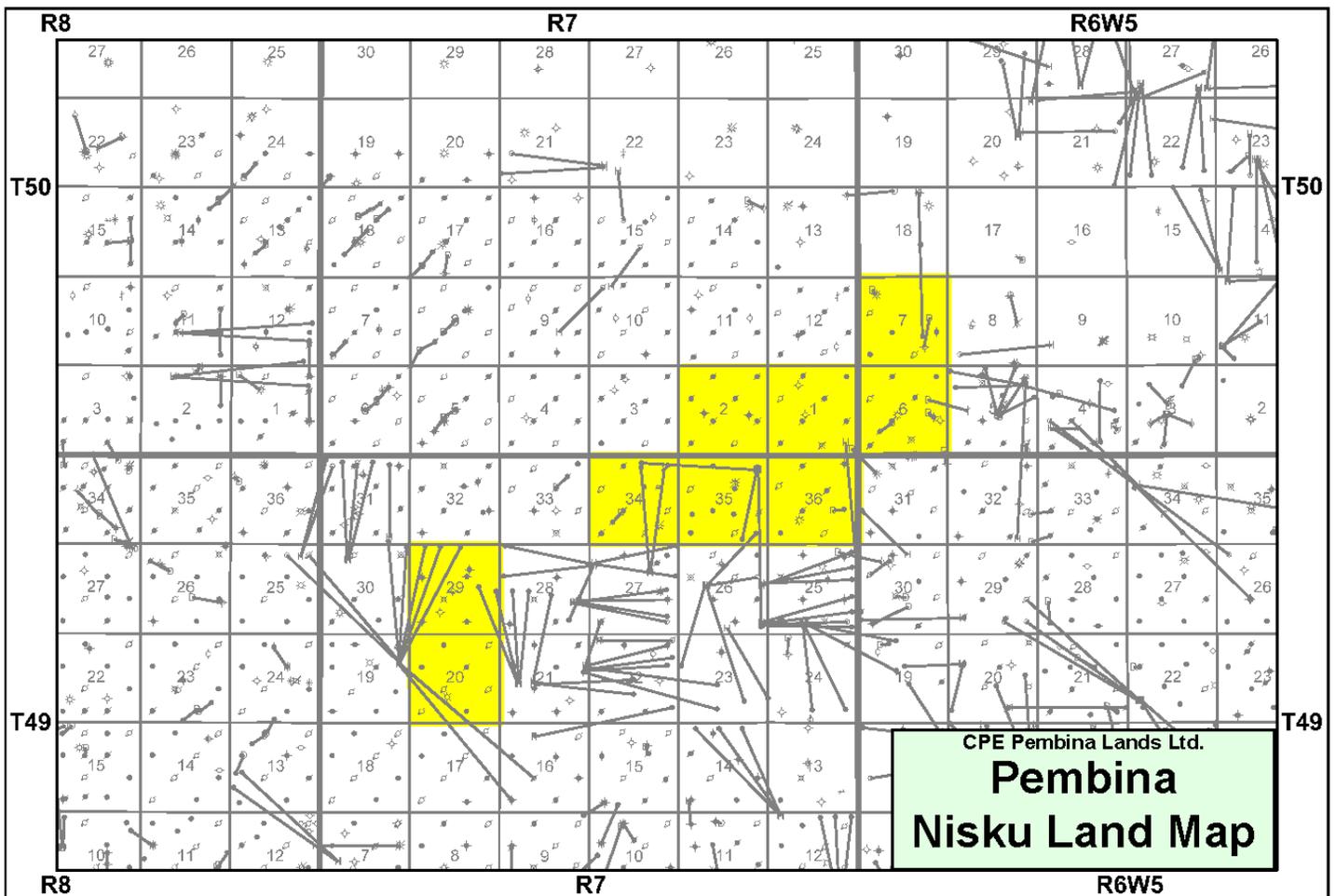
Pembina Property

Township 49-50, Range 6-7 W5

CPE holds a 100% working interests in the P&NG rights in the Nisku Formation in nine sections of Crown land in the *Pembina* area of Alberta. The rights include a four-year license in Sections 1 and 2-050-07W5 and Sections 34, 35 and 36-049-07W5 with a primary term expiring April 4, 2023 unless otherwise continued under section 8(1)(h) extensions. The principal seismic anomalies of the Nisku Prospect are covered by this license. Additionally, the Company holds a 100% working interest in the P&NG rights in the Nisku Formation in Sections 20 and 29-049-7W5 with primary term expiring in 2026. CPE also holds the P&NG rights in Sections 6 and 7-050-06W5, subject to a 2% gross overriding royalty payable to **Teine Energy Ltd.**

The Property includes drilling locations for three exploratory Nisku wells, (one of which will be converted to a Nisku water injection well) and one Wabamun water source well.

Further information relating to the Property will be available in the virtual data room for parties that execute a confidentiality agreement.



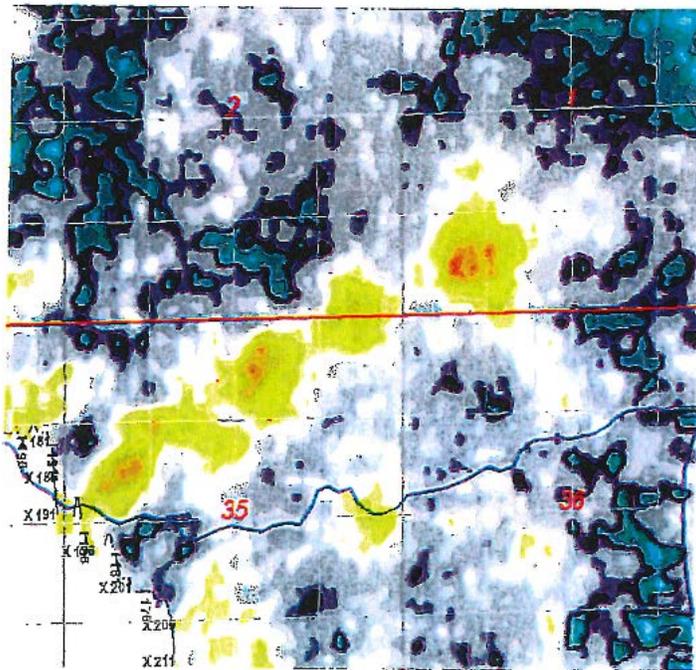


Nisku Prospect

The Nisku Formation at *Pembina* was deposited as a reef complex within the Late Devonian resulting in a reservoir that is highly permeable with a net pay zone of approximately 15-25 metres in thickness. The Nisku trends southwest to northeast from Township 45 Range 23 W5 to Township 51 Range 4 W5.

Below is a graphic depiction of the reef structure provided publicly by West Energy to the Rocky Rapids residents in a January 19, 2005 presentation as part of its application for drilling licences on the Nisku Prospect. The full presentation will be available in the data room for parties that execute a confidentiality agreement.

Nisku Reef Structure – Image from West Energy’s Rocky Rapids Open House



The Nisku Prospect is defined by a seismic anomaly which was originally delineated in 2004 by West Energy. Based upon the information provided to the Company by West Energy and Bashaw, the Nisku anomalies are primarily located in Section 35-049-07W5 and Section 01-050-07W5. Three Nisku drilling locations had been identified at 12-35-049-07W5, 15-35-049-07W5 and 04-01-050-07W5. The 12-35 well would subsequently be converted into a water injection well. All three Nisku wells would be drilled from one drilling pad located in Section 35-049-07W5.

In addition, West Energy had delineated and made applications for drilling licenses on the lands in Section 06-050-07W5 and Section 07-050-07W5 with bottomhole locations at 11-6 and 1-7. The copy of the 3D seismic purchased by Bashaw from Sinopec for the purposes of developing the main prospect did not fully cover these lands.





The Company's lands in Sections 20 and 29-049-07W5 have also been delineated by the 3D seismic programs. Although the Company believes these lands to be highly prospective based upon the 3D seismic, these lands are significantly closer to the town of Drayton Valley.

Hydrocarbons present in the Nisku reservoir at *Pembina* are expected to be 38° - 40° API light oil with a possible natural gas cap containing 22% H₂S by volume. The Crossfire wells *GRL Pembina 100/09-05-050-06W5/0* and *GRL 103 PEMBINA 103/14-05-050-06W5/0* located two miles to the east in the Crossfire L2L Pool produced oil from the Nisku Formation at a gross combined peak production rate of approximately 1,860 boe/d in August 2015. In March 2020 gross production was a combined 700 boe/d before being suspended in April 2020.

Nisku Pool History

Several companies have previously pursued the Nisku Prospect, including Bashaw and Sinopec (formerly **Daylight Energy Ltd.**, Highpine and West Energy). The Nisku Prospect has been the subject of two regulatory hearings, both of which cost the respective applicants in excess of \$1 million in legal and expert representation. In the decisions of both the AEUB and the AER, the primary issue was the provision of the building of a Secondary Egress road for residents in the area.

West Energy was successful in obtaining the licences 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 materially impacted the economics of the play. The costs of this new road were estimated by West Energy to be \$10 million.

West Energy made a revised application for drilling licences based upon revised AER regulations substantially reducing the size of the Emergency Protective Zone. West Energy was subsequently acquired by Daylight. Daylight was subsequently acquired by Sinopec and then withdrew its application for the drilling licenses. Sinopec in early 2013 made a corporate decision not to pursue the new West Energy application.

In the spring of 2013, Bashaw, along with an affiliate of CPE formed a joint venture and consolidated the land position to undertake the exploration and development of the Nisku Prospect. Bashaw acquired a 70% working interest as the operator of the Joint Operating Agreement and CPE increased its working interest to 30%.

After West Energy's investigation of the egress road, Bashaw's position was that a secondary egress route was not required under the AER regulations which led to a subsequent hearing in December 2017. The AER, in a decision published on March 28, 2018, denied Bashaw its application for the drilling licenses (the "AER March 2018 Decision").

The AER March 2018 Decision made it clear that the Nisku Prospect would not be approved by the AER without providing a Secondary Egress road for residents in the northeast portion of the Nisku Prospect. 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 former P&NG Rights (under which both West Energy and Bashaw had undertaken the drilling license applications) expired on November 1, 2018.





The AER found that both Bashaw’s emergency response plan and resident consultation were not satisfactory. 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 road for residents in the northeast portion of the Property was critical to any application for drilling licences in the area.

In a 2013 AER hearing related to the approval of the Crossfire wells to the east of the Property, the AER undertook a risk assessment of drilling “critical sour wells” in the *Pembina* area. The AER determined as part of its decision that the chance of an accidental release of H₂S during the drilling of a Nisku well was negligible. This finding was supported by the expert witnesses for both the applicants and the intervenors.

Future Regulatory Approval

CPE believes that in order for a third application to the AER to be successful the following matters would need to be addressed:

1. Secondary Egress;
2. Provision of a monetary benefit to the residents of Rocky Rapids (“Community Benefit”); and
3. Proper consultation with the Rocky Rapids residents prior to making an application to the AER for drilling licences for the Nisku wells.





Secondary Egress Road

Due to the potential for high concentration of H₂S in the associated natural gas cap, it is incumbent on any new applicant to provide Secondary Egress for residents in the northeast sector where the provincial grid roads do not connect.

The Company has determined that a private road on the northeast of the Property (the “Private Road”) could provide Secondary Egress.

CPE has developed a good relationship with the land owner of the Private Road (the “Land Owner”) and would be prepared to assist in obtaining the endorsement of the Rocky Rapids community for the Property.

In November 2018, CPE retained Stantec to evaluate the viability of using the private road as a secondary egress road. Stantec determined that the private road could easily be utilized for such purpose with minor improvements for a total cost of approximately \$170,000.

The Private Road is located on the southeast quarter of Section 07-050-07W5 which connects to the provincial grid road system to the northeast of the Nisku Prospect. This Private Road is regularly used by local residents and during the summer months is used by gravel trucks supplying gravel from a gravel pit owned by the Land Owner located to the south.

To ensure that the condition of the road in extreme weather conditions is not an issue for the residents, Stantec has recommended that snow clearing vehicles be stationed on the lease site at the base of the Private Road during critical times when the wells are open to the Nisku Formation for drilling and/or testing. CPE believes that for any future resident consultations it would be advisable for a potential purchaser (the “Oil & Natural Gas Operator”) to consider stationing two Hagglund BV 206 tracked vehicles (along with operators) on the lease site at critical times.

The Company has now obtained an easement over the Private Road from the Land Owner along with a lease area to locate snow clearing equipment and the possible stationing of the tracked vehicles.





Private Road Master Agreement

In December 2019, CPE entered into an agreement (the “Master Agreement”) with the Land Owner with the following terms:

1. Initial consideration paid to Land Owner: \$15,000;
2. Consideration to Land Owner on AER License Approval: \$250,000
3. Agreement of Land Owner to grant easement over Private Road (“Easement”) plus lease of site for vehicle storage (the “Lease”);
4. Oil & Gas Operator may (but is not required to) undertake the road improvements prior to AER Licence Approval;
5. Oil & Gas Operator agrees in writing with Land Owner to provide Community Benefit (as defined herein) representing:
 - a. \$1,000,000 prior to spudding the first Nisku Well; and
 - b. \$1,000,000 prior to commencing production from the Nisku Prospect.
6. The Community Benefit will be held in trust and used to pave certain of the grid roads which will have the effect of connecting many of the residents in the Rocky Rapids area to Drayton Valley by fully paved roads thereby increasing access to lands and land values in the Rocky Rapids area.

Resident Consultation

The president of the Company, a former landman, has developed a good working relationship with certain key activists and residents, including the Land Owner who would be amenable to development of the Property if it included the paving of grid roads as part of the Community Benefit as defined herein. The president of CPE would be willing to assist the purchaser in obtaining the approval of a group of Rocky Rapids residents.





Estimated Capital Costs

The H₂S content of the associated natural gas cap is estimated to be 22%. The natural gas could be processed in the same way as the Sinopec Crossfire Nisku pool. This cost analysis entails the purchase of sweet gas to dilute the 22% H₂S content down to approximately 7-9% for transportation on the sales line from the Sinopec Crossfire 13-02-050-06W5 Battery to the Buck Lake Sour Gas Processing Plant to the south.

The Company understands that Sinopec has proposed to restart production from the Crossfire L2L Pool with a revised process which would re-inject the sour natural gas back into the Wabamun Formation of an abandoned wellbore. The Company believes that negotiating an economic method of either processing or disposing of the sour natural gas with Sinopec is critical for the development of the Nisku Prospect.

Previous estimated capital costs of the project are outlined below:

a. Drill & Complete three (3) Nisku oil wells	\$10,000,000
b. Drill & Complete water disposal 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 13-02 battery	<u>\$10,000,000</u>
Total:	\$26,850,000

The Company’s preferred location for the drilling pad for the drilling of the three Nisku wells would be at 10-35-049-07W5. The location at 09-05-045-07W5 proposed by Bashaw caused local resident resistance and would have necessitated building the access road immediately between two family residences less than 100 feet from the proposed access road.

Community Benefit

CPE believes that if the residents of Rocky Rapids were to be presented with a third application by an oil and natural gas corporation to drill critical sour wells in their area, the residents and Land Owner need to be offered a tangible benefit that would benefit all members of the community.

It is for this reason that the Company proposed to the Land Owner and the Land Owner agreed that the tangible improvement that would most benefit all residents would be paving of some of the grid roads. The details of how this would be accomplished may be discussed with interested parties.

In addition to the costs described above, the following additional costs have been incorporated into the Reserve Report (defined hereinafter):

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





Pembina Reserves

CPE prepared an internal reserves evaluation of the Nisku Prospect effective December 31, 2021 using GLJ Ltd.'s January 1, 2022 forecast pricing (the "Reserve Report").

CPE estimated that, as of December 31, 2021, the Property contained remaining proved plus probable reserves of 4.1 million barrels of oil and natural gas liquids and 3.4 Bcf of natural gas (4.7 million boe) with a net present value of \$57.0 million using forecast pricing at a 10% discount.

CPE Pembina Lands Ltd. as at December 31, 2021								
	COMPANY GROSS RESERVES				PV BEFORE TAX			
	Oil Mbbl	Natural Gas MMcf	Ngl Mbbl	Total MBOE	5%	10% (000s)	15%	
Proved Developed Producing	0	0	0	0	\$0	\$0	\$0	
Proved Non-Producing/Undeveloped	3,000	2,520	134	3,554	\$58,920	\$41,462	\$29,594	
Total Proved	3,000	2,520	134	3,554	\$58,920	\$41,462	\$29,594	
Probable	1,000	840	45	1,185	\$24,042	\$15,489	\$10,490	
Total Proved Plus Probable	4,000	3,360	178	4,738	\$82,961	\$56,951	\$40,084	

Values in the "Total" row may not correspond to the total of the values presented due to rounding.

Pembina LMR

The Company does not hold an interest in any wells or facilities at *Pembina*.

Pembina Well List

The Company does not hold an interest in any wells at *Pembina*.

