

DORIN LAND AND OILFIELD MANAGEMENT INC.
9760 – 60 Avenue, NW
Edmonton, Alberta
T6E 0C5
780 966-0840



September 8, 2016

Cedar Creek Energy Ltd.
1500, 250, 2nd Street S.W.
Calgary, Alberta
T2P 0C1

VIA E-MAIL

Attention: Mr. Greg McDonald

Dear Sirs:

- Re: A. Notice from Penn West Petroleum Received, Given to:
 Coleen Braun, Dale Murray Braun, and Daneve Marie Lucas;
 as to Purported Transfer of Surface Rights Within LSD 7-4-52-25 W4M**
- B. Notice Given Below to Cedar Creek Energy Ltd. Not to Trespass**
- C. Notice That the Surface Owners Wish to Negotiate Compensation for Losses**
- D. Hazardous Area Assessment Matters and Request for Related Documents**
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We represent Coleen and Dale Braun, Daneve Lucas (and others), who are registered owners of surface rights within the South Half of Section 4-52-25 W4M (herein the “**Owners**”), which rights presumably pertain to a certain Notice dated August 30, 2016 (attached) given to such owners by Penn West Petroleum Ltd. (herein the “**Notice**”) received by some or all of the Owners.

The Notice states on its face that Penn West Petroleum Ltd. (“**Penn West**”) has assigned its interest with respect to the surface rights indicated on Schedule “A” to the Notice to Cedar Creek Energy Ltd. (“**Cedar Creek**”) effective April 01, 2016.

Schedule “A” to the Notice references Penn West File No. S76511 and lists a “surface document” dated January 1, 1962 and Unique Well Identifier of three wells, all of which (more accurately two of which) have a surface location within LSD 7-4-52-25 W4M, the surface of which is owned by the Owners:

100/07-04-052-25W4
100/09-33-051-25W4
100/16-33-051-25 W4 (this well has a common surface location with the 9-33 well listed above)

The Notice fails to state the following:

1. Which of three surface leases dated January 1, 1962 has been assigned by Penn West to Cedar Creek.
2. Whether or not any other surface rights of entry, related to other wells, pipelines, and a tank battery facility licensed and operated by Penn West on the surface of the SW and SE quarters of Section 4-52-25 W4M have been assigned by Penn West to Cedar Creek.

Which "surface document" dated January 1, 1962 Penn West has relied on to enter upon the surface of Armisie field lands owned by the Owners (herein "**Braun Lands**") at various time in the past is a matter the Owners have long sought to determine, and a matter that Penn West has been silent on.

Moreover no "surface document" alone confers any right to an oil and gas developer to enter upon the surface of Alberta lands other than to survey a site or to abandon an surface activity licensed or approved pursuant to the provisions of the *Oil and Gas Conservation Act*, listed in Section 12(1) of the *Surface Rights Act*.

Before we send the information discussed with Mr. McDonald by phone recently, would you be so kind as to answer the following questions? Such questions arise because, by way of said telephone conversation, the distinct impression that Cedar Creek may have also acquired the rights to other wells and a tank battery facility, including inlet and outlet pipelines to such battery, was transmitted to the writer.

1. What are the other particulars of said "Surface Document" dated January 1, 1962 referenced in the Notice?

Please:

- a) Provide the names of the Lessor and Lessee;
- b) list all associated Surface Activities;
- c) reference all caveats filed; and,
- d) reference all assignments and/or amendments after January 1, 1962;

which are associated with the "Surface Document" dated January 1, 1962 that is said by way of the Notice to form part of the assignment of surface rights from Penn West to Cedar Creek.

2. What is the date and what are the details of any transfer of Armisie Field well, facility, or pipeline assets from Penn West to Cedar Creek that are not listed in Schedule "A" to the Notice?
3. What are the licence / approval numbers related to all Armisie field assets acquired from Penn West by Cedar Creek, and have all necessary rights (to work the related oil and/or gas) been acquired whereby Cedar Creek meets the eligibility requirements of the *Oil and Gas Conservation Act* and/or *Pipeline Act* to hold any licence or approval (issued by the Alberta Energy Regulator) transferred to or to be transferred to Cedar Creek?

- a) Has Cedar Creek acquired all wells, pipelines, and facilities located (as to wells, surface location) within the South Half of Section 4-52-25 W4M and within LSD 13-33-51-25 W4M?
- b) Alternately, has Cedar Creek only acquired certain Armisie Field assets, and if so precisely what assets were acquired?
- c) Did Cedar Creek acquire the Armisie tank battery facility, Approval No. F-202054 at LSD 6-4-52-25 W4M within Braun Lands?
- d) Did Cedar Creek acquire an oil well at LSD 6-4-52-25 W4M (Licence No. 3078) and the related oil effluent flowline?
- e) What mineral rights has your company acquired that relate to oil and gas operations active or abandoned within Braun Lands:
 - (i) LSD 1-4-52-25 W4M (state yes or no)
 - (ii) LSD 5-4-52-25 W4M (state yes or no)
 - (iii) LSD 6-4-52-25 W4M (state yes or no)
 - (iv) LSD 7-4-52-25 W4M (state yes or no)
 - (v) LSD 8-4-52-25 W4M (state yes or no)
 - (vi) LSD 9-4-52-25 W4M (state yes or no)
- f) What surface rights (of entry) has your company acquired (if any) to operate the pipelines with license numbers listed below:
 - (i) 6020-02
 - (ii) 255553, lines 01 and 02 (Pipeline Plan 912 2960)
 - (iii) 35962-02 (Pipeline Plan 3249 HW)
 - (iv) 36615-01 (formerly 14977-01)
 - (v) 36615-02 (formerly 14977-02)
 - (vi) 14977-03
 - (vii) 17227, lines 01 and 02
 - (viii) 36961-01
 - (ix) 36962-01

- g) Other than as to those pipelines listed above that are contained within registered pipeline plans 3249 HW and 912 2960, to precisely what portions of Braun Lands (precisely what portions within the titled parcel) has Cedar Creek acquired rights of entry assigned by Penn West?
4. Has Cedar Creek and/or Penn West applied to the Alberta Energy Regulator seeking approval to transfer the licenses and approvals associated with all assets acquired by Cedar Creek from Penn West?
- a) If so, what are the dates of any requested approval as to transfer of licenses?
- b) If so, what is the current status (if known or if any) of any applications made to and or pending with the AER to request approval of transfers requested?
- c) Is Cedar Creek operating the Armisie field or any operations within it at present and if so, at exactly what date, and under exactly what legal authority, are current operations being conducted by Cedar Creek?
5. **IN PARTICULAR**, in the events that the 7-4-52-25 W4M well (Licence No. 2713) referenced in the Notice is on production, and in the event solution gas flaring of oil well solution gas being produced by such well is still occurring :
- a) Please state in writing without delay whether or not Penn West possesses a temporary flaring permit issued by the Alberta Energy Regulator and/or if any such permit has been transferred to Cedar Creek (by the end of business today).
- b) If no flaring permit has been applied for or issued by the Alberta Energy Regulator, please reference what aspects of the statutory scheme Cedar Creek and/or Penn West are relying on to continue to flare solution gas given that Approval No. F-20254 expressly prohibits any and all flaring of gas or sour solution gas containing Sulphur as clearly stated on the face of such Approval (by the end of business today).

We trust that, despite only recently having been granted the right to hold well licenses issued by the Alberta Energy Regulator, Cedar Creek is sufficiently experienced to realize that one may not conduct any activity that is listed in Section 12(1) of the *Surface Rights Act* (unless Cedar Creek owns the surface of the land, which is not the case) on the surface of any privately owned land in Alberta:

- A. unless all substances being handled or sold (or re-injected) are legally leased by Cedar Creek from the registered owners of the substances (Cedar Creek must meet the minimum eligibility requirements to hold a well licence and must hold a valid well/facility/pipeline licence);
- B. unless Cedar Creek meets the definition of an “operator” contained in the *Surface Rights Act* (the substances of being handled must be legally leased or owned by Cedar Creek, and Cedar Creek must be in possession of a valid well licence);
- C. until a right to enter upon the surface of the lands has been acquired pursuant to due process of law by way of:
- written consent of all registered surface owners of the land being entered upon (the boundaries of which must be approved by the Alberta Energy Regulator); or,
 - by way of a right of entry order issued by the Surface Rights Board.

TAKE NOTICE of the Following:

We suggest that Cedar Creek exercise extreme caution, assume nothing, and that Cedar Creek absolutely ensures it possess the necessary rights to enter upon Braun Lands. That is to say that **this letter constitutes fair warning and official written notice not to trespass** (enter in contravention of the provisions of the *Surface Rights Act* or *Land Titles Act*) **upon the surface of Braun Lands.**

No licensing authority has approved surface areas that are fair, sound, and reasonably necessary to conduct the vast majority of operations Penn West has been conducting for years.

We recommend that Cedar Creek not be drawn into the quagmire of illegality that is Armisie Field operations based on inadequate documentation and poorly made administrative decision making to the degree where Cedar Creek cannot recover the cost of liabilities created by Penn West and its predecessors from Penn West.

Landowners (surface owners) are indemnified by law from absorbing any and all loss arising from issuance of licenses or approvals of the AER that result in the creation or taking of interests in the surface of Alberta lands.

We respectfully but strongly recommend that Cedar Creek shut in all operations and immediately enter into non-stop negotiations with Braun Lands Owners to acquire the necessary legal rights of entry related to their land.

We hereby assure you that we believe the Braun Owners shall, for a nominal and low cost, grant **temporary** rights of entry whereby Cedar Creek may legally enter to shut in all operations, and so such shut in operations remain legal for a set time period sufficient to allow meaningful negotiations with the Owners to occur related to acquiring the necessary agreements granting rights of entry.

In addition, we recommend that if such negotiations do not result in surface lease agreements and pipeline rights-of-way that grant and/or lease the necessary surface interests to Cedar Creek within said time period, that Cedar Creek apply immediately thereafter for right of entry orders.

Furthermore we advise you that, in our informed opinion, after some four years of review of countless facts and documents, at no time whatsoever did Penn West remotely meet the eligibility requirements set out in A above to hold certain Armisie field licenses (particularly well licenses related to freehold minerals registered in the name of deceased Jessie Eileen Watson and numerous pipeline licenses).

Moreover, in our considered opinion Penn West has never obtained the required consent in writing of surface owners to conduct the vast majority, if not all, of the active surface activities taking place upon the surface of Braun lands (including most pipelines).

It is obvious that the Surface Rights Board has never issued any right of entry order related to activities being conducted within the legal boundaries of Braun Lands.

RATE of ANNUAL COMPENSATION

We trust that Penn West has notified Cedar Creek of the following and provided all related correspondence:

In writing, a Braun Owner requested a review of the rate of annual compensation for the period commencing January 1, 2002 to January 1, 2007. We reiterated in writing that such a review was requested. No such review occurred.

On behalf of Braun Owners, and in relation to Notice given by Penn West that the Braun Owners have the right to negotiate a rate of annual or other periodic compensation for the five-year period commencing January 1, 2017, we requested that Penn West conduct a review of the rate of ongoing compensation. In such regards, Penn West advised that certain personnel were on holidays and that Penn West was unable to do so until the end of August, 2016.

Penn West in 2013 made retroactive claims as to a considerable change in surface rights Penn West states occurred in the 2004 year. Retroactive compensation from 2004 onwards must be assessed accordingly.

Penn West admitted to pipeline trespass, and claims such trespass was cured in 2004 (the Owners disagree). Even if Penn West is correct, Penn West has not addressed compensating the Owners for admitted trespass that occurred between 1962 and 2004. Such damages must be assessed.

RECENT APPROVAL NO. 12447

Mr. McDonald indicated in a telephone call that his opinion is that Armisie field wells can be restarted by way of Approval No. 12447 for solution gas re-injection. We advise caution in the following regards:

1. An expressed condition was approval in writing that Directive 051 requirements have been met.
2. An expressed condition that solution gas to be re-injected contain less than 0.66% H₂S by volume.

Strangely, and without explanation, the Alberta Energy Regulator issued such approval knowing that Penn West submitted that the H₂S content of solution gas produced by all wells (except the water disposal well) is 1.29%, or considerably higher than the 0.66% limit under said Approval.

ARMISIE BATTERY SPACING

Pursuant to the applicable Electrical Code and Occupational Health and Safety Code, all operators of tank batteries or other sources of ignitable vapours must assess, by way of using qualified engineers or other safety personnel, hazardous areas surrounding:

- all tanks that contain any liquid other than fresh water;
- any flare stack or incinerator stack; and,
- any pressure vessel fitting with a relief valve.

Moreover, all records and drawings related to such assessments must be kept on file and produced on request of a stakeholder.

Consider this a preliminary request to show all hazardous area assessments have been conducted by qualified personnel and to show that all workers (including farm and cellular phone tower workers) have been trained in working in hazardous areas related to the Armisie battery.

Consider this a request to produce all associated documentation forthwith whereby it can be shown that all of the necessary assessments of hazardous areas and related training have been made and conducted.

In the event Cedar Creek has acquired the Armisie battery, we suggest that all such records be immediately obtained from Penn West, and that if there are no such records have been kept on file, that the Armisie battery be immediately shut in pending completion of all regulated requirements for hazardous area assessment and training.

Please refer to Section 8.090 of the *Oil and Gas Conservation Regulations*, AR 151/1971. We suggest that you pay particular attention to:

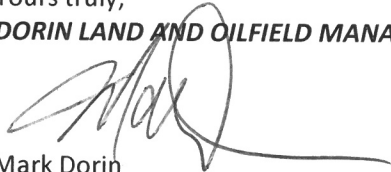
- **subsection (8)**, which references said Electrical Code (by way of reference to the *Safety Codes Act*) and OHS requirements (by way of the *Occupational Health and Safety Act*);
- **subsection (10)** whereby any operator or licensee of a tank or other source of ignitable vapours must enforce all provisions of said Section 8.090, which deal with necessary spacing to on-site and off-site sources of ignition and assessment of hazardous areas.

As you can see, in any event meetings between the Owners and Cedar Creek are necessary.

Unless your firm has extensive experience in operating in an urban populated area, on land approved for residential development, we suggest that we meet without delay to discuss the foregoing and countless other matters.

Yours truly,

DORIN LAND AND OILFIELD MANAGEMENT



Mark Dorin
President

Attachment: Notice from Penn West dated August 30, 2016

CC: Alberta Energy Regulator, Edmonton Field Office Personnel