

May 1, 2015

Penn West Petroleum Ltd.
c/o Bennett Jones LLP
Suite 200 Penn West Plaza
Calgary, Alberta, T2P 1K3
VIA E-MAIL

Attention: Mr. Blake Williams, Bennett Jones LLP

CC: The Alberta Energy Regulator
St. Albert Field Office and Calgary Head Office

Dear Sir or Madame:

Re: Armisic Field Issues: Demand to Cease Un-licenced Operations and Cure Trespass

FACTS: The facts related to current issues at Armisic Field requiring immediate action are:

- A. There are currently two oil wells listed below (and a water disposal well) operating:
1. The original Armisic No. 1 well, Licence No. 2715, at 7-4-52-25 W5M
 - H₂S content in solution gas: Licence: **2.21%** As per ERP: **2.81%**
 2. The oil well, which appears to be the 11-33-52-25 well at surface 13-33-51-25 W4M, Licence No. 84329.
 - H₂S content in solution gas: Licence: **1.10%** As per ERP: **0.75%**
- B. All Armisic Field oil wells, including the wells listed in Item A above, produce through six oil effluent pipelines, all licenced for 2.5% maximum H₂S content, to the Armisic multi-well proration Battery, Licence No. F20254.

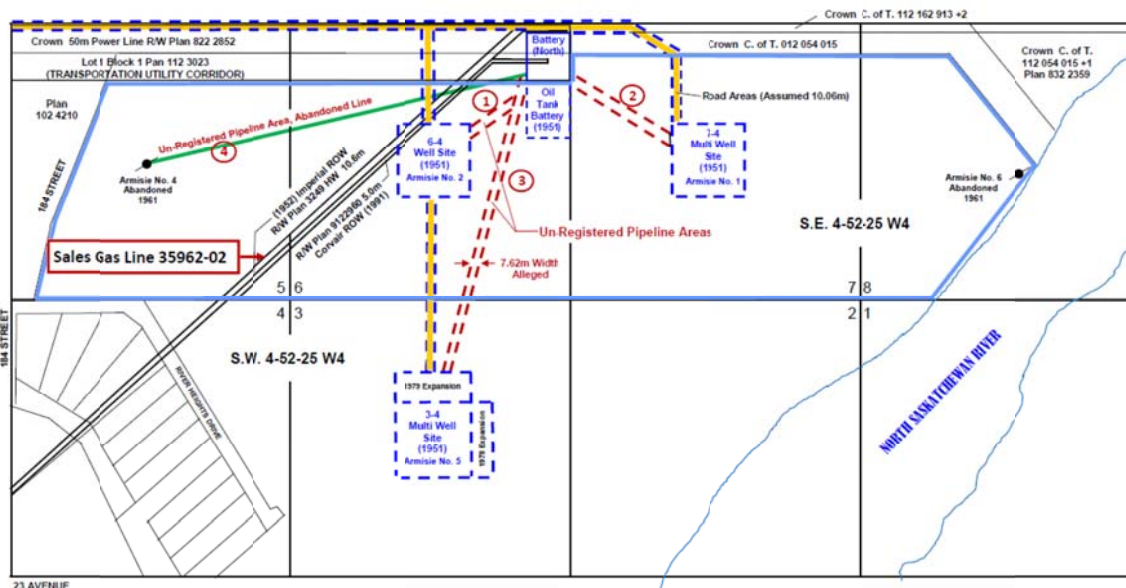
The location of such battery is 6-4-52-25 W4M (the north portion of the battery is on Crown land, south portion on our clients land we manage). The battery inlet oil effluent pipelines are those listed below:

1. 6-4 well to 6-4 battery: Licence 36615-01 (formerly 14977-01). Max. H₂S: 2.5%
 2. 7-4 wells to 6-4 battery: Licence 36615-02 (formerly 14977-02). Max. H₂S: 2.5%
 3. 3-4 wells to 6-4 battery: Licence 17227-01. Max. H₂S: 2.5%
 4. 3-4 wells to 6-4 battery: Licence 17227-02. Max. H₂S: 2.5%
 5. 11-33 wells to 6-4 battery: Licence 25553-01. Max. H₂S: 2.5%
 6. 11-33 wells to 6-4 battery: Licence 25553-02. Max. H₂S: 2.5%
- C. The Armisic Battery is licenced for maximum inlet H₂S concentration of 6.60 mol/kmol or 0.66% H₂S content in inlet solution gases. Clearly the facts are:
1. The H₂S content in solution gas produced by both wells currently on line (Item A) exceeds licenced battery inlet maximum H₂S content considerably.
 2. The Licenced maximum H₂S for all battery inlet lines (2.5%) exceeds the battery licenced maximum inlet H₂S concentration (0.66%).

- D. A Telus Mobility cellular phone tower, with a metal building containing electrical equipment not rated for a hazardous area, is installed adjacent to and east of the south east boundary of the Armisie Battery, in close proximity to the battery emergency incinerator stack. In such respects:
1. The distance between said incinerator stack and said cellular phone building is approximately 35 – 38 metres.
 2. The minimum distance to be maintained between a source of ignitable vapours (the incinerator stack) and a source of ignition (electrical equipment in the cellular phone building) is 50 metres, pursuant to Section 8.090(2) of the *Oil and Gas Conservation Rules*, AR 151/1971 (the “*OGCR*”).
 3. All operators and licensees are to enforce the provisions of all subsections of Section 8.090 of the *OGCR* pursuant to subsection 8.090(10), where oil tanks and other sources of ignitable vapours are present (the Armisie Battery is patently an oil well tank battery with tanks and sources of ignitable vapours – the incinerator stack).
 4. Section 8.080(3)(b) of the *OGCR* prescribes a minimum setback to, or separation distance between, a flare and a “surface improvement” of 100 metres.
 5. The foregoing is also set out in *Directive 056*, Section 5.9.10, Subsection 53(c).



- E. The licensee of the following pipelines is trespassing in that the licensee has never obtained a surface right of entry in respect of the areas described and illustrated below, which areas were taken by the Licensee outside the provisions of the *Surface Rights Act*:
1. Pipeline Licence No. 36615-01, 6-4 well site to Armisie Battery.
 2. Pipeline Licence No. 36615-02, 7-4 well site to Armisie Battery
 3. The following Pipeline Licences in a common area between the 3-4 well site and the Armisie Battery:
 - a) Pipelines 17227, lines 01 and 02 (oil effluent)
 - b) Pipeline 36961-01 (salt water)
 - c) Pipeline 36962-01 (natural gas)
 4. The area within LSD 5-4-52-25 W4M containing abandoned oil effluent line 14977-03, from the former abandoned Armisie No. 4 well to the Armisie Battery.



- F. The Sales Gas Line leaving the Armisie Battery, Licence No. 35962-02 also illustrated above, is licenced as a sweet gas pipeline, for a maximum H₂S content of 0.99%. With only the two wells listed in Item A above on line, and based on Licensee well test data, there is no question whatsoever that the content of hydrogen sulphide in such Sales Gas Line is currently in excess of the licenced maximum H₂S content. The line is sour.
- G. The current, disputed, position of Penn West Petroleum Inc. (“**Penn West**”) is that such company leases the area outlined in blue in the illustration above.
- H. The pipeline area listed and illustrated as Area 3 above, between the 3-4 Multi Well Site and the Armisie Battery, was severely contaminated by a 2004 leak of oil effluent pipeline No. 17227-02. Penn West provided an environmental report in such respects to the writer on December 19, 2014. The spill area and related 2004 surface activity can be seen in the 2004 satellite image provided below.

Surface Area Impacted by 2004 Break of Oil Effluent Line No. 17227-02



DEMANDS

1. The Licensee of the following pipelines shall cure its trespasses in respect of Areas 1, 2 and 3 described and illustrated above no later than May 31, 2015, pursuant to the legislated requirements of the *Surface Rights Act*.
 - Pipeline Licence 36615-01
 - Pipeline Licence 36615-02
 - Pipeline Licence 17221
 - Pipeline Licence 36961-01
 - Pipeline Licence 36962-01
2. The Licensee of oil wells 7-4-52-25 W5M, Licence No. 2715, and 11-33-51-15 W5M, Licence No. 84329 (or any other well with surface at 13-33-51-15 W5M currently producing) and Armisie Battery Licence No. F20254, shall shut in both of such wells and the Armisie Battery, today, May 1, 2015, including all wellhead valves, and leave such wells and all other Armisie Field oil wells, and the Armisie Battery, shut in until such time as:

- a) the Armisie Battery Licence No. F20254 has been amended to increase the licenced inlet maximum H₂S content to a value higher than the content of any oil well solution gas;
 - b) Sales Gas Pipeline Licence No. 35962-01 and related Licence 35962-01 (connected downstream segment) have been amended, whereby the maximum licenced H₂S content of Line 35962 is higher than the highest concentration of H₂S in any oil well solution gas related to any active well (not listed as suspended by the Alberta Energy Regulator) within the Armisie Field pursuant to recent, analyzed, gas samples;
 - c) the Telus Mobility Cellular Phone tower has been removed or relocated, or the Armisie Battery Licensee has obtained written approval, recorded in Battery Licence F20254 application file, that relaxations of the applicable regulated setback distances have been obtained; and,
 - d) the Licensee of the Armisie Battery No. F20254 has obtained the written approval of Alberta Infrastructure and the Alberta Energy Regulator to operate the Armisie Battery within a distance less than 800 metres from the overpass on Anthony Henday Drive and 184 Street/Cameron Heights Drive (Fact: such distance no less than 750 metres, see the attached illustration).
3. The Licensee of Sales Gas Pipeline Licence 35962 shall de-pressure such line (to the emergency incinerator stack if necessary) by no later than 5:00 PM on Saturday May 2, 2015 for safety of those living in and travelling through the area of such pipeline.
 4. The Licensee of the pipelines bulleted in Demand #1 above, by no later than May 31, 2015, either:
 - a) shall have obtained a legal right of entry pursuant to a private agreement with all surface owners and occupants or pursuant to an order of the Surface Rights Board; or,
 - b) shall displace all of such pipelines to fresh water and apply to have all of such pipelines listed as abandoned by the Alberta Energy Regulator no later than May 31, 2015.
 5. After May 31, 2015, Penn West shall no longer use the road south of the well site at 6-4-52-25 W4M with Licence No. 3078 (leading to the site at 3-4-52-25 W5M) unless Penn West has obtained a legal right of entry pursuant to the provisions of the *Surface Rights Act*.
 6. By no later than May 31, 2015, Penn West shall have obtained a legal right of entry to the entire spill and work area caused by the 2004 leak of the pipeline with Licence No. 17227-02 (the “**Spill Area**”) for conservation, reclamation, and/or remediation of such surface area pursuant to Section 13.1(1)(b) of the *Surface Rights Act*.

NOTICE

TAKE NOTICE THAT in the event Penn West does not comply with any or all of the demands set out above by May 31, 2015, at any time after June 1, 2015, and without further notice:

1. The surface owners or those acting through them may safely displace the pipelines listed in Demand 1 above to fresh water and remove them, pursuant to their federal rights to protect their property from trespass or damage arising out of trespass and surface activities not contemplated under the *Pipeline Act*, the *Oil and Gas Conservation Act*, and the *Surface Rights Act* and related regulations.
2. The surface owners or those acting through them may deliver any Penn West employee or personnel, or those of any Penn West contractor, to a peace officer to be charged with trespass, or may otherwise lay trespass charges.
3. The surface owners or those acting through them shall apply to the Alberta Energy Regulator or other government authority for an environmental protection order or other direction for Penn West to conserve and reclaim the “specified land” that is the Spill Area defined above, pursuant to the provisions of Section 137 of the *Environmental Protection and Enhancement Act* and related regulations.

TAKE FUTHER NOTICE THAT the official position of the surface owners in respect of a certain Penn West claim, transmitted in writing on December 19, 2014, that the entire surface area outlined in blue on the figure provided on page 3 above is leased, is patently absurd.

As has always been the case, the undersigned stands ready to meet and negotiate in good faith with Penn West in respect of more realistic, safe, regulatory compliant, and legal production plans than those currently relied on: Use of the Armisie Battery when numerous other safer options exist, and exceeding the maximum H₂S content of Sales Gas Line No. 35962-02 and the licenced Armisie Battery inlet hydrogen sulphide content.

As Bennett Jones LLP should know, and should advise its client as experienced surface rights legal practitioners, no operator in Alberta has or may obtain a right of entry to the surface of private lands for any un-licenced activity. Un-licenced activities are not contemplated by Section 12(1) of the *Surface Rights Act* or the related underlying statutory scheme.

Penn West is respectfully advised to read Section 8.090(10) of the *OGCR* and to live up to Penn West’s regulatory enforcement obligations set out in such regulation before a serious accident occurs related to Armisie Battery operations.

Govern yourselves accordingly.

DORIN LAND AND OILFIELD MANAGEMENT INC.


Mark Dorin
President

Attachment: Illustration of Armisie Field Sites and Proximity to Anthony Henday Drive