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Canada

BY E-MAIL ONLY

February 22, 2019

tel 780-638-4491
fax 780-442-1459

Inception Exploration Ltd.

www.aer.ca

Re: Dragos Energy Corp.
Application No. 1913895
Statement of Concern No. 31347

Dear Sir/Madam:

You are receiving this letter because you filed a statement of concern regarding application no. 1913895. The Alberta Energy Regulator (AER) has reviewed your statement of concern, along with the company's application, and all applicable requirements and other submissions or information about the application. The AER has decided that a hearing is not required to consider the concerns outlined in your statement of concern, as they have been adequately addressed.

In our review of your concerns, we considered the following:

- Dragos Energy Corp. (Dragos) has applied for a Class IB disposal scheme using the current wellbore 00/07-25-069-06W6/2 (7-25) for injection into the Cardium formation of the Elmworth.
- The AER acknowledges the concerns raised regarding the over pressurization of the Cardium Reservoir, reservoir containment as well as the hydraulic isolation of the Cardium in the Elmworth Field. Specifically the concern that Dragos' proposal to conduct additional disposal into the Cardium Reservoir will create an even greater barrier for Inception to safely drill through the Cardium to access its mineral rights.
- The concerns are based on future injection and disposal activities, which are beyond the scope of the current application. Although the proposed well contemplates injection for disposal purposes, an additional application under *Directive 065: Resources Applications for Oil and Gas Reservoirs* will be required to authorize injection activities. Dragos will be required to submit reservoir pressure test and injectivity test data and the corresponding interpretation results when it becomes available as part of that application.
- Inception will have the opportunity to raise its concerns and submit a statement of concern at the time of that application.
- Inception's concerns are addressed in AER *Bulletin 2017-16 Fluid Disposal Schemes in the Elmworth Field, Cardium Sand* which states that the AER may impose one or more of the following approval conditions;
 - A Cardium Sand pressure requirement for a scheme approval well or monitoring well prior to the commencement of disposal operations

- An annual pressure-testing requirement of a scheme approval well or monitoring well by means of a stabilized shut-in bottomhole pressure test in accordance with Directive 040: Pressure and Deliverability Testing Oil and Gas Wells
- The annual pressure must not exceed the Cardium Sand pressure established prior to commencement of disposal operations
- A wellhead pressure monitoring condition and the maximum wellhead injection pressure limitation
- A broader review of offset wellbores (e.g., open-hole abandoned wells and offset well casing collapse)
- Any additional conditions as circumstances may warrant
- Inception's concern relating to the loss of projected revenue (Crown Royalties) is outside the scope of the application.
- Drago is required to meet all environmental and regulatory guidelines and requirements.

inquiries 1-855-297-8311
24-hour
emergency 1-800-222-6514

Based on the above, you have not demonstrated that Inception may be directly and adversely affected by approval of the application and the AER has concluded that it is not necessary to hold a hearing before making a decision on the application. The AER has issued the applied-for approval and this is your notice of that decision. A copy of the approval is attached.

All AER regulated parties must comply not only with the conditions of their approval, but with all of the AER's regulatory requirements. To ensure industry compliance the AER has developed its *Integrated Compliance Assurance Framework*, which embodies the three main components of all effective compliance assurance programs, those being education, prevention, and enforcement. You can find out more about how the AER verifies industry compliance and responds to noncompliance here: <https://aer.ca/regulating-development/compliance/compliance-assurance-program>.

You may file a regulatory appeal on the AER's decision to issue the approval if you meet the criteria within section 36 of the *Responsible Energy Development Act*. Filing instructions and forms are on our website under Regulatory Appeal Process.

If you have any questions, contact Brittney Goudreau at 780-641-9038 or by e-mail Brittney.Goudreau@aer.ca.

Sincerely,

<Original Signed By>

Rob Cruickshank
Director, Business Process

Attachment (1): (Approval)

cc: Clint Jensen, Dragos Energy Corp.
Shawn Cody, CG Engineering
AER SOC Assessor
AER Grande Prairie Field Centre