FORM 49
[RULE 13.19]

COURT FILE NUMBER	1701-03460
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANT(S)	**ALBERTA ENERGY REGULATOR**
RESPONDENT(S)	**LEXIN RESOURCES LTD.**
DOCUMENT	**AFFIDAVIT**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**BENNETT JONES LLP** Barristers and Solicitors 4500 Bankers Hall East 855 – 2nd Street SW Calgary, Alberta T2P 4K7 Attention: Ken Lenz, Q.C./Matthew Macdonald Telephone No.: 403-298-3317/3664 Fax No.: 403-265-7219 Client File No.: 70153-8

AFFIDAVIT OF CHARLES SELBY

Sworn on March 17, 2017.

I, CHARLES SELBY, of the City of Calgary, in the Province of Alberta, Businessman, MAKE OATH AND SAY THAT:

1. I am the President and a member of the Board of Directors of Caledonian Royalty Corporation (the "Caledonian") and as such have direct personal knowledge of the matters hereinafter deposed to except where stated to be based upon information and belief and where so stated I verily believe such matters to be true. I am also a member of the Law Society of Alberta and a registered professional engineer with the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

2. Caledonian is incorporated under the *Business Corporations Act*, R.S.A. 2000, C. B-9, as amended (the "*Act*").

3. Caledonian purchased a gross overriding royalty under the terms of an agreement dated October 26, 2009 between Compton Petroleum Corporation ("Compton") as predecessor in interest to Lexin Resources Ltd. ("Lexin") attached hereto as **Exhibit 1** pursuant to which Caledonian acquired a 5% gross overriding royalty on substantially all of the oil and natural gas properties of Compton for consideration of approximately one hundred million ($100,000,000) dollars. Among other things the gross overriding royalty provides:

   (a) The royalty constitutes an interest in land;

   (b) The royalty agreement creates a lien and associated rights, upon a default, including to obtain a working interest in the subject lands, to obtain information, to obtain operatorship of the subject lands and to seek the appointment of a receiver.

4. Caledonian filed caveats against certain of Compton's lands to protect its royalty interest in 2010.

5. Lexin was deficient in paying Caledonian arrears in respect of its royalty commencing on or about April, 2016. Lexin has failed to provide Caledonian associated accounting information but Caledonian believes that Lexin currently owes Caledonian in excess of one million ($1,000,000) dollars.

6. Caledonian received advice from a third party in September, 2016 that the Mazappa Gas Plant, owned and operated by LR Processing had been shut-in as a result of an order by the Alberta Energy Regulator ("AER") and accordingly, production from associated gas wells had been shut-in including wells subject to the Caledonian royalty.

7. Caledonian instructed its counsel to file caveats in respect to the lien arising under the royalty agreement against certain freehold lands of Lexin and to conduct PPSA

registrations against certain crown lands of Lexin. I believe that those registrations were made.

8. Caledonian approached consultants and employees of Lexin in late September and early October, 2016 and arranged to tour the Mazeppa Gas Plant and to review the status of wells and field facilities.

9. In October, 2016, Caledonian commenced working on a plan to bring both the sweet and sour gas back into production based upon facilities that might be available in the area. Caledonian relied upon its internal resources, the advice of consultants and a working relationship with Midstream Canada Ltd. ("Midstream"), a company with dedicated expertise to operate midstream facilities and to conduct associated field and well operations to the extent those services might be required by Caledonian.

10. Caledonian approached Lexin regularly, through Lexin's consultants, to seek information and to obtain agreement in respect to a plan to bring gas production back on production.

11. On December 16, 2016, Caledonian provided Lexin with a Notice of Default under the gross overriding royalty agreement which is attached hereto as **Exhibit 2**.

12. On or about February, 2017, Caledonian and Midstream made a joint submission to the AER in respect to a general area plan to bring production back on stream which is attached as **Exhibit 3**.

13. Over the period October, 2016 through to the present, Caledonian has initiated contacts directly and through consultants with other working interest owners impacted by the shut-in of the Mazeppa Gas Plant with a view to cooperating to protect mutual rights and further cooperating to find a commercial solution to bring gas production back on stream.

14. On March 2, 2017, Caledonian delivered a letter to Jan Rempel, Manager, Insolvency Management at the AER (which is attached as **Exhibit 4**) requesting the transfer, pursuant to s.106 of the *Oil and Gas Conservation Act,* of certain well licenses and associated operatorship from Lexin to Caledonian or its nominee (together with a right to

operate and transport production through the pipeline network owned by Lexin and Lexin and LR Processing to the Parkland Gas Plant operated by Altagas.

15. On March 6, 2017, Caledonian delivered a letter to James Allen, Special Advisor, Tenure Operations Energy to Alberta Energy, attached as **Exhibit 5**, representing that Caledonian is seeking a solution to bring natural gas volumes back into production associated with certain to the Lexin Crown Leases and requesting that Alberta Energy not exercise cancellation provisions under Article 45 of the *Mines and Minerals Act.* Caledonian made similar requests on an oral basis to the holders of certain freehold leases impacted by the shut-in of the Mazeppa Gas Plant that are subject to the Caledonian overriding royalty.

16. Caledonian has sought the cooperation of Lexin from October, 2016 to the present to a plan that involves the transfer of well licenses in the High River area and a plan to bring gas back into production from that area. Caledonian has advised Lexin that it would be prepared to enter into reasonable commercial negotiations to implement a plan to secure the transfer of interests. Lexin has not responded to these requests or to any commercial proposal advanced by Caledonian.

17. Caledonian believes that it is possible to bring both sweet and sour volumes back into production over time from areas impacted by the Mazeppa Gas Plant shut-ins. The extent to which this can occur will depend upon factors including practical operational considerations and associated costs, economics which are impacted by prevailing natural gas prices and other factors, the cooperation of all stakeholders and the receipt of approvals from the AER and the Orphan Well Fund. Caledonian has identified commercial opportunities on various of the Lexin lands and believes that the most effective strategy is to commence by bringing back into production from the shut-in sweet gas wells at High River followed by the low sour gas wells from the same area. Discussions are far advanced with working interest owners and other stakeholders to advance a formal plan to the AER for consideration in the immediate future. Caledonian expects that Caledonian and other parties will advance other commercial proposals that will have the potential of serving the interests of all parties.

18. Caledonian has been working in communication with the AER. They want the process of sales to Lexin wells back into production and the AER has failed to communicate with various stakeholders.

19. Caledonian has submitted that it is in the interest of the Provinces of Alberta to ensure that the wells capable of commercial production are brought back into production as soon as possible:

    (a) revenues can be derived from those wells to meet the obligations of any insolvency process imposed by a Court of jurisdiction;

    (b) the commercial interests of royalty holders, working interest holders, lease holders and other stakeholders can be served through ongoing production;

    (c) further damage to the wells and associated equipment can be prevented through the care and attention associated with active operations;

    (d) producing wells economically will delay a requirement for well abandonments;

    (e) the value of wells that are producing will be enhanced in respect to any sales process.

20. I make this Affidavit to put this information on the Court file as part of the Application of the AER in respect of Lexin.

JM SWORN ~~(OR AFFIRMED)~~ BEFORE ME at Calgary, Alberta, this 17th day of March, 2017.	))))	
A Commissioner for Oaths in and for the Province of Alberta	)))	CHARLES SELBY
Jonathan N. McDaniel Student-at-Law Print Name and ~~Expiry/Lawyer/~~Student-At-Law	))))	

TAB 1

COMPTON GROSS OVERRIDING ROYALTY AGREEMENT

THIS AGREEMENT made as of the 26th day of October, 2009

BETWEEN:

THIS IS EXHIBIT " 1 " referred to in the Affidavit / Declaration of CHARLES SELBY Sworn / Declared before me this 12th day of MARCH A.D. 20 17

A Commissioner for Oaths in and for the Province of Alberta
A Notary Public

COMPTON PETROLEUM CORPORATION, a corporation subsisting under the laws of the Province of Alberta, **COMPTON PETROLEUM**, a general partnership organized under the laws of the Province of Alberta, and **HORNET ENERGY LTD.**, a corporation subsisting under the federal laws of Canada (hereinafter collectively referred to as "**Grantors**", or individually as "**Grantor**")

- and -

CALEDONIAN ROYALTY CORPORATION, a corporation subsisting under the laws of the Province of Alberta (hereinafter referred to as "**Grantee**")

WHEREAS:

A. By virtue of that certain Compton Gross Overriding Royalty Purchase and Sale Agreement dated as of September 26, 2009 among the parties hereto (the "**PSA**"), Grantors have agreed to grant the Overriding Royalty in the interests of Grantor in the Royalty Lands; and

B. The parties hereto desire to provide that from and after the Effective Time, the Royalty Lands shall be subject to the terms and provisions of this Agreement.

NOW THEREFORE in consideration of the terms and mutual covenants contained in the PSA, and hereinafter contained, the parties hereto covenant and agree as follows:

ARTICLE 1
INTERPRETATION

1.1 Definitions

In addition to the terms defined in Section 1.1 of the PSA, the following words and terms shall have the following meanings:

"**Agreement**" means this agreement as amended, supplemented, modified or restated from time to time;

"**Condensate**" means a mixture mainly of pentanes and heavier hydrocarbons that may be contaminated with sulphur compounds, that is recovered or is recoverable at a well from an underground reservoir and that is gaseous in its virgin reservoir state but is liquid at the conditions under which its volume is measured or estimated;

"**Effective Time**" means 8:00 a.m. (Calgary time) on October 1, 2009;

"**Equipping Costs**" means the costs of equipping a well;

"**Event of Default**" has the meaning ascribed to that term in Section 5.1(a);

"**Facility Fees**" means, as applicable:

(a) for Facility Usage of facility capacity owned by third parties (other than Affiliates of the Grantors), all costs and expenses paid by the Grantors for that Facility Usage; and

(b) for Facility Usage of facility capacity owned by the Grantors (or an Affiliate of the Grantors), an expense equal to a fee (comprised of both operating and return on capital components) in accordance with paragraph (i) or (ii) below:

  (i) the fee ordinarily chargeable for the same use as the Facility Usage, if that facility is made available for use by third parties; or

  (ii) in all other circumstances, a fee sufficient to cover that use of facilities, where the capital recovery component of that fee uses as a guideline the PJVA Jumping Pound-95 methodology and where the operating cost component is calculated and assessed on the basis of facility throughput costs;

provided that any dispute respecting the Facility Usage fee will be resolved under Section 10.1 of the PSA;

"**Facility Usage**" means the Grantors' use of facilities beyond those included in Equipping Costs to make merchantable and to deliver to market Petroleum Substances produced from a Royalty Well, including, as applicable, the gathering, compression, treatment, processing and transportation of those Petroleum Substances, but excluding any basis adjustments made in the determination of the Market Price of natural gas;

"**Market Price**" means the price at which Petroleum Substances are to be sold pursuant to Section 2.3(c), having regard to market conditions applicable to similar production in arm's length transactions at the time of such disposition, including, without restricting the generality of the foregoing, such factors as the volumes available, the kind and quality of Petroleum Substances to be sold, the effective date of the sale, the term of the sale agreement, the point of sale of the Petroleum Substances and the type of transportation service available for the delivery of the Petroleum Substances to be sold;

"**Natural Gas**" means a mixture containing methane, other paraffinic hydrocarbons, nitrogen, carbon dioxide, hydrogen sulphide, helium and minor impurities, or some of them, which is recovered or is recoverable at a well from an underground reservoir and which is gaseous at the conditions under which its volume is measured or estimated, inclusive of all other products (excluding Petroleum and Condensate) necessarily produced in connection therewith;

"**Overriding Royalty**" means the royalty reserved to Grantee pursuant to Article 2 hereof and defined in Section 2.1(a);

"**Petroleum**" means a mixture mainly of pentanes and heavier hydrocarbons that may be contaminated with sulphur compounds, that is recovered or is recoverable at a well from an underground reservoir and that is liquid at the conditions under which its volume is measured or estimated, but does not include Condensate;

"**Petroleum Substances**'" means Petroleum, Natural Gas, Condensate and every other mineral or substance, or any of them, an interest in which is granted or acquired under the Title Documents;

"**Reserved Formations**" means any rights not included in the Royalty Lands that are held under the Title Documents;

"**Royalty Determination Point**" means the first point at which Petroleum Substances are or can be metered, measured or allocated downstream of the wellhead after, as applicable: (i) any treatment of crude oil for the separation, removal and disposal of basic sediment and water; (ii) any extraction of liquid hydrocarbons from natural gas at the wellhead and any wellsite separation, removal and disposal of basic sediment and water from those liquid hydrocarbons; and (iii) any wellsite dehydration of natural gas;

"**Royalty Lands**" means the areal, stratigraphic and substance rights described in the column entitled "Lease Description / Rights Held" in Appendix "A" hereto, and so much of those rights as from time to time remain subject to the Title Documents, excluding any Reserved Formations;

"**Royalty Lands Proceeds**" means the proceeds of sale or other disposition of the Petroleum Substances from the Royalty Lands, including the Royalty Proceeds;

"**Royalty Proceeds**" means the proceeds of sale or other disposition of the Overriding Royalty share of the Petroleum Substances, less any and all amounts deducted in accordance with Section 2.4;

"**Royalty Well**" means any well from which production is obtained from the Royalty Lands or may be allocated to the Royalty Lands pursuant to a pooling, unit or other arrangement;

"**Secured Property**" has the meaning given to that term in Section 2.6(a);

"**Spacing Unit**" means:

(a) with respect to a well which has not been completed for the production of Petroleum Substances, the area allocated by the Regulations for the drilling of that well, provided that in the absence of such allocation, the Spacing Unit for the well shall be deemed to be the quarter-section, unit or similar geographical area which includes the bottom-hole co-ordinates of the well; and

(b) in every other case, the area allocated to the well pursuant to the Regulations for the purpose of producing Petroleum Substances in each zone from which such Petroleum Substances are to be produced;

"**Title Documents**" means the documents of title described in the column with the heading "Lse Type Lessor Type Int Type / Lse No / Name" in Appendix "A" hereto by virtue of which the Grantors are entitled to drill for, win, take or remove Petroleum Substances underlying all or any part of the Royalty Lands, and includes any amendments thereto, and all renewals, extensions, continuations or documents of title issued in substitution or by selection, but only insofar as they relate to the Royalty Lands; and

"**Working Interest**" means the percentage of undivided interest held by any of the Grantors in the Royalty Lands, or the respective zones, portions, parcels or parts thereof, which percentage is as provided in Appendix "A".

1.2 Appendix "A"

Appendix "A" hereto is incorporated herein by reference as though contained in the body hereof. Wherever any term or condition, expressed or implied, in Appendix "A" hereto conflicts or is at variance with any term or condition in the body hereof, such term or condition in the body hereof shall prevail.

1.3 Conflicting Terms

If any term or condition of this Agreement or Appendix "A" hereto, whether express or implied, conflicts with or is at variance with a term or condition in the Title Documents, then such term or condition in the Title Documents shall prevail, and this Agreement shall be deemed to be amended to the extent necessary to give effect to such term or condition in the Title Documents.

ARTICLE 2
OVERRIDING ROYALTY

2.1 Quantification of Overriding Royalty

(a) The Overriding Royalty is created effective as of the Effective Time and in the manner provided herein. Subject to the other provisions of this Article, including the modified calculation under Section 2.2(c) for production of Petroleum Substances allocated to the Royalty Lands, there is hereby reserved to and owned by the Grantee an interest in a portion of the Petroleum Substances attributable to the Working Interest of the Grantors within, upon or under the Royalty Lands in the nature of an overriding royalty equal to two and one-half percent (2.5%) of the value (calculated in accordance with the terms hereof) on that portion of such Petroleum Substances produced, saved and marketed from each wellhead on the Royalty Lands each month during the term of the applicable Title Documents. The Overriding Royalty will be determined on a well by well basis at the applicable Royalty Determination Point.

(b) Notwithstanding the calculation at the Royalty Determination Point under Section 2.1(a), the Overriding Royalty will not include Petroleum Substances that the Grantors reasonably use or unavoidably lose in the Grantors' drilling and production operations for the Royalty Lands. Those drilling and production operations include the proportionate use of those Petroleum Substances in batteries, treaters, compressors, separators, satellites and similar equipment serving Royalty Wells, but do not include the use of Petroleum Substances for any enhanced recovery operations.

2.2 Effect of Pooling or Unitization On Calculation

(a) The Grantors may pool the Petroleum Substances in a zone underlying all or a portion of the Royalty Lands to the extent required to form a Spacing Unit in that zone, provided that the pooling allocates production therefrom to the applicable Royalty Lands in the proportion that the surface area of the Royalty Lands placed in the Spacing Unit bears to the total surface area of the Spacing Unit.

The Grantors will promptly give notice to the Grantee describing the extent to which the Royalty Lands have been pooled and describing the pooled Spacing Unit.

(b) If the Grantors propose to pool, unitize or otherwise combine any portion of the Royalty Lands with any other lands, other than as provided in Section 2.2(a), the Grantors must promptly send notice of that intention to the Grantee.

(c) If any portion of the Royalty Lands is pooled, unitized or combined with any other lands pursuant to this Section 2.2, Section 2.1 will be deemed to be amended to calculate the value of the Overriding Royalty as it pertains to the Working Interest of the Grantors in the portion of the Royalty Lands that have been so pooled, unitized or combined.

2.3 No Right To Take Overriding Royalty In Kind

(a) The Grantors are appointed as the agents of the Grantee for the handling and disposition of the Overriding Royalty share of Petroleum Substances. All acts of the Grantors under this Section 2.3 in the handling and disposition of those Petroleum Substances and the receipt of any Royalty Proceeds therefrom will be as trustee for the Grantee and all such Royalty Proceeds are and shall be legally and beneficially owned by the Grantee whether or not the Royalty Proceeds are actually held separate and apart from any property or assets of the Grantors or any of them.

(b) Except upon the occurrence and during the continuance of an Event of Default, the Grantee may not revoke the agency established in Section 2.3(a) or elect to take delivery and separately dispose of the Petroleum Substances comprising the Overriding Royalty.

(c) Except to the extent otherwise agreed by the Grantors and the Grantee, insofar as the Grantors take possession of Petroleum Substances comprising the Overriding Royalty as agents of the Grantee, the Grantors will dispose of those Petroleum Substances by:

(i) selling those Petroleum Substances at a Market Price and accounting to the Grantee for the proceeds of the sale; or

(ii) purchasing those Petroleum Substances for the Grantors' own account (or the account of an Affiliate) at a Market Price and accounting to the Grantee therefor.

2.4 Grantors' Allowed Deductions

(a) To the extent that the Grantors dispose of Petroleum Substances comprising the Overriding Royalty on behalf of the Grantee, the Grantee's share of those Petroleum Substances will be free of any deductions for costs and expenses incurred by the Grantors to and including the Royalty Determination Point. Subject to Section 2.4(b), the Grantee will be responsible, on a well by well basis, for the following costs and expenses incurred after the Royalty Determination Point with respect to the Grantee's share of those Petroleum Substances:

(i) for crude oil and liquid products extracted from natural gas at the wellhead, any associated Facility Fees and any transportation costs to transport those Petroleum Substances from the Royalty Determination Point to the point of sale;

(ii) for Petroleum Substances other than those described in the preceding Paragraph, any transportation costs to transport those Petroleum Substances from the Royalty Determination Point to the point of sale; and

(iii) a marketing fee equal to 2.0% of the revenue realized from the disposal of Petroleum Substances comprising the Overriding Royalty on behalf of the Grantee.

A cost or expense attributable to more than one Petroleum Substance being sold by the Grantors may only be deducted once.

(b) Notwithstanding any other provision of this Article 2 if the Grantors are required to incur costs to enrich the Overriding Royalty share of Petroleum Substances to increase the heating value or to facilitate transportation or marketing of those Petroleum Substances, those costs will be deductible by the Grantors against the gross proceeds of sale applicable to those enriched Petroleum Substances, with the intention that neither the Grantors nor the Grantee suffer a loss as a result of that enrichment. Enrichment operations, include, without limitation, condensate blending in the case of heavy oil and enrichment by propane or butane in the case of gas with a low heating value.

(c) The Grantors' right to make the deductions set forth in this Section 2.4 pertains to the costs and expenses that would otherwise be incurred by the Grantee to bring those Petroleum Substances to the point of sale if the Grantee were taking those Petroleum Substances in kind. The allowable deductions from the proceeds of sale of the Grantee's Overriding Royalty share of Petroleum Substances are expressed as cash obligations for convenience of record keeping and audit, and are not to be construed as altering the nature of the Overriding Royalty as an interest in land.

2.5 Grantors To Account To Grantee Monthly

(a) If the Grantors receive funds on account of or as the Royalty Proceeds, the Grantors will receive the Royalty Proceeds as trustees for and on behalf of the Grantees in the capacity of the Grantees as legal and beneficial owners of any such funds and the Royalty Proceeds.

(b) The Grantors must remit to the Grantee all Royalty Proceeds accruing to the Grantee on account of the Overriding Royalty forthwith upon receipt of same. The parties expect that the Grantors will receive Royalty Proceeds in respect of Petroleum Substances sold by the Grantors in any calendar month on or before the 25th day of next calendar month. The Grantors must provide the Grantee with a statement in written or electronic format showing in reasonable detail the manner in which the Grantors calculated that payment, including the unit sale price for those Petroleum Substances, and, if requested by the Grantee, a copy of all reports the Grantors are required to submit under the Regulations for the production of those Petroleum Substances.

(c) Subject to Section 2.5(d), the Grantors shall create a separate account at a recognized Canadian financial institution for the purpose of receiving and depositing all Royalty Lands Proceeds (the "**Clearing Account**"). The Grantors shall further create a separate blocked account for the purposes of receiving and depositing all Royalty Proceeds (the "**Blocked Account**"). The Grantors shall arrange with such financial institution for, or shall otherwise cause, the Royalty Proceeds portion of any Royalty Lands Proceeds deposited into the Clearing Account to be transferred to the Blocked Account forthwith upon receipt of such Royalty Lands Proceeds. The Grantors shall open the Blocked Account at a recognized Canadian financial institution, and forthwith upon opening the Blocked Account the Grantors shall provide the account details to the Grantee. The Blocked Account shall be governed by a blocked account agreement between the Grantors, the Grantee and such financial institution, on terms reasonably acceptable to the parties thereto. A representative of the Grantee shall be designated as a joint signing officer in respect of the Blocked Account for the purposes of withdrawing or transferring funds therefrom, and the Blocked Account shall not be a chequing account. In the event that the Grantors have deposited proceeds from the sale of Petroleum Substances from the Royalty Lands into the Blocked Account in excess of the Royalty Proceeds in error, on prior written notice to the Grantee, providing the details and calculation of such error, the Grantors shall be entitled to withdraw or transfer the amount of such excess with the prior written consent of the Grantee (which consent is not to be unreasonably withheld or delayed). Similarly, in the event any of the Grantors or the Grantee discover that the Grantors have failed to deposit any Royalty Proceeds into the Blocked Account, the Grantors shall forthwith deposit such Royalty Proceeds into the Blocked Account.

(d) The obligation to deposit Royalty Lands Proceeds and Royalty Proceeds into the Clearing Account and Blocked Account shall not apply to a purchaser of a portion of a Working Interest of a Grantor equal to twenty-five percent (25%) or less thereof.

2.6 Grantee's Lien

(a) As of the effective date that the Overriding Royalty is created, the Grantor hereby mortgages and charges and grants a security interest and lien (such mortgage, charge, security interest and lien being collectively referred to as a "**Lien**") in all of the Grantors' right, title and interest in their respective Working Interests in the Royalty Lands, the Petroleum Substances within, upon or under the Royalty Lands, or produced therefrom, the wells and other equipment thereon, and the proceeds thereof (collectively, the "**Secured Property**"), as security for the due payment and performance of the Overriding Royalty and all other indebtedness, liabilities and obligations of the Grantors under this Agreement, to have and to hold the same for the uses and purposes, with the rights, powers and authorities and on the terms and conditions provided for herein. The Overriding Royalty and the Lien are interests in land that attach to the Title Documents and the Working Interests.

(b) The last day of any term of years (or any extension or renewal of any such term, as the case may be) granted by any lease, sublease or profit á prendre, or any agreement therefor, whether oral or written, and whether now held or hereafter acquired, is expressly excepted from the Lien, and does not and shall not form part of the Secured Property, but the Grantors shall stand possessed of the reversion remaining in the Grantor in respect thereof upon trust to assign and dispose of the same as the Grantee may direct.

(c) To the extent that the validity or effectiveness of the grant or creation of the Lien is, with respect to any property or asset intended to be subject to such Lien, necessarily dependent upon obtaining any consent, waiver or other approval of any arm's length third party, such Lien shall, with respect to such property or assets only, not be effective as against such third party until the requisite consent, waiver or other approval so required shall have been so obtained. The Grantors shall use their best efforts to obtain the same as expeditiously as practicable, and shall stand possessed of such property or asset upon trust for the purposes and subject to the terms hereof to assign and dispose thereof as the Grantee shall for such purposes direct.

2.7 Royalty Wells To Be Produced Equitably

The Grantors will not discriminate against the Petroleum Substances produced or producible from the Royalty Lands in the production and marketing of those Petroleum Substances because those Petroleum Substances are subject to the Overriding Royalty. The Grantors will use reasonable efforts to produce Petroleum Substances from a Royalty Well equitably with production from any future diagonally or laterally offsetting well producing from the same pool as a Royalty Well, insofar as the Grantors, or their Affiliate, have an interest in that future offsetting well.

2.8 Audits Of Overriding Royalty

(a) The Grantee may, upon reasonable notice to the Grantors and at the Grantee's own expense, audit the books, records and accounts of the Grantors with respect to the production, disposition or sale of the Overriding Royalty within 24 months next following the end of the applicable calendar year. The Grantee will conduct any such audit in accordance with PASC Joint Venture Audit Protocol Bulletin No. 6 (or any replacement therefor).

(b) Any statement issued by the Grantors to the Grantee respecting the calculation of the Overriding Royalty will be presumed to be true and correct 26 months following the end of the calendar year in which that statement was issued, unless the Grantee takes written exception thereto and requests an adjustment pursuant to this Section 2.8 within that 26 month period. If a Party discovers during that period that there was an error in the calculation of the Overriding Royalty and can demonstrate that the error applied both to that period and a prior period, the Grantors will make the required adjustment retroactively to either the inception of that error or such other time as the Parties may agree, provided that any dispute respecting the proposed retroactive adjustment will be resolved pursuant to Section 10.1 of the PSA. Except to the extent required to confirm the adjustment proposed by the Grantors, the retroactive adjustment contemplated by the previous sentence will not extend the Grantee's audit rights beyond the 24 month limitation provided for in Section 2.8(a).

2.9 Assignment by Grantee

The Grantee may transfer or assign its interest in the Overriding Royalty in whole or part, but the Grantors shall not be required to make payments that would have been payable to the Grantee to more than one party.

2.10 Assignment by Grantors

If any of the Grantors transfers or assigns all or any part of its interest in the Royalty Lands, it shall continue to be bound by, observe, and perform all of the covenants and terms of this Agreement as if there had been no transfer or assignment until such time as the party acquiring such interest delivers to the Grantee notice of such transfer or assignment and a written undertaking to be bound by, observe, and perform all of the covenants and terms of this Agreement then binding on such disposing Grantor insofar as they relate to the interest transferred or assigned. Upon receipt by the Grantee of such notice and undertaking, such disposing Grantor shall be released and discharged from any and all liability and obligations thereafter accruing under this Agreement, or the Title Documents relating to the Royalty Lands, insofar as they relate to the interest so transferred or assigned.

ARTICLE 3
ADDITIONAL OBLIGATIONS OF THE GRANTORS

3.1 Proper Practices in Operations

The Grantors shall conduct all joint operations diligently, in a good and workmanlike manner, in accordance with good oilfield practice and the Regulations.

3.2 Books, Records and Accounts

The Grantors shall, with respect to all operations on or in respect of the Royalty Lands, keep and maintain true and correct books, records and accounts with respect to the development and progress made, drilling done, the conduct of other operations, the production of Petroleum Substances and the disposition thereof in the manner prescribed herein. The Grantors shall, upon request of the Grantee, make available in Alberta and there permit the Grantee during normal business hours to inspect such books, records and accounts and to make extracts or copies therefrom and thereof, and to audit the Grantors' books, records and accounts as provided in the applicable accounting procedure.

3.3 Protection from Liens

The Grantors shall pay, or cause to be paid, as and when they become due and payable all accounts of contractors and claims for wages and salaries for services rendered or performed and for materials supplied with respect to the Royalty Lands and any operations thereon.

3.4 Future Disclosure

The Grantors agree to provide the Grantee, its personnel and advisors (including, without limitation, any auditors, accountants, legal, engineering and environmental advisors engaged by the Grantee) such information and to make available such of the Grantors' personnel as may be reasonably required by the Grantee to satisfy any disclosure and other obligations or requirements of the Grantee relating to the Overriding Royalty and the Royalty Lands now or hereafter arising under any national instrument or local securities commission rule or otherwise, including specifically in relation to engineering reports and data relating to the Overriding Royalty and the Royalty Lands.

ARTICLE 4
LIABILITY AND INDEMNITY REGARDING THE OVERRIDING ROYALTY

4.1 Grantors' Responsibility

The Grantors will:

(a) be liable to the Grantee for all losses, costs, damages and expenses whatsoever (whether contractual or otherwise) that the Grantee may suffer, sustain, pay or incur; and, in addition

(b) indemnify and hold harmless the Grantee and directors, officers, agents and employees against all actions, causes of action, proceedings, claims, demands, losses, costs, damages and expenses whatsoever that may be brought against or suffered by the Grantee, its directors, officers, agents and employees or that they may sustain, pay or incur, insofar as they are a direct result of: (i) any act or omission (whether negligent or otherwise) of the Grantors with respect to operations or activities conducted by it or on behalf of it under Article 2 or 3; (ii) a breach of Article 2 or 3 by the Grantors; or (iii) the wilful or wanton misconduct of the Grantors, their employees, agents or contractors. However, this obligation will not apply to the extent that the particular act or omission was done or omitted to be done in accordance with the Grantee's written instructions or written concurrence. Costs described in this Section 4.1 will include reasonable legal costs on a solicitor-client basis.

ARTICLE 5
OVERRIDING ROYALTY DEFAULT

5.1 Events of Default

The following shall constitute an event of default by a Grantor hereunder (collectively, the "**Events of Default**" and individually, an "**Event of Default**"):

(a) the failure by any Grantor to pay the Overriding Royalty or any other amount required to be paid by the Grantors under Articles 2, 3 or 4;

(b) if a Grantor is unable to pay its debts as such debts become due, or is, or is adjudged or declared to be, or admits to being, bankrupt or insolvent;

(c) if a Grantor makes a general assignment for the benefit of creditors; or any proceeding or filing is instituted or made by a Grantor seeking relief on its behalf as debtor, or to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, arrangement, adjustment or composition of it or its debts under any similar law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its properties or assets, or a Grantor takes any action to authorize any of the actions set forth in this paragraph;

(d) if any bona fide notice of intention is filed or any proceeding or filing is instituted or made against a Grantor in any jurisdiction seeking to have an order for relief entered against it as debtor or to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its properties or assets or seeking possession, foreclosure or retention, or sale or other disposition of, or other proceedings to enforce security over, all or a substantial part of the assets of such Grantor;

(e) if a receiver, liquidator, trustee, sequestrator or other officer with like powers is appointed with respect to, or an encumbrancer pursuant to any mortgage, lien, pledge, charge (whether fixed or floating), security interest, trust claim or other encumbrance of any kind (collectively, an "Encumbrance") takes possession of, forecloses, retains, sells or otherwise disposes of, or otherwise proceeds to enforce such Encumbrance over any of the properties or assets of a Grantor or gives notice of its intention to do so, unless such action is contested in good faith by the Grantor within ten (10) days of the commencement thereof;

(f) if any writ, attachment, execution, sequestration, extent, distress or any other similar process becomes enforceable against a Grantor or if a distress or any analogous process is levied against any of the properties or assets of a Grantor except where the same is being contested actively and diligently in good faith by appropriate and timely proceedings and the enforcement or levy has been stayed; or

(g) if there exists a voluntary or involuntary suspension of business of a Grantor.

5.2 Remedies

If an Event of Default has occurred and is continuing:

(a) subclauses 505(b), (c) and (d) of the standard form 1990 CAPL Operating Procedure will apply *mutatis mutandis* to that default as if the Grantee is the Operator and the Grantors the defaulting Party thereunder, except that the reference in Paragraph 505(b)(vi) of that document to "Subclause (a) of this Clause" will be amended to read "Section 2.6". The rights granted to the Grantee in this Section 5.1 will be in addition to and not in substitution for any other right or remedy that the Grantee may have under this Agreement;

(b) the Grantee shall have the right to either appoint a new agent to act in the place and stead of the Grantors to collect Royalty Proceeds, or to appoint itself as agent to collect Royalty Proceeds;

(c) the Grantee shall have the right to give notice to purchasers of Petroleum Substances requiring them to pay the Royalty Proceeds directly to the duly appointed agent of the Grantee, which may be the Grantee, and such purchasers of Petroleum Substances shall be entitled to rely upon notice from the Grantee to such effect and to thereafter pay the Royalty Proceeds accordingly;

(d) the Grantee or its agent shall be entitled to review the records of the Grantor regarding sales of Petroleum Substances, and the Grantor shall be required to forthwith provide to the Grantee or its agent such records;

(e) the Grantee shall be entitled and empowered to:

(i) institute any action or proceedings at law or in equity for the collection of all amounts due hereunder, and may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against the Grantors and collect in the manner provided by law out of the Secured Property the monies adjudged or decreed to be payable;

(ii) subject to applicable law, enter into and take possession of all or any part of the Secured Property, with full power to exclude the Grantors and their servants and agents therefrom, and, additionally, with full power and authority, but without obligation:

(A) to take any such actions as it may in its discretion consider necessary or desirable for purposes of maintaining, preserving or protecting the Secured Property or any part thereof;

(B) to effect such replacements of and additions to the Secured Property as it may in its discretion consider necessary or desirable;

(C) to satisfy or settle any charges on or claims against the Secured Property ranking in priority to the Lien;

(D) to operate, use, produce and enjoy the Secured Property or any part thereof, to exercise the rights and perform the obligations of the Grantors under contracts, agreements and arrangements forming part of or relating to the Secured Property or any part thereof, and to sell, lease or otherwise dispose of, upon such terms and for such price as it may in its discretion consider appropriate in the circumstances, including by way of deferred payment arrangement, all or any part of any Petroleum Substances or other marketable products produced from or allocated to the Secured Property or any part thereof;

(E) to receive, to take actions for the collection of, and to give notifications of and receipts for, the rents, revenues, incomes, issues and profits generated by or attributable to the Secured Property, to pay therefrom, at its discretion, any costs or expenses incurred in connection with the exercise of any of the rights, powers or remedies available to it hereunder or under any other right of realization it may have in respect of the Secured Property, and to apply the balance thereof, if and when received, on account of any amounts outstanding to the Grantee hereunder;

(F) to enter into contracts and to otherwise undertake obligations on behalf of the Grantors for purposes of facilitating the exercise of any of the rights, powers or remedies available to it hereunder or under any right of realization it may have in respect of the Secured Property;

(G) either with or without entry and possession, sell or lease the Secured Property or any part thereof, either as a whole or in separate parcels, either for cash or upon credit, including deferred payment arrangement, and either by private contract or at public auction or by public tender, all as the Grantee may in its discretion consider appropriate in the circumstances, it being agreed that: (1) any such sale or lease may be made upon such terms and conditions, including, without limitation, terms and conditions as to price and payment, as the Grantee may in its discretion consider appropriate in the circumstances; (2) the Grantee may, in its discretion, adjourn any such sale or lease from time to time, or rescind or vary any contract for sale or lease entered into pursuant hereto, and thereafter sell or re sell or lease or re-lease on such new or amended terms and conditions as it may in its discretion consider appropriate in the circumstances; and (3) any such sale or lease shall be a perpetual bar at law and in equity against the Grantors, their successors and assigns and all other persons claiming any right or interest in the sold or leased property by, through or under the Grantors, their successors or assigns;

(f) the Grantors shall on demand by the Grantee or any receiver yield up possession of the Secured Property or any part thereof as demanded by the Grantee whenever the Grantee shall have a right to exercise any rights or remedies under this section and put no obstacle in the way of, but facilitate by all legal means, the actions of the Grantee hereunder and not interfere with the carrying out of the powers hereby granted to the Grantee; and

(g) no person dealing with the Grantee shall be concerned to enquire whether an Event of Default shall have occurred and be continuing, or whether the rights, powers or remedies which the Grantee is purporting to exercise have become exercisable, or whether any monies remain owing hereunder, or as to the necessity or expediency of the stipulations and conditions subject to which any sale, lease or other disposition of Secured Property may be made, or otherwise as to the propriety or regularity of any sale, lease or other disposition or of any other dealing by the Grantee with the Secured Property or any part thereof or to see to the application of any monies paid to the Grantee, and, in the absence of fraud on the part of any such person, such dealing shall be deemed, so far as regards the safety and protection of such person, to be within the scope of the rights, powers and remedies hereby conferred, and to be valid and effectual accordingly.

ARTICLE 6
MISCELLANEOUS

6.1 Notices

The addresses for service and the fax numbers of the parties hereto shall be as follows:

Grantors - c\o Compton Petroleum Corporation
Suite 500, Bankers Court
850 - 2nd Street S.W.
Calgary, Alberta T2P OR8

Attention: Vice President, Business Development and Land
Fax No.: (403) 668-6700

Grantee - Caledonian Royalty Corporation
2150, 300 – 5th Avenue S.W.
Calgary, Alberta T2P 3C4

Attention: Vice President Finance
Facsimile: (403) 532-8805

All notices, communications and statements required, permitted or contemplated hereunder shall be in writing, and shall be delivered as follows:

(a) by personal service on the other party hereto at the relevant address set out above, in which case the item so served shall be deemed to have been received by that party when personally served;

(b) by facsimile transmission to the other party hereto to the relevant fax number set out above, in which case the item so transmitted shall be deemed to have been received by that party when transmitted; or

(c) except in the event of an actual or threatened postal strike or other labour disruption that may affect mail service, by mailing first class registered post, postage prepaid, to the other party hereto at the relevant address set out above, in which case the item so mailed shall be deemed to have been received by that party on the fifth day following the date of mailing (the date of mailing being the day immediately prior to the postmarked date of the envelope containing the notice, communication or statement or if the subject envelope has been lost or destroyed, the date of such notice, communication or statement or if undated the date of the transmittal letter accompanying the same).

The Grantors and the Grantee may from time to time change their respective addresses for service or their respective fax numbers or both by giving written notice to the other.

6.2 Force Majeure

The obligations of the parties hereto shall be suspended and there shall be no liability for damages during the time and to the extent that any party hereto is prevented from complying with its obligations under this Agreement in part or in whole by strikes, lock-outs, acts of God or the Queen's enemies, war, blockades, riots, laws, orders, or regulations of governmental bodies or agencies, unavoidable accidents, delays in transportation, inability to obtain necessary materials in the open market, or any other cause, except financial, whether similar or dissimilar to those specifically enumerated, beyond the reasonable control of the party hereto affected. The party hereto whose obligations under this Agreement are suspended shall give notice, including reasonably full particulars, of the cause of such suspension, to the other party or parties hereto within a reasonable time after the occurrence thereof. The performance of such obligations shall begin or be resumed within a reasonable time after such cause has been removed. No party hereto shall be required against its will to settle any labour dispute.

6.3 Duration

Subject to the terms contained herein, this Agreement shall continue for the life of the Title Documents. All terms, covenants, and conditions in this Agreement shall run with and are binding upon the Title Documents, the Royalty Lands, and the estates affected thereby for the duration of this Agreement.

6.4 Entire Agreement

This Agreement supersedes and replaces all previous agreements, whether written or oral, memoranda, and correspondence among the parties hereto with respect to the subject matter of this Agreement.

6.5 Severable Clauses

Should any clause, provision, or condition of this Agreement be or become illegal or unenforceable, it shall be considered separate and severable from this Agreement and the remaining provisions and conditions shall continue in full force and be binding upon the parties hereto as though the said clause, provision, or condition had never been included.

6.6 Compliance with Laws.

The parties hereto covenant, so long as this Agreement is in force and effect, to comply with any and all regulations and other laws with respect to anything done, or purported to be done, pursuant to this Agreement, and with respect to the operations carried out hereunder.

6.7 Waiver

No waiver by any party hereto of any term of this Agreement shall take effect or be binding upon that party unless the same be expressed in writing and any waiver so given shall extend only to the particular breach so waived and shall not limit or affect any rights with respect to any other or future breach.

6.8 Time of the Essence

Time is of the essence of this Agreement.

6.9 Choice of Laws

This Agreement shall, in all respects, be subject to, interpreted, construed and enforced in accordance with and under the laws of the Province of Alberta and applicable laws of Canada and shall, in all respects, be treated as a contract made in the Province of Alberta. The parties hereto irrevocably attorn and submit to the exclusive jurisdiction of the courts of the Province of Alberta and courts of appeal therefrom in respect of all matters arising out of or in connection with this Agreement.

6.10 Interest in Land

It is the express intent of the Parties that the Overriding Royalty created herein and evidenced hereby constitutes an interest in land granted by the Grantors, and owned by the Grantee, in the Royalty Lands.

6.11 Counterpart Execution

This Agreement may be executed in counterpart, no one copy of which need be executed by each of the parties hereto. When copies have been executed by each of the parties hereto, all copies together shall constitute one agreement and shall be a valid and binding contract among the parties as of the date first above written.

6.12 Enurement

This Agreement shall be binding upon and shall enure to the benefit of each of the parties hereto and their respective heirs, executors, administrators, trustees, receivers, successors and assigns.

EXECUTION PAGE FOLLOWS.

IN WITNESS WHEREOF THE PARTIES hereto have duly executed this Agreement as of the day and year first above written.

COMPTON PETROLEUM CORPORATION

Per: ______________________

Per: ______________________

COMPTON PETROLEUM, by its Managing Partner, COMPTON PETROLEUM CORPORATION

Per: ______________________

Per: ______________________

HORNET ENERGY LTD.

Per: ______________________

Per: ______________________

CALEDONIAN ROYALTY CORPORATION

Per: James S. [illegible]

Per: Stuart [illegible]

APPENDIX "A", ATTACHED TO AND FORMING PART OF AN OVERRIDING ROYALTY AGREEMENT MADE AS OF THE 26TH DAY OF OCTOBER, 2009 BETWEEN COMPTON PETROLEUM CORPORATION, COMPTON PETROLEUM AND HORNET ENERGY LTD., AS GRANTORS, AND CALEDONIAN ROYALTY CORPORATION, AS GRANTEE

TAB 2

Bennett Jones

Bennett Jones LLP
4500 Bankers Hall East, 855 - 2nd Street SW
Calgary, Alberta, Canada T2P 4K7
Tel: 403.298.3100 Fax: 403.265.7219

Donald E. Greenfield, Q.C.
Partner
Direct Line: 403.298.3248
e-mail: greenfieldd@bennettjones.com
Our File No.: 70153-27

THIS IS EXHIBIT " 2 "
referred to in the (Affidavit / Declaration) of
CHARLES SELBY
(Sworn / Declared) before me this ~~MARCH~~ 14th
day of MARCH A.D. 20 17

A Commissioner for Oaths in and for the Province of Alberta
A Notary Public

December 16, 2016

Lexin Resources Ltd.
Suite 300, 1207 – 11th Avenue SW
Calgary, AB T2C 0M5

Attention: Michael Smith

Re: Demand Notice and Notice of Default – Lexin Resources Ltd.

We are the solicitors for Caledonian Royalty Corporation ("Caledonian"). Caledonian holds overriding royalties in working interest lands operated by Lexin Resources Ltd. ("Lexin"). Pursuant to clause 2.6 of the Overriding Royalty Agreement, Caledonian has registered its interests in the agreed-upon first priority position with respect to the Royalty Lands.

Caledonian has informed us that Lexin has breached the Overriding Royalty Agreement in a number of respects over the past several months, including the following:

(a) Lexin has failed to pay the royalties owing despite repeated demands;

(b) Lexin has failed or refused to provide accounting information for Lexin Royalty Wells since April 2016, notwithstanding demand;

(c) Lexin has failed to comply with clause 2.5 of the Overriding Royalty Agreement by providing monthly accounting from royalty proceeds; and

(d) Lexin has failed to act as a prudent operator by paying lease rentals and other similar payments and has thereby jeopardized the underlying interest in the Royalty Lands.

As a result of the foregoing, we hereby notify you on behalf of Caledonian that an Event of Default has occurred and is continuing. Caledonian therefore intends to pursue all remedies available to it, including the following:

(a) in accordance with clause 5.2(a), appoint a new agent to act in place and stead of Lexin to collect royalty proceeds, or appoint itself as agent to collect royalty proceeds;
(b) give notice to purchasers of petroleum substances requiring them to pay the royalty proceeds directly to Caledonian;

Cont……/

(c) review the records of Lexin regarding the petroleum substances; and

(d) appoint a receiver or otherwise take possession of the Lexin Royalty Wells for the purpose of operating them and realizing on them.

If we do not have a suitable resolution to these issues by December 30, 2016, our client intends to pursue all remedies listed above, as well as any other remedy it is entitled to at law.

Please govern yourself accordingly.

Yours truly,

BENNETT JONES LLP

Donald E. Greenfield, Q.C.

cc: Lexin Resources Ltd.
Attn: Terry McCrary

Sangra Moller LLP
Attn: Rod Talaifar

Caledonian Royalty Corporation
Attn: James Kinnear
Attn: Charles Selby
Attn: Mark Smith

Bennett Jones LLP
Attn: Ken Lenz

TAB 3

THIS IS EXHIBIT " 3 "
referred to in the (Affidavit / Declaration) of
CHARLES SENBY
(Sworn / Declared) before me this 17th
day of MARCH A.D. 20 17

A Commissioner for Oaths in and for the Province of Alberta
A Notary Public

CALEDONIAN
ROYALTY CORPORATION

MIDSTREAM CANADA LTD.

CREATING VALUE

February 2017

Alberta Energy Regulator – Southern Alberta Plan[illegible]

CONTENTS

CALEDONIAN
ROYALTY CORPORATION

TEAM

Caledonian Royalty Corporation

- Pengrowth Founders acquired over 100,000 boed over more than 20 years and conducted operations effectively with a staff of more than 600 while meeting responsibilities to stakeholders and regulators
- Experienced executive team with financial and technical support
- Caledonian holds royalty interests in approximately 2,000 wells and almost 1,000,000 acres of developed and undeveloped lands at an acquisition cost of $180 million including royalty interests in the Lexin Lands in Southern Alberta
  - Royalty and Specific Security Interest in Lexin's Lands
  - Challenged Working History with Lexin

Midstream Canada Ltd. (MCL)

- Acting as operator in bringing former Mazeppa production back on line including Caledonian Royalty Gas
- Working to acquire Quirk Creek Gas Plant and Production with Caledonian including Mazeppa Sour Gas volumes
- Pursuing other gas consolidation opportunities in Southern Alberta to maximize efficiency of operations and to enable long term well production
- Executive team with over 200 years experience
  - Engineering, Plant Operations
  - Management
  - Finance
  - Business Development
  - Land & Legal

CALEDONIAN
ROYALTY CORPORATION

CALEDONIAQN MANAGEMENT TEAM

James S. Kinnear,
B.Sc., CFA, B.Comm. (Hon.)
Founder, Chairman, CEO & Director

Over 20 years as Chairman and CEO of Pengrowth Energy Trust completing more than 50 acquisitions and growing the company to an enterprise value of ~$4.3 Billion; recipient of multiple awards including Ernst and Young, Prairies Region Entrepreneur of the year in 2001

Charles V. Selby,
B.Sc. (Hon.), P.Eng., J.D.,
President, Director

Over 30 years of experience in strategy and negotiations. At Pengrowth participated in more than 50 asset and corporate acquisitions and 20 public equity raises. Extensive independent energy experience

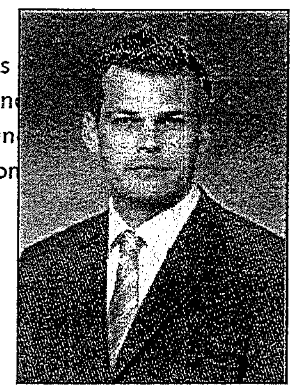
David Horn,
Vice President, Business Development

Over 30 years experience in A&D and Land experience. David has executed over $5 billion in corporate and asset acquisitions and divestitures with small to major exploration and production companies.

Grant A. Henschel,
B.Sc., P.Eng,
Senior Evaluations Engineer

Over 30 years of experience in reserves evaluation, sourcing an evaluating domestic an international acquisition opportunities

Mark Smith,
CGA,
Controller



Over 10 years of experience in operational accounting, treasury and financial accounting both in domestic and international oil and gas companies

MIDSTREAM CANADA LIMITED MANAGEMENT TEAM

Neeky Noor-Ali, P.Eng., President

- B.Sc. Mechanical Engineering, University of Calgary
- 20+years experience
- Founder and President of BSG Engineering – EPC on over $500 million Surface Facilities projects in just over 7 years
- Founder of Bitumen Energy – Heavy Oil Technology Solutions

Sujit Sarkar, P.Eng., Senior Vice President

- B.Sc. Mechanical Engineering, University of Newcastle-Upon Tyne
- M.Sc. Material Engineering, Council of National Academic Awards
- 40+ years experience
- Founder and President of ACS Engineering
- Technical Director of Process & Mechanical for Fluor Daniel

Doug Campbell, Vice President Land, Legal

- Bachelor of Laws (cum laude), University of Ottawa
- B.Sc. Biology, University of Calgary
- 25+ years legal experience
- 15+ years Oil and Gas Acquisitions and Divestitures – Thackray Burgess (now McMillan LLP) and EnerLaw LLP

Tun Myo, CA, CPA, CGMA Vice President Finance

- B. Comm., University of Alberta
- B. Sc., Mathematics and Economics, University of Alberta
- 15+ years experience
- Chief Financial Officer, Various Junior Public / Private Companies
- Senior Manager for Assurance and Business Advisor Services, Grant Thornton

Ben VanRoetselaar, P.Eng. Vice President Engineering

- B.Sc. Mechanical Engineering, University of Alberta
- 37+ years experience
- Development Engineer Talisman Midstream
- Vice President Engineering Trafina Energy
- Vice President Operations Tornado Resources
- Senior Engineer Gas Department and Sothern Production Supervisor, Reservoir Engineer, Joint Venture Coordinator Dome Petroleum

Jeff Johnston, Vice President Operations

- B.Sc. Petroleum Engineering, University of Alberta
- 30+ years experience
- VP Operations Beaumont Energy Inc.
- VP Operations Piper Resources Inc.
- Production Manager Zargon Oil & Gas

Anthony (Tony) Kuehne, Vice President Business Development & Marketing

- B. Ma. Economics, University of Lethbridge
- 30+ years experience
- VP Gas Marketing and Business Development Quicksilver Canada
- Team Leader Strategic Development, Talisman Energy
- Director Business Development/Transmission AltaGas

SOUTHERN ALBERTA PLAN

- **Plant Consolidation Opportunities**
  - Quirk Creek Gas Plant (potential processing of low sour volumes previously directed to Mazeppa) – (Caledonian Royalty/Working Interest Gas)
  - AltaGas Parkland Gas Plant (processing of sweet gas volumes previously directed to Mazeppa) - – (Caledonian Royalty/Working Interest Gas)
  - Mazeppa Gas Plant (potential future restart of sweet gas processing – LR Processing issues)
  - Other consolidation opportunities
- **Production Optimization Opportunities**
  - Well Work overs
  - Repairs and Maintenance

CALEDONIAN
ROYALTY CORPORATION

CALEDONIAN/MIDSTREAM STRATEGY

- Exercise Rights under Caledonian GORR Agreement/Security to obtain information and gain control over current Lexin wells on staged area by area basis
- Appoint Midstream as Operator on behalf of Caledonian to replace Lexin
- Gain control of/or cooperate in use of facilities
  - Sweet Gas Strategy to:
    - Acquire High River wells and direct production to Parkland (longer term potential application of Mazeppa)
    - Acquire additional sweet gas volumes at Cowley
    - Acquire control of non-operated Lexin interests (and account to AER)
  - Sour Gas Strategy to:
    - Acquire Quirk Creek field and plant & enhance value through field remediation
    - Direct additional volumes to Quirk Creek Creed from Mazeppa Okotoks upon construction of pipeline
    - Review and implement acid gas injection schemes to get additional sour gas reservoirs back on production
  - Re-establish professional quality of operations
  - Account to AER for unpaid obligations, pay crown royalties, lease rentals and freehold royalties from net proceeds. Address environmental obligations on a staged basis

CALEDONIAN
ROYALTY CORPORATION

DEVELOPMENT CAPEX

SWEET GAS

High River **$7 million CAD**

- Shut-in Sweet Gas currently operated by Lexin subject to Caledonian GORR
- Redirect volumes primarily though existing pipeline infrastructure to Parkland

Cowley **$2 million CAD**

- Sweet Gas Plant with production own 40;% Lexin and 60% with Tamarak. Caledonian has a GORR on production

Quirk Creek **$25 million CAD**

- Acquire non core asset from Pengrowth which includes existing production and Gas Plant with 3rd Party revenue
- Build pipeline for low sour volumes from Mazeppa subject to Caledonian GORR

SOUR GAS

Okotoks **$18 million CAD**

- Shut-in Sour Gas currently operated by Lexin subject to Caledonian GORR

POTENTIAL FUTURE SOUR GAS

North Coleman **$14 million CAD**

- Shut-in Sour Gas currently operated by Devon energy which has expressed interest to divest

Savanna Hills **$14 million CAD**

- Shut-in Sour currently operated by Devon energy which has expressed interest to divest

TOTAL DEVELOPMENT CAPEX **$80 million CAD**

BACKGROUND

- 2010 Caledonian purchased a GORR over Compton operated lands for ~$100MM
- 2012 Compton was purchased by MFC
- MFC has subsequently organized operations into several different operating subsidiaries (with varying beneficial ownership)
  - Wellbores – Lexin Resources Ltd.
  - Wellsite Surface Equipment – Lexin Resources Ltd. and TBC
  - Pipelines – Lexin Resources Ltd. and LR Processing
  - Gas Plants, Batteries – Lexin Resources Ltd. and TBC
  - Mazeppa Gas Plant – LR Processing Ltd.
  - Mazeppa Power Plant – MFC Power
  - Crown Mineral Leases – Lexin Resources Ltd., MFC Resources Ltd.

CALEDONIAN
ROYALTY CORPORATION

REGULATORY SITUATION

- Lexin operations in Alberta are currently under a "Global Refer" status by AER
- Lexin operations ceased at the Mazeppa Gas Plant with associated wells shut in under an AER directive dated
  - Reporting by MFC/Lexin under directive ceased in November 2016
- Lexin status of surface lease payments in default
  - Press reports of unpaid landowners
  - AER has sent notices of right of access loss
- Lexin in default with respect to:
  - Tax payments
  - Reporting requirements to crown and all parties
  - AER administration and levies
  - Crown royalty payments
  - Payments of the Caledonian GORR and other royalty and working interest payments

CALEDONIAN
ROYALTY CORPORATION

OPERATIONAL DEFICIENCES BY LEXIN

- Lexin operated gross reported (Accumap) production has dropped from
  - ~36 mmscf/d and ~193 bopd in Q1 2016 from ~817 producing wells
  - 0.6 mmscf/d in September 2016
  - We know this number is not accurate.
- Lexin has resumed production at several properties (field reports), however,
  - No production reported (Accumap)
  - No royalties paid to Caledonian
  - Royalties payments to crown, freehold are unknown
- Lexin stopped GOR royalty payments to Caledonian in April, 2016. Caledonian is owed >$1MM by Lexin
- Lexin is not operating in accordance with acceptable oil field standards
  - Unpaid bills
  - Ignoring regulatory directives, rules and regulations
  - Assets are not being maintained, damage through neglect
  - Surface assets are being sold piecemeal to the detriment of reserves
  - Critical records (well, pipeline, facility and land) are not being maintained or preserved

CALEDONIAN
ROYALTY CORPORATION

CONSEQUENCES OF NO ACTION

- Taxes, rentals, bills not paid
- Royalties from unreported production not paid
- Value of resource remaining may drastically decline
- Surface equipment damage and piece meal sales will continue
- Environmental damage escalates
- Public safety threat escalates
- Liability to industry/public increases due to continued damage
- Potential receivership of Lexin and related consequences to orphan well fund

CALEDONIAN ROYALTY AND SECURITY RIGHTS

- Caledonian under the original GOR agreement has a security over Lexin wells
- Caledonian has served notice to MFC/Lexin that it is in default and will be placed into receivership unless
  - Specified Wells (High River) are transferred to be Caledonian as operator
  - Well files and other information are provided to Caledonian
- Caledonian has proposed an LOI to Lexin setting out the basis for cooperation recognizing Caledonian's legal rights to secure the cooperation of Lexin
- Lexin cooperates with Caledonian in returning wells to production and in meeting requirements of acceptable oil field practice

CALEDONIAN
ROYALTY CORPORATION

PROPOSED AER RELIEF

- AER and the Crown's interests are aligned with Caledonian. A going concern entity that operates within rules and regulations preserves value and reduces cost to industry and the Crown.
- Caledonian will need the support of the AER and Crown given to do the following:
  - Transferring well licenses to Caledonian for High River Sweet Wells
  - Appoint Midstream Canada Ltd. As Caledonian's nominee for transferred well interests

CALEDONIAN
ROYALTY CORPORATION

FUTURE MAZEPPA GAS PLANT OPPORTUNITIES

- Sweet Gas Plant
- Sour Gas Plant with Sulphur Recovery
- Gas to Liquids
- Power Generation
- Pipeline connected to strong supply and sales
- Rail spur and close proximity for Liquids sales

Challenges

- Poor operations
- Damage from Poor Winterization Practice
- Associated Debt
- Environmental Liability associated
- Complex ownership structure
- AER bonding requirement

TAB 4

Caledonian Royalty Corporation
Suite 2200, 300 – 5th Avenue S.W., Calgary, Alberta T2P 3C4
Telephone: (403) 532 – 8800 Fax: (403) 532 – 8805

THIS IS EXHIBIT " 4 "
referred to in the (Affidavit / Declaration) of
CHARLES SELBY
(Sworn / Declared) before me this 17th
day of MARCH A.D. 20 17

A Commissioner for Oaths in and for the Province of Alberta
A Notary Public

March 2, 2017

Alberta Energy Regulator
1000, 250 5th Street SW
Calgary, AB
T2P 0R4

Attention: **Jan Rempel**
Manager, Insolvency Management

Dear Ms. Rempel:

Re: Application by Caledonian Royalty Corporation ("Caledonian") pursuant to s. 106 of the *Oil and Gas Conservation Act* to permit the transfer of certain well licenses and associated operatorship from Lexin Resources Ltd. ("Lexin") to Caledonian or its nominee (together with a right to operate and transport production through the pipeline network owned by Lexin and LR Processing to the Parkland Gas Plant)

SUMMARY

Caledonian presents this application in respect to the transfer of certain leases currently held by Lexin in the High River area of Alberta and associated operatorship to Caledonian as per the attached **Schedule A** together with the associated pipeline infrastructure (the "High River Interests"). As we have discussed with you, we are seeking the cooperation of Lexin and we have contractual rights to obtain the transfers. We acknowledge that the AER is amending its requirements and procedures in respect to such transfers and that there are LLR/LMR requirements for both Caledonian and Lexin (that Lexin's rating not be reduced). We do not yet have your revised draft guidelines (which we would be pleased to review along with our industry colleagues and provide you with constructive comments). Lexin has failed to provide us with legal and accounting information in respect of our royalty interest wells. We also do not have detail in respect of the elements of Lexin's LMR rating or the LLR information in respect to individual wells and our application is subject to understanding and meeting those requirements.

We acknowledge that the AER cannot essentially "pre-approve" our application where all of the commercial terms with Lexin have yet to be defined. We are bringing the application forward, however, because the actions of Lexin and the potential response of the AER and of the Courts can adversely impact the legal rights of Caledonian and working interest owners in the lands operated by Lexin and can have adverse consequences to the ongoing potential operation of those lands and in particular the High River Interests.

Caledonian is in discussions with other companies impacted by the Orders shutting in Lexin's production including ExxonMobil (whom we understand holds 50% working interests in most of the wells in the High River Interests and a 25% interest in pipelines and infrastructure) to seek a commercial solution that may result in the transportation of the High River Gas to the Parkland Gas Plant operated by AltaGas.

An application by Lexin as applicant and the AER as respondent scheduled for March 3, 2017 seeks as relief an Order directing the AER to designate as orphans "Lexin Sites" which have not already been designated as orphans, and to have such "Lexin Sites" transferred to the Orphan Well Association and an Order directing the AER to issue abandonment orders for the "Lexin Sites" currently administered by the AER as orphans. An abandonment Order would adversely impact other parties with interests in the "Lexin Sites" and, in particular, the interests of Caledonian in the High River Interests.

DISCUSSION

On February 2, 2017, Caledonian Royalty Corporation ("Caledonian") presented to the Alberta Energy Regulator ("AER") our interest in acquiring various wells currently licensed to Lexin Resources Ltd. ("Lexin") as part of a plan to restart production operated by Lexin and previously processed through the Mazeppa Gas Plant. Caledonian proposed to focus firstly upon sweet gas production from High River that can be redirected to the Parkland Plant operated by AltaGas and secondly towards opportunity to bring back into production low sour gas wells. Caledonian is proposing significant investment in infrastructure and field operators to support the Plan.

The AER presentation was supported by Midstream Canada Ltd. ("MCL"). Caledonian's application is based upon the rights arising under its Gross Overriding Royalty Agreement dated October 26, 2009 (the "GOR Agreement") with Compton Resources, a predecessor in interest to Lexin. Caledonian has a gross overriding royalty ("GOR") and a security interest (the "Lien") over all Lexin wells and lands.

Caledonian has registered caveats to protect its priority in respect to both the GOR and the Lien on freehold lands and has made PPSA registrations in respect to Crown lands. Pursuant to Article 5 of the GOR Agreement, upon a default by Lexin, as Grantor, including the failure by Lexin to pay the GOR to Caledonian and to pay debts as they become due, Caledonian is given rights including to:

- **Possession:** take possession of well licenses and leases with or without the appointment of a Receiver;
- **Operations:** operate, use, produce and enjoy the "Property" and to exercise the rights and perform the obligations of the Grantor under contracts, agreements and arrangements forming part of or relating to the "Property";
- **Collections:** receive, to take actions for collections of and give notifications of and receipts for rents, revenue, income and profits generated or attributable to the "Property";
- **Information:** review the books and records of Lexin in respect to the GOR;

Caledonian Royalty Corporation
Suite 2200, 300 – 5th Avenue S.W., Calgary, Alberta T2P 3C4 Telephone: (403) 532 – 8800 Fax: (403) 532 – 8806

- **Sale:** either with or without possession, sell or lease the Property of any part thereof;
- **Appointing a Receiver.**

Caledonian provided Lexin with Default Notices dated December 6, 2016 wherein Caledonian demanded an accounting for and payment of monies owing to Caledonian in respect to the GOR, the provision of information to Caledonian in respect to the Lands and the GOR, a transfer of certain well leases and licenses to Caledonian and a change of operator to Caledonian or a nominee of Caledonian. MCL was introduced by Caledonian as a potential nominee operator by Caledonian.

Caledonian seeks the approval and cooperation of the AER, in conjunction with the exercise of rights under the GOR Agreement to gain control over current Lexin wells and associated production on a staged area by area basis including this application in respect to the High River Interests.

The AER advised Caledonian to seek a commercial solution with Lexin to obtain Lexin's agreement toward acknowledgement to Caledonian's Rights under the GOR Agreement and specifically the approval of the transfer of well leases and Operations. Caledonian has presented a proposal to Lexin and is seeking to schedule meetings with Lexin outside of Canada to reach a commercial solution.

The mineral rights and surface leases are currently held by Lexin and/or associated companies – unless those rights have been cancelled or under default. Caledonian has had meetings with various freehold owners such as PrairieSky, Imperial and others and they are willing to work with us to remedy this situation. Caledonian is also preparing a letter to Alberta Energy expressing our interest.

Caledonian's intent, if acquiring the High River Interests, is to address outstanding liabilities for payments of royalties, the payment to the AER and payment of outstanding rentals to surface owners.

Should you have any questions, please do not hesitate to contact me at 403.262.8880.

Yours very truly,

Charles V. Selby
President

Attachment

SCHEDULE A TO THE APPLICATION BY CALEDONIAN ROYALTY CORPORATION TO THE ALBERTA ENERGY REGULATOR PURSUANT TO S. 106 OF THE *OIL AND GAS CONSERVATION ACT* TO PERMIT THE TRANSFER OF CERTAIN WELL LICENSES AND ASSOCIATED OPERATORSHIP FROM LEXIN RESOURCES LTD. TO CALEDONIAN OR ITS NOMINEE (TOGETHER WITH A RIGHT TO OPERATE AND TRANSPORT PRODUCTION THROUGH THE PIPELINE NETWORK OWNED BY LEXIN AND LR PROCESSING TO THE PARKLAND GAS PLANT)

LIST OF WELLS FOR HIGH RIVER

02-20-17-29W4
03-16-17-29W4
04-09-17-29W4
04-33-16-29W4
05-07-17-28W4
05-28-17-29W4 (01-29 BH)
05-28-17-29W4 (16-29 BH)
05-33-16-29W4 (12-33 BH)
06-04-17-29W4
06-07-17-29W4
06-07-17-28W4 (02-07 BH)
07-06-17-28W4 (15-06 Surf.)
07-17-17-29W4
07-29-16-29W4
08-08-17-29W4
08-29-17-29W4 (09-29 BH)
09-18-17-29W4
10-20-16-29W4
10-20-17-29W4
10-30-16-29W4 (07-30 BH)
10-32-17-29W4
11-04-17-29W4
11-15-17-29W4
11-18-17-29W4 (02-18 BH)
11-28-17-29W4
12-16-17-29W4
12-32-16-29W4 (09-31 BH)
13-05-17-29W4 (16-06 BH)
13-20-16-29W4
14-19-16-29W4
14-31-16-29W4
15-06-17-28W4
15-08-17-29W4
15-16-17-29W4
15-30-16-29W4
16-18-17-29W4 (10-17 BH)
16-25-16-30W4 (13-30 BH)
16-29-16-29W4

01-13-17-29W4 (16-12 Surf.)
01-24-16-29W4
03-31-16-28W4
04-18-17-28W4 (16-12 Surf.)
05-18-16-28W4
06-22-17-29W4
08-25-16-29W4 (01-25 BH)
09-11-17-29W4 (16-11 BH)
09-24-16-29W4
10-25-16-29W4
11-31-16-28W4
12-12-17-29W4
12-22-17-29W4
13-18-16-28W4
14-11-17-29W4
14-30-16-28W4 Basal /0
15-13-17-29W4 (11-18 BH)
16-28-17-29W4

03-22-19-29W4
15-11-19-29W4 (14-11 SU)
05-23-19-29W4 (102/08-22 BH)
10-21-18-29W4
06-22-20-27W4
01-05-21-27W4(Compton)
02-15-19-29W4
02-10-19-29W4
02-02-19-29W4
06-02-19-29W4
15-10-19-29W4
09-17-18-29W4
15-15-19-29W4 (10-15 BH)
05-22-18-29W4
08-08-18-29W4
12-22-18-29W4
16-08-18-29W4 Basal
08-28-18-29W4
02-34-18-29W4
09-05-18-29W4
13-27-18-29W4 (12-34 BH)
09-28-18-29W4

10-04-18-29W4
01-20-18-29W4
15-20-18-29W4 (02-29 BH)
01-05-18-29W4
07-18-18-29W4
11-15-18-29W4
13-22-18-28W4
13-25-19-29W4
16-08-18-29W4 Belly
16-28-18-29W4 (02-33)
06-04-16-27W4

TAB 5

Caledonian Royalty Corporation
Suite 2200, 300 – 5th Avenue S.W., Calgary, Alberta T2P 3C4
Telephone: (403) 532 – 8800 Fax: (403) 532 – 8805

THIS IS EXHIBIT " 5 "
referred to in the (Affidavit / Declaration) of
CHARLES SELBY
(Sworn / Declared) before me this 17th
day of MARCH A.D. 20 17

A Commissioner for Oaths in and for
A Notary Public the Province of Alberta

March 6, 2017

Alberta Energy
8th Floor Petroleum Plaza NT
9945 – 108 Street
Edmonton, Alberta T5K 2G6

Attention: James E. Allen
Special Advisor, Tenure Operations Energy

Re: Lexin Resources Ltd. Crown Leases

Caledonian Royalty Corporation ("Caledonian") respectfully requests that Alberta Energy take no steps to terminate Crown leases held by Lexin (the "Lexin Crown Leases") in which Caledonian has a royalty interest and a specific lien by virtue of a Gross Overriding Royalty Agreement, dated October 26, 2009 between Caledonian and Compton Resources, a predecessor in interest to Lexin (the "GOR Agreement"). Caledonian has filed PPSA registrations in respect to its security interest in Crown lands and caveats against certain wells in respect to its security interests in freehold lands. Caledonian has various rights under the GOR Agreement which includes:

- **Possession:** take possession of well licenses and leases with or without the appointment of a Receiver;
- **Operations:** operate, use, produce and enjoy the "Property" and to exercise the rights and perform the obligations of the Grantor under contracts, agreements and arrangements forming part of or relating to the "Property";
- **Collections:** receive, to take actions for collections of and give notifications of and receipts for rents, revenue, income and profits generated or attributable to the "Property";
- **Information:** review the books and records of Lexin in respect to the GOR;
- **Sale:** either with or without possession, sell or lease the Property of any part thereof;
- **Appointing a Receiver.**

Caledonian provided Lexin with Default Notices dated December 6, 2016 wherein Caledonian demanded an accounting for and payment of monies owing to Caledonian in respect to the GOR, the provision of information to Caledonian in respect to the Lands and the GOR, a transfer of certain well leases and licenses to Caledonian and a change of operator to Caledonian or a nominee of Caledonian.

Caledonian is seeking a solution to bring natural gas volumes back onto production associated with certain of the Lexin Crown Leases. Caledonian has made an application to the Alberta Energy Regulator ("AER") to secure the transfer of various interests to Caledonian that is attached hereto as **Schedule A**.

Caledonian believes that Lexin may be in breach of its agreements with Alberta Energy because Lexin has generally failed to pay its obligations to many parties including Caledonian. However, we cannot substantiate this as we have been unable to access Lexin's records. We have also not received any notice from Alberta Energy that it proposes to exercise cancellation provisions under Article 45 of the *Mines and Minerals Act.* Caledonian would expect to receive any such notice based upon its interests in the subject lands.

Caledonian respectfully requests that Alberta Energy not enforce cancellation provisions. Caledonian and other parties need to access the records to understand their current status of wells. Caledonian submits that there are many wells capable of commercial production that are currently shut in that can be brought back on through general cooperation between the industry and the Regulators. To cancel Lexin Crown leases at this time will introduce future confusion and make a commercial solution less likely.

Caledonian also takes the position that this action should not be taken in any event without proper notice.

Should you have any questions please do not hesitate to contact me at (403) 262 – 8880.

Yours very truly,

Charles V. Selby
President

CC: J. Rempel
Alberta Energy Regulator