

No securities regulatory authority has expressed an opinion about the securities offered hereunder and it is an offence to claim otherwise. Information has been incorporated by reference in this Offer and Circular from documents filed with securities commissions or similar authorities in Canada, copies of which may be obtained upon request without charge from the Corporate Secretary of PrimeWest Energy Inc. at Suite 1600, 530 - 8th Avenue, S.W., Calgary, Alberta, T2P 3S8 (telephone: 403-234-6600). For purposes of the Province of Quebec, this exchange take-over bid circular contains information to be completed by consulting the permanent information record, a copy of which may be obtained from the Corporate Secretary of PrimeWest Energy Inc. at the above-mentioned address and telephone number.

This document is important and requires your immediate attention. If you are in any doubt as to how to deal with it, you should consult with your investment dealer, stockbroker, lawyer or other professional advisor.



Offer to Purchase
by PRIMEWEST OIL AND GAS CORP. of
all of the outstanding Class A Shares and Class B Common
and the associated Rights of
CYPRESS ENERGY INC.
for a price of \$14.00 per share, to be paid
on the basis of, at the election of each shareholder, any one of

- (a) Cdn. \$14.00 in cash, subject to proration, or**
- (b) 1.45 Trust Units of PrimeWest Energy Trust, or**
- (c) 1.45 Exchangeable Shares of PrimeWest Oil and Gas Corp., subject to proration**

for each Class A Share and each Class B Share
and the associated Rights of Cypress Energy Inc.

Not more than \$60 million in cash will be paid, and not more than 5,440,000 exchangeable shares ("Exchangeable Shares") of PrimeWest Oil and Gas Corp. (the "Offeror") will be issued, to the holders of Cypress Shares (the "Cypress Shareholders") pursuant to the Offer, in accordance with the terms and conditions specified herein.

This Offer (the "Offer") by the Offeror to purchase all of the outstanding Class A Shares (the "Cypress A Shares") of Cypress Energy Inc. ("Cypress") and all of the outstanding Class B Shares (the "Cypress B Shares") of Cypress (the Cypress A Shares and the Cypress B Shares, together with the associated Rights under the Cypress Shareholder Rights Plan, being referred to herein as the "Cypress Shares") will be open for acceptance until 9:00 p.m. (Calgary Time) on March 28, 2001 (the "Expiry Time"), unless withdrawn or extended. The Offer is conditional upon, among other things, there being validly deposited under the Offer and not withdrawn prior to the Expiry Time at least 66²/₃% of the outstanding Cypress Shares (calculated on a fully diluted basis). All conditions to the Offer are described under "Conditions of the Offer" in Section 4 of the Offer.

PrimeWest Energy Trust (the "Trust") and Cypress have entered into a pre-acquisition agreement relating to the Offer. The board of directors of Cypress has determined unanimously that the Offer is fair to the Cypress Shareholders, from a financial point of view, and recommends that Cypress Shareholders accept the Offer. Cypress' financial advisors have concluded that the Offer is fair, from a financial point of view, to Cypress Shareholders. See the accompanying Directors' Circular of Cypress.

(continued on following page)

The Dealer Managers for the Offer are:

TD SECURITIES INC.

CIBC WORLD MARKETS INC.

March 6, 2001

(continued from the previous page)

The Trust is a Calgary-based conventional oil and gas royalty trust. The primary assets of the Trust are (a) a royalty equivalent to approximately 99% of the net cash flow generated by the petroleum and natural gas interests held by PrimeWest Energy Inc., PrimeWest Resources Ltd. and PrimeWest Royalty Corp., after certain costs, expenditures and deductions, and (b) gross overriding royalty interests in crude oil and natural gas properties; in each case primarily located in western Canada.

Trust units of the Trust ("PrimeWest Units") which are issued to a Cypress Shareholder whose Cypress Shares have been taken up and paid for pursuant to the Offer prior to March 31, 2001 will be entitled to receive the Trust's March distribution, which is payable on April 15, 2001. The Trust's current distribution rate is \$0.20 per PrimeWest Unit per month.

The PrimeWest Units are listed on The Toronto Stock Exchange (the "TSE"). The closing price of the PrimeWest Units on the TSE on February 15, 2001, the last trading day immediately prior to the date on which the Offer was announced, and on March 2, 2001, was \$9.73 and \$8.82, respectively. The Cypress A Shares are listed on the TSE. The closing price of the Cypress A Shares on the TSE on February 15, 2001, the last trading day immediately prior to the date on which the Offer was announced, was \$10.60. The Cypress B Shares are listed on the Canadian Venture Exchange (the "CDNX"). The closing price of the Cypress B Shares on the CDNX on February 15, 2001 was \$9.00. The TSE has conditionally approved the listing of the PrimeWest Units that are to be issued pursuant to the Offer, as well as the PrimeWest Units that are issued on the exchange of Exchangeable Shares, subject to the fulfilment of all of the requirements of the TSE. The Offeror has not applied to list on any exchange the Exchangeable Shares that are issued pursuant to the Offer.

Each of the directors and officers of Cypress (the "Locked Cypress Shareholders") have entered into agreements with the Trust (the "Lock-up Agreements") in respect of an aggregate of 1,508,225 Cypress Shares and options to acquire an additional 2,612,100 Cypress Shares (such Cypress Shares, collectively with the 1,508,225 Cypress Shares currently held by the Locked Cypress Shareholders, being the "Locked Cypress Shares") pursuant to which they have agreed to exercise or terminate such options to acquire Cypress Shares and to deposit to the Offer all of the Cypress Shares currently held by them and any Cypress Shares acquired by them upon exercise of such options. The Locked Cypress Shares represent approximately 9% of the outstanding Cypress Shares (on a fully diluted basis). The Locked Cypress Shareholders may terminate their obligations under the Lock-up Agreements in certain events specified in the Lock-up Agreement.

U.S. Cypress Shareholders and other Cypress Shareholders who are not resident in Canada for the purposes of the *Income Tax Act* (Canada) will not be entitled to receive Exchangeable Shares in connection with the Offer. Holders of Exchangeable Shares will be entitled to exchange their Exchangeable Shares at any time for PrimeWest Units at the exchange ratio described below. The Exchangeable Shares will be automatically exchanged for PrimeWest Units on the second anniversary of the date that the Offeror first takes up and pays for Cypress Shares deposited under the Offer. **In certain circumstances, the Offeror has the right to require a redemption of the Exchangeable Shares prior to that second anniversary.** The Exchangeable Shares are designed to provide an opportunity for Canadian Cypress Shareholders to achieve a Canadian tax deferral in certain circumstances.

One Exchangeable Share is exchangeable for one PrimeWest Unit, subject to the following adjustment. On each date that a distribution is paid in respect of the PrimeWest Units (a "Distribution Date"), the number of PrimeWest Units into which one Exchangeable Share is exchangeable shall be increased by that number of PrimeWest Units which have a fair market value on that Distribution Date (determined based on the closing price of the PrimeWest Units on the TSE on that date) equal to the amount of that distribution.

The Offeror is not currently a reporting issuer in any jurisdiction and is not subject to the informational reporting requirements under the securities laws of any jurisdiction. The Offeror will become subject to those reporting requirements in certain Canadian jurisdictions as a result of filing the attached Offer and Circular in those jurisdictions and

in certain other Canadian jurisdictions as a result of the Exchangeable Shares being listed on the TSE or any other recognized exchange (should such listing ever occur). The Offeror has applied for, and expects to receive, exemptions from those reporting requirements. Instead of complying with those reporting requirements (which would include filing separate financial statements for the Offeror), the Offeror intends to provide holders of Exchangeable Shares with the documents filed by the Trust pursuant to the informational reporting requirements to which the Trust is subject under applicable Canadian securities laws. **If the Trust is unable to obtain the exemptive relief that it has determined is required in connection with the offer and issuance of the Exchangeable Shares pursuant to the Offer prior to the Expiry Time and on terms and conditions satisfactory to the Trust, acting reasonably, then those Cypress Shareholders which have elected to receive Exchangeable Shares for some or all of their Cypress Shares will instead be deemed to have elected to receive PrimeWest Units for those Cypress Shares, and such Cypress Shareholders will be issued PrimeWest Units for those Cypress Shares as if they had elected to receive PrimeWest Units for those Cypress Shares. The Trust will issue a press release promptly upon receiving such exemptive relief.** The Trust is not a reporting issuer under U.S. securities laws.

Cypress Shareholders who wish to accept the Offer must properly complete and execute the accompanying Letter of Transmittal (printed on yellow paper) or a manually executed facsimile thereof and deposit it, together with the certificates representing their Cypress Shares and any other documents required by the Letter of Transmittal, in accordance with the instructions in the Letter of Transmittal. See Section 3 of the Offer, "Manner of Acceptance - Letter of Transmittal". Alternatively, Cypress Shareholders may follow the procedure for guaranteed delivery described under "Manner of Acceptance - Procedure for Guaranteed Delivery" at Section 3 of the Offer. Cypress Shareholders whose Cypress Shares are registered in the name of an investment dealer, stockbroker, bank, trust company or other nominee should contact that nominee for assistance if they wish to accept the Offer.

Questions and requests for assistance may be directed to TD Securities Inc. or CIBC World Markets Inc. (collectively, the "Dealer Managers") or Computershare Trust Company of Canada (the "Depository"). Additional copies of the Offer and Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery may be obtained without charge on request from the Dealer Managers or the Depository at their respective offices shown on the last page of this Offer and Circular.

NOTICE TO INVESTORS AND PROSPECTIVE INVESTORS WHO ARE U.S. PERSONS

THE PRIMEWEST UNITS OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

This Offer is made for the securities of a Canadian company. The Offer is subject to Canadian disclosure requirements that are different from those of the United States. Financial statements included in this document have been prepared in accordance with Canadian generally accepted accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the United States federal securities laws, as the Offeror is located in Canada, and some or all of its officers and directors are residents of a foreign country. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court's judgment.

You should be aware that the acquisition of PrimeWest Units may have tax consequences both in the United States and in Canada. The consequences for holders who are resident in, or citizens of, the United States may not be described fully in this document.

You should be aware that the Offeror may purchase securities otherwise than under the Offer, such as in open market or privately negotiated purchases.

This document does not constitute an offer or a solicitation to any person in any jurisdiction in which such offer or solicitation is unlawful. The Offer is not being made to, nor will deposits be accepted from or on behalf of, Cypress Shareholders in any jurisdiction in which the making or acceptance thereof would not be in compliance with the laws of such jurisdiction. However, the Offeror may, in its sole discretion, take such action as it may deem necessary to extend the offer to Cypress Shareholders in such jurisdiction.

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SUMMARY

The following is a summary only and is qualified by the detailed provisions contained elsewhere in the Offer and the Circular, including the Schedules attached hereto, the Letter of Transmittal and the Notice of Guaranteed Delivery. Cypress Shareholders are urged to read the Offer and the Circular in their entirety. Capitalized terms used in this Summary, where not otherwise defined herein, are defined in the Offer and Circular. The information concerning Cypress contained in this Summary and in the Offer and the Circular has been taken from or is based upon publicly available documents and records on file with Canadian securities regulatory authorities and other public sources at the time of the Offer, unless otherwise indicated, and has not been independently verified by the Offeror. All currency amounts expressed herein, unless otherwise indicated, are expressed in Canadian dollars.

The Offer

The Offeror is offering to purchase, on the terms and subject to the conditions of the Offer, all of the issued and outstanding Cypress Shares, including Cypress Shares which may become outstanding on the exercise of currently outstanding options to purchase Cypress Shares previously granted pursuant to the Cypress Stock Option Plan and Cypress Shares which are issued to the holders of shares of Rancho pursuant to the Rancho Offer (but excluding any Cypress Shares which may become outstanding on the exercise of Rights). The Offer is open for acceptance until, but not later than, the Expiry Time, unless withdrawn or extended by the Offeror.

The Offer is made only for the Cypress Shares and is not made for any options, warrants or rights to purchase Cypress Shares. Any holder of such options, warrants or rights to purchase Cypress Shares who wishes to accept the Offer should, to the extent permitted by the terms thereof, exercise the options, warrants or rights in order to obtain certificates representing Cypress Shares and deposit the same in accordance with the Offer.

The obligation of the Offeror to take up and pay for Cypress Shares pursuant to the Offer is subject to certain conditions. See "Conditions of the Offer" at Section 4 of the Offer.

Cypress Shareholders who have deposited their Cypress Shares pursuant to the Offer will be deemed to have deposited the Rights associated with such Cypress Shares. Only a nominal amount of the consideration to be paid by the Offeror for the Cypress Shares will be allocated to the Rights. Such amount shall be determined by the Offeror at the time the Cypress Shares are taken up pursuant to the Offer. No additional payments will be made for the Rights.

Basis of the Offer

The basis of the Offer is, at the election of each Cypress Shareholder and for each Cypress Share:

- (a) \$14.00 in cash under the Cash Alternative, subject to proration, with the balance, if any, in either PrimeWest Units pursuant to the Unit Balance Alternative or Exchangeable Shares pursuant to the Exchangeable Share Balance Alternative, subject to proration;
- (b) 1.45 PrimeWest Units available under the Unit Alternative; or
- (c) 1.45 Exchangeable Shares available under the Exchangeable Share Alternative, subject to proration;

Not more than \$60 million in cash will be paid, and not more than 5,440,000 Exchangeable Shares will be issued, to the holders of Cypress Shares pursuant to the Offer, all in accordance with the terms and conditions specified herein. U.S. Cypress Shareholders and other Cypress Shareholders who are not resident in Canada for the purposes of the Tax Act will not be entitled to elect the Exchangeable Share Alternative or to receive Exchangeable Shares pursuant to the Offer.

Cypress Shareholders who wish to accept the Offer may elect the Cash Alternative, the Unit Alternative or (other than U.S. Cypress Shareholders and other Cypress Shareholders who are not resident in Canada for the purposes of the Tax Act) the Exchangeable Share Alternative. Cypress Shareholders (other than U.S. Cypress Shareholders and other Cypress Shareholders who are not resident in Canada for the purposes of the Tax Act) who elect the Cash Alternative may make a further election of either the Unit Balance Alternative or the Exchangeable Share Balance Alternative. A Cypress Shareholder who does not properly indicate a choice for the Cash Alternative, the Unit Alternative or the Exchangeable Share Alternative in the Letter of Transmittal will be deemed to have elected the Unit Alternative for all Cypress Shares deposited under the Offer for which a proper election has not been made. A Cypress Shareholder who properly indicates a choice of the Cash Alternative but does not properly indicate a further choice of either the Unit Balance Alternative or the Exchangeable Share Balance Alternative in the Letter of Transmittal will be deemed to have further elected the Unit Balance Alternative for any Cypress Shares deposited under the Offer and for which such Cypress Shareholder is not receiving cash as a result of proration.

The actual consideration to be received by a Cypress Shareholder for Cypress Shares deposited under the Offer will be determined in accordance with the following:

- (a) the aggregate amount of cash that the Offeror will be required to pay for Cypress Shares acquired pursuant to the Offer on any date when the Offeror takes up Cypress Shares shall not exceed the Maximum Take-up Date Cash Consideration for such date;
- (b) the aggregate number of Exchangeable Shares that the Offeror will be required to issue for Cypress Shares acquired pursuant to the Offer on any date when the Offeror takes up Cypress Shares shall not exceed the Maximum Take-up Date Exchangeable Share Consideration for such date;
- (c) if, at any date on which the Offeror takes up Cypress Shares, the aggregate amount of cash that would otherwise be payable, on the basis of \$14.00 for one Cypress Share, to Cypress Shareholders who elected the Cash Alternative in respect of their Cypress Shares to be taken up on such date:
 - (i) exceeds the Maximum Take-up Date Cash Consideration for such date, then the amount of the purchase consideration that will be paid in cash per Cypress Share to each such Cypress Shareholder who has elected the Cash Alternative shall be calculated by dividing the Maximum Take-up Date Cash Consideration for such date by the aggregate number of Cypress Shares that are being taken up on such date and in respect of which the holder thereof has elected the Cash Alternative, and each such Cypress Shareholder:
 - (A) who elected the Cash Alternative and also elected, or is deemed to have elected, the Unit Balance Alternative shall receive the balance of any purchase consideration payable to such Cypress Shareholder pursuant to the Offer in PrimeWest Units on the basis of 1.45 PrimeWest Units for one Cypress Share; or

- (B) who elected the Cash Alternative and also elected the Exchangeable Share Balance Alternative shall receive the balance of any purchase consideration payable to such Cypress Shareholder pursuant to the Offer in Exchangeable Shares on the basis of 1.45 Exchangeable Shares for one Cypress Share, subject to proration in accordance with paragraph (d) below; or
 - (ii) equals or does not exceed the Maximum Take-up Date Cash Consideration for such date, then the entire amount of the purchase consideration that will be paid to each such Cypress Shareholder who has elected the Cash Alternative will be paid in cash on the basis of \$14.00 for one Cypress Share;
- (d) if, at any date on which the Offeror takes up Cypress Shares, the aggregate number of Exchangeable Shares that would otherwise be issuable, on the basis of 1.45 Exchangeable Shares for one Cypress Share, to Cypress Shareholders who either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative in respect of their Cypress Shares, or the balance of their Cypress Shares, as applicable, to be taken up on such date:
 - (i) exceeds the Maximum Take-up Date Exchangeable Share Consideration for such date, then the amount of the purchase consideration that will be paid in Exchangeable Shares per Cypress Share to each such Cypress Shareholder who has either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative shall be calculated by dividing the Maximum Take-up Date Exchangeable Share Consideration by the aggregate number of Cypress Shares that are being taken up on such date and in respect of which the holder thereof has either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative, and each such Cypress Shareholder who either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative shall be deemed, for all purposes, to have elected to receive the balance of any purchase consideration payable to such Cypress Shareholder pursuant to the Offer in PrimeWest Units on the basis of 1.45 PrimeWest Units for one Cypress Share; or
 - (ii) equals or does not exceed the Maximum Take-up Date Exchangeable Share Consideration for such date, then the entire amount of the purchase consideration that will be paid in Exchangeable Shares per Cypress Share to each such Cypress Shareholder who has either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative will be paid by the issuance of Exchangeable Shares on the basis of 1.45 Exchangeable Shares for one Cypress Share; and
- (e) Exchangeable Shares will not be issued to U.S. Cypress Shareholders or any other Cypress Shareholders who are not resident in Canada for the purposes of the Tax Act.

See "The Offer" at Section 1 of the Offer.

No fractional PrimeWest Units or Exchangeable Shares will be issued. Any Cypress Shareholder who would otherwise be entitled to receive a fractional PrimeWest Unit or a fractional Exchangeable

Share will be entitled to receive that number of PrimeWest Units or Exchangeable Shares, as applicable, rounded up or down to the nearest whole number.

The Trust

The Trust is an open-end investment trust created under the laws of Alberta pursuant to the PrimeWest Declaration of Trust. The beneficiaries of the Trust are the holders of PrimeWest Units.

Schedule A to the Circular sets forth additional information concerning the Trust, including the business of the Trust and the Offeror, recent developments, a detailed description of the PrimeWest Declaration of Trust, the price range and trading volume of the PrimeWest Units for the period indicated, the Trust's record of cash distributions and certain Canadian federal income tax considerations regarding PrimeWest Units.

Schedule B to the Circular sets forth certain unaudited pro forma consolidated financial statements of the Trust, as at and for the year ended December 31, 1999 and as at and for the nine months ended September 30, 2000, after giving effect to the acquisition by the Offeror of all of the Cypress Shares pursuant to the Offer and certain other adjustments.

Schedule C to the Circular sets forth certain consolidated financial statements of Reserve Royalty, all of the shares of which were acquired by the Trust in July 2000. Applicable securities laws require the Trust to include in the Offer and the Circular the financial statements of previously acquired businesses that are significant to the Trust.

The Offeror

The Offeror is a wholly-owned subsidiary of the Trust and PrimeWest Energy and was incorporated under the ABCA on February 28, 2001. The head, principal and registered office of the Offeror is located at 1600, 530 – 8th Avenue S.W., Calgary, Alberta T2P 3S8.

The Offeror's business is the acquisition, development and exploitation of petroleum and natural gas properties and the production and marketing of petroleum and natural gas. The Offeror had no active business of any kind prior to the making of the Offer. Additional information concerning the Offeror is set forth under "The Offeror" at Section 2 of the Circular.

Attributes of the Exchangeable Shares

Holder of Exchangeable Shares will be entitled to exchange their Exchangeable Shares at any time for PrimeWest Units at the exchange ratio described below. The Exchangeable Shares will be automatically exchanged for PrimeWest Units on the second anniversary of the date that the Offeror first takes up and pays for Cypress Shares deposited under the Offer. **In certain circumstances, the Offeror has the right to require a redemption of the Exchangeable Shares prior to that second anniversary. See "Attributes of the Exchangeable Shares" under "The Offeror" at Section 2 of the Circular.**

One Exchangeable Share is exchangeable for one PrimeWest Unit, subject to the following adjustment. On each Distribution Date, the number of PrimeWest Units into which one Exchangeable Share is exchangeable shall be increased by that number of PrimeWest Units which have a fair market value on that Distribution Date (determined based on the closing price of the PrimeWest Units on the TSE on that date) equal to the amount of that distribution.

See "Attributes of the Exchangeable Shares" under "The Offeror" at Section 2 of the Circular.

The Offeror is not currently a reporting issuer in any jurisdiction and is not subject to the informational reporting requirements under the securities laws of any jurisdiction. The Offeror will become subject to those reporting requirements in certain Canadian jurisdictions as a result of filing the attached Offer and Circular in those jurisdictions and in certain other Canadian jurisdictions as a result of the Exchangeable Shares being listed on the TSE or any other recognized exchange (should such listing ever occur). The Offeror has applied for, and expects to receive, exemptions from those reporting requirements. Instead of complying with those reporting requirements (which would include filing separate financial statements for the Offeror), the Offeror intends to provide holders of Exchangeable Shares with the documents filed by the Trust pursuant to the informational reporting requirements to which the Trust is subject under applicable Canadian securities laws. **If the Trust is unable to obtain the exemptive relief that it has determined is required in connection with the offer and issuance of the Exchangeable Shares pursuant to the Offer prior to the Expiry Time and on terms and conditions satisfactory to the Trust, acting reasonably, then those Cypress Shareholders which have elected to receive Exchangeable Shares for some or all of their Cypress Shares will instead be deemed to have elected to receive PrimeWest Units for those Cypress Shares, and such Cypress Shareholders will be issued PrimeWest Units for those Cypress Shares as if they had elected to receive PrimeWest Units for those Cypress Shares. The Trust will issue a press release promptly upon receiving such exemptive relief.** The Trust is not a reporting issuer under U.S. securities laws.

Cypress

Cypress is an Alberta based corporation engaged in the business of exploring for, developing, acquiring and producing petroleum substances in western Canada. The Cypress A Shares are listed on the TSE under the symbol "CYZ. A" and the Cypress B Shares are listed on the CDNX under the symbol "CYZ.B". See "Cypress" at Section 3 of the Circular.

Certain additional information concerning Cypress is set forth under "Cypress" at Section 3 of the Circular, including the business of Cypress, recent press releases and the price ranges and trading volumes of the Cypress Shares for the period indicated.

Pre-Acquisition Agreement

The Trust and Cypress have entered into the Pre-Acquisition Agreement, under which the Trust agreed to make the Offer and Cypress agreed to support the Offer. Cypress further agreed pursuant to the Pre-Acquisition Agreement to, among other things, cease and cause to be terminated all existing discussions and negotiations and not to solicit, initiate or knowingly encourage the initiation or continuation of any inquiries, discussions, negotiations, proposals or offers from anyone other than the Trust or persons related to the Trust in respect of any Take-over Proposal. The foregoing obligations of Cypress are subject to a "fiduciary out" if a Superior Take-over Proposal is offered or made to Cypress or the Cypress Shareholders.

See "The Pre-Acquisition Agreement" at Section 4 of the Circular.

Lock-up Agreements

Each of the directors and officers of Cypress have entered into the Lock-up Agreements with the Trust pursuant to which those Cypress Shareholders (referred to herein as the "Locked Cypress Shareholders") have agreed to deposit an aggregate of 1,508,225 Cypress Shares under the Offer and to exercise or upon payment to terminate options to acquire an additional 2,612,100 Cypress Shares (such Cypress Shares, collectively with the 1,508,225 Cypress Shares currently held by the Locked Cypress

Shareholders, being the "Locked Cypress Shares") and deposit to the Offer any Cypress Shares acquired upon exercise of such options. The Locked Cypress Shares represent approximately 9 % of the outstanding Cypress Shares (on a fully diluted basis). The Locked Cypress Shareholders may terminate their obligations under the Lock-up Agreements in certain events specified in the Lock-up Agreements. See "Lock-Up Agreements" at Section 5 of the Circular.

Purpose of the Offer

The purpose of the Offer is to enable the Offeror to acquire all of the outstanding Cypress Shares. See "Purpose of the Offer and Plans for Cypress" and "Acquisition of Cypress Shares Not Deposited Under the Offer" at Sections 7 and 15, respectively, of the Circular.

Background to and Benefits of the Combination

Cypress is an oil and gas company that owns a high quality asset base consisting primarily of interests in petroleum and natural gas properties located primarily in western Canada. The Offeror believes that the acquisition of all of the Cypress Shares would significantly benefit the holders of PrimeWest Units, including those PrimeWest Units issued to Cypress Shareholders pursuant to the Offer and those issued pursuant to any Subsequent Acquisition Transaction. The Offeror believes that those benefits include receipt by Cypress Shareholders of units in a high quality oil and gas royalty trust, increased distributions, stable and predictable cash flow, increased market capitalization, increased market exposure to natural gas, increased liquidity and the benefits of synergies and economies of scale.

Selected Pro Forma Operating Information

The following table sets forth information regarding Established Reserves and information regarding production for the Trust, Venator, Reserve Royalty, Cypress and Rancho, as at December 31, 1999 and for the nine month period ended September 30, 2000, respectively, as well as pro forma information for the Trust as at such dates after giving effect to the acquisition by the Offeror of all of the Cypress Shares pursuant to the Offer. The following information does not take into account any dispositions by Reserve Royalty subsequent to the dates indicated.

As at December 31, 1999 ^{(1) (2)}

	<u>Trust</u>	<u>Venator</u>	<u>Reserve Royalty</u>	<u>Cypress</u>	<u>Rancho⁽³⁾</u>	<u>Pro Forma</u>
Established Reserves (before royalties)						
Crude oil and NGLs (mbbls).....	26,222	2,128	3,793	11,394	331	43,868
Natural Gas (mmcf).....	224,497	6,628	21,508	195,606	7,803	456,042
Sulphur (mt).....	619	-	-	-	-	619

For the nine month period ended September 30, 2000 ⁽¹⁾⁽²⁾

	<u>Trust</u>	<u>Cypress</u>	<u>Rancho⁽³⁾</u>	<u>Pro Forma</u>
Average Daily Production				
Crude Oil and NGLs (bbls/d).....	7,740	4,516	142	12,398
Natural Gas (mcf/d).....	49,549	65,838	7,424	122,811
Total (boe/d) ⁽⁴⁾⁽⁵⁾	12,695	11,099	883	24,679

Notes:

(1) Information regarding Cypress is derived from public sources.

- (2) Columns may not add due to rounding.
- (3) The foregoing table has been prepared giving effect to the acquisition by Cypress of all of the issued and outstanding shares of Rancho pursuant to the Rancho Offer.
- (4) Natural gas volumes are converted to boe on the basis of one barrel of crude oil for ten thousand cubic feet of natural gas.
- (5) The average daily production volumes for the Trust include the impact of the acquisition of all of the shares of Venator effective April 19, 2000 and the impact of the acquisition of all of the shares of Reserve Royalty effective July 27, 2000.

Selected Pro Forma Financial Information

The following table sets out certain financial information for the Trust, Venator, Reserve Royalty, Cypress and Rancho, as well as unaudited pro forma consolidated financial information for the Trust, as at and for the year ended December 31, 1999 and as at and for the nine months ended September 30, 2000, after giving effect to the acquisition by the Trust of all of the common shares of Venator and Reserve Royalty, and all of the Cypress Shares pursuant to the Offer, the acquisition by Cypress of all of the issued and outstanding shares of Rancho pursuant to the Rancho Offer, and certain other adjustments. The following information does not take into account expected savings of general and administrative expenses related to the acquisition by the Trust of Venator, Reserve Royalty and Cypress, and the acquisition by Cypress of Rancho, changes in commodity prices since the effective dates of such information or any incremental revenues that may be generated by the exploitation and development of Venator's, Reserve Royalty's, Cypress' or Rancho's properties or Venator's, Reserve Royalty's, Cypress' or Rancho's undeveloped land base. See "Benefits of the Combination" under "Background to and Benefits of the Combination" at Section 6 of the Circular. The following information should be read in conjunction with the unaudited pro forma consolidated financial statements of the Trust as set forth in Schedule B to the Circular, including the notes thereto.

As at and for the year ended December 31, 1999 ^{(1) (2)}

	Trust	Venator	Reserve Royalty	Cypress	Rancho	Pro Forma ⁽³⁾
Revenues, net of royalties	\$ 83,063	\$ 7,075	\$ 19,111	\$ 60,898	\$ 9,005	\$ 176,670
Cash Flow	41,716	4,399	7,559	40,903	2,436	82,451
Cash Available for Distribution, aggregate.....	37,351	-	-	-	-	77,530
Cash Available for Distribution, per trust unit	1.10	-	-	-	-	0.77
Total Assets	320,210	16,789	121,065	295,531	20,039	1,287,592
Working Capital (Deficit).....	5,850	(764)	(1,308)	(552)	(2,369)	(3,237)
Long-term Debt	92,180	2,187	35,055	92,760	11,488	388,096
Unitholders' / Shareholders' Equity	200,040	9,192	79,234	166,428	2,571	822,663

As at and for the nine months ended September 30, 2000 ^{(1) (2)}

	Trust	Venator ⁽⁴⁾	Reserve Royalty ⁽⁵⁾	Cypress	Rancho	Pro Forma ⁽³⁾
Revenues, net of royalties	\$ 103,561	\$ 3,759	\$ 10,091	\$ 89,501	\$ 10,986	\$ 216,841
Cash Flow	71,197	1,236	1,776	66,520	3,478	133,764
Cash Available for Distribution, aggregate.....	48,544	-	-	-	-	109,373
Cash Available for Distribution, per trust unit.....	1.17	-	-	-	-	1.07
Total Assets	436,682	-	-	354,850	28,008	1,372,388

	<u>Trust</u>	<u>Venator</u> ⁽⁴⁾	<u>Reserve Royalty</u> ⁽⁵⁾	<u>Cypress</u>	<u>Ranchero</u>	<u>Pro Forma</u> ⁽³⁾
Working Capital	6,746	-	-	(2,960)	867	8,472
Long-term Debt	84,274	-	-	115,447	7,525	361,675
Unitholders'/Shareholders' Equity	306,686	-	-	160,137	14,137	845,614

Notes:

- (1) Information regarding Cypress is derived from public sources.
- (2) All amounts are in thousands except for per trust unit amounts.
- (3) These amounts include the effect of the acquisition fee payable to the Manager.
- (4) Results are for the period January 1, 2000 to April 18, 2000. Results after April 18, 2000 are included in the results of the Trust.
- (5) Results are for the period January 1, 2000 to July 27, 2000. Results after July 27, 2000 are included in the results of the Trust.

Time for Acceptance

The Offer is open for acceptance until 9:00 p.m. (Calgary time) on March 28, 2001, or such later time and date or times and dates to which the Offer may be extended (the "Expiry Time"), unless withdrawn by the Offeror. See "Time for Acceptance" at Section 2 of the Offer.

Conditions of the Offer

The Offeror will have the right to withdraw the Offer, and will not be required to take up or pay for any Cypress Shares deposited under the Offer, if any of the conditions described under "Conditions of the Offer" in Section 4 of the Offer have not been satisfied or waived at or before the Expiry Time. The Offer is conditional upon, among other things, there being validly deposited under the Offer and not withdrawn prior to the Expiry Time at least 66²/₃% of the outstanding Cypress Shares (calculated on a fully diluted basis).

Manner of Acceptance

Cypress Shareholders wishing to accept the Offer must deposit, before the Expiry Time, certificate(s) representing their Cypress Shares together with a Letter of Transmittal (or a facsimile thereof), properly completed and signed, at any one of the offices of the Depository specified in the Letter of Transmittal. Instructions are contained in the Letter of Transmittal. See "Manner of Acceptance - Letter of Transmittal" at Section 3 of the Offer. If a Cypress Shareholder wishes to deposit Cypress Shares pursuant to the Offer and the certificate(s) representing such Cypress Shares are not immediately available, or if the certificate(s) and all other required documents cannot be provided to the Depository at or prior to the Expiry Time, those Cypress Shares may nevertheless be deposited in compliance with the procedure for guaranteed delivery. See "Manner of Acceptance - Procedure for Guaranteed Delivery" at Section 3 of the Offer. Cypress Shareholders whose Cypress Shares are registered in the name of an investment dealer, stockbroker, bank, trust company or other nominee should contact that nominee for assistance if they wish to accept the Offer. **No fee or commission will be payable by those Cypress Shareholders who deliver Cypress Shares directly to the Depository or who make use of the facilities of a member of the Soliciting Dealer Group to accept the Offer.**

If a Letter of Transmittal is executed by a person other than the registered holder(s) of the Cypress Shares deposited therewith, and in certain other circumstances as set forth in the Letter of Transmittal, then the certificate(s) must be endorsed or be accompanied by an appropriate securities

transfer power of attorney duly and properly completed by the registered holder(s), with the signature(s) on the endorsement panel or securities transfer power guaranteed by an Eligible Institution.

Withdrawal of the Deposited Cypress Shares

Any Cypress Shares deposited in acceptance of the Offer may be withdrawn by or on behalf of the depositing Cypress Shareholder at any time before midnight (local time at the place of deposit) on March 27, 2001, and, unless already taken up and paid for by the Trust, at any time after April 20, 2001. Additional withdrawal rights may be available under other circumstances as required by applicable law. See "Right to Withdraw Deposited Cypress Shares" at Section 7 of the Offer. Except as so indicated or as otherwise required by applicable law, tenders of Cypress Shares are irrevocable.

Payment

Upon the terms and subject to the conditions of the Offer (as the same may be amended or waived), the Trust will take up Cypress Shares duly and validly deposited under the Offer in accordance with its terms as soon after the Expiry Time as the Offeror is permitted by law to take up such securities. The Offeror will pay for Cypress Shares taken up under the Offer in accordance with its terms as soon as is practicable but in any event not later than the date which is 3 business days after the Expiry Time. See "Payment for Deposited Cypress Shares" at Section 6 of the Offer.

Stock Exchange Listings and Market Prices of PrimeWest Units and Cypress Shares

The PrimeWest Units are listed on the TSE. The closing price of the PrimeWest Units on the TSE on February 15, 2001, the last trading day immediately prior to the date on which the Offer was announced, and on March 2, 2001 was \$9.73 and \$8.82, respectively. The Cypress A Shares are listed on the TSE. The closing price of the Cypress A Shares on the TSE on February 15, 2001, the last trading day immediately prior to the date on which the Offer was announced, was \$10.60. The Cypress B Shares are listed on the CDNX. The closing price of the Cypress B Shares on the CDNX on February 15, 2001 was \$9.00. The TSE has conditionally approved the listing of the PrimeWest Units that are issued pursuant to the Offer, as well as the PrimeWest Units that are issued on the exchange of Exchangeable Shares, subject to the fulfilment of all of the requirements of the TSE. The Offeror has not applied to list on any exchange the Exchangeable Shares that are issued pursuant to the Offer.

Certain Canadian Federal Income Tax Considerations

Cypress Shareholders should carefully read the information under "Certain Canadian Federal Income Tax Considerations" at Section 16 of the Circular, which qualifies the information set forth below.

For Canadian federal income tax purposes, a Cypress Shareholder who, for purposes of the Tax Act, is resident in Canada, holds Cypress Shares as capital property and receives PrimeWest Units and/or cash, but no Exchangeable Shares, under the Offer, generally will realize a capital gain (or capital loss) equal to the amount by which the fair market value of the cash and the PrimeWest Units received by such holder in exchange for that holder's Cypress Shares, net of any reasonable costs incurred by the Cypress Shareholder in connection with the exchange, is greater (or less) than the adjusted cost base to such holder of the Cypress Shares so exchanged. A Cypress Shareholder who is an Eligible Holder and who exchanges Cypress Shares for consideration that includes Exchangeable Shares will be permitted to elect jointly with the Offeror, in prescribed form pursuant to section 85 of the Tax Act, to obtain a full or partial tax-deferred "rollover" in respect of such exchange.

The foregoing is a brief summary of Canadian federal income tax consequences only. Cypress Shareholders are urged to review Section 16 of the Circular and consult their own tax advisors to determine the particular tax consequences to them of a sale of Cypress Shares pursuant to the Offer or a disposition of Cypress Shares pursuant to a Compulsory Acquisition or any Subsequent Acquisition Transaction.

Certain United States Federal Income Tax Consideration

U.S. Cypress Shareholders should carefully read the information under "Certain United States Federal Income Tax Considerations" at Section 17 of the Circular, which qualifies the information set forth below.

The transfer of Cypress Shares by a Cypress Shareholder in consideration for PrimeWest Units and cash pursuant to the Offer, a Compulsory Acquisition, a Subsequent Acquisition Transaction or market purchase will be treated as a taxable disposition for United States federal income tax purposes.

The foregoing is a brief summary of United States federal income tax consequences only. Cypress Shareholders are urged to review Section 17 of the Circular and consult their own tax advisors to determine the particular tax consequences to them of a sale of Cypress Shares pursuant to the Offer or a disposition of Cypress Shares pursuant to a Compulsory Acquisition or any Subsequent Acquisition Transaction.

Soliciting Dealer Group

TD Securities Inc. and CIBC World Markets Inc. have been retained to act as Dealer Managers to form a Soliciting Dealer Group, comprised of members of the Investment Dealers Association of Canada and members of Canadian stock exchanges, to solicit acceptances of the Offer in Canada. The Offeror will pay soliciting dealers certain fees, as described at Section 18 of the Circular, "Other Matters Relating to the Offer – Dealer Managers and Soliciting Dealer Group". **No fee or commission will be payable by Cypress Shareholders who deliver Cypress Shares directly to the Depositary or use the facilities of the Soliciting Dealer Group to accept the Offer.**

Depositary

Computershare Trust Company of Canada is acting as Depositary under the Offer. The Depositary will receive deposits of Letters of Transmittal and the accompanying certificates representing Cypress Shares and documentation necessary to effect transfers of the Cypress Shares at its specified offices in Toronto and Calgary, and Notices of Guaranteed Delivery will be accepted at the specified offices of the Depositary in Toronto only.

DEFINITIONS

In the accompanying Summary, Offer and Circular, unless the context otherwise requires, the following terms shall have the meanings indicated:

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended.

"**affiliate**" has the meaning given to that term in the ASA.

"**Ancillary Rights**" means the optional Exchange Rights and the automatic exchange right that is exercised in the event of a PrimeWest Liquidation Event.

"**ASA**" means the *Securities Act* (Alberta), as amended.

"**associate**" has the meaning given to that term in the ASA.

"**Business Day**" means any day except a Saturday, Sunday or statutory or civic holiday in Calgary, Alberta.

"**Call Rights**" means the Liquidation Call Right, the Redemption Call Right and the Retraction Call Right, collectively.

"**Cash Alternative**" means, for each Cypress Share, \$14.00 in cash, subject to proration in accordance with the terms and conditions of the Offer.

"**CBCA**" means the *Canada Business Corporations Act*, as amended.

"**CDNX**" means the Canadian Venture Exchange.

"**CVMQ**" means the Commission des valeurs mobilières du Québec.

"**Circular**" means the take-over bid circular accompanying the Offer and forming a part thereof.

"**Compulsory Acquisition**" has the meaning given to that term under "Acquisition of Cypress Shares Not Deposited Under the Offer" at Section 15 of the Circular.

"**Cypress**" means Cypress Energy Inc., a corporation amalgamated under the ABCA.

"**Cypress A Shares**" means the Class A Shares of Cypress.

"**Cypress B Shares**" means the Class B Shares of Cypress.

"**Cypress Shareholder Rights Plan**" means the shareholder rights plan of Cypress established pursuant to an agreement dated March 22, 2000 between Cypress and The Trust Company of Bank of Montreal.

"**Cypress Shareholders**" means the holders of Cypress Shares.

"**Cypress Shares**" means the Cypress A Shares and the Cypress B Shares.

"**Cypress Stock Option Plan**" means the plan established by Cypress authorizing the granting of options to purchase Cypress A Shares to Cypress' directors, officers, employees and consultants.

"**Dealer Managers**" means, collectively, TD Securities Inc. and CIBC World Markets Inc.

"**Depository**" means Computershare Trust Company of Canada at its offices specified in the Letter of Transmittal.

"**Distribution Date**" means a date on which a distribution is paid in respect of the PrimeWest Units.

"**Eligible Holder**" means a Cypress Shareholder (i) who is a resident of Canada for purposes of the Tax Act, other than any such holder who is exempt from tax under the Tax Act, or (ii) which is a partnership that owns Cypress Shares if one or more of its members would be an Eligible Holder if such member held such shares directly.

"**Eligible Institution**" means a Canadian chartered bank or a trust company in Canada, a firm which is a member of a recognized stock exchange or the Investment Dealers Association of Canada or a member firm of the Securities Transfer Agent Medallion Program.

"**Established Reserves**" means those reserves determined to be Proved Reserves, plus those reserves determined to be Probable Reserves, the Probable Reserves being reduced by 50% to reflect the risks associated with recovery of those reserves.

"**Exchange Ratio**", at any time and in respect of each Exchangeable Share, shall initially be equal to one, and shall be increased on each Distribution Date between the time at which that Exchangeable Share was issued and the time as of which the Exchange Ratio is being calculated by an amount, rounded to the nearest five decimal places, equal to a fraction having as its numerator the product of the then current Exchange Ratio and the amount of the distribution, expressed as an amount per PrimeWest Unit, paid on that Distribution Date, and having as its denominator the closing price of the PrimeWest Units on the TSE on that Distribution Date.

"**Exchange Rights**" means the optional exchange right granted to the Trustee for the use and benefit of the holders of the Exchangeable Shares pursuant to the Voting and Exchange Trust Agreement to require the Trust to exchange or purchase, or cause PrimeWest Energy to exchange or purchase, Exchangeable Shares for PrimeWest Units, upon the occurrence of an Offeror Insolvency Event, or upon a Call Right being exercisable and the Trust and PrimeWest Energy electing not to exercise such Call Right.

"**Exchangeable Share Alternative**" means, for each Cypress Share, 1.45 Exchangeable Shares, subject to proration in accordance with the terms and conditions of the Offer.

"**Exchangeable Share Balance Alternative**" means, where a Cypress Shareholder has elected the Cash Alternative and the amount of cash being paid to such Cypress Shareholder is being prorated such that less than \$14.00 in cash is available under the Offer to be paid for each Cypress Share of such Cypress Shareholder, Exchangeable Shares to be paid to such Cypress Shareholder for the balance of such Cypress Shares on the basis of 1.45 Exchangeable Shares for each Cypress Share, subject to proration in accordance with the terms and conditions of the Offer.

"Exchangeable Share Provisions" means the rights, privileges, restrictions and conditions attaching to the Exchangeable Shares.

"Exchangeable Shares" means the exchangeable shares of the Offeror having the attributes set forth under "Attributes of the Exchangeable Shares" under "The Offeror" at Section 2 of the Circular.

"Exchangeable Shares Transfer Agent" means Computershare Trust Company of Canada, or any successor thereto that is appointed by the Offeror to act as transfer agent and registrar for the Exchangeable Shares.

"Exempt Plans" has the meaning given to that term under "Certain Canadian Federal Income Tax Conditions Regarding PrimeWest Units" at Section 10 of Schedule A to the Circular.

"Expiry Time" means 9:00 p.m. (Calgary time) on March 28, 2001, or such later time and date or times and dates as may be fixed by the Offeror from time to time as set forth under "Extension, Variation or Change in the Offer" at Section 5 of the Offer.

"fully diluted basis" means, with respect to the number of outstanding Cypress Shares at any time, the number of Cypress Shares that would be outstanding at that time, assuming all options and other rights to acquire Cypress Shares outstanding at that time had been exercised, excluding any such options or other rights which have either been surrendered or which under a binding agreement between Cypress and the holder of such options or other rights have agreed to be surrendered.

"Joint Election" means a joint election between an Eligible Holder and the Offeror under subsection 85(1) (where the Eligible Holder is not a partnership) or 85(2) (where the Eligible Holder is a partnership) of the Tax Act (and the corresponding provisions of any applicable provincial income tax legislation) in respect of the disposition of the Eligible Holder's Cypress Shares pursuant to the Offer.

"Liquidation Call Right" means the overriding right of the Trust and PrimeWest Energy, in the event of a proposed liquidation, dissolution or winding-up of the Offeror, to purchase all of the outstanding Exchangeable Shares (other than Exchangeable Shares held by the Trust or PrimeWest Energy) from the holders thereof on the effective date of any such liquidation, dissolution or winding-up in exchange for PrimeWest Units, pursuant to the Exchangeable Share Provisions.

"Letter of Transmittal" means the Letter of Transmittal (printed on yellow paper) in the form accompanying the Offer and Circular, or a facsimile thereof.

"Lock-up Agreements" means the lock-up agreements between the Locked Cypress Shareholders and the Offeror described under "Lock-up Agreements" at Section 5 of the Circular.

"Locked Cypress Shareholders" means those certain Cypress Shareholders who have entered into the Lock-up Agreements with the Offeror.

"Locked Cypress Shares" means, collectively, the 1,508,225 Cypress Shares currently held by the Locked Cypress Shareholders and the 2,612,100 Cypress Shares issuable on exercise of options to purchase Cypress Shares granted to and currently held by the Locked Cypress Shareholders.

"Manager" means PrimeWest Management Inc., a corporation incorporated under the ABCA.

"Material Adverse Change" means any change (or any condition, event or development involving a prospective change) in the business, operations, results of operations, assets, capitalization, financial condition, licenses, permits, concessions, rights, liabilities, prospects or privileges, whether contractual or otherwise, of a party which is materially adverse to the business, operations or financial condition of that party; but "Material Adverse Change" shall not include a change resulting from (i) a matter that has been publicly disclosed or of which the other party has been advised in writing as of the date of the Pre-Acquisition Agreement, (ii) a change in commodity prices, or (iii) a change in currency exchange rates.

"Material Adverse Effect" means any effect that is, or would reasonably be expected to be, materially adverse to the business, operations or financial condition of the Offeror or Cypress, as applicable, on a consolidated basis.

"Maximum Take-Up Date Cash Consideration" means, for any date on which the Offeror takes up and pays for any Cypress Shares, the cash amount that is equal to the product of the aggregate number of Cypress Shares being taken up by the Offeror on such date, expressed as a percentage of the total number of issued and outstanding Cypress Shares (calculated on a fully diluted basis), and \$60,000,000.

"Maximum Take-Up Date Exchangeable Share Consideration" means, for any date on which the Offeror takes up and pays for any Cypress Shares, the number of Exchangeable Shares that is equal to the product of the aggregate number of Cypress Shares being taken up by the Offeror on such date, expressed as a percentage of the total number of issued and outstanding Cypress Shares (calculated on a fully diluted basis), and 5,440,000.

"Minimum Condition" has the meaning given to that term in paragraph (a) under "Conditions of the Offer" at Section 4 of the Offer.

"Minimum Required Shares" means that number of Cypress Shares required pursuant to the Minimum Condition.

"NGLs" means natural gas liquids.

"Notice of Guaranteed Delivery" means the Notice of Guaranteed Delivery for Deposit of Cypress Shares (printed on green paper) in the form accompanying the Offer and Circular, or a facsimile thereof.

"Offer" means the offer to purchase Cypress Shares made hereby.

"Offer Period" means the period commencing on the date of the Offer and ending at the Expiry Time.

"Offeror" means PrimeWest Oil and Gas Corp., a corporation incorporated under the ABCA.

"Offeror Insolvency Event" means the institution by the Offeror of any proceeding to be adjudicated a bankrupt or insolvent or to be dissolved or wound up, or the consent of the Offeror to the institution of bankruptcy, insolvency, dissolution or winding-up proceedings against it, or the filing of a petition, answer or consent seeking dissolution or winding-up under any bankruptcy, insolvency or analogous laws, including without limitation the *Companies Creditors' Arrangement Act* (Canada) and the *Bankruptcy and*

Insolvency Act (Canada), and the failure by the Offeror to contest in good faith any such proceedings commenced in respect of the Offeror within 15 days of becoming aware thereof, or the consent by the Offeror to the filing of any such petition or to the appointment of a receiver, or the making by the Offeror of a general assignment for the benefit of creditors, or the admission in writing by the Offeror of its inability to pay its debts generally as they become due, or the Offeror not being permitted, pursuant to solvency requirements of applicable law, to redeem any Exchangeable Shares pursuant to the Exchangeable Share Provisions.

"OSC" means the Ontario Securities Commission.

"Other Securities" has the meaning given to that term under "Manner of Acceptance - General" at Section 3 of the Offer.

"Policy Q-27" means Policy Statement No. Q-27 of the CVMQ.

"Pre-Acquisition Agreement" means the agreement dated February 16, 2001 between the Trust and Cypress.

"PrimeWest Declaration of Trust" means the declaration of trust dated as of August 2, 1996 and restated as of July 19, 1999 between PrimeWest Energy and the Trust Company of Bank of Montreal, as trustee, as amended.

"PrimeWest Energy" means PrimeWest Energy Inc., a corporation incorporated under the ABCA.

"PrimeWest Liquidation Event" means (i) any determination by the board of directors of PrimeWest Energy to institute voluntary liquidation, dissolution or winding-up proceedings (not including a reorganization under applicable bankruptcy laws) with respect to the Trust or to effect any other distribution of assets of the Trust among the PrimeWest Unitholders for the purpose of winding-up its affairs, or (ii) receipt by the Trust of notice of, or the Trust otherwise becoming aware of, any threatened or instituted claim, suit, petition or other proceeding with respect to the involuntary liquidation, dissolution or winding-up (not including a reorganization under applicable bankruptcy laws) of the Trust or to effect any other distribution of assets of the Trust among the PrimeWest Unitholders for the purpose of winding-up its affairs.

"PrimeWest Resources" means PrimeWest Resources Ltd., a corporation incorporated under the ABCA.

"PrimeWest Royalty" means PrimeWest Royalty Corp., a corporation incorporated under the ABCA.

"PrimeWest Unitholders" means the holders of PrimeWest Units.

"PrimeWest Units" means the trust units of the Trust as constituted on the date hereof.

"Probable Reserves" means those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved, but where such analysis suggests the likelihood of their existence and future recovery under current technology and existing or anticipated economic conditions. Probable reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above estimated Proved Reserves which can be realistically estimated

for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

"Proved Reserves" means those reserves estimated as recoverable with a high degree of certainty under current technology and existing economic conditions, in the case of constant price and cost analyses, and anticipated economic conditions, in the case of escalated cost and price analyses, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

"Purchased Cypress Shares" has the meaning given to that term under "Manner of Acceptance - General" at Section 3 of the Offer.

"Ranchero" means Ranchero Energy Inc.

"Ranchero Offer" means the offer dated February 28, 2001 by Cypress to acquire all of the issued and outstanding shares of Ranchero on the basis of \$1.68 in cash or 0.1723 Cypress A Shares per share of Ranchero, subject to an aggregate maximum of 1,076,900 Cypress A Shares.

"Redemption Call Right" means the overriding right of the Trust and PrimeWest Energy to purchase (a) all of the outstanding Exchangeable Shares (other than Exchangeable Shares held by the Trust and PrimeWest Energy) from the holders thereof on the date fixed for redemption thereof, or (b) all of the outstanding Exchangeable Shares (other than Exchangeable Shares held by the Trust and PrimeWest Energy) from the holders thereof at any time when the aggregate number of issued and outstanding Exchangeable Shares and other shares of the Offeror or any affiliate of the Offeror or the Trust having terms that are not materially commercially different from those of the Exchangeable Shares (other than Exchangeable Shares and any such other shares held by the Trust or PrimeWest Energy) is less than 200,000, in exchange for PrimeWest Units, pursuant to the Exchangeable Share Provisions.

"Reserve Royalty" means Reserve Royalty Corporation.

"Retraction Call Right" means the overriding right of the Trust and PrimeWest Energy, in the event of a proposed redemption of Exchangeable Shares pursuant to a Retraction Request given by the holder thereof, to purchase from such holder on the Retraction Date all of the Exchangeable Shares tendered for redemption in exchange for PrimeWest Units, pursuant to the Exchangeable Share Provisions.

"Retraction Date" means a date, determined by a holder of Exchangeable Shares, on which such holder can require the Offeror to redeem such holder's Exchangeable Shares, as further set out in the Exchangeable Share Provisions and described under "Attributes of the Exchangeable Shares" under "The Offeror" at Section 2 of the Circular.

"Retraction Request" means a duly executed notice given by a holder of Exchangeable Shares in the form of Schedule A to the Exchangeable Share Provisions, or in such other form as may be acceptable to the Offeror, pursuant to which such holder can require the Offeror to redeem such holder's Exchangeable Shares.

"Rights" means rights issued to Cypress Shareholders pursuant to the Cypress Shareholder Rights Plan.

"**Royalty**" has the meaning given to that term under "Business of The Trust and the Offeror" under "The Trust" at Section 2 of Schedule A to the Circular.

"**Rule 61-501**" means Rule 61-501 of the OSC.

"**Soliciting Dealer Group**" has the meaning given to that term under "Dealer Managers and Soliciting Dealer Group" under "Other Matters Relating to the Offer" at Section 18 of the Circular.

"**Special Voting Unit**" means the Special Voting Unit of the Trust issued to the Trustee pursuant to the Voting and Exchange Trust Agreement.

"**Subsequent Acquisition Transaction**" has the meaning given to that term under "Acquisition of Cypress Shares Not Deposited Under the Offer" at Section 15 of the Circular.

"**Superior Take-over Proposal**" means any bona fide written Take-over Proposal which, in the opinion of Cypress' board of directors, acting reasonably and in good faith and after consultation with its financial advisors, constitutes a commercially feasible transaction for which adequate financial arrangements have been made or are reasonably likely to be made and which could be carried out within a time frame that is reasonable in the circumstances and, if completed, would likely be superior to the Offer from a financial point of view to Cypress and to the Cypress Shareholders.

"**Support Agreement**" means the Support Agreement to be entered into among the Offeror, the Trust and PrimeWest Energy.

"**Take-over Proposal**" means, in respect of Cypress or its assets, any proposal or offer regarding any take-over bid, merger, consolidation, amalgamation, arrangement, sale of a material amount of assets, sale of treasury shares (other than pursuant to currently outstanding options to acquire Cypress Shares) or other business combination or similar transaction, other than the Offer.

"**Tax Act**" means the *Income Tax Act* (Canada).

"**Trust**" means PrimeWest Energy Trust, an open-end investment trust organized under the laws of Alberta.

"**Trustee**" means Montreal Trust Company, or any successor thereto that is appointed to act as trustee under the Voting and Exchange Trust Agreement.

"**TSE**" means The Toronto Stock Exchange.

"**Unit Alternative**" means, for each Cypress Share, 1.45 PrimeWest Units.

"**Unit Balance Alternative**" means, where a Cypress Shareholder has elected the Cash Alternative and the amount of cash being paid to such Cypress Shareholder is being prorated such that less than \$14.00 in cash is available under the Offer to be paid for each Cypress Share of such Cypress Shareholder, PrimeWest Units to be paid to such Cypress Shareholder for the balance of such Cypress Shares on the basis of 1.45 PrimeWest Units for each Cypress Share.

"U.S. Person" means a U.S. person as defined in Rule 902(k) under Regulation S of the United States Securities Act of 1933, as amended.

"U.S. Cypress Shareholder" means any Cypress Shareholder who is, at the time of the completion of the Offer, either in the United States or a U.S. Person.

"Venator" means Venator Petroleum Company Ltd.

"Voting and Exchange Trust Agreement" means the Voting and Exchange Trust Agreement to be entered into among the Trust, PrimeWest Energy, the Offeror and the Trustee.

ABBREVIATIONS

The following abbreviations are used herein to represent the following terms:

"**bbls**" means barrels.

"**bbls/d**" means barrels per day.

"**boe**" means barrels of oil equivalent derived by converting ten mcf of natural gas to one barrel of oil equivalent and one barrel of natural gas liquids to one barrel of oil equivalent. The factors used to convert natural gas and natural gas liquids to oil equivalent are not based on either energy content or prices, but are commonly used industry benchmarks.

"**boe/d**" means barrels of oil equivalent per day.

"**mbbls**" means thousand barrels.

"**mcf**" means thousand cubic feet.

"**mcf/d**" means thousand cubic feet per day.

"**mlt**" means thousand long tons.

"**mmcf**" means million cubic feet.

OFFER

The accompanying Circular, Letter of Transmittal and Notice of Guaranteed Delivery, which are incorporated into and form part of the Offer, contain important information which should be read carefully before making a decision with respect to the Offer. The accompanying definitions are also incorporated into and form part of the Offer.

March 6, 2001

TO THE HOLDERS OF CYPRESS SHARES

1. THE OFFER

The Offeror hereby offers to purchase, during the Offer Period, on and subject to the following terms and conditions, all of the issued and outstanding Cypress Shares, including Cypress Shares which may become outstanding on the exercise of currently outstanding options to purchase Cypress Shares previously granted pursuant to the Cypress Stock Option Plan and Cypress Shares which are issued to the holders of shares of Rancho pursuant to the Rancho Offer (but excluding any Cypress Shares which may become outstanding on the exercise of Rights), on the basis of, at the election of each Cypress Shareholder and for each Cypress Share:

- (a) \$14.00 in cash available under the Cash Alternative, subject to proration, with the balance, if any, in either PrimeWest Units pursuant to the Unit Balance Alternative or Exchangeable Shares pursuant to the Exchangeable Share Balance Alternative, subject to proration;
- (b) 1.45 PrimeWest Units available under the Unit Alternative; or
- (c) 1.45 Exchangeable Shares available under the Exchangeable Share Alternative, subject to proration;

Not more than \$60 million in cash will be paid, and not more than 5,440,000 Exchangeable Shares will be issued, to the holders of Cypress Shares pursuant to the Offer, all in accordance with the terms and conditions specified herein. U.S. Cypress Shareholders and any other Cypress Shareholders who are not resident in Canada for the purposes of the Tax Act will not be entitled to elect the Exchangeable Share Alternative or to receive Exchangeable Shares pursuant to the Offer.

Cypress Shareholders who wish to accept the Offer may elect the Cash Alternative, the Unit Alternative or (other than U.S. Cypress Shareholders and any other Cypress Shareholders who are not resident in Canada for the purposes of the Tax Act) the Exchangeable Share Alternative. A Cypress Shareholder who does not properly indicate a choice for the Cash Alternative, the Unit Alternative or the Exchangeable Share Alternative in the Letter of Transmittal will be deemed to have elected the Unit Alternative for all Cypress Shares deposited under the Offer for which a proper election has not been made. A Cypress Shareholder who properly indicates a choice of the Cash Alternative but does not properly indicate a further choice of either the Unit Balance Alternative or the Exchangeable Share Balance Alternative in the Letter of Transmittal will be deemed to have further elected the Unit Balance Alternative for any Cypress Shares deposited under the Offer and for which such Cypress Shareholder is not receiving cash as a result of proration.

The actual consideration to be received by a Cypress Shareholder for Cypress Shares deposited under the Offer will be determined in accordance with the following:

- (a) the aggregate amount of cash that the Offeror will be required to pay for Cypress Shares acquired pursuant to the Offer on any date when the Offeror takes up Cypress Shares shall not exceed the Maximum Take-up Date Cash Consideration for such date;
- (b) the aggregate number of Exchangeable Shares that the Offeror will be required to issue for Cypress Shares acquired pursuant to the Offer on any date when the Offeror takes up Cypress Shares shall not exceed the Maximum Take-up Date Exchangeable Share Consideration for such date;
- (c) if, at any date on which the Offeror takes up Cypress Shares, the aggregate amount of cash that would otherwise be payable, on the basis of \$14.00 for one Cypress Share, to Cypress Shareholders who elected the Cash Alternative in respect of their Cypress Shares to be taken upon on such date:
 - (i) exceeds the Maximum Take-up Date Cash Consideration for such date, then the amount of the purchase consideration that will be paid in cash per Cypress Share to each such Cypress Shareholder who has elected the Cash Alternative shall be calculated by dividing the Maximum Take-up Date Cash Consideration for such date by the aggregate number of Cypress Shares that are being taken up on such date and in respect of which the holder thereof has elected the Cash Alternative, and each such Cypress Shareholder:
 - (A) who elected the Cash Alternative and also elected, or is deemed to have elected, the Unit Balance Alternative shall receive the balance of any purchase consideration payable to such Cypress Shareholder pursuant to the Offer in PrimeWest Units on the basis of 1.45 PrimeWest Units for one Cypress Share; or
 - (B) who elected the Cash Alternative and also elected the Exchangeable Share Balance Alternative shall receive the balance of any purchase consideration payable to such Cypress Shareholder pursuant to the Offer in Exchangeable Shares on the basis of 1.45 Exchangeable Shares for one Cypress Share, subject to proration in accordance with paragraph (d) below; or
 - (ii) equals or does not exceed the Maximum Take-up Date Cash Consideration for such date, then the entire amount of the purchase consideration that will be paid to each such Cypress Shareholder who has elected the Cash Alternative will be paid in cash on the basis of \$14.00 for one Cypress Share;
- (d) if, at any date on which the Offeror takes up Cypress Shares, the aggregate number of Exchangeable Shares that would otherwise be issuable, on the basis of 1.45 Exchangeable Shares for one Cypress Share, to Cypress Shareholders who either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative in respect of their Cypress Shares, or the balance of their Cypress Shares, as applicable, to be taken upon on such date:
 - (i) exceeds the Maximum Take-up Date Exchangeable Share Consideration for such date, then the amount of the purchase consideration that will be paid in

Exchangeable Shares per Cypress Share to each such Cypress Shareholder who has either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative shall be calculated by dividing the Maximum Take-up Date Exchangeable Share Consideration by the aggregate number of Cypress Shares that are being taken up on such date and in respect of which the holder thereof has either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative, and each such Cypress Shareholder who either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative shall be deemed, for all purposes, to have elected to receive the balance of any purchase consideration payable to such Cypress Shareholder pursuant to the Offer in PrimeWest Units on the basis of 1.45 PrimeWest Units for one Cypress Share; or

- (ii) equals or does not exceed the Maximum Take-up Date Exchangeable Share Consideration for such date, then the entire amount of the purchase consideration that will be paid in Exchangeable Shares per Cypress Share to each such Cypress Shareholder who has either elected the Exchangeable Share Alternative or elected both the Cash Alternative and the Exchangeable Share Balance Alternative will be paid by the issuance of Exchangeable Shares on the basis of 1.45 Exchangeable Shares for one Cypress Share; and
- (e) Exchangeable Shares will not be issued to U.S. Cypress Shareholders or any other Cypress Shareholders who are not resident in Canada for the purposes of the Tax Act.

Promptly after determining the number of Cypress Shares taken up on any particular day and after giving effect to the proration provided herein in respect of such Cypress Shares, the proportion of total consideration paid in cash, the proportion of total consideration paid in PrimeWest Units and the proportion of the total consideration paid in Exchangeable Shares for such Cypress Shares, the Offeror will issue a press release setting forth such information.

The Offer is made only for Cypress Shares and is not made for any options, warrants or other rights to acquire Cypress Shares including, without limitation, any options to purchase Cypress Shares pursuant to the Cypress Stock Option Plan. Any holder of such options, warrants or other rights to purchase Cypress Shares who wishes to accept the Offer must exercise the options, warrants or other rights and obtain certificates representing Cypress Shares and deposit those Cypress Shares under the Offer. Any such exercise must be sufficiently in advance of the Expiry Time to assure the holders of options, warrants and other rights to purchase Cypress Shares that they will have Cypress Share certificates available for deposit before the Expiry Time, or in sufficient time to comply with the procedures referred to under "Manner of Acceptance - Procedure for Guaranteed Delivery" at Section 3 of the Offer.

Cypress Shareholders who have deposited their Cypress Shares pursuant to the Offer will be deemed to have deposited the Rights associated with those Cypress Shares. Only a nominal amount of the consideration to be paid by the Offeror for the Cypress Shares will be allocated to the Rights. That amount will be determined by the Offeror at the time the Cypress Shares are taken up pursuant to the Offer. No additional payment will be made for the Rights.

No fractional PrimeWest Units or Exchangeable Shares shall be issued pursuant to the Offer. In lieu of fractional PrimeWest Units and Exchangeable Shares, each Cypress Shareholder accepting the

Offer that would otherwise receive a fraction of a PrimeWest Unit Share or an Exchangeable Share will receive a number of Prime West Units or Exchangeable Shares, as the case may be, rounded up or down to the nearest whole number of PrimeWest Units or Exchangeable Shares, as the case may be.

PrimeWest Units which are issued to a Cypress Shareholder whose Cypress Shares have been taken up and paid for pursuant to the Offer prior to March 31, 2001 will be entitled to receive the Trust's March distribution which is payable on April 15, 2001. The Trust's current distribution rate is \$0.20 per PrimeWest Unit per month.

A more detailed description of the PrimeWest Units and the Exchangeable Shares is respectively provided under "The PrimeWest Declaration of Trust" at Section 6 of Schedule A to the Circular and under "Attributes of the Exchangeable Shares" under "The Offeror " at Section 2 of the Circular.

Depositing Cypress Shareholders will not be obliged to pay brokerage fees or commissions if they accept the Offer by depositing their Cypress Shares directly with the Depositary or if they use the services of the Dealer Managers or a member of the Soliciting Dealer Group to accept the Offer. See "Depositary" and "Dealer Managers and Soliciting Dealer Group" under "Other Matters Relating to the Offer" at Section 18 of the Circular.

The obligation of the Offeror to take up and pay for Cypress Shares deposited to the Offer is subject to certain conditions which are described under "Conditions of the Offer" at Section 4 of the Offer.

2. TIME FOR ACCEPTANCE

The Offer is open for acceptance at any time from the date hereof until 9:00 p.m. (Calgary time) on March 28, 2001, or until such later time and date or times and dates to which the Offer may be extended (the "Expiry Time"), unless withdrawn by the Offeror. See "Extension, Variation or Change in the Offer" at Section 5 of the Offer.

3. MANNER OF ACCEPTANCE

Letter of Transmittal

The Offer may be accepted by delivering the following to the Depositary at any of its offices listed in the accompanying Letter of Transmittal (printed on yellow paper), so as to be received before the Expiry Time:

- (a) the certificate or certificates representing the Cypress Shares in respect of which the Offer is being accepted;
- (b) a Letter of Transmittal in the accompanying form (or a facsimile thereof), properly completed and duly executed as required by the rules and instructions set out in the Letter of Transmittal; and
- (c) any other documents specified in the instructions set out in the Letter of Transmittal.

If the certificate or certificates representing Cypress Shares are not available for deposit prior to the Expiry Time, Cypress Shareholders may accept the Offer by complying with the procedure for guaranteed delivery described below.

Except as otherwise provided in the instructions in the Letter of Transmittal, all signatures on the Letter of Transmittal, certificates representing Cypress Shares and, if necessary, the Notice of Guaranteed Delivery must be guaranteed by an Eligible Institution. If a Letter of Transmittal is executed

by a person other than the registered holder of the Cypress Shares deposited therewith, and in certain other circumstances described in the Letter of Transmittal, then the certificate or certificates representing such Cypress Shares must be endorsed or accompanied by an appropriate stock transfer power of attorney duly and properly completed by the registered holder, with the signature on the endorsement panel or stock transfer power of attorney guaranteed by an Eligible Institution.

Procedure for Guaranteed Delivery

If a Cypress Shareholder wishes to deposit Cypress Shares to the Offer and either the certificate or certificates representing the Cypress Shares are not immediately available or the Cypress Shareholder is not able to deliver the certificate or certificates and all other required documents to the Depositary before the Expiry Time, those Cypress Shares may nevertheless be deposited under the Offer, provided that all of the following conditions are met:

- (a) the deposit is made by or through an Eligible Institution;
- (b) a properly completed and duly executed Notice of Guaranteed Delivery (printed on green paper) in the form accompanying this Offer (or a manually signed facsimile thereof), together with a guarantee by an Eligible Institution of the delivery of the certificate or certificates representing the Cypress Shares referenced therein, as set forth in paragraph (c) below, is received by the Depositary before the Expiry Time at its office in Toronto as set forth in the accompanying Notice of Guaranteed Delivery; and
- (c) the certificate or certificates representing deposited Cypress Shares, in proper form for transfer, together with a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof) respecting such Cypress Shares, and all other documents required by the Letter of Transmittal, are received by the Depositary at its office in Toronto before 4:30 p.m. (Toronto time) on the third trading day on the TSE after the Expiry Time.

The Notice of Guaranteed Delivery may be delivered by hand or transmitted by facsimile transmission or mailed to be received by the Depositary at its office in Toronto as set forth in the Notice of Guaranteed Delivery and must include a guarantee by an Eligible Institution in the form set forth in the Notice of Guaranteed Delivery.

General

The Offer will be deemed to be accepted only if the Depositary actually has received the requisite documents at or before the time specified. In all cases, payment for the Cypress Shares deposited and taken up by the Offeror pursuant to the Offer will be made only after timely receipt by the Depositary of certificates representing the Cypress Shares, a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) respecting such Cypress Shares with the signatures thereon guaranteed, if required, in accordance with the instructions and rules set out in the Letter of Transmittal, and any other required documents.

The method of delivery of the certificates representing Cypress Shares, the Letter of Transmittal, the Notice of Guaranteed Delivery and all other required documents is at the option and risk of the person depositing those documents. The Offeror recommends that those documents be delivered by hand to the Depositary and that a receipt be obtained or, if mailed, that registered mail, properly insured, be used with an acknowledgement of receipt requested.

Cypress Shareholders whose Cypress Shares are registered in the name of a stockbroker, investment dealer, bank, trust company or other nominee should contact that nominee for assistance in depositing their Cypress Shares.

The execution of a Letter of Transmittal irrevocably constitutes and appoints the Depositary, the Offeror, and any other person designated by the Offeror in writing, and each of them, as the true and lawful agents, attorneys and attorneys-in-fact and proxies of the Cypress Shareholder delivering the Letter of Transmittal with respect to Cypress Shares registered in the name of the holder on the securities register maintained by Cypress, deposited pursuant to the Offer and purchased by the Offeror (the "Purchased Cypress Shares"), and with respect to any and all dividends, distributions, payments, securities, rights, warrants, assets or other interests which may be accrued, declared, paid, issued, transferred, made or distributed on or in respect of the Purchased Cypress Shares on or after February 16, 2001, the date of the Pre-Acquisition Agreement (collectively, the "Other Securities"), effective on and after the date that the Offeror takes up and pays for the Purchased Cypress Shares (the "Effective Date"), with full power of substitution, in the name and on behalf of such Cypress Shareholder (such power of attorney being deemed to be an irrevocable power coupled with an interest), to:

- (a) register or record, transfer and enter the transfer of Purchased Cypress Shares and any Other Securities on the appropriate register of holders maintained by Cypress;
- (b) to exercise any and all of the rights of the holder of the Purchased Cypress Shares or Other Securities, including without limitation to vote, execute and deliver any and all instruments of proxy, authorizations or consents in form and on terms satisfactory to the Offeror in respect of any Purchased Cypress Shares and any Other Securities, revoke any such instrument, authorization or consent given prior to or after the Effective Date, designate in any such instruments of proxy any person or persons as the proxy or the proxy nominee or nominees of the Cypress Shareholder in respect of such Purchased Cypress Shares and/or Other Securities for all purposes including, without limitation, in connection with any meeting (whether annual, special or otherwise and any adjournments thereof) of holders of securities of Cypress; and
- (c) execute, endorse and negotiate, for and in the name of and on behalf of the registered holder of the Purchased Cypress Shares and/or any Other Securities, any and all cheques or other instruments representing any distribution payable to or to the order of such holder in respect of such Purchased Cypress Shares or Other Securities.

A holder of Purchased Cypress Shares or Other Securities who executes a Letter of Transmittal also agrees, effective on and after the Effective Date:

- (a) not to vote any of the Purchased Cypress Shares or Other Securities at any meeting (whether annual, special or otherwise and any adjournments thereof) of holders of securities of Cypress;
- (b) not to exercise any or all of the other rights or privileges attached to any of the Purchased Cypress Shares or Other Securities; and
- (c) to execute and deliver to the Offeror any and all instruments of proxy, authorizations or consents received in respect of the Purchased Cypress Shares or Other Securities and to designate in any such instruments of proxy the person or persons specified by the Offeror as the proxy or proxy nominee or nominees of the holder of the Purchased Cypress Shares and Other Securities.

At the date on which the Offeror purchases the Purchased Cypress Shares, all prior proxies given by the holder of those Purchased Cypress Shares or Other Securities with respect to those Cypress Shares and to any Other Securities shall be revoked and no subsequent proxies may be given by such holder with respect thereto.

A holder of Purchased Cypress Shares or Other Securities who executes a Letter of Transmittal covenants to execute, upon request, any additional documents, transfers and other assurances as may be necessary or desirable to complete the sale, assignment and transfer of the Purchased Cypress Shares or Other Securities to the Offeror and acknowledges that an authority therein conferred or agreed to be conferred shall survive the death or incapacity, bankruptcy or insolvency of the holder and all obligations of the holder therein shall be binding upon the heirs, personal representatives, successors and assigns of the holder.

All questions as to the validity, form, eligibility (including timely receipt) and acceptance of any Cypress Shares and any accompanying documents deposited pursuant to the Offer will be determined by the Offeror in its sole discretion, and depositing Cypress Shareholders agree that such determination shall be final and binding. The Offeror reserves the absolute right to reject any and all deposits that it determines are not in proper form or that, in the opinion of its counsel, may be unlawful for it to accept under the laws of any applicable jurisdiction. The Offeror reserves the absolute right to waive any defect or irregularity in the deposit of any Cypress Shares and accompanying documents. There will be no duty or obligation on the Offeror, the Dealer Managers, the Depositary or any other person to give notice of any defects or irregularities in any deposit and no liability will be incurred by any of them for failure to give any such notice. The Offeror's interpretation of the terms and conditions of the Offer, the Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery will be final and binding.

The deposit of Cypress Shares pursuant to the procedures herein will constitute a binding agreement between the depositing Cypress Shareholder and the Offeror upon the terms and subject to the conditions of the Offer, including the depositing Cypress Shareholder's representation and warranty that: (i) such Cypress Shareholder has full power and authority to deposit, sell, assign and transfer the Purchased Cypress Shares being deposited and has not sold, assigned or transferred or agreed to sell, assign or transfer any of such Purchased Cypress Shares to any other person; (ii) such Cypress Shareholder owns the Purchased Cypress Shares which are being deposited, within the meaning of applicable securities law; (iii) the deposit of such Cypress Shares complies with applicable securities laws; and (iv) when such Purchased Cypress Shares are taken up and paid for by the Offeror, the Offeror will acquire good title thereto, free and clear of all liens, restrictions, charges, encumbrances, claims and equities whatsoever.

The Offeror reserves the right to permit the Offer to be accepted in a manner other than that set forth in this Section 3.

4. CONDITIONS OF THE OFFER

Notwithstanding any other provision of the Offer, but subject to the provisions of the Pre-Acquisition Agreement, the Offeror reserves the right to withdraw or terminate the Offer and not take up or pay for, or to extend the period of time during which the Offer is open and postpone taking up and paying for, any Cypress Shares deposited under the Offer, unless all of the following conditions are satisfied or waived by the Offeror (subject to applicable law and any required consents):

- (a) at the Expiry Time, and at the time the Offeror first takes up and pays for Cypress Shares under the Offer, there shall have been validly deposited under the Offer and not

withdrawn at least $66\frac{2}{3}\%$ of the outstanding Cypress Shares (calculated on a fully diluted basis) (the "Minimum Condition");

- (b) the Offeror shall have determined, acting in its sole discretion, that the board of directors of Cypress shall have irrevocably waived the application of the Cypress Shareholder Rights Plan to the purchase of securities by the Offeror under the Offer and any Subsequent Acquisition Transaction;
- (c) all requisite regulatory approvals, orders, notices, consents, and expiries of waiting periods (including, without limitation, under the Competition Act (Canada) and those of any stock exchanges and other securities regulatory authorities) the failure of which to obtain or observe would preclude the completion of the Offer, shall have been obtained or occurred on terms and conditions satisfactory to the Offeror, acting reasonably, and all applicable statutory or regulatory waiting periods shall have expired or been terminated and the Offeror shall have determined in its sole judgement, acting reasonably, that no unresolved material objection or opposition shall have been filed, initiated or made during any applicable statutory or regulatory period;
- (d) the Offeror shall have determined in its sole discretion, acting reasonably, that (i) no act, action, suit, proceeding, objection or opposition shall have been threatened or taken before or by any domestic or foreign court or tribunal or governmental agency or other regulatory authority or administrative agency or commission by any elected or appointed public official or by any private person in Canada or elsewhere, whether or not having the force of law, and (ii) no law, regulation or policy (including applicable tax laws and regulations in those jurisdictions in which Cypress carries on business) shall have been proposed, enacted, promulgated, amended or applied, which in either case, in the sole judgement of the Offeror, acting reasonably:
 - (A) has the effect or may have the effect of cease trading the Cypress Shares, or enjoining, prohibiting or imposing material limitations, damages or conditions on the making of the Offer, or the purchase by, or the sale to, the Offeror of the Cypress Shares or the right of the Offeror to own or exercise full rights of ownership of the Cypress Shares;
 - (B) has had or, if the Offer was completed, would result in, a Material Adverse Change in respect of Cypress or, in the case of (ii) above, would have a Material Adverse Effect on Cypress or the Trust; or
 - (C) has a material adverse effect on the completion of any Compulsory Acquisition or any Subsequent Acquisition Transaction;
- (e) the Offeror shall have determined in its sole judgement, acting reasonably, that there does not exist any prohibition at law against the Offeror making the Offer or taking up and paying for all of the Cypress Shares under the Offer or completing any Compulsory Acquisition or Subsequent Acquisition Transaction in respect of any Cypress Shares not acquired under the Offer;
- (f) (i) Cypress shall not have breached, or failed to comply with, in any material respect, any of its covenants or other obligations under the Pre-Acquisition Agreement, and (ii) all representations and warranties of Cypress contained in the Pre-Acquisition Agreement shall have been true and correct in all material respects as of the date of the Pre-

Acquisition Agreement and shall not have ceased to be true and correct in any material respect thereafter; provided that Cypress has been given notice of and three days to cure any such breach, failure to comply or misrepresentation;

- (g) the Pre-Acquisition Agreement shall not have been terminated in accordance with its terms;
- (h) there shall have been no Material Adverse Change in respect of Cypress since February 16, 2001, being the date of the Pre-Acquisition Agreement.

The foregoing conditions are for the exclusive benefit of the Trust and the Offeror. The Offeror may assert any of the foregoing conditions at any time, both before and after the Expiry Time, regardless of the circumstances giving rise to such assertion (including the action or inaction of the Offeror); provided that the Offeror shall extend the Offer if any of the foregoing conditions are not satisfied on or by the date and time at which the Offer would otherwise expire and if the Offeror determines, acting reasonably, that there is a reasonable prospect that these conditions may be satisfied prior to May 15, 2001. Subject to the Pre-Acquisition Agreement, the Offeror may waive any of the foregoing conditions in whole or in part, at any time and from time to time, both before and after the Expiry Time, without prejudice to any other rights that the Offeror may have. See "Extension, Variation or Change in the Offer" at Section 5 of this Offer. The failure by the Offeror at any time to exercise or assert any of the foregoing rights shall not be deemed a waiver of any such right and each such right shall be deemed to be an ongoing right that may be exercised or asserted at any time and from time to time. Any determination by the Offeror concerning the events described in this Section 4 shall be final and binding upon all parties.

Any waiver of a condition or the withdrawal of the Offer shall be effective upon written notice (or other communication confirmed in writing) being given by the Offeror to that effect to the Depositary at its principal office in Calgary. The Offeror, forthwith after giving any such notice, will make a public announcement of such waiver or withdrawal, cause the Depositary as soon as is practicable thereafter to notify the Cypress Shareholders in the manner set forth under "Notice and Delivery" at Section 9 of the Offer, and provide a copy of the notice to the TSE and to the CDNX. If the Offer is withdrawn, the Offeror shall not be obliged to take up, accept for payment or pay for any Cypress Shares deposited under the Offer, and the Depositary will promptly return all certificates for deposited Cypress Shares and Letters of Transmittal, Notices of Guaranteed Delivery and related documents in its possession to the parties by whom they were deposited.

5. EXTENSION, VARIATION OR CHANGE IN THE OFFER

The Offer is open for acceptance until the Expiry Time. The Offeror may, in its sole discretion, at any time and from time to time during the Offer Period, extend the Expiry Time or vary the terms and conditions of the Offer by giving written notice (or other communication confirmed in writing) of such extension or variation to the Depositary at its principal office in Calgary. Upon the giving of such notice or other communication, the Expiry Time shall be, and be deemed to be, extended. The Offeror, forthwith after giving any such notice, will make a public announcement of such extension or variation, cause the Depositary as soon as is practicable thereafter to notify all registered Cypress Shareholders whose Cypress Shares have not been taken up prior to the extension or variation in the manner set forth under "Notice and Delivery" at Section 9 of the Offer, and provide a copy of the notice to the TSE and to the CDNX. Any notice of extension or variation will be deemed to have been given and to be effective on the day on which it is delivered or otherwise communicated to the Depositary at its principal office in Calgary.

Notwithstanding the foregoing, but subject to applicable law, the Offeror may not extend the Offer if all of the terms and conditions of the Offer (other than those waived by the Offeror) have been fulfilled or complied with, unless the Offeror first takes up and pays for all Cypress Shares then validly deposited under the Offer and not withdrawn.

Where the terms of the Offer are varied, the Offer will not expire before ten days after the notice of the variation has been given to Cypress Shareholders, unless otherwise permitted by applicable law and subject to abridgement or elimination of that period pursuant to such orders as may be granted by applicable Canadian courts and securities regulatory authorities.

If, before the Expiry Time, or after the Expiry Time but before the expiry of all rights of withdrawal with respect to the Offer, a change occurs in the information contained in the Offer or the Circular, as amended from time to time, that would reasonably be expected to affect the decision of a Cypress Shareholder to accept or reject the Offer (other than a change that is not within the control of the Offeror or any affiliate of the Offeror, unless that change is a change in a material fact relating to the PrimeWest Units), the Offeror will give written notice (or other communication confirmed in writing) of such change to the Depository at its principal office in Calgary. The Offeror, forthwith after giving any such notice, will make a public announcement of such change in information, cause the Depository as soon as is practicable thereafter to notify all registered Cypress Shareholders whose Cypress Shares have not been taken up prior to such change in information in the manner set forth under "Notice and Delivery" at Section 9 of the Offer, and provide a copy of the notice to the TSE and to the CDNX. Any notice of change in information will be deemed to have been given and to be effective on the day on which it is delivered or otherwise communicated to the Depository at its principal office in Calgary.

During any such extension, or in the event of any variation or change in information, all Cypress Shares previously deposited and not taken up or withdrawn will remain subject to the Offer and may be accepted for purchase by the Offeror in accordance with the terms hereof, subject to the provisions set out under "Right to Withdraw Deposited Cypress Shares" at Section 7 of the Offer. An extension of the Expiry Time, a variation of the Offer or a change in information contained in the Offer or the Circular does not constitute a waiver by the Offeror of its rights set out under "Conditions of the Offer" at Section 4 of the Offer. If the consideration being offered for the Cypress Shares under the Offer is increased, the increased consideration will be paid to all depositing Cypress Shareholders whose Cypress Shares are taken up under the Offer without regard for when such Cypress Shares are taken up by the Offeror.

6. PAYMENT FOR DEPOSITED CYPRESS SHARES

Upon the terms and subject to the conditions of the Offer, the Offeror will take up Cypress Shares duly and validly deposited pursuant to the Offer in accordance with the terms thereof on or as soon after the Expiry Time as the Offeror is permitted by law to take up such securities, assuming that the conditions of the Offer (as the same may be amended or waived) have been satisfied or waived. The Offeror will use all reasonable commercial efforts to pay for Cypress Shares taken up under the Offer in accordance with the terms of the Offer within one business day, but in any event not later than 3 business days, after the Expiry Time.

For the purposes of the Offer, the Offeror will be deemed to have taken up and accepted for payment Cypress Shares validly deposited under the Offer and not withdrawn if, as and when the Offeror gives written notice (or other communication confirmed in writing) to the Depository at its principal office in Calgary of its acceptance for payment of such Cypress Shares pursuant to the Offer.

Subject to the applicable law, the Offeror reserves the right, in its sole discretion, to delay taking up or paying for any Cypress Shares or to terminate the Offer and not take up or pay for any Cypress Shares if any condition specified under "Conditions of the Offer" at Section 4 of the Offer is not satisfied or waived, in whole or in part, by the Offeror giving written notice of such waiver (or other communication confirmed in writing) to the Depositary at its principal office in Calgary. The Offeror also reserves the right, in its sole discretion and notwithstanding any other condition of the Offer, to delay taking up and paying for Cypress Shares in order to comply, in whole or in part, with any applicable law, including, without limitation, such period of time as may be necessary to obtain any necessary regulatory approval. The Offeror will not, however, take up and pay for any Cypress Shares deposited under the Offer unless it simultaneously takes up and pays for all Cypress Shares then validly deposited under the Offer. Any Cypress Shares deposited under the Offer after the first date on which Cypress Shares have been taken up and paid for by the Offeror will be taken up and paid for not later than ten days after such deposit. The Offeror confirms that its reservation of the right to delay payment for Cypress Shares which it has accepted for payment is limited by the securities laws of certain Canadian provinces which require that an Offeror pay the consideration offered, or return the tendered securities, promptly after termination or withdrawal of an offer. Subject to applicable law, the Offeror may, in its discretion, at any time before the Expiry Time, take up and pay for all such Cypress Shares then deposited under the Offer, provided that the Offeror agrees to take up and pay for all additional Cypress Shares validly deposited thereafter.

The Offeror will pay for Cypress Shares validly deposited under the Offer and not withdrawn by delivering or causing to be delivered sufficient PrimeWest Units or Exchangeable Shares and/or making or causing to be made a cash payment to or on behalf of the holders of deposited Cypress Shares, on the basis set forth under "The Offer" at Section 1 of the Offer, and providing the Depositary with certificates representing such PrimeWest Units or Exchangeable Shares and sufficient funds (by bank transfer or other means satisfactory to the Depositary) for delivery to such holders.

Fractions of PrimeWest Units and Exchangeable Shares will not be issued. Fractional interests will be rounded up or down to the nearest whole PrimeWest Unit or Exchangeable Share, as applicable.

Under no circumstances will interest accrue or be paid by the Offeror or the Depositary on the purchase price of the Cypress Shares purchased by the Offeror, regardless of any delay in making such payment.

PrimeWest Units which are issued to a Cypress Shareholder whose Cypress Shares have been taken up and paid for pursuant to the Offer prior to March 31, 2001 will be entitled to receive the Trust's March distribution which is payable on April 15, 2001.

The Depositary will act as the agent of persons who have deposited Cypress Shares in acceptance of the Offer for the purposes of receiving payment from the Offeror and transmitting payment to such persons, and receipt of payment by the Depositary will be deemed to constitute receipt of payment by Cypress Shareholders who have deposited and not withdrawn their Cypress Shares pursuant to the Offer.

Settlement with each Cypress Shareholder who has validly deposited and not withdrawn Cypress Shares under the Offer will be effected by the Depositary by forwarding the certificate or certificates representing the PrimeWest Units, Exchangeable Shares and/or a cheque payable in Canadian funds in the amount to which that holder is entitled, provided that such holder is a resident of a province of Canada or another jurisdiction in which the PrimeWest Units and Exchangeable Shares may be lawfully delivered without further action by the Offeror. Subject to the foregoing and unless otherwise directed by the Letter of Transmittal, the certificate or certificates representing the PrimeWest Units, Exchangeable Shares

and/or cheque will be issued in the name of the registered holder of Cypress Shares so deposited. Unless the person depositing the Cypress Shares instructs the Depository to hold such certificate or certificates and cheque for pick-up by checking the appropriate box in the Letter of Transmittal, such certificate or certificates and cheque will be forwarded by first class insured mail to such person at the address specified in the Letter of Transmittal. If no address is specified therein, such certificate or certificates and cheque will be forwarded to the address of the holder as shown on the register maintained by Cypress or its transfer agent.

Depositing Cypress Shareholders will not be obligated to pay brokerage fees, commissions or transfer taxes, if any, if they accept the Offer by depositing their Cypress Shares directly with the Depository or if they use the services of the Dealer Managers or a member of the Soliciting Dealer Group to accept the Offer. See "Depository" and "Dealer Managers and Soliciting Dealer Group" under "Other Matters Relating to the Offer" at Section 18 of the Circular.

Any Cypress Shares not purchased by the Offeror will be returned at the Offeror's expense promptly after the expiry of the time for purchase by returning the documents deposited by the relevant Cypress Shareholder including, if applicable, any certificates representing the Cypress Shares, by first class insured mail in the name of and to the address specified by the Cypress Shareholder in the Letter of Transmittal or, if such name or address is not so specified, in such name and to such address as shown on the registers of Cypress or its transfer agent. Alternatively, if the Offeror determines that the delivery thereof by first class insured mail will be delayed, then the procedure for delivery described under "Mail Service Interruption" at Section 10 of the Offer will apply.

7. RIGHT TO WITHDRAW DEPOSITED CYPRESS SHARES

Except as otherwise provided in this Section 7, all deposits of Cypress Shares pursuant to the Offer are irrevocable. Any Cypress Shares deposited in acceptance of the Offer may be withdrawn by or on behalf of the depositing Cypress Shareholder, unless otherwise required or permitted by applicable law, at any time before midnight (local time at the place of deposit) on March 27, 2001, and at any time after April 20, 2001, provided, in the latter case, that the Offeror has not taken up and paid for the Cypress Shares prior to the receipt by the Depository of the notice of withdrawal in respect of such Cypress Shares.

In addition, unless otherwise required or permitted by applicable law, if:

- (a) there is a variation in the terms of the Offer before the Expiry Time (including any extension of the period during which Cypress Shares may be deposited under the Offer or the modification or waiver of a term or condition of the Offer, but excluding, unless otherwise required by applicable law, a variation which consists solely of an increase in the consideration offered under the Offer where the Expiry Time is not at the same time extended for more than ten days after the notice of variation has been delivered); or
- (b) at or before the Expiry Time, or after the Expiry Time but before the expiry of all rights of withdrawal in respect of the Offer, a change occurs in the information contained in the Offer or in the Circular, as amended from time to time, that would reasonably be expected to affect the decision of a Cypress Shareholder to accept or reject the Offer (other than a change that is not within the control of the Offeror or any affiliate of the Offeror, unless that change is a change in a material fact relating to the PrimeWest Units);

any Cypress Shares deposited under the Offer but not yet taken up by the Offeror at such time may be withdrawn by or on behalf of the depositing Cypress Shareholder at the place of deposit at any time before

the expiration of ten days from the date of mailing or other communication of the notice of that variation or change, subject to abridgement of that period pursuant to such order or orders as may be granted by applicable Canadian courts or securities regulatory authorities.

Withdrawal of deposited Cypress Shares may only be effected by notice of withdrawal, which must:

- (a) be made by or on behalf of the Cypress Shareholder by whom or on whose behalf such Cypress Shares were deposited or a Notice of Guaranteed Delivery was delivered;
- (b) be made by a method, including facsimile transmission, that provides the Depository with a written or printed copy of the notice of withdrawal;
- (c) be signed by or on behalf of the person who signed the Letter of Transmittal accompanying the Cypress Shares to be withdrawn, or by or on behalf of the person who signed the Notice of Guaranteed Delivery;
- (d) specify that person's name, the number of Cypress Shares to be withdrawn, the name of the registered Cypress Shareholder of the Cypress Shares to be withdrawn and, if applicable, the certificate number shown on each certificate representing the Cypress Shares to be withdrawn; and
- (e) be actually received by the Depository within the time limits indicated above at the office at which such Cypress Shares were deposited or Notice of Guaranteed Delivery was delivered.

Any signature on the withdrawal notice must be guaranteed by an Eligible Institution as described in the instructions and rules set forth in the Letter of Transmittal, except in the case of Cypress Shares deposited for the account of an Eligible Institution. A withdrawal will take effect only upon receipt by the Depository of a validly executed, written notice of withdrawal.

If the Offeror extends the Offer or, as a result of the non-satisfaction of a condition that has not been waived, the Offeror is delayed in taking up or paying for Cypress Shares or is unable for any reason to take up and pay for such Cypress Shares, then, without prejudice to the Offeror's other rights, Cypress Shares deposited under the Offer may be retained by the Depository on behalf of the Offeror and such Cypress Shares may not be withdrawn except to the extent that depositing Cypress Shareholders are entitled to withdrawal rights as set forth in this Section 7 or pursuant to applicable law.

All questions as to the validity (including timely receipt) and form of notices of withdrawal will be resolved by the Offeror in its sole discretion, and such determination shall be final and binding. There will be no duty or obligation on the Offeror, the Dealer Managers or the Depository to give any notice of any defects or irregularities in any notice of withdrawal and no liability will be incurred by any of them for failure to give any such notice.

Any Cypress Shares withdrawn will be deemed to be not validly deposited for the purposes of the Offer, but may be redeposited subsequently at or prior to the Expiry Time by following the procedures described under "Manner of Acceptance" at Section 3 of the Offer.

In addition to the foregoing rights of withdrawal, Cypress Shareholders in certain provinces of Canada are entitled to statutory rights of rescission in certain circumstances. See "Offerees' Statutory Rights" at Section 20 of the Circular.

8. REORGANIZATION AND DISTRIBUTIONS

If, on or after February 16, 2001 (the date of the Pre-Acquisition Agreement), Cypress should divide, combine or otherwise change any of the Cypress Shares or its capitalization, or disclose that it has taken or intends to take any such action, the Offeror, in its sole discretion, and without prejudice to its rights under "Conditions of the Offer" at Section 4 of the Offer, may make such adjustments as it considers appropriate to the purchase price and the other terms of the Offer (including, without limitation, the type of securities offered to be purchased and the amounts and types of consideration payable therefor) to reflect that division, combination or other change.

Cypress Shares acquired pursuant to the Offer shall be transferred by the Cypress Shareholder and acquired by the Offeror free and clear of all liens, charges, encumbrances, claims and equities and together with all (a) rights and benefits arising therefrom, including the right to any and all dividends, distributions, payments, securities, rights, warrants, assets or other interests which may be accrued, declared, paid, issued, transferred, made or distributed on or in respect of the Cypress Shares on or after February 16, 2001; and (b) Rights.

If Cypress should declare or pay any dividend or declare, make or pay any other amount in respect of, or declare, allot, reserve or issue any securities, rights or other interests with respect to, any of the Cypress Shares that is payable or distributable to Cypress Shareholders of record on a record date that is prior to the date of transfer into the name of the Offeror or its nominee or transferee on the register of Cypress Shareholders maintained by Cypress or its agent of such Cypress Shares following acceptance thereof for purchase pursuant to the Offer, then the whole of any such dividend, payment, right or other interest will be received and held by the depositing Cypress Shareholder for the account of the Offeror until the Offeror pays for such Cypress Share, and the depositing Cypress Shareholder will be required to promptly remit and transfer to the Depositary for the account of the Offeror any such dividend, payment, right or other interest, together with appropriate documentation of transfer. Pending such remittance, the Offeror will be entitled to all rights and privileges as the owner of any such dividend, payment, right or other interest and may withhold the entire purchase price payable by the Offeror pursuant to the Offer or deduct from the consideration payable by the Offeror pursuant to the Offer the amount or value thereof, as determined by the Offeror in its sole discretion.

9. NOTICE AND DELIVERY

Without limiting any other lawful means of giving notice, any notice that the Offeror or the Depositary may give or cause to be given under the Offer shall be deemed to have been properly given if it is mailed by first class mail, postage prepaid, to the registered Cypress Shareholders at their respective addresses appearing in the securities registers maintained by Cypress or its agent and, unless otherwise specified by applicable law, will be deemed to have been received on the first Business Day following mailing. These provisions apply notwithstanding any accidental omission to give notice to any one or more Cypress Shareholders and notwithstanding any interruption of mail services in Canada or the United States or elsewhere following mailing.

If mail service is interrupted following mailing, the Offeror intends to make reasonable efforts to disseminate the notice by other means, such as publication. Subject to applicable law, if post offices in Canada or elsewhere are not open for the deposit of mail or there is reason to believe that there is or could be a disruption in all or part of the postal service, any notice which the Offeror or the Depositary may give or cause to be given under the Offer, except as otherwise provided herein, will be deemed to have been properly given and to have been received by Cypress Shareholders if (a) it is given to the TSE and the CDNX for dissemination through their facilities; and (b) it is published once in the National Post or the

national edition of The Globe and Mail, provided that if neither the National Post nor the national edition of The Globe and Mail are being generally circulated, publication shall be made in any daily newspaper or newspapers of general circulation published in the cities of Toronto and Calgary.

The Offer will be mailed to registered Cypress Shareholders and the directors of Cypress or made in such other manner as is permitted by applicable regulatory authorities.

Wherever the Offer calls for documents to be delivered to the Depository, those documents will not be considered delivered unless and until they have been physically received at one of the addresses listed for the Depository in the Letter of Transmittal or Notice of Guaranteed Delivery, as applicable. Wherever the Offer calls for documents to be delivered to a particular office of the Depository, those documents will not be considered delivered unless and until they have been physically received at that particular office at the address listed in the Letter of Transmittal or Notice of Guaranteed Delivery, as applicable.

10. MAIL SERVICE INTERRUPTION

Notwithstanding the provisions of the Offer, the Circular, the Letter of Transmittal or the Notice of Guaranteed Delivery, certificates representing PrimeWest Units and cheques issued in payment for Cypress Shares pursuant to the Offer, certificates representing Cypress Shares to be returned and any other relevant documents will not be mailed if the Offeror determines that delivery thereof by mail may be delayed. Persons entitled to such certificates, cheques and any other relevant documents that are not mailed for the foregoing reason may take delivery thereof at the office of the Depository, upon application, at which the Cypress Shares were deposited until such time as the Offeror has determined that delivery by mail will no longer be delayed. Notwithstanding the provisions set out under "Payment for Deposited Cypress Shares" at Section 6 of the Offer, certificates, cheques and any other relevant documents not mailed for the foregoing reason will be conclusively deemed to have been delivered on the first day upon which they are available for delivery to the depositing Cypress Shareholder at the appropriate office of the Depository. Notice of any determination regarding mail service delay or interruption made by the Offeror will be given in accordance with the provisions set out under "Notice and Delivery" at Section 9 of the Offer.

11. MARKET PURCHASES

The Offeror has no current intention of acquiring beneficial ownership of Cypress Shares while the Offer is outstanding, other than pursuant to the Offer. However, the Offeror reserves the right to, and may, acquire Cypress Shares by making purchases through the facilities of the TSE or the CDNX, as applicable, subject to applicable law, at any time and from time to time before the Expiry Time. In no event will the Offeror make any such purchases of Cypress Shares after the date hereof through the facilities of the TSE or the CDNX until the third clear trading day following the date of the Offer. The aggregate number of Cypress A Shares acquired by the Offeror through the facilities of the TSE during the Offer Period will not exceed 5% of the number of Cypress A Shares outstanding on the date of the Offer. In addition, the aggregate number of Cypress B Shares acquired by the Offeror through the facilities of the CDNX during the Offer Period will not exceed 5% of the number of the Cypress B Shares outstanding on the date of the Offer. Any Cypress Shares so purchased shall be counted in determining whether the condition as to the number of Cypress Shares deposited to the Offer has been fulfilled.

Although the Offeror has no present intention to sell Cypress Shares taken up under the Offer, it reserves the right, subject to applicable law, to make or to enter into an arrangement, commitment or understanding at or prior to the Expiry Time to sell any of such Cypress Shares after the Expiry Date.

12. OTHER TERMS OF THE OFFER

No stockbroker, investment dealer or other person has been authorized to give any information or make any representation on behalf of the Offeror or its affiliates other than as contained herein or in the accompanying Circular, and if any such information is given or made, then it must not be relied upon as having been authorized. No stockbroker, investment dealer or other person shall be deemed to be the agent of the Offeror, the Dealer Managers or the Depositary for purposes of the Offer. In any jurisdiction in which the Offer is required to be made by a licensed broker or dealer, the Offer shall be made on behalf of the Offeror by brokers or dealers licensed under the laws of such jurisdiction.

The Offer and the accompanying Circular constitute the take-over bid circular required under Canadian provincial securities legislation with respect to the Offer.

The Offer and all contracts resulting from the acceptance hereof shall be governed by, and construed in accordance with, the laws of Alberta and the laws of Canada applicable therein. Each party to an agreement resulting from the acceptance of the Offer unconditionally and irrevocably attorns to the non-exclusive jurisdiction of the courts of Alberta and the courts of appeal therefrom.

The provisions of the Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery accompanying the Offer, including the instructions contained therein, as applicable, form part of the terms and conditions of the Offer. The Offeror, in its sole discretion, will be entitled to make a final and binding determination of all questions relating to the interpretation of the Offer, the Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery, the validity of any acceptance of the Offer, and the validity of any withdrawals of Cypress Shares, including, without limitation, the satisfaction or non-satisfaction of any condition, the validity, time and effect of any deposit of Cypress Shares or notice of withdrawal of Cypress Shares, and the due completion and execution of the Letters of Transmittal and Notices of Guaranteed Delivery. The Offeror reserves the right to waive any defect in acceptance with respect to any particular Cypress Share or any particular Cypress Shareholder. There shall be no obligation on the Offeror, the Dealer Managers or the Depositary to give notice of any defects or irregularities in acceptance and no liability shall be incurred by any of them for failure to give any such notification.

This Offer is not being made to, nor will deposits of Cypress Shares be accepted from or on behalf of, Cypress Shareholders in any jurisdiction in which the making or acceptance hereof would not be in compliance with the laws of such jurisdiction. However, the Offeror, in its sole discretion, may take such action as it may deem necessary to extend the Offer to Cypress Shareholders in any such jurisdiction.

Dated March 6, 2001

PRIMEWEST OIL AND GAS CORP.

By: (Signed) KENT J. MACINTYRE
Chief Executive Officer

CIRCULAR

This Circular is furnished in connection with the accompanying Offer dated March 6, 2001 by the Offeror to purchase all the issued and outstanding Cypress Shares, including Cypress Shares which may become outstanding on the exercise of currently outstanding options to purchase Cypress Shares previously granted pursuant to the Cypress Stock Option Plan. Cypress Shareholders should refer to the Offer for details of its terms and conditions, including details as to payment and withdrawal rights.

The information concerning Cypress contained in the Offer and this Circular has been taken from or is based upon publicly available documents and records of Cypress on file with Canadian securities regulatory authorities, stock exchanges and other public sources and the securityholder lists and certain other information provided by Cypress to the Trust. The Trust has been granted limited access to certain additional information concerning the business and affairs of Cypress which is not generally available. Although the Trust has no knowledge that would indicate that any of the statements contained herein and taken from or based on such information are untrue or incomplete, neither the Trust nor the directors or officers of PrimeWest Energy or the Offeror assumes any responsibility for the accuracy or completeness of such information, or for any failure by Cypress to publicly disclose events or facts that may have occurred or that may affect the significance or accuracy of any such information and that are unknown to the Trust.

1. THE TRUST

The Trust is an open-end investment trust created under the laws of Alberta pursuant to the PrimeWest Declaration of Trust. The beneficiaries of the Trust are the holders of PrimeWest Units.

Schedule A to this Circular sets forth additional information concerning the Trust, including a description of the business of the Trust, PrimeWest Energy, PrimeWest Resources and PrimeWest Royalty, recent developments, the PrimeWest Declaration of Trust, the price range and trading volume of PrimeWest Units for the period indicated, the Trust's record of cash distributions and certain Canadian federal income tax considerations regarding PrimeWest Units.

Schedule B to this Circular sets forth certain unaudited pro forma consolidated financial statements for the Trust, as at and for the year ended December 31, 1999 and the period ended September 30, 2000, after giving effect to the acquisition of all the Cypress Shares pursuant to the Offer and certain other adjustments.

2. THE OFFEROR

Overview

The Offeror is a subsidiary of the Trust and PrimeWest Energy and was incorporated under the ABCA on February 28, 2001. The head, principal and registered office of the Offeror is located at 1600, 530 – 8th Avenue S.W., Calgary, Alberta T2P 3S8.

The Offeror's business is the acquisition, development and exploitation of petroleum and natural gas properties and the production and marketing of petroleum and natural gas. The Offeror had no active business of any kind prior to the making of the Offer.

The authorized capital of the Offeror consists of an unlimited number of Class A Common Shares and an unlimited number of Class B Common Shares. Before the Offeror takes up and pays for any Cypress Shares deposited under the Offer, it will amend its articles to create an unlimited number of

Exchangeable Shares. As at the date hereof, all of the outstanding Class A Common Shares of the Offeror are owned by the Trust, all of the Class B Common Shares of the Offeror are owned by PrimeWest Energy and there are no other shares of the Offeror outstanding.

Immediately following the completion of the Offer, the Offeror will own all of the Cypress Shares that are validly tendered under the Offer and not withdrawn prior to the Expiry Time, and the former holders of Cypress Shares that are acquired by the Offeror pursuant to the Offer who elect to receive Exchangeable Shares will own all of the Exchangeable Shares. The Offeror will not issue more than 5,440,000 Exchangeable Shares pursuant to the Offer. The Exchangeable Shares will be exchangeable at any time for PrimeWest Units at the exchange ratio set forth below under "Attributes of the Exchangeable Shares".

The Offeror is not currently a reporting issuer in any jurisdiction and is not subject to the informational reporting requirements under the securities laws of any jurisdiction. The Offeror will become subject to those reporting requirements in certain Canadian jurisdictions as a result of filing the attached Offer and Circular in those jurisdictions and in certain other Canadian jurisdictions as a result of the Exchangeable Shares being listed on the TSE or any other recognized exchange (should such listing ever occur). The Offeror intends to apply for and expects to receive exemptions from those reporting requirements. Instead of complying with those reporting requirements (which would include filing separate financial statements for the Offeror), the Offeror will provide holders of Exchangeable Shares with the documents filed by the Trust pursuant to the informational reporting requirements to which the Trust is subject under applicable Canadian securities laws. **If the Trust is unable to obtain the exemptive relief that it has determined is required in connection with the offer and issuance of the Exchangeable Shares pursuant to the Offer prior to the Expiry Time and on terms and conditions satisfactory to the Trust, acting reasonably, then those Cypress Shareholders which have elected to receive Exchangeable Shares for some or all of their Cypress Shares will instead be deemed to have elected to receive PrimeWest Units for those Cypress Shares, and such Cypress Shareholders will be issued PrimeWest Units for those Cypress Shares as if they had elected to receive PrimeWest Units for those Cypress Shares. The Trust will issue a press release promptly upon receiving such exemptive relief.**

Attributes of the Exchangeable Shares

The following is a summary description of the material provisions of the Exchangeable Shares and is qualified in its entirety by reference to the full text of (i) the Articles of Amendment of the Offeror setting forth the Exchangeable Share Provisions, (ii) the Support Agreement, and (iii) the Voting and Exchange Trust Agreement. Copies of the Exchangeable Share Provisions, the Support Agreement and the Voting and Exchange Trust Agreement may be obtained upon request without charge from the Corporate Secretary of PrimeWest Energy at 1600, 530 – 8th Avenue S.W., Calgary, Alberta T2P 3S8 (telephone: (403) 234-6600).

Exchangeable Share Provisions

Ranking. The Exchangeable Shares will rank prior to any common shares of the Offeror and any other shares ranking junior to the Exchangeable Shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Offeror; provided that notwithstanding such ranking the Offeror shall not be restricted in any way from declaring and paying a quarterly dividend on its common shares in an amount equal to 1% of the amounts to be paid by the Offeror to the Trust pursuant to a royalty agreement to be entered into between the Offeror and the Trust,

subject to certain adjustments, during the immediate preceding fiscal quarter as required under the Unanimous Shareholder Agreement of the Offeror.

Dividends. Holders of Exchangeable Shares will be entitled to receive dividends if, as and when declared by the board of directors of the Offeror. The Offeror does not anticipate that any dividends will be declared in respect of the Exchangeable Shares; however the board of directors has the right in its sole discretion to do so.

Certain Restrictions. The Offeror will not, without obtaining the approval of the holders of the Exchangeable Shares as set forth below under the sub-heading "Amendment and Approval":

- (a) pay any dividend on the common shares of the Offeror or any other shares ranking junior to the Exchangeable Shares, other than the quarterly dividend which is permitted to be paid on its common shares or stock dividends payable in common shares of the Offeror or any other shares ranking junior to the Exchangeable Shares;
- (b) redeem, purchase or make any capital distribution in respect of the common shares of the Offeror or any other shares ranking junior to the Exchangeable Shares;
- (c) redeem or purchase any other shares of the Offeror ranking equally with the Exchangeable Shares with respect to the payment of dividends or on any liquidation distribution; or
- (d) issue any shares other than Exchangeable Shares, common shares of the Offeror and any other shares ranking junior to the Exchangeable Shares with respect to the payment of dividends or on any liquidation distribution.

Liquidation of the Offeror. In the event of the liquidation, dissolution or winding-up of the Offeror or any other proposed distribution of the assets of the Offeror among its shareholders for the purpose of winding up its affairs, a holder of Exchangeable Shares will be entitled to receive for each Exchangeable Share on the effective date of such liquidation, dissolution, winding-up or other distribution (the "Liquidation Date") an amount equal to the value of that number of PrimeWest Units equal to the Exchange Ratio as at that Liquidation Date (the "Liquidation Amount"), to be satisfied by the delivery of that number of PrimeWest Units. Fractional PrimeWest Units will not be delivered. Any amount payable on account of the Liquidation Amount that includes a fractional PrimeWest Unit will be rounded down to the nearest whole number of PrimeWest Units.

On or after the Liquidation Date, a holder of Exchangeable Shares may surrender certificates representing such Exchangeable Shares, together with such other documents as may be reasonably required to effect a transfer of the Exchangeable Shares, to the Offeror's registered office or the office of the Exchangeable Shares Transfer Agent. Upon receipt of the certificates and other documents and subject to the exercise by the Trust or PrimeWest Energy of the Liquidation Call Right, the Offeror will deliver the Liquidation Amount to such holder at the address recorded in the Offeror's security register or will hold the Liquidation Amount for pick-up by the holder at the Offeror's registered office or the office of the Exchangeable Shares Transfer Agent, as specified by the Offeror in a notice to such holders.

Upon the occurrence of a liquidation, dissolution or winding-up of the Offeror, the Trust and PrimeWest Energy will have the right to purchase all but not less than all of the Exchangeable Shares then outstanding (other than Exchangeable Shares held by the Trust or PrimeWest Energy) at a purchase price per Exchangeable Share equal to the Liquidation Amount (to be satisfied by the issuance or delivery, as the case may be, of that number of PrimeWest Units having a value equal to the Liquidation Amount) and, upon the exercise of the Liquidation Call Right, the holders thereof will be obligated to sell such

Exchangeable Shares to the Trust or PrimeWest Energy, as applicable. The purchase by the Trust or PrimeWest Energy of all of the outstanding Exchangeable Shares upon the exercise of the Liquidation Call Right will occur on the Liquidation Date.

The Liquidation Call Right may be exercised, at the election of the Trust, by either the Trust or PrimeWest Energy.

Upon the occurrence of an Offeror Insolvency Event, the Trustee on behalf of the holders of the Exchangeable Shares will have the right to require the Trust or PrimeWest Energy to purchase any or all of the Exchangeable Shares then outstanding and held by such holders for the Liquidation Amount as described under the sub-heading "Voting and Exchange Trust Agreement – Optional Exchange Right".

Automatic Exchange Right on Liquidation of the Trust. In the event of a PrimeWest Liquidation Event, the Trust or PrimeWest Energy will be required to purchase each outstanding Exchangeable Share (other than Exchangeable Shares held by the Trust or PrimeWest Energy) and holders of Exchangeable Shares will be required to sell the Exchangeable Shares held by them at the fifth business day prior to the effective date of the PrimeWest Liquidation Event, by exchanging, for each Exchangeable Share held by such holder, that number of PrimeWest Units equal to the Exchange Ratio as at the sixth business day prior to the effective date of the PrimeWest Liquidation Event. Fractional PrimeWest Units will not be issued. Any amount payable in respect of an Exchangeable Share in the event of a PrimeWest Liquidation Event that includes a fractional PrimeWest Unit will be rounded down to the nearest whole number of PrimeWest Units.

Upon a holder's request and surrender of Exchangeable Share certificates, duly endorsed in blank and accompanied by such instrument of transfer as PrimeWest Energy may reasonably require, the Trust will deliver to such holder certificates representing the number of PrimeWest Units to which that holder is entitled to receive as at that date.

Retraction of Exchangeable Shares by Holders. Subject to the Retraction Call Right of the Trust and PrimeWest Energy described below, a holder of Exchangeable Shares will be entitled at any time to require the Offeror to redeem any or all of the Exchangeable Shares held by such holder for a retraction price per Exchangeable Share equal to the value of that number of PrimeWest Units equal to the Exchange Ratio as at the Retraction Date (the "Retraction Price"), to be satisfied by the delivery of that number of PrimeWest Units. Fractional PrimeWest Units will not be delivered. Any amount payable on account of the Retraction Price that includes a fractional PrimeWest Unit will be rounded down to the nearest whole number of PrimeWest Units.

Holders of the Exchangeable Shares may request redemption by presenting to the Offeror or the Exchangeable Shares Transfer Agent a certificate or certificates representing the number of Exchangeable Shares the holder desires to have redeemed, together with a duly executed Retraction Request and such other documents as may be reasonably required to effect the redemption of the Exchangeable Shares. The redemption will become effective five business days after the date on which the Offeror or the Exchangeable Shares Transfer Agent receives the Retraction Request from the holder.

When a holder requests the Offeror to redeem the Exchangeable Shares, the Trust and PrimeWest Energy will have an overriding right (the "Retraction Call Right") to purchase on the Retraction Date all but not less than all of the Exchangeable Shares that the holder has requested the Offeror to redeem at a purchase price per Exchangeable Share equal to the Retraction Price, to be satisfied by the delivery of that number of PrimeWest Units having a value equal to the Retraction Price.

At the time of a Retraction Request by a holder of Exchangeable Shares, the Offeror will immediately notify the Trust and PrimeWest Energy. The Trust or PrimeWest Energy must then advise the Offeror within two business days as to whether the Retraction Call Right will be exercised. A holder may revoke his or her Retraction Request at any time prior to the close of business on the last business day immediately preceding the Retraction Date, in which case the holder's Exchangeable Shares will neither be purchased by the Trust or PrimeWest Energy nor be redeemed by the Offeror. If the holder does not revoke his or her Retraction Request, the Exchangeable Shares that the holder has requested the Offeror to redeem will on the Retraction Date be purchased by the Trust or PrimeWest Energy or redeemed by the Offeror, as the case may be, in each case at a purchase price per Exchangeable Share equal to the Retraction Price.

The Retraction Call Right may be exercised, at the election of the Trust, by either the Trust or PrimeWest Energy.

If, as a result of solvency provisions of applicable law, the Offeror is not permitted to redeem all Exchangeable Shares tendered by a retracting holder, the Offeror will redeem only those Exchangeable Shares tendered by the holder as would not be contrary to such provisions of applicable law. The holder of any Exchangeable Shares not redeemed by the Offeror will be deemed to have required the Trust to purchase such unretracted Exchangeable Shares in exchange for PrimeWest Units on the Retraction Date pursuant to the optional Exchange Right.

Redemption of Exchangeable Shares. Subject to applicable law and the Redemption Call Right of the Trust and PrimeWest Energy, the Offeror:

- (a) will, on the date that is the second anniversary of the date that the Offeror first takes up and pays for Cypress Shares deposited under the Offer (the "Automatic Redemption Date"), redeem all but not less than all of the then outstanding Exchangeable Shares for a redemption price per Exchangeable Share equal to the value of that number of PrimeWest Units equal to the Exchange Ratio as at the last business day prior to that Redemption Date (as that term is defined below) (the "Redemption Price"), to be satisfied by the delivery of that number of PrimeWest Units;
- (b) may, at any time when the aggregate number of issued and outstanding Exchangeable Shares is less than 200,000 (as such number of shares may be adjusted as deemed appropriate by the board of directors of the Offeror to give effect to any subdivision or consolidation of or stock dividend on the Exchangeable Shares, any issuance or distribution of rights to acquire Exchangeable Shares or securities exchangeable for or convertible into or carrying rights to acquire Exchangeable Shares, any issue or distribution of other securities or rights or evidences of indebtedness or assets, or any other capital reorganization or other transaction involving or affecting the Exchangeable Shares) (the "De Minimus Redemption Date" and, collectively with an Automatic Redemption Date, a "Redemption Date"), redeem all but not less than all of the then outstanding Exchangeable Shares for the Redemption Price per Exchangeable Share; and
- (c) will be deemed to have redeemed all but not less than all of the then outstanding Exchangeable Shares for the Redemption Price per Exchangeable Share immediately prior to the time when the unit purchase rights issued pursuant to the unitholder rights plan referred to at Section 7 of Schedule A to this Circular (or pursuant to any successor or replacement rights plan) would separate from the PrimeWest Units and become exercisable.

Fractional PrimeWest Units will not be delivered. Any amount payable on account of the Redemption Price that includes a fractional PrimeWest Unit will be rounded down to the nearest whole number of PrimeWest Units.

The Offeror will, at least 90 days prior to any Redemption Date, provide the registered holders of the Exchangeable Shares with written notice of the prospective redemption of the Exchangeable Shares by the Offeror, including the number of Exchangeable Shares the Offeror intends to redeem. On or after the date that such notice is provided, upon the holder's presentation and surrender of the certificates representing the Exchangeable Shares and such other documents as may be required at the registered office of the Offeror or the office of the Exchangeable Shares Transfer Agent, the Offeror will deliver the Redemption Price to the holder at the address of the holder recorded in the Offeror's security register or by holding the Redemption Price for pick-up by the holder at the registered office of the Offeror or the office of the Exchangeable Shares Transfer Agent as specified in the written notice. **The accidental failure or omission to give any notice of redemption to less than 10% of the holders of Exchangeable Shares (other than the Trust and PrimeWest Energy) will not affect the validity of any redemption of Exchangeable Shares pursuant to such notice.**

The Trust and PrimeWest Energy will be granted a right (the "Redemption Call Right"), notwithstanding a proposed redemption of the Exchangeable Shares by the Offeror on the applicable Redemption Date, pursuant to the Exchangeable Share Provisions, to purchase on any Redemption Date all but not less than all of the Exchangeable Shares then outstanding (other than Exchangeable Shares held by the Trust or PrimeWest Energy) in exchange for the Redemption Price and, upon the exercise of the Redemption Call Right, the holders of all of the then outstanding Exchangeable Shares will be obliged to sell all such shares to the Trust or PrimeWest Energy, as applicable. If either the Trust or PrimeWest Energy exercises the Redemption Call Right, the Offeror's right to redeem the Exchangeable Shares on the applicable Redemption Date will terminate. The Redemption Call Right may be exercised, at the election of the Trust, by either the Trust or PrimeWest Energy.

Voting Rights. Except as required by applicable law, the holders of the Exchangeable Shares are not entitled as such to receive notice of or attend any meeting of the shareholders of the Offeror or to vote at any such meeting.

Anti-Dilution. The number of PrimeWest Units for which the Exchangeable Shares are exchangeable will, in addition to being adjusted from time to time to conform to the Exchange Ratio, be subject to adjustment in the event of:

- (a) the subdivision, consolidation or reclassification of the PrimeWest Units or the declaration by the Trust of a distribution payable in PrimeWest Units (or securities exchangeable for or convertible into PrimeWest Units) (other than in the ordinary course);
- (b) the issue of rights, options or warrants to all or substantially all of the PrimeWest Unitholders entitling them to subscribe for PrimeWest Units or securities convertible or exchangeable, or carrying rights to purchase, into PrimeWest Units at a price per PrimeWest Unit of less than eighty-five percent of the then market price of such PrimeWest Units; or
- (c) the issue, payment or distribution to all or substantially all of the PrimeWest Unitholders of any assets (including evidence of indebtedness) or cash or other rights or securities if such issuance, payment or distribution does not constitute a distribution paid in the ordinary course or an event described in (a) or (b) above.

Amendment and Approval. The rights, privileges, restrictions and conditions attaching to the Exchangeable Shares may be changed only with the approval of the holders thereof. Any such approval or any other approval or consent to be given by the holders of the Exchangeable Shares will be sufficiently given if given in accordance with applicable law and subject to a minimum requirement that such approval or consent be evidenced by a resolution passed by not less than two-thirds of the votes cast thereon (other than shares beneficially owned by the Trust, PrimeWest Energy or any of their respective subsidiaries and other affiliates) at a meeting of the holders of the Exchangeable Shares duly called and held at which holders of at least 20% of the then outstanding Exchangeable Shares are present in person or represented by proxy. In the event that no such quorum is present at such meeting within one-half hour after the time appointed therefor, then the meeting will be adjourned to such place and time (not less than 10 days later) as may be determined at the original meeting and the holders of Exchangeable Shares present in person or represented by proxy at the adjourned meeting will constitute a quorum thereat and may transact the business for which the meeting was originally called. At the adjourned meeting, a resolution passed by the affirmative vote of not less than two-thirds of the votes cast thereon will constitute the approval or consent of the holders of the Exchangeable Shares.

Actions by the Trust under the Support Agreement and the Voting and Exchange Trust Agreement. Under the Exchangeable Share Provisions, the Offeror will agree to take all such actions and do all such things as are necessary or advisable to perform and comply with its obligations under, and to facilitate the performance and compliance by the Trust with its obligations under, the Support Agreement and the Voting and Exchange Trust Agreement.

Non-resident Holders. Exchangeable Shares will not be issued to a U.S. Person or a resident of any foreign country. Notwithstanding anything contained in the Exchangeable Share Provisions, or the previous sentence, the obligation of the Trust or PrimeWest Energy to pay the Retraction Price, Liquidation Price or Redemption Price in respect of the Exchangeable Shares which are held by a U.S. Person or a resident of any foreign country shall be satisfied by delivering the PrimeWest Units which would have been received by the affected holder to the Exchangeable Shares Transfer Agent who shall sell such PrimeWest Units on the stock exchange on which the PrimeWest Units are then listed and, upon such sale, the rights of the affected holder shall be limited to receiving the net proceeds of sale (net of applicable taxes) upon surrender of the certificates representing such Exchangeable Shares.

Voting and Exchange Trust Agreement

Voting Rights. In accordance with the Voting and Exchange Trust Agreement, the Trust will have issued the Special Voting Unit to Montreal Trust Company, the Trustee for the benefit of the holders (other than the Trust and PrimeWest Energy) of the Exchangeable Shares. The Special Voting Unit will carry a number of votes, exercisable at any meeting at which PrimeWest Unitholders are entitled to vote equal to the number of PrimeWest Units (rounded down to the nearest whole number) into which the Exchangeable Shares are then exchangeable. With respect to any written consent sought from the PrimeWest Unitholders, each vote attached to the Special Voting Unit will be exercisable in the same manner as set forth above.

Each holder of an Exchangeable Share on the record date for any meeting at which PrimeWest Unitholders are entitled to vote will be entitled to instruct the Trustee to exercise that number of votes attached to the Special Voting Unit equal to the number of PrimeWest Units (rounded down to the nearest whole number) into which such Exchangeable Share is then exchangeable. The Trustee will exercise each vote attached to the special voting unit only as directed by the relevant holder and, in the absence of instructions from a holder as to voting, will not exercise such votes.

The Trustee will send to the holders of the Exchangeable Shares the notice of each meeting at which the PrimeWest Unitholders are entitled to vote, together with the related meeting materials and a statement as to the manner in which the holder may instruct the Trustee to exercise the votes attaching to the Special Voting Unit, at the same time as the Trust sends such notice and materials to the PrimeWest Unitholders. The Trustee will also send to the holders copies of all information statements, interim and annual financial statements, reports and other materials sent by the Trust to the PrimeWest Unitholders at the same time as such materials are sent to the PrimeWest Unitholders. To the extent such materials are provided to the Trustee by the Trust, the Trustee will also send to the holders all materials sent by third parties to PrimeWest Unitholders, including dissident proxy circulars and tender and exchange offer circulars, as soon as possible after such materials are first sent to PrimeWest Unitholders, and the Trust will use its reasonable best efforts to obtain and deliver such materials to the Trustee.

All rights of a holder of Exchangeable Shares to exercise votes attached to the Special Voting Unit will cease upon the exchange of all such holder's Exchangeable Shares for PrimeWest Units.

With the exception of administrative changes for the purpose of adding covenants for the protection of the holders of the Exchangeable Shares, making necessary amendments or curing ambiguities or clerical errors (in each case provided that the board of directors of PrimeWest Energy and the Trustee are of the opinion that such amendments are not prejudicial to the interests of the holders of the Exchangeable Shares), the Voting and Exchange Trust Agreement may not be amended without the approval of the holders of the Exchangeable Shares.

Optional Exchange Right. Upon the occurrence and during the continuance of:

- (a) an Offeror Insolvency Event; or
- (b) circumstances in which the Trust and PrimeWest Energy may exercise a Call Right, but elect not to exercise such Call Right;

a holder of Exchangeable Shares will be entitled to instruct the Trustee to exercise the optional Exchange Right with respect to any or all of the Exchangeable Shares held by such holder, thereby requiring the Trust or PrimeWest Energy to purchase such Exchangeable Shares from the holder. Immediately upon the occurrence of (i) an Offeror Insolvency Event, (ii) any event which will, with the passage of time or the giving of notice, become an Offeror Insolvency Event, or (iii) the election by the Trust and PrimeWest Energy not to exercise a Call Right which is then exercisable by the Trust and PrimeWest Energy, the Offeror and the Trust will give notice thereof to the Trustee. As soon as practicable thereafter, the Trustee will then notify each affected holder of Exchangeable Shares of such event or potential event and will advise the holder of its rights with respect to the optional Exchange Right.

The purchase price payable by the Trust or PrimeWest Energy for each Exchangeable Share to be purchased under the optional Exchange Right will be satisfied by the issuance of that number of PrimeWest Units equal to the Exchange Ratio as at the last business day prior to the day of closing of the purchase and sale of such Exchangeable Share under the Exchange Right (the "Exchange Price"). Fractional PrimeWest Units will not be issued. Any amount payable on account of the Exchange Price that includes a fractional PrimeWest Unit will be rounded down to the nearest whole number of PrimeWest Units.

If, as a result of solvency provisions of applicable law, the Offeror is unable to redeem all of a holder's Exchangeable Shares which such holder is entitled to have redeemed in accordance with the Exchangeable Share Provisions, the holder will be deemed to have exercised the optional Exchange Right

with respect to the unredeemed Exchangeable Shares and the Trust or PrimeWest Energy will be required to purchase such shares from the holder in the manner set forth above.

Support Agreement

The Trust Support Obligation. Under the Support Agreement, the Trust and PrimeWest Energy each will agree that:

- (a) the Trust and PrimeWest Energy will take all actions and do all things necessary to ensure that the Offeror is able to pay to the holders of the Exchangeable Shares the Liquidation Amount in the event of a liquidation, dissolution or winding-up of the Offeror, the Retraction Price in the event of the giving of a Retraction Request by a holder of Exchangeable Shares, or the Redemption Price in the event of a redemption of Exchangeable Shares by the Offeror; and
- (b) PrimeWest Energy will not vote or otherwise take any action or omit to take any action causing the liquidation, dissolution or winding-up of the Offeror.

The Support Agreement will also provide that, without the prior approval of the Offeror and the holders of the Exchangeable Shares, the Trust will not distribute additional PrimeWest Units or rights to subscribe therefor or other property or assets to all or substantially all of the PrimeWest Unitholders, nor change the rights, privileges or other terms of the PrimeWest Units, unless the same or an equivalent distribution on, or change to the Exchangeable Shares (or in the rights of the holders thereof) is made simultaneously. In the event of any proposed take-over bid, issuer bid or similar transaction affecting the PrimeWest Units, the Trust will use reasonable efforts to take all actions necessary or desirable to enable holders of Exchangeable Shares to participate in such transaction to the same extent and on an economically equivalent basis as the PrimeWest Unitholders.

The Support Agreement also provides that, as long as any outstanding Exchangeable Shares are owned by any person or entity other than the Trust, PrimeWest Energy or any of their respective subsidiaries and other affiliates, PrimeWest Energy will, unless approval to do otherwise is obtained from the holders of Exchangeable Shares, remain the direct or indirect beneficial owner of more than 50% of all of the issued and outstanding voting securities of the Offeror.

With the exception of administrative changes for the purpose of adding covenants for the protection of the holders of the Exchangeable Shares, making certain necessary amendments or curing ambiguities or clerical errors (in each case provided that the board of directors of PrimeWest Energy and the Trustee are of the opinion that such amendments are not prejudicial to the interests of the holders of the Exchangeable Shares), the Support Agreement may not be amended without the approval of the holders of the Exchangeable Shares.

Under the Support Agreement, the Trust and PrimeWest Energy have agreed to not exercise any voting rights attached to the Exchangeable Shares owned by them or any of their respective subsidiaries and other affiliates on any matter considered at meetings of holders of Exchangeable Shares (including any approval sought from such holders in respect of matters arising under the Support Agreement).

Delivery of PrimeWest Units. The Trust will make such filings and seek such regulatory consents and approvals as are necessary so that the PrimeWest Units issuable upon the exchange of Exchangeable Shares will be issued in compliance with applicable securities laws in Canada and may be traded freely on the TSE or such other exchange on which the PrimeWest Units may be listed, quoted or posted for trading from time to time.

Directors and Officers

The names, municipalities and principal occupations of the directors and officers of the Offeror are as follows:

<u>Name and Present Principal Occupation or Employment</u>	<u>Position Held With Offeror</u>	<u>Municipality of Residence</u>
KENT J. MACINTYRE Chief Executive Officer PrimeWest Energy Inc.	Director and Chief Executive Officer	Calgary, Alberta
SUSAN M. DUNCAN Vice-President, Finance PrimeWest Energy Inc.	Vice-President, Finance	Calgary, Alberta
TIM GRANGER Vice-President, Production PrimeWest Energy Inc.	Vice-President, Production	Calgary, Alberta
RON AMBROZY Vice-President, Business Development PrimeWest Energy Inc.	Vice-President, Business Development	Calgary, Alberta
ANN C. LANIEL Land Manager PrimeWest Energy Inc.	Land Manager	Calgary, Alberta
JAMES T. BRUVALL Partner Stikeman Elliott	Secretary	Calgary, Alberta

Other than Mr. Bruvall, none of the above officers have been employed in their current positions for more than five years. Prior to July, 1996 Mr. MacIntyre's principal occupation was Chief Executive Officer of Triad Energy Inc. (March, 1994 - July, 1996). For the five years prior to June, 1999, Mr. Granger held various managerial positions at Pogo Canada Ltd., Petro-Canada and prior to that at Amerada-Hess. Prior to October, 1996 Ms. Duncan was Treasurer of Triad Energy Inc. (June, 1995 - October, 1996) and prior to June, 1995 a Principal with Coopers & Lybrand, Chartered Accountants. Prior to September, 1997, Mr. Ambrozy held several positions of progressive responsibility at Gulf Canada Resources Limited over the previous 22 years. Prior to October, 1996 Ms. Laniel was Landman of Triad Energy Inc. (March, 1994 - October, 1996).

None of the directors or officers of the Offeror receives any remuneration in respect of his or her appointment in such capacities.

Auditors, Registrar and Transfer Agent

The auditors of the Offeror are PricewaterhouseCoopers LLP, Chartered Accountants, 1200, 425 – 1st Street S.W., Calgary, Alberta T2P 3V7.

The transfer agent and registrar for the Exchangeable Shares is Computershare Trust Company of Canada at its principal offices in Toronto and Calgary.

3. CYPRESS

Overview

Cypress is a Calgary-based company that was amalgamated under the ABCA on September 1, 1999. The primary predecessor corporation to Cypress was incorporated under the ABCA on November 16, 1995 and commenced drilling operations in June 1996. The head and principal offices of Cypress are located at 2700, 500 – 4th Avenue S.W., Calgary, Alberta, T2P 2V6.

Cypress' stated business strategy has been to use exploration as a cornerstone of its growth. Cypress also acquired assets when it perceived that the costs of acquisition were competitive with the finding and development costs of Cypress' exploration program, and when acquisitions allowed Cypress to consolidate a core area and/or provide drilling opportunities for its exploration program.

Price Range and Trading Volume of the Cypress Shares

The outstanding Cypress A Shares are traded on the TSE under the trading symbol "CYZ.A". The outstanding Cypress B shares are traded on the CDNX under the trading symbol "CYZ.B". The following table sets forth the price range and trading volume of Cypress A Shares and Cypress B Shares as reported by the TSE and the CDNX (and its predecessor, the Alberta Stock Exchange), as applicable, for the periods indicated:

Period	Cypress A Shares			Cypress B Shares		
	High	Low	Volume	High	Low	Volume
1999						
First Quarter	\$ 4.50	\$ 3.30	2,780,400	\$ 5.50	\$ 5.30	7,000
Second Quarter	6.10	4.10	5,799,200	5.75	5.50	20,300
Third Quarter	7.90	5.80	11,759,400	7.00	5.65	4,300
Fourth Quarter	7.00	4.40	5,894,100	7.50	6.75	23,700
2000						
First Quarter	6.90	4.75	10,051,400	7.30	6.95	32,300
Second Quarter	7.75	5.35	6,461,900	7.50	6.75	14,200
July	7.00	5.80	1,282,400	8.00	7.60	3,800
August	6.95	5.95	2,867,300	8.50	7.75	9,400
September	7.90	6.85	2,989,800	8.30	8.00	7,000
October	8.80	7.25	3,571,800	8.50	8.00	13,300
November	8.10	7.00	1,586,000	8.30	8.05	6,700
December	10.20	7.80	2,355,200	8.60	8.30	7,100
2001						
January	9.95	8.85	3,432,000	8.75	8.50	17,900
February	13.25	9.21	27,865,100	12.75	8.65	156,900
March (1-2)	12.50	12.23	2,504,836	12.25	12.15	2,065

The closing price of the Cypress A Shares on the TSE on February 15, 2001, the last trading day prior to the date on which announcement of the Offer was made, was \$10.60. The closing price of the Cypress B Shares on the CDNX on February 15, 2001 was \$9.00.

Recent Press Releases

Third Quarter Operating and Financial Results

On November 14, 2000, Cypress announced its financial and operating results for the nine months ended September 30, 2000. Cypress reported that its average daily oil and gas production of 11,099 boe per day for the first nine months of 2000 represented a 43% increase over the same period in 1999. Cypress' daily production during the third quarter was 11,683 boe per day. Cypress' reported that 60% of its production during the first nine months of 2000 was natural gas, 30% was light oil and 10% was natural gas liquids.

Cypress also reported that higher production volumes combined with increased commodity prices resulted in a 107% increase in revenue to \$48.7 million for the third quarter compared to \$23.5 million in revenue for the same period in 1999. For the nine months ended September 30, 2000, revenue was \$117.8 million, 131% higher than the \$51.0 million recorded for the same period in 1999. Cash flow from operations for the nine months ended September 30, 2000 rose 144% to \$66.5 million (\$1.44 per fully diluted share) compared to \$27.2 million (\$0.73 per fully diluted share) for the same period in 1999. Earnings for the nine months ended September 30, 2000 totalled \$21.0 million (\$0.46 per fully diluted share), a 422% increase compared to \$4.0 million (\$0.11 per fully diluted share) for the same period in 1999.

Normal Course Issuer Bid

On December 7, 2000, Cypress announced that it had filed a notice of intention to renew its normal course issuer bid with the TSE, under which Cypress would be authorized to purchase for cancellation up to 3,900,000 Cypress A Shares, representing approximately 9.9% of its public float at the time. The normal course issuer bid will end on December 9, 2001.

Whiskey Creek Activities

On December 12, 2000, Cypress announced an update as to the testing of the Startech Cypress Whiskey Creek 7-5-22-3 W5M well. Cypress reported that the well produced natural gas through incineration equipment at a rate of 3.6 mmcf/d for approximately 4 days with a stable tubing pressure of 2150 pounds per square inch from the Mississippian Turner Valley formation in December 2000. Wellsite condensate production was 30 bbl/mmcf at 53 API.

The well operator is to proceed to contact area stakeholders to initiate the process for pipeline installation and for continuous well production. Cypress expected that the well will produce 7 to 10 mmcf/d (40% net to Cypress) with associated hydrocarbon liquids when placed on production.

Ranchero Acquisition

On January 29, 2001, Cypress and Ranchero announced that they had agreed to enter into a letter of intent for a business combination to be completed pursuant to a plan of arrangement. Under the proposed terms, Ranchero shareholders were to receive the shares of a subsidiary of Ranchero which was to own certain oil and gas assets and other assets of Ranchero, together with either \$1.50 in cash or, at the option of a Ranchero shareholder, 0.1538 Cypress A Shares, subject to a maximum of 1,076,900 Cypress A Shares and subject to proration.

On February 19, 2001, Cypress and Ranchemo announced that they had entered into a formal pre-acquisition agreement whereby, rather than the Ranchemo shareholders receiving the shares of a subsidiary of Ranchemo as part of the business combination between Cypress and Ranchemo, the shares of the subsidiary would be sold for cash consideration and Cypress would increase the consideration to be paid by it for the Ranchemo shares by the amount of the proceeds from the sale of the shares of the Ranchemo subsidiary. It was also agreed between the parties that the business combination between Cypress and Ranchemo would not be completed by way of a plan of arrangement but by way of a take-over bid.

On February 28, 2001, Cypress mailed a take-over bid circular in respect of the acquisition of the Class A shares of Ranchemo to the shareholders of Ranchemo offering \$1.68 in cash, or 0.1723 Cypress A Shares, subject to an aggregate maximum of 1,076,900 Cypress A Shares.

The Offer is open for acceptance by the holders of Ranchemo shares which elect to receive Cypress A Shares under the Ranchemo Offer. In order for holders of Ranchemo shares to accept the Offer, such shareholders must first complete the letter of transmittal which accompanied the Ranchemo Offer and submit to the depositary under the Ranchemo Offer certificates representing their Ranchemo shares, indicating in the letter of transmittal that certificates to be received for Cypress A Shares under the Ranchemo Offer are to be held for deposit pursuant to the Offer. Holders of Ranchemo shares must then complete and deposit a Letter of Transmittal with the Depositary in respect of the Offer.

The pro forma operating and financial information contained in this Circular has been prepared on the basis that the Ranchemo acquisition is completed. See "Purpose of the Offer and Plans for Cypress" at Section 7 of this Circular.

Cypress Shareholder Rights Plan

The following is only a summary of the material provisions of the Cypress Shareholder Rights Plan and is qualified in its entirety by the provisions of the Cypress Shareholder Rights Plan.

At Cypress' 2000 annual and special meeting, the Cypress Shareholders confirmed the adoption of the Cypress Shareholder Rights Plan. The Cypress Shareholder Rights Plan provides each registered holder of Cypress Shares with one Right per Cypress Share held. The Rights are attached to the Cypress Shares and are not exercisable until the time (the "Separation Time") that is the close of business on the tenth business day after the earlier of (i) the first public announcement of facts indicating that a person has acquired Beneficial Ownership (as defined in the Cypress Shareholder Rights Plan) of 20% or more of the Cypress Shares, and (ii) the date of commencement of, or first public announcement of the intent of any person to commence, a take-over bid to acquire 20% or more of the Cypress Shares, other than as a result of a Permitted Bid (as defined in the Cypress Shareholder Rights Plan and as described below) or a Competing Permitted Bid (as defined in the Cypress Shareholder Rights Plan). The directors of Cypress have the discretion to delay the Separation Time from time to time.

The Cypress Shareholder Rights Plan does not apply to certain types of transactions, including "Permitted Bids". A "Permitted Bid" is a bid which, among other things, is a take-over bid made to all Cypress Shareholders for all the Cypress Shares which remains open for at least 45 days and which provides that no Cypress Shares may be taken up unless more than 50% of the Cypress Shares held by Independent Shareholders (as defined in the Cypress Shareholder Rights Plan) have been deposited and not withdrawn. Once this condition has been satisfied, the offeror under a Permitted Bid must make a public announcement of that fact and then extend the bid for a period of not less than 10 business days from the date of such public announcement.

The Cypress Shareholder Rights Plan allows a Competing Permitted Bid to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that, provided such bid is outstanding for a minimum period of 21 days, it may expire on the same date as the Permitted Bid.

If a potential offeror does not wish to make a Permitted Bid, it can negotiate with, and obtain the prior approval of, the board of directors of Cypress to make a bid by way of a take-over bid circular to all Cypress Shareholders on terms which the board of directors of Cypress considers fair to all Cypress Shareholders. In such circumstances, the Cypress Shareholder Rights Plan provides that the board of directors of Cypress may, prior to the occurrence of a Flip-In-Event (as defined in the Cypress Shareholder Rights Plan and below), determine to redeem the Rights or waive the application of the Cypress Shareholder Rights Plan to a particular Flip-In Events occurring by reason of any take-over bid made prior to the expiry of the take-over bid in respect of which a waiver is granted.

From and after the Separation Time, the Rights will be exercisable and will trade separately from the Cypress Shares. Each Right entitles a holder thereof to purchase one Cypress Share for a price (the "Exercise Price") of \$60.00 (subject to adjustment in certain circumstances). Pursuant to the Cypress Shareholder Rights Plan, if any person (an "Acquiring Person") acquires Beneficial Ownership of 20% or more of the Cypress Shares (a "Flip-In Event"), each Right thereafter constitutes, effective from and after Separation Time, the right to purchase from Cypress, upon payment of the Exercise Price, that number of Cypress Shares having an aggregate Market Price (as defined in the Cypress Shareholder Rights Plan) equal to twice the Exercise Price (i.e. the right to acquire Cypress Shares at a 50% discount from the then prevailing Market Price). Rights beneficially owned by an Acquiring Person and persons acting jointly or in concert with an Acquiring Person are void. The result would be to significantly dilute the shareholdings of the Acquiring Person with respect to its interest in Cypress.

Pursuant to the terms of the Pre-Acquisition Agreement, Cypress has represented to the Offeror that the board of directors of Cypress has irrevocably resolved to waive the application of the Cypress Shareholder Rights Plan to the Offer prior to the Expiry Time and to any other actions taken by the Offeror in furtherance of acquiring all of the Cypress Shares and to ensure that the Separation Time does not occur.

Reporting Requirements

Cypress is subject to the information and reporting requirements of the securities laws of the provinces of Canada and the rules of the TSE and the CDNX. In accordance therewith, Cypress is required to file reports and other information with certain securities regulatory authorities in Canada and with the TSE and the CDNX relating to its business, financial statements and other matters. Information as of particular dates concerning Cypress' directors and officers, their remuneration, options to purchase Cypress Shares granted to them, the principal holders of Cypress Shares and any material interests of such persons in transactions with Cypress and other matters is required to be disclosed in proxy statements distributed to Cypress Shareholders and filed with securities regulatory authorities and with the TSE and the CDNX.

Directors' Circular

Pursuant to the provisions of the securities laws of various provinces of Canada, the directors of Cypress must send a circular to all Cypress Shareholders to whom the Offer is made. That circular must disclose, together with other information, any material changes in the affairs of Cypress subsequent to the date of the most recently published financial statements of Cypress.

4. THE PRE-ACQUISITION AGREEMENT

The Offer

The Trust and Cypress have entered into the Pre-Acquisition Agreement pursuant to which the Trust agreed to make an offer, either directly, through PrimeWest Energy, or through one or more direct or indirect wholly-owned subsidiaries of either the Trust or PrimeWest Energy, or any combination thereof, to purchase all of the Cypress Shares on the basis described under "The Offer" at Section 1 of the Offer. The Pre-Acquisition Agreement provides that the Offer is subject to certain conditions including, among other things, the Minimum Condition. See "Conditions of the Offer" at Section 4 of the Offer. The Pre-Acquisition Agreement provides, among other things, that the Offeror may: (i) in its sole discretion, waive any term or condition of the Offer for its benefit, provided that if it takes up and pays for any Cypress Shares, it shall acquire not less than the Minimum Required Shares; and (ii) in its sole discretion, vary any term or condition of the Offer, including to amend the documents respecting the Offer to provide further disclosure in respect of the Exchangeable Shares or the Offeror if required by regulatory authorities, provided that it shall not without the prior written consent of Cypress, acting reasonably (A) change the number of Cypress Shares for which the Offer is made, (B) decrease or change the form of the consideration to be paid for each Cypress Share, or (C) amend the Offer or modify the conditions to the Offer in a manner that is, in the opinion of Cypress, acting reasonably, adverse to the Cypress Shareholders. The Offeror shall extend the Offer if any of the conditions of the Offer under "Conditions of the Offer" at Section 4 of the Offer are not satisfied on or by the then current Expiry Time and the Offeror determines, acting reasonably, that there is a reasonable prospect that such conditions may be satisfied prior to May 15, 2001.

Approval by Cypress Directors

Pursuant to the Pre-Acquisition Agreement, Cypress confirmed that its board of directors has determined unanimously to recommend that the Offer be accepted by Cypress Shareholders, subject to the right of the board of directors to withdraw, modify or change its recommendation regarding the Offer if, in the opinion of the board of directors, acting in good faith after advice communicated from outside counsel, the failure to so withdraw, modify or change any recommendation regarding the Offer would be inconsistent with the performance by the directors of Cypress of their fiduciary duties under applicable law. In the event of receipt of any Take-over Proposal, whether it constitutes a Superior Take-over Proposal or not, Cypress is obliged to provide a copy thereof on the day following receipt to the Offeror and, where the board of directors of Cypress believes any such Take-over Proposal constitutes a Superior Take-over Proposal, Cypress is required to give the Trust and the Offeror at least 48 hours notice in advance of any action to be taken by the board of directors of Cypress to withdraw, modify or change its recommendation regarding the Offer or to enter into an agreement to implement such Superior Take-over Proposal. Provided that the trailing 15 trading day volume weighted average trading price of the PrimeWest Units (calculated in accordance with the Pre-Acquisition Agreement) is not less than \$9.27, the Offeror shall have the right to amend the Offer to provide Cypress Shareholders with equal or greater value to that offered in any such Superior Take-over Proposal. If the Offeror advises the board of directors of Cypress prior to the expiration of such 48 hour period that it will so amend the Offer, the board of directors of Cypress shall not withdraw, modify or change any recommendation with respect to the Offer, as so amended, take any action to approve or implement any such Superior Take-over Proposal or release the party making the Superior Take-over Proposal from any standstill or confidentiality obligation.

The board of directors of Cypress may also withdraw, modify or amend its recommendation with respect to the Offer if prior to the Expiry Time (i) any requisite regulatory approvals or consents have not

been obtained, (ii) any objection or opposition has been filed, initiated or made by any governmental agency or regulatory authority during any applicable statutory or regulatory period and has not been withdrawn, defeated or overcome, (iii) an order has been issued by any domestic court or tribunal or governmental agency or other regulatory authority or administrative agency or commission having jurisdiction or any law has been enacted in Canada, any of which has the effect or may reasonably be expected to have the effect of cease trading, enjoining or prohibiting the purchase by, or the sale to, the Offeror of the Cypress Shares, (iv) the Trust shall have breached, or failed to comply with, in any material respect, any of its covenants or other obligations under the Pre-Acquisition Agreement, or any representation and warranty of the Trust contained in the Pre-Acquisition Agreement is not true and correct in all material respects, provided that the Trust has been given notice of and three days to cure any such breach, failure to comply or misrepresentation, or (v) there has been a Material Adverse Change in respect of the Trust since the date of the Pre-Acquisition Agreement.

Non-Completion Fee

Cypress has agreed to pay to the Trust a non-completion fee in a sum equal to \$25 million in the event that: (i) the board of directors of Cypress shall have (A) failed to make any of the recommendations, approvals, resolutions or determinations required to be made by it, or (B) withdrawn, modified or changed any of its recommendations, approvals, resolutions or determinations in a manner adverse to the Trust or the Offeror, or shall have resolved to do so, or (C) failed to reaffirm promptly any of its recommendations, approvals, resolutions or determinations respecting its recommendation of the Offer upon a Take-over Proposal being publicly announced or proposed, offered or made to Cypress or the Cypress Shareholders (such affirmation to be made as soon as practicable and in any event within ten days of such Take-over Proposal being publicly announced, proposed, offered or made); (ii) the board of directors of Cypress shall have recommended that holders of Cypress Shares deposit their Cypress Shares under, vote in favour of or otherwise accept a Take-over Proposal; (iii) Cypress shall have entered into an agreement (other than a confidentiality agreement substantially similar to the confidentiality agreement dated January 30, 2001 between PrimeWest Energy and Cypress) with any person providing for a Take-Over Proposal prior to the Expiry Time; or (iv) a Take-Over Proposal is made to the Cypress Shareholders for a consideration which is in the aggregate greater than the aggregate consideration provided for under the Offer, and at the Expiry Time the Minimum Condition has not been satisfied and such Take-Over Proposal is completed. Any such payment shall be made by Cypress to the Trust within two Business Days of the event giving rise to the payment obligation in immediately available funds to an account designated by the Offeror.

Termination

The Pre-Acquisition Agreement may, subject to its specific terms, be terminated: (i) by mutual written consent of Cypress and the Trust; (ii) by either the Trust or Cypress if the Offeror shall not have taken up and paid for the Minimum Required Shares under the Offer on or before the times required by the Pre-Acquisition Agreement, unless the absence of such occurrence shall be due to the failure of the party seeking to terminate the Pre-Acquisition Agreement to perform its obligations thereunder; (iii) by either the Trust or Cypress if a court of competent jurisdiction or a governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting any of the transactions contemplated by the Pre-Acquisition Agreement and such order, decree, ruling or other action shall have become final and non-appealable, provided that the party seeking to terminate the Pre-Acquisition Agreement has used all commercially reasonable efforts to remove such order, decree, ruling or injunction; (iv) by either the Trust or Cypress if (A) there has been a misrepresentation of any representation or warranty contained in the

Pre-Acquisition Agreement which has, or is reasonably expected to have, a Material Adverse Effect on the misrepresenting party, or (B) there has been a breach or non-performance of any covenant or obligation contained in the Pre-Acquisition Agreement which has, or is reasonably expected to have, either a Material Adverse Effect on the party seeking to terminate or a material adverse effect on the Offer, provided that, in cases only where such misrepresentation, breach or non-performance is capable of being cured, the breaching party has been given notice of and three days to cure any such misrepresentation, breach or non-performance; (v) by the Trust if Cypress enters into an agreement providing for a Superior Take-over Proposal; (vi) by Cypress or the Trust if Cypress enters into an agreement providing for a Superior Take-over Proposal provided that Cypress has paid the non-completion fee as described above and is otherwise in compliance with the provisions of the Pre-Acquisition Agreement; (vii) by the Trust or Cypress upon the non-completion fee as described above becoming payable, (viii) by Cypress if the first take-up by the Offeror of Cypress Shares pursuant to the Offer has not occurred on or before May 15, 2001; or (ix) by Cypress if the board of directors of Cypress is permitted to withdraw, modify or change its recommendation with respect to the Offer in the circumstances described in the last paragraph under the heading "Approval by Cypress Directors" set forth above.

Other

Cypress has agreed to use all commercially reasonable efforts to cooperate with the Offeror and to take all reasonable action to support the Offer and not to solicit, initiate or knowingly encourage the initiation or continuation of any inquiries, discussions, negotiations, proposals or offers from anyone other than the Trust or persons related to the Trust, in respect of any Take-over Proposal. Cypress has also agreed not to participate in any discussions or negotiations regarding, or furnish to any person any information with respect to, or otherwise cooperate in any manner with, an effort or attempt by any other person to do any of the foregoing, subject to any obligation of the board of directors of Cypress to respond to any unsolicited offer to enter into a Take-over Proposal which the board of directors of Cypress, acting reasonably and based on the advice of its financial adviser, believes would, if successful, result in a Superior Take-over Proposal or if a failure to respond in the board's opinion, acting reasonably and on advice of outside counsel, would be inconsistent with its fiduciary duties under applicable law. Cypress has also agreed that, between the time the Pre-Acquisition Agreement was executed and the termination of the Pre-Acquisition Agreement, it will conduct its business in the ordinary course and will, among other things, not incur any significant liabilities or expenditures out of the ordinary course of business. As a condition to the making of the Offer, the Pre-Acquisition Agreement required that the Locked Cypress Shareholders enter into the Lock-up Agreements. See "Lock-up Agreements" at Section 5 of this Circular.

5. LOCK-UP AGREEMENTS

The Trust has entered into the Lock-up Agreements with each of the directors and officers of Cypress (the "Locked Cypress Shareholders") in respect of an aggregate of 1,508,225 Cypress Shares and options to purchase an additional 2,612,100 Cypress Shares (such Cypress Shares, collectively with the 1,508,225 Cypress Shares currently held by the Locked Cypress Shareholders, being the "Locked Cypress Shares"). The Locked Cypress Shares represent approximately 9% of the outstanding Cypress Shares (on a fully diluted basis).

Under the Lock-up Agreements, the Locked Cypress Shareholders have agreed to exercise or terminate their options to purchase 2,612,100 Cypress Shares and to deposit to the Offer all of the Cypress Shares currently held by them and any Cypress Shares acquired by them upon exercise of such options. The Locked Cypress Shares may not be withdrawn and tendered into any competing offer. The Locked

Cypress Shareholders further agreed under the Lock-up Agreements not to dispose of any of the Locked Cypress Shares other than pursuant to the Offer.

The obligations of the Trust and the Locked Cypress Shareholders under the Lock-up Agreements shall terminate:

- (a) if, prior to the expiry of the Offer, another bona fide Take-over Proposal is announced, proposed, offered or made to the holders of Cypress Shares or Cypress which, in the opinion of Cypress' board of directors after consultation with its financial advisors, would constitute a Superior Proposal and as a result of which the board of directors of Cypress has withdrawn, modified or changed any recommendation regarding the Offer in accordance with the Pre-Acquisition Agreement in the event a Superior Take-over Proposal is made; or
- (b) if the Trust waives the Minimum Condition, decreases the consideration offered pursuant to the Offer or otherwise modifies or amends the Offer in a manner adverse to holders of Cypress Shares, provided that an extension of the Offer shall not constitute an adverse modification or amendment to the Offer; or
- (c) in the event that the Pre-Acquisition Agreement is terminated.

The termination of the Lock-up Agreements allows the Locked Cypress Shareholders to withdraw their Cypress Shares from the Offer.

6. BACKGROUND TO AND BENEFITS OF THE COMBINATION

Background to the Offer

PrimeWest Energy signed a confidentiality agreement with Cypress on January 30, 2001 and the Offeror used the confidential information provided to conduct a detailed analysis of Cypress' reserves, financial position and other business and operational matters affecting Cypress.

The Trust, following a review of such confidential information and other public information, determined that a combination of the Offeror with Cypress would provide certain benefits to the PrimeWest Unitholders and the Cypress Shareholders, which benefits are described below.

It is the intention of the Offeror, if the Offer is successful, to combine the businesses of the Offeror and Cypress. See "Purpose of the Offer and Plans for Cypress" at Section 7 of the Circular.

Benefits of the Combination

Cypress owns a high quality asset base with operations focused in 4 major areas in Alberta (Thorsby, Dawson, Stowe and Brant/Farrow) and Southwest Saskatchewan. Cypress exhibits the following excellent characteristics:

- a strong weighting to natural gas (65%) with significant exposure to the premium priced AECO market.
- a low operating cost structure, approximately \$4.60 per BOE on a 10:1 basis.
- a rich asset portfolio, with 564,000 net acres of undeveloped land to provide exploration and exploitation potential.

- a high average working interest (85%) and operator of approximately 80% of its properties.
- none of Cypress' production is hedged, allowing Cypress to receive current market prices for that production.

The Offeror believes that the acquisition of all of the Cypress Shares would significantly benefit the holders of PrimeWest Units, including those PrimeWest Units issued to Cypress Shareholders pursuant to the Offer and those issued pursuant to any Subsequent Acquisition Transaction. These benefits include the following:

- High Quality Oil & Gas Royalty Trust:** The Trust provides monthly cash distributions representing a high cash-on-cash yield derived from a commodity portfolio of long life oil and gas properties. It operates 75% of its production which is believed to be the highest level among Canadian oil and gas royalty trusts. Since inception, the Trust has focused on operating excellence in order to influence its current and future operating results for the benefit of the PrimeWest Unitholders. During the year ended December 31, 1999, the proved producing component of the Trust's Established Reserves increased from 66% to 71%, operating costs were reduced by 6%, and cash flow from operations increased 66% over 1998 levels. For the nine months ended September 30, 2000, cash flow increased 105% from 1999 levels to \$1.72 per PrimeWest Unit. Currently, the Trust has a strong balance sheet with net debt to annualized cash flow of 0.5 times.
- Stable Monthly Distributions and High Total Return:** The Trust has provided strong returns for the PrimeWest Unitholders. Among the Canadian royalty trusts, the Trust has provided top quartile total unitholder return (unit price plus cumulative distributions) in 2000 of 68%, outperforming the TSE Oil and Gas Producers Index by 21% and the TSE 300 by 61%. As at February 15, 2000, \$5.67 per PrimeWest Unit has been distributed to PrimeWest Unitholders since the Trust went public in October 1996. Cypress is diversified across geographic and geologic boundaries and has a strong weighting to natural gas of approximately 65% with the balance of 35% in oil and NGL's. The Offeror believes that the acquisition of all of the Cypress Shares will lead to incremental cash flow available for distribution and an increased net asset value in respect of the PrimeWest Units, compared to cash flow available for distribution and net asset value without such acquisition. Given the higher weighting to natural gas of the interests to be acquired and the related high commodity margins, the Offeror believes future cash flow volatility and risk will be reduced due to a more balanced commodity portfolio between natural gas and oil/NGL's. Furthermore, PrimeWest Unitholders will participate in future production and reserve additions through production development and optimization opportunities as well as exploitation of Cypress' high quality undeveloped land base. This supports the Trust's objectives of stability and predictability of distributions.
- Increased Liquidity:** The Offeror believes that the acquisition of all of the Cypress Shares and subsequent issuance of PrimeWest Units will increase the market liquidity for both PrimeWest Unitholders and current Cypress Shareholders. The Trust believes Cypress Shareholders will benefit from increased analyst research and coverage and access to capital. The transaction, with the Trust having a pro forma market capitalization

of over \$1 billion, will place the Trust among the large cap royalty trusts, which have historically enjoyed both better liquidity and a lower cash-on-cash yield.

- (d) **Economies of Scale:** The Offeror believes that the acquisition of all of the Cypress Shares will enable PrimeWest Unitholders to realize the benefits of synergies and economics of scale resulting from one management team, rather than two, managing the combined portfolio of properties.

Total Units Outstanding

There are currently 51,728,576 PrimeWest Units outstanding. In addition, there are 886,658 exchangeable shares of PrimeWest Resources which were issued pursuant to the acquisition of Venator and which are currently exchangeable into 988,180 PrimeWest Units. Cypress has represented in the Pre-Acquisition Agreement that there are currently 40,801,453 Cypress A Shares and 558,000 Cypress B Shares outstanding, and an additional 4,049,600 Cypress A Shares that are issuable pursuant to the exercise of outstanding options to purchase Cypress A Shares and a maximum of 1,076,900 Cypress A Shares that may be issued in connection with the acquisition of all of the outstanding shares of Rancho. Accordingly, the Offeror expects to issue or cause to be issued an aggregate of approximately 55,380,000 PrimeWest Units and Exchangeable Shares (assuming all Cypress Shares are deposited to the Offer, all options to purchase Cypress A Shares are terminated upon payment and 1,076,900 Cypress A Shares are issued in connection with the acquisition of all of the outstanding shares of Rancho).

7. PURPOSE OF THE OFFER AND PLANS FOR CYPRESS

Purpose of the Offer

The purpose of the Offer is to enable the Offeror to acquire control of Cypress and ultimately to own all of the issued and outstanding Cypress Shares, including Cypress Shares which may become outstanding on the exercise of currently outstanding options, warrants, or other rights to purchase Cypress Shares. See also "Acquisition of Cypress Shares Not Deposited under the Offer" at Section 15 of the Circular. The Offeror has agreed with Cypress under the Pre-Acquisition Agreement that if the Offeror takes up and pays for the Minimum Required Shares, it will use its commercially reasonable efforts to acquire the balance of the Cypress Shares. The exact timing and details of any Subsequent Acquisition Transaction involving Cypress will necessarily depend upon a variety of factors, including the number of Cypress Shares acquired pursuant to the Offer.

Although the Offeror currently intends to propose a Subsequent Acquisition Transaction generally on the same terms as the Offer, it is possible that, as a result of delays in the Offeror's ability to effect such a transaction, information hereafter obtained by the Offeror, changes in general economic, industry, regulatory or market conditions or in the business of Cypress, or other currently unforeseen circumstances, such a transaction may be delayed or abandoned or may be proposed on different terms. The Offeror expressly reserves the right to propose a Subsequent Acquisition Transaction on terms other than those described herein.

If the Offeror proposes a Subsequent Acquisition Transaction but cannot obtain any required approvals promptly, the Offeror will evaluate its other alternatives. Such alternatives could include, to the extent permitted by applicable law, purchasing additional Cypress Shares in the open market, in privately negotiated transactions, or in another take-over bid or exchange offer or otherwise. Subject to applicable law, any additional purchases of Cypress Shares could be at a price greater than, equal to or less than the price to be paid for Cypress Shares under the Offer and could be for cash, securities and/or other consideration.

Plans for Cypress

If the Offer is successful, the Offeror will appoint its nominees to the Cypress board of directors. Upon the acquisition of all of the Cypress Shares, the Offeror intends to cause the business and operations of Cypress to be combined with those of the Offeror. As a result of such combination, it is anticipated that certain of the current employees and officers of Cypress will be terminated.

If permitted by applicable law, subject to completion of the Offer, the Offeror intends that if all of the issued and outstanding Cypress Shares are acquired as a result of the Offer and a Compulsory Acquisition or any Subsequent Acquisition Transaction, then the Cypress A Shares would be delisted from the TSE and the Cypress B Shares would be delisted from the CDNX and, subject to applicable securities laws in provinces where Cypress is a reporting issuer, the Offeror would cause Cypress to cease to be a reporting issuer in such provinces. See also "Effect of the Offer on Market and Listings" at Section 13 of the Circular.

Selected Pro Forma Operating Information

The following table sets forth information regarding Established Reserves and information regarding production for the Trust, Venator, Reserve Royalty, Cypress and Rancho, as at December 31, 1999 and for the nine month period ended September 30, 2000, respectively, as well as pro forma information for the Trust as at such dates after giving effect to the acquisition by the Offeror of all of the Cypress Shares pursuant to the Offer. The following information does not take into account any dispositions by Reserve Royalty subsequent to the dates indicated.

As at December 31, 1999 ⁽¹⁾⁽²⁾

	<u>Trust</u>	<u>Venator</u>	<u>Reserve Royalty</u>	<u>Cypress</u>	<u>Rancho⁽³⁾</u>	<u>Pro Forma</u>
Established Reserves (before royalties)						
Crude oil and NGLs (mmbbls).....	26,222	2,128	3,793	11,394	331	43,868
Natural Gas (mmcf).....	224,497	6,628	21,508	195,606	7,803	456,042
Sulphur (mlt).....	619	-	-	-	-	619

For the nine month period ended September 30, 2000 ⁽¹⁾⁽²⁾

	<u>Trust</u>	<u>Cypress</u>	<u>Rancho⁽³⁾</u>	<u>Pro Forma</u>
Average Daily Production				
Crude Oil and NGLs (bbls/d).....	7,740	4,516	142	12,398
Natural Gas (mcf/d).....	49,549	65,838	7,424	122,811
Total (boe/d) ⁽⁴⁾⁽⁵⁾	12,695	11,099	883	24,679

Notes:

- (1) Information regarding Cypress is derived from public sources.
- (2) Columns may not add due to rounding.
- (3) The foregoing table has been prepared giving effect to the acquisition by Cypress of all of the issued and outstanding shares of Rancho pursuant to the Rancho Offer.
- (4) Natural gas volumes are converted to boe on the basis of one barrel of crude oil for ten thousand cubic feet of natural gas.
- (5) The average daily production volumes for the Trust include the impact of the acquisition of all of the shares of Venator effective April 19, 2000 and the impact of the acquisition of all of the shares of Reserve Royalty effective July 27, 2000.

Selected Pro Forma Financial Information

The following table sets out certain financial information for the Trust, Venator, Reserve Royalty and Cypress, as well as unaudited pro forma consolidated financial information for the Trust, as at and for the year ended December 31, 1999 and as at and for the nine months ended September 30, 2000, after giving effect to the acquisition by the Trust of all of the common shares of Venator and Reserve Royalty, and all of the Cypress Shares pursuant to the Offer, the acquisition by Cypress of all of the issued and outstanding shares of Ranchemo pursuant to the Ranchemo Offer, and certain other adjustments. The following information does not take into account expected savings of general and administrative expenses related to the acquisition of Venator, Reserve Royalty and Cypress, and the acquisition by Cypress of Ranchemo, changes in commodity prices since the effective dates of such information or any incremental revenues that may be generated by the exploitation and development of Venator's, Reserve Royalty's, Cypress' or Ranchemo's properties or Venator's, Reserve Royalty's, Cypress' or Ranchemo's undeveloped land base. See "Benefits of the Combination" under "Background to and Benefits of the Combination" at Section 6 of the Circular. The following information should be read in conjunction with the unaudited pro forma consolidated financial statements of the Trust as set forth in Schedule B to the Circular, including the notes thereto.

As at and for the year ended December 31, 1999 ^{(1) (2)}

	<u>Trust</u>	<u>Venator</u>	<u>Reserve Royalty</u>	<u>Cypress</u>	<u>Ranchemo</u>	<u>Pro Forma</u> ⁽³⁾
Revenues, net of royalties	\$ 83,063	\$ 7,075	\$ 19,111	\$ 60,898	\$ 9,005	\$ 176,670
Cash Flow	41,716	4,399	7,559	40,903	2,436	82,451
Cash Available for Distribution, aggregate.....	37,351	-	-	-	-	77,530
Cash Available for Distribution, per trust unit	1.10	-	-	-	-	0.77
Total Assets	320,210	16,789	121,065	295,531	20,039	1,287,592
Working Capital (Deficit).....	5,850	(764)	(1,308)	(552)	(2,369)	(3,237)
Long-term Debt	92,180	2,187	35,055	92,760	11,488	388,096
Unitholders' / Shareholders' Equity.....	200,040	9,192	79,234	166,428	2,571	822,663

As at and for the nine months ended September 30, 2000 ^{(1) (2)}

	<u>Trust</u>	<u>Venator</u> ⁽⁴⁾	<u>Reserve Royalty</u> ⁽⁵⁾	<u>Cypress</u>	<u>Ranchemo</u>	<u>Pro Forma</u> ⁽³⁾
Revenues, net of royalties	\$ 103,561	\$ 3,759	\$ 10,091	\$ 89,501	\$ 10,986	\$ 216,841
Cash Flow	71,197	1,236	1,776	66,520	3,478	133,764
Cash Available for Distribution, aggregate.....	48,544	-	-	-	-	109,373
Cash Available for Distribution, per trust unit.....	1.17	-	-	-	-	1.07
Total Assets	436,682	-	-	354,850	28,008	1,372,388
Working Capital	6,746	-	-	(2,960)	867	8,472
Long-term Debt	84,274	-	-	115,447	7,525	361,675
Unitholders'/Shareholders' Equity.....	306,686	-	-	160,137	14,137	845,614

Notes:

- (1) Information regarding Cypress is derived from public sources.
- (2) All amounts are in thousands except for per trust unit amounts.
- (3) These amounts include the effect of the acquisition fee payable to the Manager.
- (4) Results are for the period January 1, 2000 to April 18, 2000. Results after April 18, 2000 are included in the results of the Trust.
- (5) Results are for the period January 1, 2000 to July 27, 2000. Results after July 27, 2000 are included in the results of the Trust.

8. OWNERSHIP OF CYPRESS SHARES

Except pursuant to the Lock-up Agreements described under "Lock-up Agreements" at Section 5 of this Circular, neither the Offeror, the Trust nor any director or officer of the Offeror nor, to the knowledge of the Offeror after reasonable enquiry, any associate of any such director or officer, nor any associate or affiliate of the Offeror, beneficially owns, directly or indirectly, or controls or exercises direction over, or has the right to acquire, any securities of Cypress. To the knowledge of the Offeror after reasonable enquiry, no securities of Cypress are beneficially owned by, nor is control or direction over any securities of Cypress exercised by, any person or company who beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of any class of equity securities of the Offeror or any person or company acting jointly or in concert with the Offeror.

9. TRADING IN CYPRESS SHARES

No securities of Cypress have been traded during the six month period preceding the date of the Offer by the Offeror, the Trust, by directors or officers of the Offeror, or, to the knowledge of the Offeror after reasonable enquiry, by any associate or affiliate of the Offeror or of any director or officer of the Offeror or by any person or company who beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of any class of equity securities of the Offeror or by any person or company acting jointly or in concert with the Offeror.

The Offeror has no present intention of acquiring beneficial ownership of Cypress Shares while the Offer is outstanding, other than pursuant to the Offer. However, the Offeror reserves the right to, and may, acquire (or cause an affiliate to acquire) Cypress Shares by making purchases through the facilities of the TSE or the CDNX, as applicable, subject to applicable law, at any time and from time to time prior to the Expiry Time. The Offeror will not make any purchases of Cypress Shares through the facilities of the TSE or the CDNX until the third clear trading day following the date of the Offer. If the Offeror should acquire Cypress Shares by making purchases through the facilities of the TSE or the CDNX during the period from the date hereof to the Expiry Time, the Cypress A Shares so purchased shall be counted in any determination as to whether the Minimum Condition has been fulfilled. The aggregate number of Cypress A Shares acquired by the Offeror through the facilities of the TSE during the period from the date hereof to the Expiry Time shall not exceed 5% of the outstanding Cypress A Shares as of the date of the Offer. The aggregate number of Cypress B Shares acquired by the Offeror through the facilities of the CDNX during the period from the date hereof to the Expiry Time shall not exceed 5% of the outstanding Cypress B Shares as of the date of the Offer.

Although the Offeror has no present intention to sell Cypress Shares taken up under the Offer, it reserves the right to make or enter into an arrangement, commitment or understanding at or prior to the Expiry Time to sell Cypress Shares after the Expiry Time.

10. COMMITMENTS TO ACQUIRE CYPRESS SHARES

Except pursuant to the Lock-up Agreements described under "Lock-up Agreements" at Section 5 of this Circular, no securities of Cypress are covered by any commitments made by the Offeror, the Trust

or the directors or officers of the Offeror and, to the knowledge of such directors and senior officers, after reasonable inquiry, no securities of Cypress are covered by any commitments made by any associate or affiliate of the Offeror, by any associate of any director or officer of the Offeror, by any person or company who beneficially owns, directly or indirectly more than 10% of any class of equity securities of the Offeror or by any person or company acting jointly or in concert with the Offeror, to acquire any equity securities of Cypress.

11. ARRANGEMENTS, AGREEMENTS OR UNDERSTANDINGS

There are no contracts, arrangements or agreements made or proposed to be made between the Trust or the Offeror and any of the directors or officers of Cypress and no payments or other benefits are proposed to be made or given by way of compensation for loss of office or as to such directors or officers remaining in or retiring from office if the Offer is successful, however the Trust has agreed under the Pre-Acquisition Agreement to honour and comply with the terms of Cypress' existing employment agreements, indemnity agreements and termination and severance plans.

Except pursuant to the Lock-up Agreements described under "Lock-up Agreements" at Section 5 of this Circular, there are no contracts, arrangements or understandings, formal or informal, between the Offeror and any Cypress Shareholders with respect to the Offer or between the Offeror and any person or company with respect to any securities of Cypress in relation to the Offer.

12. MATERIAL CHANGES IN THE AFFAIRS OF CYPRESS AND OTHER INFORMATION

Except as described in the "Recent Press Releases" part of "Cypress" at Section 3 of this Circular, the Offeror has no information which indicates any material change in the affairs of Cypress since the date of the last published financial statements of Cypress, being the unaudited consolidated financial statements for the three months ended September 30, 2000 other than the Pre-Acquisition Agreement and this Offer.

The Offeror has no knowledge of any other matter that has not previously been generally disclosed but which would reasonably be expected to affect the decision of Cypress Shareholders to accept or reject the Offer.

13. EFFECT OF THE OFFER ON MARKET AND LISTINGS

The purchase of Cypress Shares by the Offeror pursuant to the Offer will (a) reduce the number of such shares that might otherwise trade publicly, as well as the number of Cypress Shareholders, and (b) depending on the number of Cypress Shareholders depositing their Cypress Shares and the number of Cypress Shares purchased under the Offer, could adversely affect the liquidity and market value of the remaining Cypress Shares held by the public. After the purchase of Cypress Shares under the Offer, Cypress may cease to be subject to the public reporting and proxy solicitation requirements of the securities laws of certain provinces of Canada.

The rules and regulations of each of the TSE and the CDNX establish certain criteria which, if not met, could lead to the delisting of the Cypress Shares from such exchange. Such criteria include the number of Cypress Shares publicly held and the aggregate market value of the Cypress Shares publicly held. Depending on the number of Cypress Shares purchased pursuant to the Offer, it is possible that the Cypress Shares would fail to meet the criteria for continued listing on such exchanges. If this were to happen, the Cypress Shares could be delisted and this could, in turn, adversely affect the market or result in a lack of an established market for such Cypress Shares. The Offeror intends to apply to delist the Cypress Shares from such exchanges as soon as practicable after completion of the Offer and any Compulsory Acquisition or Subsequent Acquisition Transaction.

If the Cypress Shares are delisted, it is possible that such shares would be traded in the over-the-counter market and that price quotations for those shares would be reported in Canada through the Canadian over-the-counter automated trading system. The extent of the public market for the shares and the availability of such quotations would, however, depend upon the number of Cypress Shareholders remaining at such time, the interest in maintaining a market in such shares on the part of brokerage houses and other factors.

14. REGULATORY MATTERS

Competition Act

The Competition Act requires pre-merger notification to the Commissioner of Competition for transactions that exceed certain financial thresholds, and in the case of share acquisitions, that exceed an additional voting interest threshold. Specifically, pre-merger notification is generally required with respect to transactions in respect of which the parties and their affiliates, in aggregate, have assets in Canada, or annual gross revenues from sales in, from or into Canada, in excess of \$400 million and which involve the direct or indirect acquisition of assets of an operating business in Canada or a voting interest in a corporation that carries on an operating business in Canada, of which the aggregate value of the Canadian assets owned by that corporation or by the corporation controlled by that corporation, or the annual gross revenues from sales in or from Canada generated from such Canadian assets, exceeds \$35 million. In the case of an acquisition of voting shares of a corporation that has publicly-traded voting shares, the transaction must also result in the acquiror, together with its affiliates, owning voting shares which carry more than 20% of the outstanding votes attached to all outstanding voting shares of the corporation (or more than 50% if the acquiror(s) already hold(s) 20% or more). The Offeror has made an application to the Commissioner of Competition for an "advance ruling certificate" ("ARC") in respect of the Offer, which if granted, would exempt the Offer and Cypress from their pre-merger notification obligations under Part IX of the *Competition Act* in relation to the proposed transaction.

Alternatively, if an ARC is not granted, the Offeror and Cypress will be required to file either a short-form pre-merger notification or a long-form pre-merger notification. If a short-form pre-merger notification is filed, the Offeror and Cypress are prohibited from completing the proposed transaction for a period of 14 days after the filing is made, although the Commissioner of Competition may, during the 14 day period, request a long-form filing from both the Offeror and Cypress. If a long-form pre-merger notification is filed or requested by the Commissioner of Competition, the Offeror and Cypress are prohibited from completing the proposed transaction for a period of 42 days after the filing is made.

The Commissioner of Competition may apply to the Competition Tribunal, a specialized tribunal empowered to deal with certain matters under the Competition Act, with respect to a "merger" (as defined in the Competition Act) and, if the Competition Tribunal finds that the merger is likely to prevent or lessen competition substantially, it may order that the merger not proceed or, in the event that the merger has been completed, order its dissolution or the disposition of some or all of the assets or shares involved. The Competition Tribunal also may issue an interim order under the Competition Act prohibiting the completion of the merger for a period of up to 30 days where (a) the Commissioner of Competition has certified that an inquiry is being made under paragraph 10(1)(b) of the Competition Act in connection with the merger and that in his opinion more time is required to complete the inquiry, and (b) the Competition Tribunal finds that, in the absence of an interim order, a party to the merger or any other person is likely to take action that would substantially impair the ability of the Competition Tribunal to remedy the effect of the merger on competition under section 92 of the Competition Act because that action would be difficult to reverse. The duration of such interim orders may be extended for an additional period of up to 30 days where the

Competition Tribunal finds that the Commissioner of Competition is unable to complete his inquiry because of circumstances beyond his control.

Based upon an examination of information available to the Offeror relating to the businesses in which Cypress and its subsidiaries are engaged, the Offeror believes that the Commissioner of Competition would not likely apply to the Competition Tribunal for an order under the Competition Act and that the Competition Tribunal would not likely make such an order if one were sought in respect of the Offer. However, no assurances in that regard are provided.

Securities Regulatory Matters

The Offeror is not currently a reporting issuer in any jurisdiction and is not subject to the informational reporting requirements under the securities laws of any jurisdiction. The Offeror will become subject to those reporting requirements in certain Canadian jurisdictions as a result of filing the Offer and this Circular in those jurisdictions and in certain other Canadian jurisdictions as a result of the Exchangeable Shares being listed on the TSE or any other recognized exchange (should such listing ever occur). The Offeror intends to apply for, and expects to receive, exemptions from those reporting requirements. Instead of complying with those reporting requirements (which would include filing separate financial statements for the Offeror), the Offeror intends to provide holders of Exchangeable Shares with the documents filed by the Trust pursuant to the informational reporting requirements to which the Trust is subject under applicable Canadian securities laws. **If the Trust is unable to obtain the exemptive relief that it has determined is required in connection with the offer and issuance of Exchangeable Shares pursuant to the Offer prior to the Expiry Time and on terms and conditions satisfactory to the Trust, acting reasonably, then those Cypress Shareholders which have elected to receive Exchangeable Shares for some or all of their Cypress Shares will instead be deemed to have elected to receive PrimeWest Units for those Cypress Shares, and such Cypress Shareholders will be issued PrimeWest Units for those Cypress Shares as if they had elected to receive PrimeWest Units for those Cypress Shares. The Trust will issue a press release promptly upon receiving such exemptive relief.** The Trust is not a reporting issuer under U.S. securities laws.

15. ACQUISITION OF CYPRESS SHARES NOT DEPOSITED UNDER THE OFFER

Compulsory Acquisition

If, by the Expiry Time or within 120 days after the date hereof, whichever period is the shorter, the Offer has been accepted by holders of not less than 90% of the issued and outstanding Cypress A Shares or by holders of not less than 90% of the issued and outstanding Cypress B Shares (in each case calculated on a fully diluted basis and excluding any Cypress Shares held on the date of the Offer by or on behalf of the Offeror and its affiliates and associates, as such terms are defined in the ABCA), and the Offeror has taken up and paid for such deposited Cypress Shares, then the Offeror will be entitled, and reserves the right (and intends to do so in the appropriate circumstances if the Offeror considers it necessary or desirable), to acquire the Cypress A Shares or the Cypress B Shares, as applicable, held by persons who did not accept the Offer, or by subsequent transferees of such persons (collectively, the "Dissenting Offerees"), on the same terms as the Cypress Shares acquired under the Offer, provided the Offeror complies with Part 16 of the ABCA (a "Compulsory Acquisition").

To exercise such statutory right, the Offeror must give notice (the "Offeror's Notice") by registered mail to each Dissenting Offeree of the proposed acquisition within 60 days after the date on which the Expiry Time occurred and in any event within 180 days after the date of the Offer. Within 20

days of giving the Offeror's Notice, the Offeror must pay or transfer to Cypress the amount of money or other consideration the Offeror would have had to pay or transfer to the Dissenting Offerees if they had elected to accept the Offer, to be held in trust for the Dissenting Offerees. In accordance with Part 16 of the ABCA, within 20 days after receipt of the Offeror's Notice, each Dissenting Offeree must send the certificates representing the Cypress Shares held by the Dissenting Offeree to Cypress and, within 60 days after the date on which the Offeror's Notice was sent, the Dissenting Offeree is required to elect to either transfer such shares to the Offeror on the terms of the Offer or to demand payment of the fair value of such shares by notifying the Offeror and by applying to the Court of Queen's Bench of Alberta to fix the fair value of that Dissenting Offeree's Cypress Shares. If a Dissenting Offeree fails to notify the Offeror and apply to the Court of Queen's Bench of Alberta within the foregoing 60-day period, the Dissenting Offeree will be deemed to have elected to transfer his or her Cypress Shares to the Offeror on the same terms as the Cypress Shares acquired under the Offer. If a Dissenting Offeree has elected to demand payment of the fair value of the Cypress Shares held by the Dissenting Offeree, the Offeror also has the right to apply to the Court of Queen's Bench of Alberta to fix the fair value of the Cypress Shares of that Dissenting Offeree. Any judicial determination of the fair value of the Cypress Shares could be more or less than the amount paid pursuant to the Offer.

The foregoing is a summary only. Reference should be made to Part 16 of the ABCA for the complete text of the relevant statutory provisions. The provisions of Part 16 of the ABCA are complex and may require strict adherence to notice and timing provisions, failing which rights may be lost or altered. Cypress Shareholders who wish to be better informed about the provisions of Part 16 of the ABCA should consult their legal advisors.

In the recent decision of the Ontario Court (General Division) in *Shoom v. Great-West Life, Inc.* (1998), 40 O.R. (3d) 722, aff'd (1998), 42 O.R. (3d) 732 (C.A.), the Court considered the rights of the shareholder who did not tender his shares to a take-over bid under which shareholders were offered a choice of consideration consisting of cash or securities, subject to proration in the event that shareholders in the aggregate elected more than the maximum number of securities offered. The proration provisions used under the take-over bid resulted in all of the securities available for issuance under the bid being issued to shareholders on the first take-up date under the bid with no securities remaining available for issuance to dissenting shareholders under a statutory compulsory acquisition procedure. The Court held that a dissenting shareholder was entitled to receive no less favourable treatment than any other shareholders who had tendered to the bid, notwithstanding that the maximum number of securities issuable under the bid had already been issued by the offeror to shareholders who had tendered under the bid. The Offeror believes that the prorating provisions of the Offer (which differ from those considered in the *Shoom* case) would apply in a manner consistent with the principles adopted by the court in *Shoom*.

See Sections 16 and 17 of the Circular, "Certain Canadian Federal Income Tax Considerations" and "Certain United States Federal Income Tax Considerations" for a discussion of the tax consequences to Cypress Shareholders in the event of a Compulsory Acquisition.

Subsequent Acquisition Transaction

If the Offeror takes up and pays for Cypress Shares validly deposited under the Offer and the statutory right to carry out a Compulsory Acquisition is not available, or the Offeror elects not to pursue such right, the Offeror reserves the right (and intends to do so in the appropriate circumstances if the Offeror considers it necessary or desirable) to pursue other means of acquiring, directly or indirectly, all of the issued and outstanding Cypress Shares in accordance with applicable law. In order to effect such a transaction, the Offeror may seek to cause a special meeting of the Cypress Shareholders to be called to

consider an amalgamation, a statutory arrangement, a capital reorganization or another transaction involving Cypress and the Offeror or an affiliate of the Offeror (a "Subsequent Acquisition Transaction") for the purpose of enabling the Offeror to acquire all of the Cypress Shares not acquired under the Offer. If the Minimum Condition is satisfied, the Offeror should have acquired sufficient Cypress Shares to carry out the acquisition of all the remaining Cypress Shares. In any amalgamation, statutory arrangement or other transaction, the holders of Cypress Shares may have the right to dissent under the ABCA and to be paid the fair value for their Cypress Shares, with such fair value to be determined by a court.

Each of the methods of acquiring the remaining outstanding Cypress Shares described above, other than the statutory right to carry out a Compulsory Acquisition, would be a "going private transaction" within the meaning of certain applicable Canadian securities legislation, rules and regulations (the "Securities Regulations"), Rule 61-501 and Policy Q-27 if such methods would result in the interest of the holder of Cypress Shares (the "affected securities") being terminated without the consent of the holder (subject, in the case of Rule 61-501, to certain exceptions) and, in the case of Policy Q-27 and the Securities Regulations, without the substitution therefor of an interest of equivalent value in a participating security of Cypress, a successor body corporate, a successor to the business of Cypress or a person who controls Cypress or, in the case of Policy Q-27, a person who controls a successor to the business of Cypress. The transaction could also be a "related party transaction" for the purposes of Rule 61-501 and Policy Q-27.

The Offeror currently intends that a Subsequent Acquisition Transaction would take the form of an amalgamation of Cypress and a wholly-owned subsidiary of the Offeror whereupon Cypress Shareholders would receive redeemable preferred shares of the amalgamated entity in exchange for their Cypress Shares, which would then be redeemed for PrimeWest Units and cash on the same basis as PrimeWest Units and cash are being exchanged for Cypress Shares under the Offer.

Rule 61-501 and Policy Q-27 provide that, unless exempted, a person proposing to carry out a related party transaction or a going private transaction is required to prepare, under the supervision of the issuer of the affected securities, a valuation of the affected securities (and any non-cash consideration being offered therefor) and provide to the holders of the affected securities a summary of such valuation. The Securities Regulations impose a requirement to include a summary of a similar valuation in a take-over bid circular where the offeror thereunder anticipates that a going private transaction (as defined in the Securities Regulations) will follow the take-over bid. To the extent required, the Offeror intends to rely on available exemptions or to seek waivers pursuant to Rule 61-501 and Policy Q-27 exempting the Offeror, Cypress or their affiliates, as appropriate, from the requirements to prepare a valuation in connection with any Subsequent Acquisition Transaction.

Under Rule 61-501, a Subsequent Acquisition Transaction of the form described above would likely be considered a going private transaction but would be exempt from the valuation requirements normally applicable to going private transactions provided that such transaction is completed not later than 120 days after the Expiry Time, the intent to effect the transaction was disclosed in the take-over bid circular, the consideration offered under such transaction is at least equal in value and is in the same form as that paid under the take-over bid, and the take-over circular contains certain required disclosure respecting the transaction. Accordingly, the Offeror anticipates that the Offeror will be able to avail itself of such valuation exemption under Rule 61-501.

Depending on the nature and terms of any Subsequent Acquisition Transaction proposed in respect of Cypress, the provisions of the ABCA may require the approval of at least $66\frac{2}{3}\%$ of the votes cast by holders of the outstanding Cypress Shares at a meeting duly called and held for the purpose of approving the Subsequent Acquisition Transaction. Rule 61-501 and Policy Q-27 would also generally

require that, in addition to any other required securityholder approval, in order to complete a related party transaction or a going private transaction, the approval of a simple majority or, in the case of Policy Q-27, a two-thirds majority (depending on the nature of the transaction and the nature and value of the consideration offered), of the votes cast by "minority" holders of the affected securities be obtained.

Under Rule 61-501, a simple majority of the "minority" vote is required for both a related party transaction and a going private transaction. Under Policy Q-27, in the case of a related party transaction, a simple majority of the "minority" vote is required unless, where a formal valuation is required, the value of the consideration to be paid is less than the value or the simple average of the high and low ends of the range of values arrived at by the formal valuation, in which case a two-thirds majority of the "minority" vote is required. Under Policy Q-27, the necessary level of securityholder approval required with respect to a going private transaction is a simple majority of the "minority" vote unless: (i) the consideration offered is payable wholly or partly other than in cash or the right to receive cash within 35 days of approval of such transaction; or (ii) if a formal valuation is required and the consideration is payable entirely in cash and is less in amount than the per security value, or the simple average of the high and low ends of the range of per security values arrived at by the formal valuation, in which case the necessary level of securityholder approval is a two-thirds majority of the votes cast by "minority" holders of the affected securities. To the extent that the Subsequent Acquisition Transaction proposed by the Offeror constitutes a related party transaction and discretionary waivers have not been obtained by the Offeror, a simple or two-thirds majority of the votes cast by "minority" shareholders would have to be obtained depending on the range of per Cypress Share values arrived at by the formal valuation.

In relation to the Offer and any subsequent related party transaction or going private transaction, Rule 61-501 and Policy Q-27 generally provide that the Offeror may treat Cypress Shares acquired pursuant to the Offer as "minority" Cypress Shares and vote them in favour of such a related party transaction or going private transaction if the intent to effect a related party transaction or going private transaction was disclosed at the time of the Offer, if either a summary of a valuation was provided at the time of the Offer or no valuation was required at law in respect of the Offer, if the consideration per security in the related party transaction or going private transaction is at least equal in value to the consideration paid under the Offer and, in the case of Rule 61-501, is in the same form as the consideration paid under the Offer and in the case of Rule 61-501, the Cypress Shareholder tendering such Cypress Shares to the Offer is treated identically to all other Cypress Shareholders and does not receive, directly or indirectly, consideration of greater value than that received by all other Cypress Shareholders. In relation to the Offer and any subsequent related party transaction or going private transaction, the "minority" shareholders would be, absent discretionary relief from the OSC and the CVMQ, the Offeror with respect to Cypress Shares acquired pursuant to the Offer, on the basis described above and except as provided below, and with respect to all other Cypress Shares, all Cypress Shareholders, other than the Offeror, any "interested party" or any person or company who is a "related party" of the Offeror for the purposes of Rule 61-501 and Policy Q-27, including the Offeror's directors, senior officers and any other insider of the Offeror, any associate or affiliate of the Offeror or its directors or senior officers and any person or company acting jointly or in concert with any of the foregoing persons or companies in connection with the Offer or the subsequent related party transaction or going private transaction.

Policy Q-27 also provides that in determining the number of Cypress Shares acquired pursuant to the Offer that may be counted as part of the "minority" in connection with the approval of any Subsequent Acquisition Transaction, Cypress Shares tendered to the Offer pursuant to a lock-up agreement by a person or persons who participated in the negotiation of the Pre-Acquisition Agreement may not be counted in calculating the "minority" approval of the Subsequent Acquisition Transaction. The Locked Cypress Shareholders include at least two officers of Cypress who could be said to have participated in

the negotiation of Pre-Acquisition Agreement. Accordingly, absent discretionary relief from the CVMQ, any Cypress Shares acquired from such Locked Cypress Shareholders may not be counted in calculating the "minority" approval of any Subsequent Acquisition Transaction.

In the event a Subsequent Acquisition Transaction were to be completed, holders of Cypress Shares may have the right, pursuant to section 184 of the ABCA, to dissent and demand payment of the fair value of such Cypress Shares. This right, if the statutory procedures are complied with, would lead to a judicial determination of the fair value required to be paid to such dissenting holders for their Cypress Shares. The fair value of Cypress Shares so determined could be more or less than the amount paid per Cypress Share pursuant to the Subsequent Acquisition Transaction or the Offer. Any such determination of the fair value of the Cypress Shares could be based upon considerations other than, or in addition to, the market price of the Cypress Shares.

In addition, under Rule 61-501 and Policy Q-27, if, following the Offer, the Offeror and its affiliates are the registered holders of 90% or more of the Cypress A shares and the Cypress B Shares at the time the Subsequent Acquisition Transaction is proposed, the requirement for minority approval would not apply to the transaction if an enforceable appraisal right or substantially equivalent right is made available to the minority shareholders.

See Sections 16 and 17 of the Circular, "Certain Canadian Federal Income Tax Considerations" and "Certain United States Federal Income Tax Considerations", for a discussion of the tax consequences to Cypress Shareholders in the event of a Subsequent Acquisition Transaction.

Cypress Shareholders should consult their legal advisors for a determination of their legal rights with respect to any transaction which may constitute a related party transaction or a going private transaction.

Other Alternatives

If the Offeror proposes a Subsequent Acquisition Transaction but cannot promptly obtain any required approval, or otherwise does not complete a Subsequent Acquisition Transaction, the Offeror will evaluate its other alternatives. Such alternatives could include, to the extent permitted by applicable law, purchasing additional Cypress Shares in the open market, in privately negotiated transactions, in another take-over bid or exchange offer or otherwise, or taking no further action to acquire additional Cypress Shares. Any additional purchases of Cypress Shares could be at a price greater than, equal to or less than the price to be paid for the Cypress Shares under the Offer and could be for cash, PrimeWest Units or other consideration. Alternatively, the Offeror may sell or otherwise dispose of any or all Cypress Shares acquired pursuant to the Offer or otherwise. Such transactions may be effected on terms and at a price then determined by the Offeror, which may vary from the price paid for Cypress Shares under the Offer.

Judicial Developments

Certain judicial decisions may be considered relevant to any Subsequent Acquisition Transaction which may be proposed or effected subsequent to the expiry of the Offer. Canadian courts have, in a few instances prior to the adoption of Rule 61-501 (and its predecessor OSC Policy 9.1) and Policy Q-27, granted preliminary injunctions to prohibit transactions involving certain going private transactions.

The current trend, both in legislation and in Canadian jurisprudence, is toward permitting going private transactions to proceed subject to compliance with requirements and procedures such as those described by Rule 61-501 and Policy Q-27 which are intended to ensure procedural and substantive fairness to minority shareholders.

The Director under the CBCA has released a policy statement dated January 9, 1997 stating, among other things, that the Director under the CBCA generally is of the opinion that a going private transaction is permitted under the CBCA so long as the transaction is not oppressive or unfairly prejudicial to and does not unfairly disregard the interests of a person whose interest in a participating security is being terminated without his or her consent and that, generally, compliance with established regulatory indicia of fairness such as the requirements of OSC Policy 9.1 (the predecessor to Rule 61-501) and Policy Q-27 will suffice for these purposes.

16. CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott, counsel to the Offeror, the following is a summary of the principal Canadian federal income tax considerations under the Tax Act and the regulations thereunder (the "Regulations") generally applicable to Cypress Shareholders who dispose of their Cypress Shares pursuant to the Offer or pursuant to a Compulsory Acquisition or a Subsequent Acquisition Transaction described under "Acquisition of Cypress Shares Not Deposited Under the Offer" at Section 15 of this Circular, and who, for the purposes of the Tax Act and at all relevant times, hold their Cypress Shares and will hold their PrimeWest Units or Exchangeable Shares, as the case may be, as capital property and deal at arm's length with the Offeror and Cypress (each a "Holder"). Generally, the Cypress Shares, PrimeWest Units or Exchangeable Shares, as the case may be, will be considered to be capital property to a holder thereof provided such holder does not hold such securities in the course of carrying on a business of trading or dealing in securities and did not acquire such securities in one or more transactions considered to be an adventure in the nature of trade. Certain holders whose Cypress Shares, PrimeWest Units or Exchangeable Shares, as the case may be, might not otherwise qualify as capital property may be able to obtain such qualification by making the election permitted by subsection 39(4) of the Tax Act. This summary is not applicable to a holder of Cypress Shares that is a "financial institution" as defined in the Tax Act for the purposes of the mark-to-market rules or to a holder any interest in which is a "tax shelter investment" as defined in the Tax Act. This summary is based upon the current provisions of the Tax Act and the Regulations, all specific proposals to amend the Tax Act and the Regulations publicly announced by the Minister of Finance prior to the date hereof (the "Proposed Amendments") and counsel's understanding of the current administrative practices of the Canada Customs and Revenue Agency (the "CCRA"). Other than the Proposed Amendments, the summary does not take into account or anticipate changes in the law, whether by way of judicial decision or legislative action, nor does it take into account tax legislation of any country other than Canada or of any province or territory of Canada.

The Canadian income tax consequences of acquiring, holding and disposing of Exchangeable Shares are not certain, and the comments below, to the extent they represent counsel's opinion on such matters, are not, and should not be construed as, an opinion or representation of counsel that such tax consequences, or only such tax consequences, will result. No advance income tax ruling has been requested from the CCRA with respect to the transactions described herein. The CCRA may impose different or additional tax consequences than those described herein, which tax consequences may be more onerous than those described herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax consequences to any Holder are made. Holders should consult their own tax advisors for advice with respect to the tax consequences to them of disposing of their Cypress Shares pursuant to the Offer or any Subsequent Acquisition Transaction, having regard to their particular circumstances.

The summary assumes that the Trust currently qualifies, and will continue to qualify at all material times, as a mutual fund trust within the meaning of the Tax Act. Counsel has been advised that the Trust intends to continue to so qualify at all material times.

Residents of Canada

This portion of the summary applies to a Holder who, at all relevant times, is resident in Canada for the purposes of the Tax Act.

The Offer

Exchange of Cypress Shares for Cash and PrimeWest Units

A Holder who exchanges Cypress Shares for PrimeWest Units, cash or a combination of PrimeWest Units and cash pursuant to the Offer generally will realize a capital gain (or capital loss) equal to the amount by which the fair market value, at the time of the exchange, of the PrimeWest Units and cash received by the Holder, net of any reasonable costs incurred by the Holder in connection with the exchange, exceeds (or is less than) the adjusted cost base to the Holder of such Cypress Shares. In the case of a Holder that is a corporation, or a partnership or trust of which a corporation is a member or beneficiary, the amount of any such capital loss may be reduced by the amount of dividends received or deemed to have been received by the Holder on the Cypress Shares, to the extent and under the circumstances described in the Tax Act. See “Taxation of Capital Gains and Capital Losses” below. The cost to the Holder of such PrimeWest Units will be equal to the fair market value thereof at the time of the exchange. This cost will be averaged with the adjusted cost base of all other PrimeWest Units held by the Holder at that time as capital property to determine the adjusted cost base to the Holder of each PrimeWest Unit.

Exchange of Cypress Shares for Exchangeable Shares and Ancillary Rights

Non-Rollover Transaction

A Holder who exchanges Cypress Shares for Exchangeable Shares and Ancillary Rights, or a combination of Exchangeable Shares and Ancillary Rights, PrimeWest Units, and cash, will, unless the Holder is an Eligible Holder and makes a joint election under subsection 85(1) or 85(2) of the Tax Act as discussed below, generally realize a capital gain (or capital loss) equal to the amount by which the sum of (i) the fair market value of the Exchangeable Shares, (ii) the fair market value of the Ancillary Rights, (iii) the fair market value of the PrimeWest Units, and (iv) the amount of cash, received by the Holder on the exchange, net of any reasonable costs incurred by the Holder in connection with the exchange, exceeds (or is less than) the adjusted cost base to the Holder of such Cypress Shares. In the case of a Holder that is a corporation, or a partnership or trust of which a corporation is a member or beneficiary, the amount of any such capital loss may be reduced by the amount of dividends received or deemed to have been received by the Holder on the Cypress Shares, to the extent and under the circumstances described in the Tax Act. See “Taxation of Capital Gains and Capital Losses” below. The cost to the Holder of the Exchangeable Shares, Ancillary Rights and PrimeWest Units received on the exchange will be equal to their respective fair market values at the time of the exchange. The cost of any such PrimeWest Units will be averaged with the adjusted cost base of all other PrimeWest Units held by the Holder at that time as capital property to determine the adjusted cost base to the Holder of each PrimeWest Unit.

Rollover Transaction

A Holder who is an Eligible Holder and who exchanges Cypress Shares for Exchangeable Shares and Ancillary Rights, or a combination of Exchangeable Shares and Ancillary Rights, PrimeWest Units, and cash, may make a joint election with the Offeror pursuant to subsection 85(1) of the Tax Act (or, in the case of an Eligible Holder that is a partnership, pursuant to subsection 85(2) of the Tax Act) and thereby obtain a full or partial tax-deferred "rollover" for Canadian income tax purposes, depending on the amount specified in that election (the "Elected Amount") and the adjusted cost base to the Holder of such Cypress Shares at the time of the Exchange. Provided that the adjusted cost base to the Holder of the Cypress Shares equals or exceeds the fair market value of the Ancillary Rights and any PrimeWest Units and cash acquired by the Holder on the exchange, the Holder may elect so as not to realize any capital gain for the purposes of the Tax Act on the exchange.

Only Holders who are Eligible Holders may make an election.

In order to make an election, a Holder must provide to the Depositary on behalf of the Offeror, two signed copies of the necessary election on or before 90 days after the Expiry Time, duly completed with the details of the number of Cypress Shares transferred and the applicable Elected Amount for the purposes of the election. Subject to the election form complying with the provisions of the Tax Act (and, if applicable, any provincial tax legislation), the form will be returned to the Holder, signed by the Offeror, for filing by the Holder with the CCRA (and, if applicable, provincial tax authority).

The relevant tax election form is CCRA form T2057 (or, if the Holder is a partnership, CCRA form T2058). For Holders required to file in Quebec, Quebec form TP-518V (or, if the Holder is a partnership, Quebec form TP-529V) will also be required. A tax election package, consisting of the relevant tax election forms and a letter of instructions, may be obtained from the Depositary. A Holder interested in making such an election should so indicate on the Letter of Transmittal and Election Form accompanying this Offer and Circular in the space provided therein and a tax election package will be sent to such Holder.

Where Cypress Shares are held in joint ownership and two or more of the co-owners wish to elect, one of the co-owners designated for such purpose should file the designation and a copy of CCRA form T2057 (and where applicable, the corresponding Quebec form) for each co-owner along with a list of all co-owners electing, which list should contain the address and social insurance number or tax account number of each co-owner. Where the Cypress Shares are held as partnership property, a partner designated by the partnership must file one copy of CCRA form T2058 on behalf of all members of the partnership (and where applicable, the corresponding form in duplicate with the Quebec taxation authorities). Such CCRA form T2058 (and Quebec form, if applicable) must be accompanied by a list containing the name, address, social insurance number or tax account number of each partner as well as the letter signed by each partner authorizing the designated partner to complete and file the form.

In general, where an election is made, the Elected Amount must comply with the following rules:

1. The Elected Amount may not be less than the fair market value of the Ancillary Rights and any PrimeWest Units and cash received by the Holder on the exchange.
2. The Elected Amount may not be less than the lesser of the adjusted cost base to the Holder of the Cypress Shares, determined immediately before the time of the exchange, and the fair market value of the Cypress Shares at that time.

3. The Elected Amount may not exceed the fair market value of the Cypress Shares at the time of the exchange.

Where a Holder and the Offeror make a joint election, the tax treatment to the Holder generally will be as follows:

1. The Holder will be deemed to dispose of the Cypress Shares for proceeds of disposition equal to the Elected Amount.
2. If such deemed proceeds of disposition are equal to the adjusted cost base to the Holder of the Cypress Shares immediately before the exchange, net of any reasonable costs incurred by the Holder in connection with the exchange, the Holder will not realize any capital gain or capital loss on the exchange.
3. If such deemed proceeds of disposition exceed (or are less than) the adjusted cost base to the Holder of the Cypress Shares immediately before the exchange, net of any reasonable costs incurred by the Holder in connection with the exchange, the Holder generally will realize a capital gain (or capital loss) equal to the amount of such excess (or shortfall). In the case of a Holder that is a corporation, or a partnership or trust of which a corporation is a member or beneficiary, the amount of any such capital loss may be reduced by the amount of dividends received or deemed to have been received by the Holder on the Cypress Shares, to the extent and under the circumstances described in the Tax Act. See “Taxation of Capital Gains and Capital Losses” below.
4. The cost to the Holder of the Ancillary Rights and any PrimeWest Units received on the exchange will be equal to the respective fair market values thereof at that time, and the cost to the Holder of the Exchangeable Shares received on the exchange will be equal to the amount by which the Elected Amount exceeds the fair market value of the Ancillary Rights and any PrimeWest Units and cash received by the Holder on the exchange.

The Offeror will make an election under section 85 of the Tax Act (and the corresponding provisions of any applicable provincial tax legislation) only at the Elected Amount selected by the Holder and subject to the limitations set out in the Tax Act (and any applicable provincial tax legislation). Neither the Offeror nor the Depositary will be responsible for the proper completion or filing of any election, and the Holder will be solely responsible for the proper filing of the election and, if applicable, the payment of any late filing penalty. The Offeror agrees only to execute any properly completed election and to forward such election by mail (within 60 days after the receipt thereof by the Depositary) to the Holder. With the exception of execution of the election by the Offeror, compliance with the requirements for a valid election, including selection of the appropriate Elected Amount, will be the sole responsibility of the Holder making the election. Accordingly, neither the Offeror nor the Depositary will be responsible or liable for taxes, interest, penalties, damages or expenses resulting from the failure by anyone to properly complete any election or to properly file it within the time prescribed and in the form prescribed under the Tax Act (or the corresponding provisions of any applicable provincial legislation).

In order for the CCRA (and, where applicable, the Ministère du Revenu du Québec) to accept a tax election without a late filing penalty being paid by a Holder, the election must be received by such revenue authority on or before the day that is the earliest of the days on or before which either the Offeror or the Holder is required to file an income tax return for the taxation year in which the exchange occurs.

The Offeror's taxation year is scheduled to end December 31, 2001. Thus, where the exchange occurs in 2001, the tax election will, in the case of a Holder who is an individual, generally have to be received by the CCRA (and, if applicable, the Ministère du Revenu du Québec) no later than April 30, 2002 (being, generally, the last day for an individual to file an income tax return for the 2001 taxation year). Holders other than individuals are urged to consult their own advisers as soon as possible concerning the deadlines applicable in their own particular circumstances. **However, regardless of such deadline, the tax election forms of a Holder must be received by the Depositary no later than the 90th day after the Expiry Time. Because the Offeror has agreed to execute and return the election to the Holder within 60 days of its receipt by the Depositary, to avoid late filing penalties certain Holders may be required to forward their tax election forms to the Depositary earlier than the 90th day after the Expiry Time.**

Any Holder who does not ensure that the Depositary has received a duly completed election on or before the 90th day after the Expiry Time will not be able to benefit from the rollover provisions of the Tax Act. Accordingly, all Holders who wish to enter into an election with the Offeror should give their immediate attention to this matter. The instructions for requesting a tax election package are set out in the Letter of Transmittal and Election Form. Holders are referred to Information Circular 76-19R3 and Interpretation Bulletin IT-291R2 issued by the CCRA for further information respecting the election. Holders wishing to make the election should consult their own tax advisers. The comments herein with respect to such elections are provided for general assistance only. The law in this area is complex and contains numerous technical requirements.

For these purposes, a Holder will be required to determine the fair market value of the Ancillary Rights received on the exchange on a reasonable basis. The Offeror is of the view, and has advised counsel, that the Ancillary Rights have only nominal value. The tax election forms will be executed by the Offeror on the basis that the fair market value of the Ancillary Rights is a nominal amount per Exchangeable Share issued on the exchange. Such amount will be provided to Holders in the letter of instructions included in the tax election package. Such determinations of value are not binding on the CCRA and counsel can express no opinion on matters of factual determination such as this.

Taxation of Capital Gains and Capital Losses

Generally, one-half (three-quarters if the Proposed Amendments are not enacted) of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in the income of the Holder for the year, and one-half (three-quarters if the Proposed Amendments are not enacted) of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year may be deducted from taxable capital gains realized by the Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

A Holder that throughout the relevant taxation year is a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay an additional refundable tax of $6\frac{2}{3}\%$ on certain investment income, including taxable capital gains.

Capital gains realized by a Holder who is an individual may give rise to a liability for alternative minimum tax.

Redemption or Exchange of Exchangeable Shares

On the redemption (including a retraction) of an Exchangeable Share by the Offeror, the Holder of the Exchangeable Share will be deemed to receive a dividend equal to the amount, if any, by which the fair market value at that time of the PrimeWest Units received by the Holder from the Offeror on the redemption, plus the amount, if any, of declared and unpaid dividends on the Exchangeable Share paid to the Holder at the time (the "Dividend Amount") (together the "Redemption Proceeds") exceeds the paid-up capital (for purposes of the Tax Act) at that time of the Exchangeable Share.

In the case of a Holder who is an individual, dividends received or deemed to be received on the Exchangeable Shares will be included in computing the Holder's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations.

In the case of a Holder that is a corporation, other than a "specified financial institution" as defined in the Tax Act, dividends received or deemed to be received on the Exchangeable Shares will be included in computing the corporation's income and will normally be deductible in computing its taxable income.

In the case of a Holder that is a specified financial institution, such a dividend will not be deductible in computing its taxable income unless either (i) the specified financial institution did not acquire the Exchangeable Shares in the ordinary course of the business carried on by such institution, or (ii) at the time of the receipt of the dividend by the specified financial institution, the Exchangeable Shares are listed on a prescribed stock exchange in Canada and the specified financial institution, either alone or together with persons with whom it does not deal at arm's length, does not receive (and is not deemed to receive) dividends in respect of more than ten percent of the issued and outstanding Exchangeable Shares. A corporation is a specified financial institution for purposes of the Tax Act if it is a bank, a trust company, a credit union, an insurance corporation, a corporation whose principal business is the lending of money to persons with whom the corporation is dealing at arm's length or the purchasing of debt obligations issued by such persons or a combination thereof, or a corporation controlled by or related to such entities. Counsel has been advised by the Trust and the Offeror that there is no current intention to list the Exchangeable Shares on a prescribed stock exchange in Canada.

A Holder that is a "private corporation" (as defined in the Tax Act) or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual or a related group of individuals may be liable to pay a refundable tax under Part IV of the Tax Act of 33¹/₃% on dividends received or deemed to be received on the Exchangeable Shares to the extent that such dividends are deductible in computing the Holder's taxable income.

The Exchangeable Shares will be "taxable preferred shares" and "short-term preferred shares" for purposes of the Tax Act. Dividends received or deemed to be received on the Exchangeable Shares will not be subject to the ten percent tax under Part IV.I of the Tax Act.

On the redemption, the Holder will also be considered to have disposed of the Exchangeable Share and related Ancillary Rights for proceeds of disposition equal to the Redemption Proceeds less the amount of such deemed dividend. The Holder generally will realize a capital gain (or capital loss) equal to the amount by which such proceeds of disposition, net of any reasonable costs incurred by the Holder in connection with the redemption, exceed (or are less than) the aggregate adjusted cost base to the Holder of the Exchangeable Share and Ancillary Rights. In the case of a Holder that is a corporation, or a partnership or trust of which a corporation is a member or beneficiary, the amount of any such capital loss may be reduced by the amount of dividends received or deemed to have been received by the Holder on

the Exchangeable Shares, including any dividend that is deemed to be received by the Holder on the redemption, to the extent and under the circumstances described in the Tax Act. See "Taxation of Capital Gains and Capital Losses" above.

On the exchange of an Exchangeable Share and related Ancillary Rights by the Holder thereof with the Trust or PrimeWest Energy for PrimeWest Units the Holder generally will realize a capital gain (or capital loss) to the extent that the fair market value at that time of the PrimeWest Units received by the Holder on the exchange, plus the Dividend Amount, if any, net of any reasonable costs incurred by the Holder in connection with the exchange, exceed (or are less than) the aggregate adjusted cost base to the holder of the Exchangeable Share and Ancillary Rights. In the case of a Holder that is a corporation, or a partnership or trust of which a corporation is a member or beneficiary, the amount of any such capital loss may be reduced by the amount of dividends received or deemed to have been received by the Holder on the Exchangeable Shares, to the extent and under the circumstances described in the Tax Act. See "Taxation of Capital Gains and Capital Losses" above.

The cost to a Holder of PrimeWest Units received on the retraction, redemption or exchange of an Exchangeable Share will be equal to the fair market value of such PrimeWest Units at that time. This cost will be averaged with the adjusted cost base of all other PrimeWest Units held by the Holder at that time as capital property to determine the adjusted cost base to the Holder of each PrimeWest Unit.

Ancillary Rights and Call Rights

A Holder will be required to determine the fair market value of the Ancillary Rights and Call Rights on a reasonable basis for purposes of the Tax Act in computing:

- (a) the proceeds of disposition of the Holder's Cypress Shares pursuant to the Offer (subject to the effect of an election by the Holder under section 85 of the Tax Act);
- (b) the cost to the Holder of the Exchangeable Shares and Ancillary Rights received by the Holder pursuant to the Offer; and
- (c) the Holder's proceeds of disposition in respect of the grant of the Call Rights by the Holder.

The Trust and the Offeror are of the view, and have advised counsel, that the Ancillary Rights and the Call Rights will have only nominal value. If that view is correct, a Holder's receipt or grant of such rights will not result in any material Canadian federal income tax consequences. However, such determinations of value are not binding on the CCRA, and counsel can express no opinion on factual matters such as this.

If the CCRA successfully asserts that the Ancillary Rights have more than nominal value, such greater value must be taken into account in determining the proceeds of disposition of the Holder's Cypress Shares, the proceeds of disposition deemed to be received by the Holder in respect of the grant of the Call Rights by the Holder, the Elected Amount in any Joint Election made by the Holder and the adjusted cost base to the Holder of the Exchangeable Shares. If the CCRA successfully asserts that the Call Rights have more than nominal value, the Holder may realize a capital gain in respect of the granting of the Call Rights equal to the amount of such greater value. In such case, in general terms, the fair market value of the Call Rights (other than the portion thereof attributable to the grant of the Ancillary Rights) will be included in computing the adjusted cost base of the Exchangeable Shares to the Holder.

Acquisition of Cypress Shares not Deposited under the Offer

As discussed under "Acquisition of Cypress Shares Not Deposited Under the Offer" at Section 15 of the Circular, the Offeror may, in certain circumstances, acquire Cypress Shares not deposited under the Offer pursuant to a Compulsory Acquisition. A Holder whose Cypress Shares are acquired by the Offeror pursuant to a Compulsory Acquisition generally will realize a capital gain (or capital loss) calculated in the same manner, and subject to the same tax treatment, as described above with respect to a disposition of Cypress Shares pursuant to the Offer.

If the Offeror is unable to use a Compulsory Acquisition, the Offeror may propose a Subsequent Acquisition Transaction as described under "Acquisition of Cypress Shares Not Deposited Under the Offer" at Section 15 of the Circular. The tax consequences of such a transaction to a Holder will depend upon the manner in which the transaction is carried out and may be substantially the same as or materially different from those described above. A Holder may realize a capital gain (or a capital loss) and/or a deemed dividend. **Except with respect to the Subsequent Acquisition Transaction set out below, this opinion does not describe the tax consequences of a Subsequent Acquisition Transaction to a Holder.**

As discussed under "Acquisition of Cypress Shares Not Deposited Under the Offer" at Section 15 of the Circular, the Offeror will consider an amalgamation of Cypress with a subsidiary of the Offeror on the basis that outstanding Cypress Shares will be exchanged for redeemable preferred shares of the amalgamated entity which are then forthwith redeemed for PrimeWest Units at the same rate and with the same terms as in the Offer. On such redemption, a Holder will be deemed to receive a dividend equal to the amount by which the value of the redemption proceeds received by the Holder exceeds the paid-up capital (for purposes of the Tax Act) at that time of such preferred shares. In the case of a Holder that is a corporation, in some circumstances the amount of any such deemed dividend may be treated as proceeds of disposition and not as a dividend. On the redemption, the Holder will also be considered to have disposed of the preferred shares for proceeds of disposition equal to the value of the redemption proceeds less the amount of such deemed dividend. The Holder generally will realize a capital gain (or capital loss) equal to the amount by which such proceeds of disposition, net of any reasonable costs incurred by the Holder in connection with the redemption, exceed (or are less than) the adjusted cost base to the Holder of such preferred shares, which adjusted cost base will be equal to the adjusted cost base of the Holder's Cypress Shares immediately before the amalgamation. In the case of a Holder that is a corporation, or a partnership or trust of which a corporation is a member or beneficiary, any such capital loss may be reduced by the amount of the dividend deemed to be received by the Holder on the redemption, and by the amount of dividends received or deemed to have been received by the Holder on the Cypress Shares, to the extent and under the circumstances described in the Tax Act.

It is understood that, under the current administrative practices of the CCRA, Holders who receive payment for their Cypress Shares pursuant to the exercise of their right of dissent from such an amalgamation will be considered to have disposed of their Cypress Shares and to have realized a capital gain (or capital loss) equal to the amount by which the amount that is ultimately determined to be payable to the Holder in respect of the Holder's Cypress Shares (exclusive of any interest thereon), net of any reasonable costs incurred by the Holder in connection with such disposition, exceeds (or is less than) the adjusted cost base to the Holder of the Cypress Shares. Where any interest is paid to the Holder, the Holder must include such interest in computing income under the Tax Act.

Certain Tax Considerations Regarding PrimeWest Units

For the purpose of computing the adjusted cost base to a Holder of PrimeWest Units, the cost of PrimeWest Units acquired by the Holder pursuant to the Offer or as a result of a Subsequent Acquisition Transaction must be averaged with the adjusted cost base to the Holder of all other PrimeWest Units that are capital property to the Holder and that were owned immediately before such acquisition. The cost to the Holder of such PrimeWest Units will be equal to the fair market value thereof at the time of the exchange. Holders should refer to "Certain Canadian Federal Income Tax Considerations Regarding PrimeWest Units" at Section 10 of Schedule A to this Circular, which provides a general summary of the principal tax considerations under the Tax Act relating to the ownership and disposition of PrimeWest Units.

Qualification for Exempt Plans

PrimeWest Units

The PrimeWest Units are qualified investments under the Tax Act for Exempt Plans. In addition, based on representations of the Offeror and the Trust as to certain factual matters, the PrimeWest Units are not foreign property to Exempt Plans or other Holders subject to Part XI of the Tax Act.

Exchangeable Shares

The Trust and the Offeror have advised counsel that there is no current intention to list the Exchangeable Shares on a prescribed stock exchange in Canada. Accordingly, the Exchangeable Shares may not be qualified investments under the Tax Act for Exempt Plans. If a Holder that is a registered retirement savings plan or registered retirement income fund acquires Exchangeable Shares, and such Exchangeable Shares are not a qualified investment for such plans, the fair market value of such Exchangeable Shares at that time will be included in the income of the person who is the annuitant under the plan. If a Holder that is a deferred profit sharing plan acquires Exchangeable Shares, and such Exchangeable Shares are not a qualified investment for such a plan, the plan will be subject to a special tax equal to the fair market value of such Exchangeable Shares at that time. If a Holder that is a registered education savings plan acquires Exchangeable Shares, and such Exchangeable Shares are not a qualified investment for such a plan, the plan may be revoked.

Ancillary Rights

The Ancillary Rights will not be qualified investments under the Tax Act for Deferred Income Plans. If a Holder that is a registered retirement savings plan or registered retirement income fund acquires Ancillary Rights, the fair market value of such Ancillary Rights at that time will be included in the income of the person who is the annuitant under the plan. If a Holder that is a deferred profit sharing plan acquires Ancillary Rights, the plan will be subject to a special tax equal to the fair market value of such Ancillary Rights at that time. The Trust and the Offeror are of the view, and have advised counsel, that the Ancillary Rights will have only nominal value. However, such determinations of value are not binding on the CCRA, and counsel can express no opinion on matters of factual determination such as this. If a Holder that is a registered education savings plan acquires Ancillary Rights, the plan may be revoked even if the Ancillary Rights have only nominal value.

Holders who are Deferred Income Plans and who wish to elect to receive Exchangeable Shares (and Ancillary Rights) should consult their own tax advisors.

Non-Residents of Canada

This portion of the summary applies to a Holder who, for the purposes of the Tax Act and at all relevant times, is not resident in Canada and is not deemed to be resident in Canada, does not use or hold, and is not deemed to use or hold, Cypress Shares in, or in the course of, carrying on a business in Canada, and is not an insurer who carries on an insurance business in Canada and elsewhere (a "Non-Resident Holder").

The Offer

A Non-Resident Holder who exchanges Cypress Shares for PrimeWest Units, cash or a combination of PrimeWest Units and cash pursuant to the Offer generally will not be subject to tax under the Tax Act in respect of any gain realized on such exchange provided the Cypress Shares do not constitute "taxable Canadian property" (within the meaning of the Tax Act) to the Non-Resident Holder. Generally, Cypress Shares will not constitute taxable Canadian property to a Non-Resident Holder provided the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm's length (within the meaning of the Tax Act), or the Non-Resident Holder together with such persons did not own or have an interest in or option in respect of 25% or more of the issued shares of any class or series of Cypress at any time during the 60-month period that ends at the time of the exchange.

A Non-Resident Holder whose Cypress Shares constitute taxable Canadian property generally will be required to calculate a capital gain or capital loss on the exchange of Cypress Shares for PrimeWest Units, cash or a combination of PrimeWest Units and cash pursuant to the Offer in the same manner as a Holder who is resident in Canada, as described above under the heading "Residents of Canada - The Offer - Exchange of Cypress Shares for Cash and PrimeWest Units". Such Non-Resident Holder would also be required to file a Canadian income tax return reporting the disposition and, if the disposition results in a capital gain, pay Canadian income tax in respect of such capital gain at applicable rates (see above under the heading "Residents of Canada - Taxation of Capital Gains and Capital Losses").

Acquisition of Cypress Shares Not Deposited Under the Offer

As discussed under "Acquisition of Cypress Shares Not Deposited Under the Offer" at Section 15 of the Circular, the Offeror may, in certain circumstances, acquire Cypress Shares not deposited under the Offer pursuant to a Compulsory Acquisition. A Non-Resident Holder whose Cypress Shares are acquired by the Offeror pursuant to a Compulsory Acquisition generally will be subject to the same Canadian tax consequences as described above with respect to a disposition by a Non-Resident Holder of Cypress Shares pursuant to the Offer.

If the Offeror is unable to use a Compulsory Acquisition, the Offeror may propose a Subsequent Acquisition Transaction as described under "Acquisition of Cypress Shares Not Deposited Under the Offer" at Section 15 of the Circular. The tax consequences of such a transaction to a Non-Resident Holder will depend upon the manner in which the transaction is carried out and may be substantially the same as or materially different from those described above. The Non-Resident Holder may realize a capital gain (or a capital loss) and/or a deemed dividend. **Except with respect to the Subsequent Acquisition Transaction set out below, this opinion does not describe the tax consequences of a Subsequent Acquisition Transaction to a Non-Resident Holder.**

As discussed under "Acquisition of Cypress Shares Not Deposited Under the Offer" at Section 15 of the Circular, the Offeror will consider an amalgamation of Cypress with a subsidiary of the Offeror on the basis that outstanding Cypress Shares will be exchanged for redeemable preferred shares of the amalgamated entity which are then forthwith redeemed for PrimeWest Units at the same rate and with

the same terms as in the Offer. On such redemption, a Non-Resident Holder will be deemed to receive a dividend equal to the amount by which the value of the redemption proceeds received by the Non-Resident Holder exceeds the paid-up capital (for purposes of the Tax Act) of such preferred shares at that time. Such deemed dividend would be subject to Canadian withholding tax under the Tax Act at a rate of 25%, subject to reduction under an applicable bilateral tax treaty. In the case of a Non-Resident Holder who is a resident of the United States for the purposes of the Canada-United States Income Tax Convention, the rate of withholding tax on such deemed dividend generally would be reduced to 15%. On the redemption, the Non-Resident Holder will also be considered to have disposed of the preferred shares for proceeds of disposition equal to the value of the redemption proceeds less the amount of such deemed dividend. The Non-Resident Holder generally will not be subject to tax under the Tax Act in respect of any gain realized on such disposition provided the preferred shares do not constitute "taxable Canadian property" (within the meaning of the Tax Act) to the Non-Resident Holder. Generally, the preferred shares will not constitute taxable Canadian property to a Non-Resident Holder unless either the Non-Resident Holder's Cypress Shares constituted taxable Canadian property immediately before the amalgamation (see above under the heading "Non-Residents of Canada - The Offer") or the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm's length (within the meaning of the Tax Act), or the Non-Resident Holder together with such persons owns or has an interest in or option in respect of 25% or more of the preferred shares. A Non-Resident Holder whose preferred shares constitute taxable Canadian property generally will be required to calculate a capital gain or capital loss on the redemption of their preferred shares in the same manner as a Holder who is resident in Canada, as described above under the heading "Residents of Canada - Acquisition of Cypress Shares Not Deposited Under the Offer", and would be required to file a Canadian income tax return reporting the disposition and pay Canadian income tax in respect of any resulting capital gain at applicable rates.

17. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a general description of the material United States federal income tax consequences of the disposition of Cypress Shares pursuant to the Offer, a Compulsory Acquisition, a Subsequent Acquisition Transaction or market purchase to a holder of Cypress Shares who is a United States person and holds Cypress Shares as capital assets (a "U.S. Holder"). This description, prepared by Paul, Weiss, Rifkind, Wharton & Garrison, U.S. counsel to the Trust, is for general information purposes only and is based on the United States Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations promulgated thereunder, and judicial and administrative interpretations thereof, all as in effect on the date hereof and all of which are subject to change. The tax treatment of a U.S. Holder may vary depending upon his particular situation. Certain holders (including persons that are not United States persons, banks, insurance companies, tax-exempt organization, financial institutions, persons whose functional currency is not the U.S. dollar, persons subject to the alternative minimum tax and broker-dealers) may be subject to special rules not discussed below. The discussion below does not address the effect of any state, local or foreign tax law on a U.S. Holder.

As used herein, the term "United States person" means an individual who is a citizen or resident of the United States, a partnership, corporation or other entity organized in or under the laws of the United States or any state thereof, an estate that is subject to United States federal income taxation without regard to the source of its income or a trust if a United States court has primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust.

This discussion of U.S. federal income tax consequences is for general information only and does not purport to be a complete analysis or listing of all potential tax effects that may apply to U.S.

Holders of Cypress Shares. Each U.S. Holder of Cypress Shares should consult, and depend on his own tax advisor in analyzing the U.S. federal, state and local tax consequences and foreign tax consequences to him to consummation of the Offer, including the receipt and ownership of PrimeWest Units.

Transfer of Cypress Shares for PrimeWest Units and Cash

The transfer of Cypress Shares by a U.S. Holder in consideration for PrimeWest Units and cash pursuant to the Offer, a Compulsory Acquisition, a Subsequent Acquisition or market purchase will be treated as a taxable disposition for U.S. federal income tax purposes. As a result, a U.S. Holder who transfers Cypress Shares, in consideration for PrimeWest Units and cash pursuant to the Offer, a Compulsory Acquisition, a Subsequent Acquisition Transaction or market purchase will recognize capital gain or loss on the receipt of the PrimeWest Units and cash, equal to the difference between:

- the United States dollar value of the PrimeWest Units and cash received (including for this purpose any shareholder expenses paid by the Offeror), determined on the date of the transfer, and
- the U.S. Holder's tax basis in the Cypress Shares transferred.

Any capital gain or loss will be a long-term capital gain or loss if the U.S. Holder has held its Cypress Shares for more than one year. The maximum federal income tax rate on long-term capital gains realized by individuals is generally 20%. The deduction of capital losses is subject to certain limitations. The U.S. Holder's tax basis in PrimeWest Units received pursuant to the Offer would be their fair market value at the Effective Date, and the holding period would begin on the day after the Effective Date. Gain or loss, if any, recognized by a U.S. Holder in connection with the Offer generally will be treated as having a U.S. source for U.S. foreign tax credit purposes.

Certain Tax Considerations Regarding PrimeWest Units

U.S. Holders should refer to "Certain United States Federal Income Tax Considerations Regarding PrimeWest Units" in Schedule A to this Circular, which provides a description of the material United States federal income tax considerations relating to the ownership and disposition of PrimeWest Units.

This discussion of United States federal income tax consequences is for general information only and does not purport to be a complete analysis or listing of all potential tax effects that may apply to U.S. Holders of Cypress Shares. U.S. Holders are strongly urged to consult their own tax advisors to determine the particular tax consequences to them of consummation of the Offer, including the application and effect of federal, state, local, foreign and other tax laws.

18. OTHER MATTERS RELATING TO THE OFFER

Financial Advisor

TD Securities Inc. has been retained to act as financial advisor to the Trust and the Offeror in connection with the Offer and will receive fees in that regard.

Depository

The Offeror has engaged the Depository for the receipt of certificates in respect of Cypress Shares and related Letters of Transmittal and Notices of Guaranteed Delivery deposited under the Offer

and for the payment for Cypress Shares purchased by the Offeror pursuant to the Offer. The Depositary will receive reasonable and customary compensation from the Offeror for its services in connection with the Offer, will be reimbursed for certain out-of-pocket expenses and will be indemnified against certain liabilities and expenses in connection therewith.

Dealer Managers and Soliciting Dealer Group

TD Securities Inc. and CIBC World Markets Inc., as dealer managers (the "Dealer Managers"), have agreed to form and act as manager of the soliciting dealer group to be established to solicit acceptances of the Offer in Canada. The soliciting dealer agreements (the "Soliciting Dealer Agreements") between the Offeror and the Dealer Managers provide for the formation of a soliciting dealer group (the "Soliciting Dealer Group"), comprised of members of the Investment Dealers Association of Canada and members of stock exchanges in Canada, to solicit acceptances of the Offer. Each member of the Soliciting Dealer Group, including the Dealer Managers, is referred to herein as a "Soliciting Dealer". The Soliciting Dealer Agreements provide that each Soliciting Dealer whose name appears in the appropriate space in the Letter of Transmittal accompanying a deposit of Cypress Shares (other than in respect of the Locked Cypress Shares) shall be entitled to receive a fee of \$0.12 for each Cypress Share deposited and taken up by the Offeror under the Offer. The aggregate amount payable to a Soliciting Dealer with respect to any single depositing Cypress Shareholder will be subject to a minimum of \$85 and a maximum of \$1,500 subject in the case of the minimum fee to a minimum of 500 Cypress Shares being tendered. Such solicitation fees shall not apply in respect of shares deposited by the Locked Cypress Shareholders. Where Cypress Shares deposited and registered in a single name are beneficially owned by more than one person, the minimum and maximum amounts will be applied separately in respect of each such beneficial owner.

In addition to the foregoing, the Trust has agreed to pay to CIBC World Markets Inc. an additional fee for its services in acting as a Dealer Manager.

Except as set forth above, the Offeror will not pay any fees or commissions to any broker, dealer or other person for soliciting tenders of Cypress Shares pursuant to the Offer. Brokers, dealers, commercial banks and trust companies and other nominees will, upon request, be reimbursed by the Offeror for customary clerical and mailing expenses incurred by them in forwarding materials to their customers.

No fee or commission will be payable by any Cypress Shareholder who transmits his, her or its Cypress Shares directly to the Depositary or who makes use of the facilities of a member of the Soliciting Dealer Group to accept the Offer. Cypress Shareholders should contact the Dealer Managers, the Depositary or a broker or dealer for assistance in accepting the Offer and in depositing Cypress Shares with the Depositary.

19. SOURCE OF FUNDS

The Offeror estimates that if it acquires all of the Cypress Shares pursuant to the Offer, the cash required under the Offer for fees and expenses of the Offeror and the cash component of the Offer will be approximately \$84 million. Such amounts will be funded through the committed credit facility of the Trust and PrimeWest Energy, which is described in Note 5 to the audited consolidated financial statements of the Trust for the year ended December 31, 1999. The maximum amount of that credit facility is currently \$150 million.

20. OFFEREES' STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provide Cypress Shareholders with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, if there is a misrepresentation in a circular or a notice that is required to be delivered to Cypress Shareholders. However, such rights must be exercised within prescribed time limits. Cypress Shareholders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult with a lawyer.

21. DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the United States Securities and Exchange Commission as part of the Registration Statement of which this Offer to Purchase and Circular forms a part: the documents listed under "PrimeWest Energy Trust—Documents Incorporated by Reference"; the Letter of Transmittal; the Notice of Guaranteed Delivery; the Pre-Acquisition Agreement; the form of Lock-up Agreement; the Depositary Agreement; the Dealer Manager Agreements; the consent of PricewaterhouseCoopers LLP; the consent of KPMG LLP; the consent of Stikeman Elliott; the consent of Paul, Weiss, Rifkind, Wharton & Garrison; and powers of attorney.

CONSENT OF INDEPENDENT AUDITORS

TO: British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Commission des valeurs mobilières du Québec
Office of the Administrator (Securities Act), New Brunswick
Nova Scotia Securities Commission
Registrar of Securities, Prince Edward Island
Registrar of Securities, Newfoundland and Labrador

We consent to the incorporation by reference in the offer and circular dated March 6, 2001 relating to the offer by PrimeWest Oil and Gas Corp. (the "Offeror") to purchase all of the outstanding common shares of Cypress, of our report dated March 9, 2000, except as to Note 14 which is as of March 14, 2000, to the unitholders of PrimeWest Energy Trust on the consolidated balance sheets of PrimeWest Energy Trust as at December 31, 1999 and 1998 and the consolidated statements of income and cash available for distribution, unitholders' equity and cash flows for the years ended December 31, 1999 and December 31, 1998.

We also consent to the use in the above-mentioned offer and circular of our compilation report dated March 6, 2001 to the directors of the Offeror and the directors of PrimeWest Energy Inc. and the trustee of PrimeWest Energy Trust on the unaudited pro forma consolidated balance sheets of PrimeWest Energy Trust as at September 30, 2000 and December 31, 1999, and the unaudited pro forma consolidated statements of income and cash available for distribution for the nine-month period ended September 30, 2000 and for the year ended December 31, 1999.

This letter is provided to the securities regulatory authorities to which it is addressed pursuant to the requirements of their securities legislation and not for any other purpose.

Calgary, Canada
Dated: March 6, 2001

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

CONSENT OF COUNSEL

TO: The Directors of PrimeWest Oil and Gas Corp.
AND TO: The Directors of PrimeWest Energy Inc.
AND TO: The Trustee of PrimeWest Energy Trust

We hereby consent to the reference to our opinion contained under "Certain Canadian Federal Income Tax Considerations", "Certain Canadian Federal Tax Considerations Regarding PrimeWest Units" and "Eligibility for Investment" in the circular accompanying the offer dated March 6, 2001 made by PrimeWest Oil and Gas Corp. to the holders of common shares of Cypress.

Dated: March 6, 2001

(Signed) STIKEMAN ELLIOTT

CONSENT OF COUNSEL

TO: The Directors of PrimeWest Oil and Gas Corp.
AND TO: The Directors of PrimeWest Energy Inc.
AND TO: The Trustee of PrimeWest Energy Trust

We hereby consent to the reference to our opinion contained under "Certain United States Federal Income Tax Considerations" and "Certain United States Federal Income Tax Considerations Regarding PrimeWest Units" in the circular accompanying the offer dated March 6, 2001 made by PrimeWest Oil and Gas Corp. to the holders of common shares of Cypress.

Dated: March 6, 2001

(Signed) PAUL, WEISS, RIFKIND, WHARTON & GARRISON

APPROVAL AND CERTIFICATE OF THE OFFEROR

The contents of the Offer and the Circular have been approved and the sending, communication or delivery thereof to the Cypress Shareholders has been authorized by the directors of the Offeror.

The foregoing, together with the documents incorporated herein by reference, contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. In addition, the foregoing, together with the documents incorporated herein by reference, does not contain any misrepresentation likely to affect the value or the market price of the Cypress Shares which are the subject of the Offer.

DATED: March 6, 2001

PRIMEWEST OIL AND GAS CORP.

(Signed) KENT J. MACINTYRE
Chief Executive Officer

(Signed) SUSAN M. DUNCAN
Vice President, Finance

On Behalf of the Board of Directors

(Signed) KENT J. MACINTYRE
Director

CERTIFICATE OF THE PROMOTERS

The foregoing, together with the schedules attached hereto, constitutes full, true and plain disclosure of all material facts relating to the PrimeWest Units as required by the securities laws of all provinces and territories of Canada.

DATED: March 6, 2001

PRIMEWEST ENERGY TRUST
By: PRIMEWEST ENERGY
INC.

(Signed) KENT J. MACINTYRE
Vice-Chairman and
Chief Executive Officer

PRIMEWEST ENERGY INC.

(Signed) KENT J. MACINTYRE
Vice-Chairman and
Chief Executive Officer

PRIMEWEST MANAGEMENT
INC.

(Signed) KENT J. MACINTYRE
Chief Executive Officer

SCHEDULE A

INFORMATION CONCERNING PRIMEWEST ENERGY TRUST

1. DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Trust, filed with the various provincial securities commissions or similar authorities in Canada, are specifically incorporated into and form an integral part of this Circular:

- (a) the Renewal Annual Information Form of the Trust dated March 23, 2000, including management's discussion and analysis of financial condition and operating results for the year ended December 31, 1999 incorporated by reference therein;
- (b) the audited consolidated financial statements of the Trust for the years ended December 31, 1999 and 1998, together with the notes thereto and the report of the auditors thereon;
- (c) the Management Proxy Circular of the Trust dated March 23, 2000, relating to the annual general and special meeting of PrimeWest Unitholders held on May 25, 2000 (excluding those portions thereof which, pursuant to National Instrument 44-101 of the Canadian Securities Administrators, are not required to be incorporated by reference herein);
- (d) the unaudited consolidated financial statements of the Trust as at and for the three months ended March 31, 2000, the six months ended June 30, 2000 and the nine months ended September 30, 2000;
- (e) the material change report of the Trust dated March 14, 2000 in respect of the offer to purchase all of the issued and outstanding common shares of Venator;
- (f) the material change report of the Trust dated June 29, 2000 in respect of the offer to purchase all of the issued and outstanding common shares of Reserve Royalty; and
- (g) the material change report of the Trust dated February 23, 2001 in respect of the Offer.

Any document of the type referred to in the preceding paragraph and any material change reports (excluding confidential material change reports) filed by the Trust with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this Circular and prior to the termination of the Offer shall be deemed to be incorporated by reference into this Circular.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this Circular, to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Circular.

2. BUSINESS OF THE TRUST AND THE OFFEROR

The Trust

The Trust is an open-end investment trust created under the laws of Alberta pursuant to the PrimeWest Declaration of Trust. The beneficiaries of the Trust are the holders of PrimeWest Units. The Trust's principal and head office is located at 1600, 530 - 8th Avenue S.W., Calgary, Alberta T2P 3S8.

The undertaking of the Trust is to invest the Trust's funds, directly or indirectly, in petroleum and natural gas properties and assets related thereto. The primary assets of the Trust are a royalty (the "Royalty") equal to approximately 99% of the net cash flow generated by the petroleum and natural gas interests held by PrimeWest Energy, PrimeWest Resources and PrimeWest Royalty, after certain costs, expenditures and deductions, and gross overriding royalty interests in certain crude oil and natural gas properties primarily located in western Canada. Each PrimeWest Unit entitles the holder to receive monthly distributions of distributable income. The Trust has an obligation (the "Deferred Purchase Price Obligation") to pay to PrimeWest Energy, PrimeWest Resources or PrimeWest Royalty, as applicable, to the extent of the Trust's available funds, up to 99% of the cost of, including any amount borrowed to acquire, any Canadian resource properties (as that term is defined in the Tax Act) acquired by the PrimeWest Energy, PrimeWest Resources or PrimeWest Royalty, as applicable, and up to 99% of the cost of, including any amount borrowed to fund, certain designated capital expenditures, as partial consideration for the Royalty. The Trust will receive income from PrimeWest Energy, PrimeWest Resources and PrimeWest Royalty pursuant to the Royalty on the additional revenue generated from additional properties acquired by PrimeWest Energy and PrimeWest Resources and PrimeWest Royalty and any designated capital expenditures.

PrimeWest Energy

PrimeWest Energy was incorporated under the *Business Corporations Act* (Alberta) on March 4, 1996. The head, principal and registered office of the PrimeWest Energy is located at 1600, 530 - 8th Avenue S.W., Calgary, Alberta T2P 3S8.

PrimeWest Energy business is the acquisition, development and exploitation of petroleum and natural gas properties and the production and marketing of petroleum and natural gas.

All of the issued and outstanding shares of the PrimeWest Energy are held by the Manager.

PrimeWest Resources

PrimeWest Resources was incorporated on October 22, 1996 under the *Business Corporations Act* (Alberta). The head, principal and registered office of PrimeWest Resources is located at 1600, 530 – 8th Avenue S.W., Calgary, Alberta T2P 3S8.

PrimeWest Resources' business is the acquisition, development and exploitation of petroleum and natural gas properties and the production and marketing of petroleum and natural gas.

The capital structure of PrimeWest Resources consists of common shares, all of which that are issued and outstanding are held by PrimeWest Energy, and exchangeable shares. The exchangeable shares were issued in connection with the acquisition of Venator. See "Recent Developments — Acquisition of Venator Petroleum Company Ltd." at Section 3 of this Schedule A. There are currently issued and outstanding approximately 886,658 exchangeable shares, each of which is exchangeable into PrimeWest Units based on a ratio which is adjusted on each date following the acquisition of Venator that the Trust pays a distribution to its Unitholders. The exchange ratio was initially one PrimeWest Unit for

each exchangeable share and is increased monthly based on the non-taxable portion of the distributions of the Trust divided by the PrimeWest Unit price. The current exchange ratio is 1.1145 PrimeWest Units for each exchangeable share. The taxable portion of the distributions of the Trust is paid as a dividend to the holders of exchangeable shares monthly.

PrimeWest Royalty

PrimeWest Royalty was incorporated on June 20, 2000 under the *Business Corporations Act* (Alberta). The head and principal office of PrimeWest Royalty is located at 1600, 530 - 8th Avenue S.W., Calgary, Alberta T2P 3S8. The registered office of PrimeWest Royalty is located at 1500, 855 - 2nd Street S.W., Calgary, Alberta T2P 4J7.

PrimeWest Royalty's business is the acquisition, development and exploitation of petroleum and natural gas properties and the production and marketing of petroleum and natural gas.

All of the issued and outstanding shares of PrimeWest Royalty are held by PrimeWest Energy.

The Manager

The Manager was incorporated on March 4, 1996 under the *Business Corporations Act* (Alberta). The head, principal and registered office of the Manager is located at 1600, 530 - 8th Avenue S.W., Calgary, Alberta T2P 3S8.

The Manager provides administrative services to the Trust and assists in the management of the business and affairs of PrimeWest Energy, PrimeWest Resources and PrimeWest Royalty, including managing the operation (where PrimeWest Energy, PrimeWest Resources or PrimeWest Royalty has been appointed operator) and administering of the petroleum and natural gas properties owned by PrimeWest Energy, PrimeWest Resources or PrimeWest Royalty.

3. RECENT DEVELOPMENTS

Acquisition of Crossfield Gas Plant Interest

On January 5, 2000, PrimeWest Energy completed the purchase of a 34% interest in the Crossfield natural gas processing plant and associated gathering system. That transaction increased PrimeWest Energy's stake in the facilities to 54% and enabled PrimeWest Energy to become the operator of the facilities. In June 2000, PrimeWest Energy sold a 25.8% interest in the facilities to TriGas Exploration Inc. ("TriGas"). In consideration of this transaction, TriGas has dedicated for processing at the plant all of its operated production from three nearby fields, on a life-of-reserves basis. TriGas has significant natural gas in these fields and an active exploration and development program planned for the next two years.

PrimeWest Energy remains the operator of the facilities. PrimeWest Energy believes that as operator of the facilities it has an improved capacity to reduce related operating costs and increase third-party volumes for processing.

1999 Year-end Operating and Financial Results

On March 17, 2000, the Trust announced its 1999 year end and fourth quarter results as well as results of its independent reserves appraisal as at January 1, 2000. Cash flow from operations was \$1.21 per unit in 1999, of which \$1.10 per unit was distributed to PrimeWest Unitholders. After allocation of

\$0.03/unit of cash flow for contribution to the reclamation fund, the balance of the surplus cash flow has been used to repay debt. Production for the year was within 2% of 1998 production; however, due to sustained higher commodity prices and lower operating costs, netbacks rose by over 60% from 1998 to \$12.08 per boe. Established Reserves at January 1, 2000 were 48.5 million boe, 8% lower than the prior year due to technical revisions, primarily in the Probable Reserves category. Proved Producing Reserves as a percentage of Established Reserves rose to 71% from 66% in the previous year. PrimeWest Energy added 2.2 million boe to Proved Reserves in 1999; however due to production of over 4.3 million boe, year end Proved Reserves were 38.8 million boe, down 5% from the prior year.

First Quarter Operating and Financial Results

On May 11, 2000, the Trust announced its interim operating and financial results for the three months ended March 31, 2000. Cash flow from operations for that period was \$0.50 per PrimeWest Unit, of which \$0.30 per unit was distributed to PrimeWest Unitholders, with the balance being used to retire debt and augment reclamation fund contributions. The Trust also announced that its regular monthly distribution of \$0.10 per PrimeWest Unit would be supplemented by a series of special distributions of \$0.03 per month, until at least January 2001. The first of those supplemental Distributions was made on June 15, 2000 to PrimeWest Unitholders of record on May 31, 2000.

Production volumes for the quarter averaged 11,841 boe/d, down 4 percent from the first quarter of 1999 and flat compared with 1999's average production rate.

Acquisition of Venator Petroleum Company Ltd.

On April 19, 2000, the Trust completed its acquisition of all of the common shares of Venator through an exchange of 0.657 PrimeWest Units or 0.657 exchangeable shares of PrimeWest Resources for each common share of Venator. That acquisition added approximately 2.8 million boe of Established Reserves (as at December 31, 1999) and approximately 1,300 boe/d of production. The acquisition resulted in the issuance of approximately 2.4 million PrimeWest Units and 2 million exchangeable shares of PrimeWest Resources exchangeable into PrimeWest Units.

For additional information regarding the acquisition of Venator, see "Information Concerning Venator" at Section 4 of this Schedule A.

Annual and Special Unitholders Meeting

On May 25, 2000, the Trust held its annual general and special meeting of PrimeWest Unitholders. At this meeting, the PrimeWest Unitholders passed the following resolutions: (i) an enhancement to the Distribution Reinvestment Plan whereby PrimeWest Units issued pursuant to the plan would be eligible for a 5% discount to the market price; (ii) an amendment to the PrimeWest Declaration of Trust permitting the independent directors of PrimeWest Energy to appoint up to two additional independent directors to the board; (iii) an amendment to the PrimeWest Declaration of Trust that modifies borrowing covenants to be based on reserve value using discounted cash flows at a discount rate equivalent to the then current Government of Canada 10 year bond rate plus 400 basis points (to a maximum of 15%); (iv) an amendment to the PrimeWest Declaration of Trust permitting the creation of special voting units to allow holders of securities exchangeable into PrimeWest Units to vote at meetings of PrimeWest Unitholders; and (v) an amendment to the PrimeWest Declaration of Trust that gives to the board of directors of PrimeWest Energy the sole responsibility for dealing with all matters relating to any offer to purchase all of the PrimeWest Units.

Appointment of Director

On May 31, 2000, Michael W. O'Brien was appointed as an additional independent director of the board of directors of PrimeWest Energy. Mr. O'Brien is Executive Vice President, Corporate Development and Chief Financial Officer of Suncor Energy Inc.

Additional Increase to Monthly Distribution

On June 13, 2000, the Trust announced that its special distribution rate of \$0.03 per PrimeWest Unit would be increased to \$0.06 per PrimeWest Unit starting with the distribution to be paid on July 15, 2000, bringing the total distribution to \$0.16 per PrimeWest Unit per month.

Acquisition of Reserve Royalty Corporation

On July 27, 2000, the Trust completed the acquisition of all of the common shares of Reserve Royalty through an exchange of 0.065 PrimeWest Units for each common share of Reserve Royalty. That acquisition added approximately 5.9 million boe of Established Reserves (as at December 31, 1999) and approximately 1,500 boe/d of production. The acquisition resulted in the issuance of approximately 6.7 million PrimeWest Units.

The assets of Reserve Royalty were mainly gross overriding royalties on, and some working interests in, approximately 1,500 boe/d of production comprised of 70% crude oil and natural gas liquids and 30% natural gas. Gross overriding royalty interests represented approximately 85% of Reserve Royalty's production and reserves. The high-quality long-life production is located mainly in Alberta and is operated by a number of technically strong and active exploration and production companies.

For additional information regarding the acquisition of Reserve Royalty, see "Information Concerning Reserve Royalty" at Section 5 of this Schedule A.

Second Quarter 2000 Operating and Financial Results

On August 15, 2000, the Trust announced its interim operating and financial results for the three months ended June 30, 2000. Cash flow from operations for that period was \$0.62 per PrimeWest Unit, of which \$0.39 per PrimeWest Unit was distributed to PrimeWest Unitholders, with the balance used to retire debt and to augment reclamation fund contributions. Second quarter cash flow per PrimeWest Unit represented a 24% increase over that realized during the first quarter of 2000 and a 114% improvement over the comparable quarter in 1999. Cash flow from operations for the six months ended June 30, 2000 was \$1.13 per PrimeWest Unit, representing a 122% improvement over the comparable period in 1999.

Production volumes for the quarter averaged 12,414 boe per day, up from 11,841 boe per day in the first quarter of 2000 and from 11,816 boe per day in the second quarter of 1999. The increase reflects new volumes from the Trust's acquisition and development programs, which offset natural production declines.

Public Offering of PrimeWest Units

On September 18, 2000, the Trust completed a public offering of 4,830,000 PrimeWest Units at a price of \$8.35 per PrimeWest Unit, for total gross proceeds of \$40.3 million. The net proceeds of that offering will be used for general corporate purposes including capital expenditures and future acquisitions, and in the interim, to repay outstanding indebtedness.

Additional Increase to Monthly Distribution

On September 28, 2000, the Trust announced that its special distribution rate of \$0.06 per PrimeWest Unit would be increased to \$0.10 per PrimeWest Unit starting with the distribution to be paid on November 15, 2000, bringing the total distribution to \$0.20 per PrimeWest Unit per month.

Third Quarter Operating and Financial Results

On November 8, 2000, the Trust announced its interim operating and financial results for the three months ended September 30, 2000. Cash flow from operations for that period was \$0.62 per PrimeWest Unit, of which \$0.48 per PrimeWest Unit was distributed to PrimeWest Unitholders, with the balance being used to retire debt and to augment reclamation fund contributions. Third quarter cash flow of \$29.2 million was a record for the Trust, up from \$24.1 million in the second quarter of 2000 and \$10.9 million over the comparative period in 1999. Cash flow from operations for the nine months ended September 30, 2000 was \$1.72 per PrimeWest Unit, representing a 105% improvement over the comparable period in 1999.

Production volumes for the quarter averaged a record 13,818 boe per day, up from 12,414 boe per day in the second quarter of 2000 and from 11,277 boe per day in the third quarter of 1999. The acquisition of Reserve Royalty added 1,455 boe per day, effective July 27, 2000 (970 boe per day averaged over the full three months of the quarter). Other development projects accounted for the balance of the incremental daily production over that realized in the second quarter of 2000.

Normal Course Issuer Bid

On December 15, 2000, the Trust announced that the TSE had accepted its application to implement a normal course issuer bid. Under the terms of the bid, the Trust may purchase for cancellation up to a maximum of 2,520,453 PrimeWest Units, representing 5% of the public float of PrimeWest Units at that time. The normal course issuer bid will terminate on December 18, 2001, unless completed before that time.

Resignation of Mr. Gillard

On January 9, 2001, the Trust announced that Mr. Gillard had resigned as President and Chief Operating Officer of PrimeWest Energy following two years of valued service to PrimeWest Energy.

Confirmation of Distributions

On February 8, 2001, the Trust confirmed its regular monthly cash distribution of \$0.10 per PrimeWest Unit and a special monthly cash distribution of \$0.10 per Trust Unit. Based on strong fourth quarter performance and PrimeWest Energy's near-term outlook, the Trust expected to pay a total of \$0.20 per PrimeWest Unit per month at least until the Trust's June distribution, payable in July 2001.

The Trust also announced the following highlights of its fourth quarter and full-year performance:

- (a) estimated fourth quarter cash flow of \$0.80 per PrimeWest Unit, \$0.77 per PrimeWest Unit fully diluted, up more than 110% from the same period in 1999;
- (b) estimated full-year cash flow of \$2.51 per PrimeWest Unit, \$2.44 per PrimeWest Unit fully diluted, up more than 170% over 1999;

- (c) record average daily production of 12,968 boe per day, up 9% from 1999 with an exit rate of over 14,200 boe per day;
- (d) estimated operating costs down 3% year over year;
- (e) record operating netbacks estimated to be more than \$26.00 per boe, up 120% over 1999;
- (f) estimated net debt of \$1.55 per PrimeWest Unit down 35% over 1999; and
- (g) total return of 67.8% per PrimeWest Unit, up from 56.3% in 1999.

Additional Increase to Monthly Distribution

On March 5, 2001, the Trust announced that, if the acquisition of Cypress pursuant to the Offer is completed, its special distribution rate of \$0.10 per PrimeWest Unit would be increased to \$0.12 per PrimeWest Unit starting with the distribution to be paid on May 15, 2001, bringing the total distribution to \$0.22 per PrimeWest Unit per month.

4. INFORMATION CONCERNING VENATOR

Business and Principal Properties of Venator

Venator was a Calgary based junior oil and gas company involved in the exploration, exploitation, development and production of crude oil and natural gas. Venator's core areas consisted of natural gas properties in the Wapiti area, light crude oil properties in the Progress and Spirit River areas and medium crude oil properties in the Enchant area, all in Alberta. Approximately 70% of Venator's production was comprised of crude oil and NGLs and 30% of its production was comprised of natural gas.

Crude Oil and Natural Gas Reserves of Venator

The following table summarizes Venator's estimate of its crude oil and NGLs and natural gas reserves as at December 31, 1999. The reserves described in the table below are based on Venator's net working interests in its properties before royalties.

	<u>As at December 31, 1999</u>
Crude Oil and NGLs (mbbls)	
Proved Reserves	
Producing	1,310
Non-Producing	344
Probable Reserves	947
Established Reserves	2,128
Natural Gas (bcf)	
Proved Reserves	
Producing	4.3
Non-Producing	1.7
Probable Reserves	1.2
Established Reserves	6.6

Production of Venator

The following table sets forth Venator's average daily production during the periods indicated.

	Three Months Ended		
	March 31, 2000	Year Ended December 31,	
Average daily production (before royalties)		1999	1998
Crude oil and NGLs (bbls/d)	891	609	482
Natural Gas (mcf/d)	3,820	2,762	1,586

Crude Oil and Natural Gas Wells of Venator

The following table sets out the total number of Venator's productive wells as at December 31, 1999.

Crude Oil Wells		Natural Gas Wells		Total Wells	
Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
67.0	20.81	8.0	4.82	75.0	25.63

Notes:

- (1) "Gross" refers to all wells in which Venator had a working interest.
- (2) "Net" refers to the aggregate of the percentage working interests of Venator in gross wells, before the deduction of royalties.

Undeveloped Land of Venator

As of December 31, 1999, Venator had undeveloped land totalling approximately 34,748 net acres, primarily in Alberta.

Selected Pro Forma Operating and Financial Information

The unaudited pro forma consolidated financial statements of the Trust set forth in Schedule B to the Circular, as well as the selected pro forma operating and financial information contained under "Purpose of the Offer and Plans for Cypress" at Section 7 of the Circular, also account for the acquisition of Venator and the effect of that acquisition on the Trust.

5. INFORMATION CONCERNING RESERVE ROYALTY

Business of Reserve Royalty

Reserve Royalty's primary business strategy was to build a portfolio of gross overriding royalty interests within the oil and gas industry predominantly in western Canada through off balance sheet financing for industry partners and by the re-deployment of oil and gas assets acquired. The gross overriding royalty interests represented approximately 85% of the production and reserves of Reserve Royalty with the balance coming from working interests held by Reserve Royalty.

Principal Properties of Reserve Royalty

Reserve Royalty held interests in over 250 properties located in western Canada, Ontario, the Illinois Basin in the United States and in the United Kingdom. As a result of the acquisition of all of the

outstanding shares of Reserve Royalty by PrimeWest Royalty on July 27, 2000, interests in those properties that consist of working interests are now held by PrimeWest Royalty, while interests in those properties that consist of gross overriding royalties have been conveyed to the Trust.

Crude Oil and Natural Gas Reserves of Reserve Royalty

The following table summarizes Reserve Royalty's estimate of Reserve Royalty's crude oil and NGLs and natural gas reserves as at December 31, 1999. The reserves described in the table below are based on Reserve Royalty's net interests (consisting of gross overriding royalty interests and working interests) in its properties before royalties.

	<u>As at December 31, 1999</u>
Crude Oil and NGLs (mmbbls)	
Proved Reserves	
Producing	2,437
Non-Producing	752
Probable Reserves	1,207
Established Reserves	3,793
Natural Gas (mmcf)	
Proved Reserves	
Producing	11,897
Non-Producing	7,233
Probable Reserves	4,755
Established Reserves	21,508

Production of Reserve Royalty

The following table sets forth Reserve Royalty's average daily production during the periods indicated.

	Six Months Ended	Year Ended December 31,	
	June 30, 2000	1999	1998
Average daily production (before royalties)			
Crude Oil and NGLs (bbls/d)	1,227	1,981	4,321
Natural Gas (mcf/d)	4,177	7,813	19,294

The decreases in production from 1998 to 1999 and from 1999 to the first six months of 2000 are primarily attributable to property dispositions by Reserve Royalty to reduce its debt and a shift in focus by Reserve Royalty that involved converting most of its working interests in crude oil and natural gas properties into cash and gross overriding royalty interests.

Crude Oil and Natural Gas Wells of Reserve Royalty

Reserve Royalty held interests in over 2,400 producing crude oil and natural gas wells on a gross basis. Approximately 90% of the producing wells are oil wells and the balance are gas wells.

Interests of Reserve Royalty in Land

The Company had gross overriding royalty interests, working interests, and net profit interests in lands, as at December 31, 1999, as follows:

Total Gross Acres December 31, 1999⁽¹⁾

	Alberta & Saskatchewan	Ontario	US - Illinois & Indiana	United Kingdom	Cuba ⁽²⁾	Total
Royalty Interests	931,481 ⁽³⁾	5,151	—	160,441	2,619,302	3,716,375
Working Interests	49,918	—	1,964	—	—	51,882
Total	981,399	5,151	1,964	160,441	2,619,302	3,768,257 ⁽⁴⁾

Notes:

- (1) Includes producing and non-producing acres.
- (2) 22,264 net acres. The Cuban acreage requires work to be conducted in the 2000 calendar year by the operator in order to maintain the lands into 2001.
- (3) Includes 246,000 gross acres associated with unitized properties.
- (4) Includes approximately 300,000 net acres of undeveloped lands, of which approximately 285,000 net acres are located in western Canada.

Financial Statements of Reserve Royalty

The audited consolidated financial statements of Reserve Royalty as at and for the years ended December 31, 1999 and 1998 and the unaudited consolidated financial statements of Reserve Royalty as at and for the six months ended June 30, 2000 and 1999 are reproduced at Schedule C to this Circular.

Selected Pro Forma Operating and Financial Information

The unaudited pro forma consolidated financial statements of the Trust set forth in Schedule B to the Circular, as well as the selected pro forma operating and financial information contained under "Purpose of the Offer and Plans for Cypress" at Section 7 of the Circular, also account for the acquisition of Reserve Royalty and the effect of that acquisition on the Trust.

6. THE PRIMEWEST DECLARATION OF TRUST

The PrimeWest Declaration of Trust, among other things, provides for the calling of meetings of PrimeWest Unitholders, the conduct of business at those meetings, notice provisions, the appointment, resignation and removal of the trustee of the Trust and the form of PrimeWest Unit certificates. The PrimeWest Declaration of Trust may be amended from time to time. Substantive amendments to the PrimeWest Declaration of Trust, including extension or early termination of the Trust and the sale or transfer of the property of the Trust as an entirety or substantially as an entirety, requires approval by special resolution of PrimeWest Unitholders.

The following is a summary of certain provisions of the PrimeWest Declaration of Trust. For a complete description of that document, reference should be made to the PrimeWest Declaration of Trust, copies of which may be viewed at the offices of, or obtained from, the trustee of the Trust.

Authorized Capital of the Trust

The PrimeWest Declaration of Trust provides that the Trust may issue an unlimited number of PrimeWest Units and an unlimited number of Special Voting Units.

PrimeWest Units

Each PrimeWest Unit entitles the holder to receive monthly distributions of distributable income of the Trust. Generally, distributable income is derived from amounts paid to the Trust by PrimeWest Energy, PrimeWest Resources and PrimeWest Royalty pursuant to the Royalty, the net cash flow generated by gross overriding royalty interests in certain crude oil and natural gas properties primarily located in western Canada and amounts paid to the Trust by PrimeWest Royalty pursuant to certain debt obligations held by the Trust.

The PrimeWest Units represent equal fractional undivided beneficial interests in the Trust. All PrimeWest Units share equally in all distributions by the Trust and all PrimeWest Units carry equal voting rights at meetings of PrimeWest Unitholders. No PrimeWest Unitholder will be liable to pay any further calls or assessments in respect of the PrimeWest Units other than any instalment payment arrangements that are applicable to an offering of PrimeWest Units in respect of which the PrimeWest Unitholder acquired his PrimeWest Units.

PrimeWest Unitholders also have the right to require the Trust at any time on demand to redeem their PrimeWest Units, subject to a monthly cash limit of total redemptions by the Trust of \$100,000.

Special Voting Units

The issue of creating a Special Voting Unit under the PrimeWest Declaration of Trust arises in the context of a subsidiary of the Trust or PrimeWest Energy issuing shares exchangeable into PrimeWest Units ("Exchangeable Shares") as consideration for the purchase of all of the shares of a corporation which owns oil and gas properties. Exchangeable share transactions are commonly used in corporate acquisitions to give the selling shareholder a tax deferred roll-over on the sale of the shareholder's shares, which may not otherwise be available. In an exchangeable share transaction, the tax event is generally deferred until the exchangeable shares are actually exchanged.

In order to allow the holders of Exchangeable Shares to vote at meetings of PrimeWest Unitholders, the PrimeWest Declaration of Trust provides that the Trust may issue a Special Voting Unit to a trustee upon the Trust, PrimeWest Energy or one of their respective subsidiaries completing an acquisition which involves the issuance of Exchangeable Shares. The Special Voting Unit would entitle the trustee to vote at meetings of PrimeWest Unitholders and to cast thereat a number of votes equal to the number of PrimeWest Units for which that number of Exchangeable Shares are then exchangeable. The trustee would cast those votes in accordance with the votes of the holders of Exchangeable Shares at a meeting of those holders held concurrently with or immediately before the corresponding meeting of PrimeWest Unitholders.

The Special Voting Units do not represent a beneficial interest in the Trust and have no rights other than the right to vote at meetings of PrimeWest Unitholders.

Trustee

The Trust Company of Bank of Montreal is the trustee of the Trust and also acts as the transfer agent for the PrimeWest Units. The trustee is responsible for, among other things (i) accepting subscriptions for PrimeWest Units and issuing PrimeWest Units pursuant thereto; (ii) maintaining the books and records of the Trust and providing timely reports to PrimeWest Unitholders; and (iii) paying cash distributions to PrimeWest Unitholders.

The PrimeWest Declaration of Trust provides that the trustee of the Trust is to exercise its powers and carry out its functions thereunder as trustee honestly, in good faith and in the best interests of the Trust and PrimeWest Unitholders and, in connection therewith, must exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

At the annual general and special meeting of the PrimeWest Unitholders held in May 2000, the PrimeWest Unitholders authorized an amendment to the PrimeWest Declaration of Trust to limit the power of the trustee of the Trust in respect of the exercise of the rights, powers and privileges for all matters relating to the maximization of PrimeWest Unitholder value in the context of an offer, including any unitholder rights protection plan (or amendment or waiver thereof), any defensive action to an offer, any directors' circular in response to an offer, any regulatory or court proceedings relating to an offer and any related or ancillary matter, and giving the exercise of such rights, powers and privileges for all such matters directly and solely to the board of directors of PrimeWest Energy.

The term of the trustee's appointment ends at the conclusion of the sixth annual meeting of PrimeWest Unitholders, expected to be held in 2002. Thereafter, the trustee of the Trust will be re-appointed or changed every third annual meeting as may be determined by a majority of the votes cast at a meeting of PrimeWest Unitholders. The trustee of the Trust may also be removed by a majority vote of PrimeWest Unitholders under the circumstances described in the PrimeWest Declaration of Trust. The trustee of the Trust may resign on 60 days notice to PrimeWest Energy. That resignation or removal becomes effective on the appointment of a successor trustee and the acceptance of that appointment and the assumption of the obligations of the trustee of the Trust by that successor trustee.

Cash Distributions of Distributable Income

Cash distributions of distributable income of the Trust are made on a monthly basis, on the 15th day of the month following the end of each month in respect of which such income is to be distributed, to PrimeWest Unitholders of record on the last Business Day of that month. See "Record of Cash Distributions" at Section 9 of this Schedule A.

Meetings and Voting

Annual meetings of PrimeWest Unitholders commenced in 1997. Special meetings of such holders may be called at any time by the trustee of the Trust and will be called by the trustee on the written request of such holders holding an aggregate of not less than 20% of the PrimeWest Units. Notice of all meetings of PrimeWest Unitholders will be given to such holders at least 21 days, and not more than 50 days, prior to the meeting.

PrimeWest Unitholders may attend and vote at all meetings of such holders either in person or by proxy. A proxy holder need not be a holder of PrimeWest Units. At least two persons present in person or represented by proxy and representing in the aggregate not less than five percent of the votes attaching to all outstanding PrimeWest Units constitute a quorum for the transaction of business at all those meetings.

PrimeWest Unitholders are entitled to one vote per PrimeWest Unit at all meetings of such holders.

Limitation on Non-Resident Ownership

In order for the Trust to maintain its status as a mutual fund trust under the Tax Act, the Trust must not be established or maintained primarily for the benefit of non-residents of Canada

("non-residents") within the meaning of the Tax Act. Accordingly, the PrimeWest Declaration of Trust provides that at no time may non-residents be the beneficial owners of a majority of PrimeWest Units. If the trustee of the Trust becomes aware that the beneficial owners of 49% of the PrimeWest Units then outstanding are or may be non-residents or that situation is imminent, the trustee may make a public announcement in that regard and will not accept a subscription for PrimeWest Units from or issue or register a transfer of PrimeWest Units to a person unless the person provides a declaration that the person is not a non-resident. Notwithstanding the foregoing, if the trustee of the Trust determines that a majority of PrimeWest Units are beneficially held by non-residents, the trustee may send a notice to non-resident PrimeWest Unitholders, chosen in inverse order to the order of acquisition or registration or in such other manner as the trustee may consider equitable and practicable, requiring those non-resident holders to sell their PrimeWest Units or part of them within a specified period of not less than 60 days. If the non-resident PrimeWest Unitholders receiving that notice have not sold the specified number of PrimeWest Units or provided the trustee of the Trust with satisfactory evidence that they are not non-residents within that period, the trustee may, on behalf of those holders, sell those PrimeWest Units and, in the interim, will suspend the voting and distribution rights attached to those PrimeWest Units. When that sale by the trustee of the Trust occurs, the affected PrimeWest Unitholders will cease to be PrimeWest Unitholders and their rights will be limited to receiving the net proceeds of sale on surrender of the certificates representing those PrimeWest Units.

Compulsory Acquisition

The PrimeWest Declaration of Trust provides that if a person, within either 120 days of making an offer to purchase all outstanding PrimeWest Units or the time for acceptance provided in that offer (provided that such offer is open for acceptance for a period of not less than 45 days), whichever period is shorter, acquires not less than 90% of the outstanding PrimeWest Units (other than those held by that person and its affiliates), that person may acquire the PrimeWest Units of the holders thereof who did not accept the offer on the same terms as those offered to those holders who accepted the offer.

Termination of the Trust

PrimeWest Unitholders may vote to terminate the Trust at any meeting of PrimeWest Unitholders, provided that the termination must be approved by special resolution of such holders.

Unless the Trust is terminated or extended by an earlier vote of PrimeWest Unitholders, the trustee of the Trust will commence to wind-up the affairs of the Trust on December 31, 2095. In the event that the Trust is wound-up, the trustee of the Trust will liquidate all the assets of the Trust, pay, retire, discharge or make provisions for some or all obligations of the Trust and then distribute the remaining proceeds of the liquidation to PrimeWest Unitholders.

7. UNITHOLDER RIGHTS PLAN

On June 30, 1999, the Trust announced that it had adopted a unitholder rights plan (the "Rights Plan"). The Rights Plan was approved by PrimeWest Unitholders at the annual general and special meeting of the PrimeWest Unitholders held on May 18, 1999.

Under the terms of the Rights Plan, a prospective bidder would be encouraged to negotiate the terms of a bid with the board of directors of PrimeWest Energy (the "PrimeWest Board"), or to make a "permitted bid", not requiring the approval of the PrimeWest Board but having terms and conditions designed to provide the PrimeWest Board with sufficient time to properly evaluate a take-over bid and its

effects, and to seek alternative bidders or explore other ways of maximizing PrimeWest Unitholder value in the event of an unsolicited take-over bid.

If a person acquires more than 20% of the PrimeWest Units other than by way of a permitted bid, other PrimeWest Unitholders may, at the discretion of the PrimeWest Board, acquire a number of PrimeWest Units at 50% of the then prevailing market price, so as to cause significant dilution to the acquiring person.

The Rights Plan provides that a permitted bid is a take-over bid meeting the following requirements:

- (a) the bid must be made to all PrimeWest Unitholders;
- (b) the bid must be open for a minimum of 45 days following the date of the bid, and no PrimeWest Units may be taken up prior to such time;
- (c) take-up and payment for PrimeWest Units may not occur unless the bid is accepted by PrimeWest Unitholders holding more than 50% of the outstanding PrimeWest Units, excluding PrimeWest Units held by the bidder and its associates;
- (d) PrimeWest Units may be deposited to or withdrawn from the bid at any time prior to the take-up date; and
- (e) if the bid is accepted by PrimeWest Unitholders holding the requisite percentage of PrimeWest Units, the bidder must extend the bid for an additional ten Business Days to permit other PrimeWest Unitholders to tender into the bid, should they so wish.

The Rights Plan expires on the date of the Trust's annual meeting in 2002.

8. PRICE RANGE AND TRADING VOLUME OF PRIMEWEST UNITS

The outstanding PrimeWest Units are traded on the TSE under the trading symbol "PWI.UN". The following table sets forth the price range and trading volume of PrimeWest Units as reported by the TSE for the periods indicated:

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
1999			
First Quarter.....	\$6.15	\$4.65	3,783,236
Second Quarter.....	7.05	5.55	2,370,974
Third Quarter.....	7.75	6.50	3,229,639
Fourth Quarter.....	7.15	6.00	3,247,250
2000			
First Quarter.....	7.50	6.10	4,652,623
Second Quarter.....	8.15	6.20	7,985,786
July.....	8.35	7.65	2,718,033
August.....	8.85	7.75	3,254,074
September.....	8.80	8.05	3,618,700
October.....	9.30	8.40	4,267,100
November.....	9.15	8.70	2,240,500
December.....	9.20	8.55	1,864,300
2001			
January.....	9.30	8.75	3,363,100

Period	High	Low	Volume
February	9.99	8.55	6,497,000
March (1-2).....	8.82	8.61	586,033

The closing price of the PrimeWest Units on the TSE on February 15, 2001, the last trading day prior to the date the announcement of the Offer was made, was \$9.73. The closing price of the PrimeWest Units on March 2, 2001 was \$8.82.

9. RECORD OF CASH DISTRIBUTIONS

The following sets forth the monthly cash distributions paid by the Trust since January 1999.

1999⁽¹⁾

January	0.06
February	0.06
March.....	0.06
April.....	0.07
May.....	0.09
June.....	0.10
July.....	0.07
August.....	0.14
September.....	0.10
October.....	0.10
November.....	0.15
December.....	0.10
Total	<u>\$1.10</u>

2000⁽¹⁾

January	0.10
February	0.10
March.....	0.10
April.....	0.10
May.....	0.13
June.....	0.16
July.....	0.16
August.....	0.16
September.....	0.16
October.....	0.20
November.....	0.20
December.....	0.20
Total	<u>\$1.77</u>

2001⁽¹⁾

January	0.20
February	0.20
March.....	0.20 ⁽²⁾
Total	<u>\$0.60</u>

Notes:

- (1) PrimeWest Unitholders are paid a monthly predetermined amount per PrimeWest Unit, and the excess of distributable income over such amount, if any, is calculated and either paid to PrimeWest Unitholders or used to reduce debt on a periodic basis as received from PrimeWest Energy, PrimeWest Resources and PrimeWest Royalty pursuant to the Royalty.
- (2) Payment will be made on April 15, 2001 to PrimeWest Unitholders of record on March 31, 2001.

The Trust seeks to provide a stable stream of cash distributions, subject to fluctuations in the quantity of petroleum and natural gas substances produced, prices received for that production, hedging contract receipts and payments, taxes, management fees, direct expenses of the Trust, reclamation fund contributions, capital expenditures, operating costs, debt service charges and general and administrative expenses as determined necessary by the Manager on behalf of the Trust. The Trust receives monthly income pursuant to the Royalty in an amount determined by the directors of PrimeWest Energy and distributes this income to PrimeWest Unitholders monthly. Currently, the Trust's monthly distributions consist of \$0.10 per PrimeWest Unit as a regular distribution and \$0.10 per PrimeWest Unit as an additional special distribution. On a periodic basis, the Trust may receive additional income pursuant to the Royalty and that amount may be distributed to PrimeWest Unitholders at that time.

10. CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS REGARDING PRIMEWEST UNITS

In the opinion of Stikeman Elliott, counsel to the Trust and PrimeWest Energy, the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act and the regulations thereunder (the "Regulations") generally applicable to a PrimeWest Unitholder (a "Unitholder") who, for purposes of the Tax Act, holds the PrimeWest Units as capital property and deals at arm's length with the Trust. Generally, the PrimeWest Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the PrimeWest Units in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their PrimeWest Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the election permitted by subsection 39(4) of the Tax Act. This summary is not applicable to (i) a Unitholder that is a "financial institution", as defined in the Tax Act for purposes of the mark-to-market rules, (ii) a Unitholder, an interest in which would be a "tax shelter investment" as defined in the Tax Act, or (iii) a Unitholder that is a "specified financial institution" as defined in the Tax Act. Any such Unitholder should consult its own tax advisor with respect to an investment in PrimeWest Units.

This summary is based upon the provisions of the Tax Act, the Regulations and the *Alberta Corporate Tax Act* (the "Alberta Act") in force as of the date hereof, all specific proposals to amend the Tax Act, the Regulations and the Alberta Act that have been publicly announced prior to the date hereof (the "Proposed Amendments") and counsel's understanding of the current published administrative practices of the Canada Customs and Revenue Agency.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial (except for certain provisions of the Alberta Act relating to the Alberta royalty tax credit), territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Unitholder or prospective Unitholder, and no

representations with respect to the income tax consequences to any Unitholder or prospective Unitholder are made. Consequently, Unitholders and prospective Unitholders should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring PrimeWest Units pursuant to the Offer or any Subsequent Acquisition Transaction, having regard to their particular circumstances.

The Trust presently qualifies as a "mutual fund trust" as defined in the Tax Act, and this summary assumes that the Trust will so qualify on the date of the completion of the Offer and continuously thereafter for the duration of its existence. In order to so qualify, there must be at least 150 Unitholders, each of whom owns not less than one "block" of PrimeWest Units having a fair market value of not less than \$500. A "block" of PrimeWest Units means 100 PrimeWest Units, if the fair market value of one PrimeWest Unit is less than \$25. In order to qualify as a mutual fund trust, the Trust cannot at any time reasonably be considered to have been established or to be maintained primarily for the benefit of non-resident persons and the undertaking of the Trust must be restricted to the investing of its funds in property (other than real property or an interest in real property), the acquiring, holding, maintaining, improving, leasing or managing of any real property (or an interest in real property) that is capital property of the Trust, or any combination of these activities. In the event that the Trust were not to qualify as a mutual fund trust, the income tax considerations would in some respects be materially different from those described below.

If the Trust ceases to qualify as a mutual fund trust, the PrimeWest Units will cease to be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans (collectively, "Exempt Plans") as defined in the Tax Act. Where, at the end of a month, an Exempt Plan holds PrimeWest Units that are not qualified investments, the Exempt Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the PrimeWest Units at the time such PrimeWest Units were acquired by the Exempt Plan. In addition, where a trust governed by a registered retirement savings plan or registered retirement income fund holds PrimeWest Units that are not qualified investments, the trust will be taxable on income attributable to, and any capital gain from the disposition of, the PrimeWest Units while they are not qualified investments. In addition, where a registered education savings plan holds PrimeWest Units that are not qualified investments, the registration of the plan may be revoked. Additionally, if the Trust ceases to qualify as a mutual fund trust, the Trust will be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Trust may have adverse income tax consequences for certain Unitholders, including non-resident persons and Exempt Plans that acquire an interest in PrimeWest Units directly or indirectly from another Unitholder.

Taxation of the Trust

The Trust is subject to taxation in each taxation year on its income or loss for the year as though it were a separate individual. The taxation year of the Trust is the calendar year.

The Trust is required to include in its income for each taxation year all amounts that it receives in respect of the Royalty, including any amounts subject to set-off in respect of any Crown charges reimbursed by it to PrimeWest Energy, PrimeWest Resources or PrimeWest Royalty in that year. The Trust is also required to include in its income for each taxation year all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year.

In computing its income, the Trust may deduct reasonable administrative, interest and other expenses incurred to earn income. The Trust may also deduct, in computing its income for a year, an

amount not exceeding 10% of any positive balance of its cumulative Canadian oil and gas property expense ("COGPE") account at the end of that year. The cost of acquiring the Royalty has been added to the Trust's cumulative COGPE account and an amount that the Trust is required, pursuant to the Deferred Purchase Price Obligation, to pay in a year in respect of additional Canadian resource properties acquired by PrimeWest Energy, PrimeWest Resources or PrimeWest Royalty will be added to the cumulative COGPE account of the Trust. An amount that becomes receivable by the Trust in a year as a result of a sale of a property by PrimeWest Energy, PrimeWest Resources or PrimeWest Royalty and the release of the Royalty relating to that property, will be required to be deducted in computing the Trust's cumulative COGPE account. If the balance of the cumulative COGPE of the Trust at the end of a particular taxation year after all additions and deductions for that year have been made would otherwise be a negative amount, the negative amount will be included in the Trust's income for the year.

In accordance with the Regulations, the Trust may deduct in computing its income for a year a resource allowance equal to 25% of its "adjusted resource profits". Generally, the Trust's adjusted resource profits will equal its income from the Royalty less amounts deducted in computing its income other than deductions in respect of its cumulative COGPE, interest expense or any amount deducted in respect of distributions to Unitholders, as described below. The Trust may not deduct Crown charges reimbursed by it to PrimeWest Energy, PrimeWest Resources or PrimeWest Royalty in the year.

The Trust may deduct amounts which become payable by it to Unitholders in the year, to the extent that the Trust has net income for the year after the inclusions and deductions outlined above. An amount will be considered to have become payable to a Unitholder in a taxation year only if it is paid in the year by the Trust or the Unitholder is entitled in that year to enforce payment of the amount. The terms of the PrimeWest Declaration of Trust generally provide that all income of the Trust for a taxation year (excluding capital gains which may be realized by the Trust upon a distribution in specie of the property of the Trust in connection with a redemption of PrimeWest Units) net of the Trust's expenses will be paid or made payable to Unitholders in the year. Therefore, as a result of such deduction from income and the Trust's entitlement to a Capital Gains Refund (see "Retraction/Redemption of PrimeWest Units", below) it is generally anticipated that the Trust will not have any taxable income for the purposes of the Tax Act. In certain circumstances, Unitholders may receive additional PrimeWest Units instead of cash where the income of the Trust exceeds its aggregate cash flow net of principal debt repayments by the Trust. The excess, if any, of reimbursed Crown charges over the resource allowance deductible by the Trust in the year is deemed to be an amount that has become payable to the Unitholders, to the extent designated by the Trust. The Trust has designated and will continue to designate the full amount of any such excess annually in respect of the Unitholders. In order to utilize losses from prior taxation years, the Trust may claim as a deduction an amount that is less than the amount of its income that is paid or payable to Unitholders in the year if it designates such amount not to have been paid or become payable to the Unitholders.

The Trust is entitled to claim an Alberta royalty tax credit (the "ARTC") in respect of eligible Alberta Crown royalties, within certain limits. The ARTC is based on a price-sensitive formula linked to crude oil prices. Eligible Alberta Crown royalties exclude royalties in respect of "restricted resource properties". Under the Proposed Amendments, the Trust will not be entitled to claim ARTC after December 31, 2000.

Taxation of Unitholders

Residents of Canada

This portion of the summary applies to a Unitholder who, at all relevant times, is resident in Canada for the purposes of the Tax Act.

A Unitholder will generally be required to include in computing income for a particular taxation year of the Unitholder that portion of the net income of the Trust for a taxation year that is paid or becomes payable to the Unitholder in that particular taxation year, whether or not the amount is actually paid to the Unitholder in that year. An amount will be considered to have become payable to a Unitholder in a taxation year if the Unitholder is entitled in the year to enforce payment of the amount. For the purposes of the Tax Act, income of a Unitholder from the PrimeWest Units will be considered to be income from property and not resource income. Any deduction or loss of the Trust for purposes of the Tax Act cannot be allocated to, or treated as a deduction or loss of, a Unitholder. The Trust will provide Unitholders with the relevant information required for completion of their Canadian income tax returns at the relevant time.

The cost to a Unitholder of PrimeWest Units acquired pursuant to the Offer will generally equal the fair market value thereof at the time of such acquisition. This cost will be averaged with the adjusted cost base of all other PrimeWest Units held by the Unitholder at that time as capital property to determine the adjusted cost base to the Unitholder of each PrimeWest Unit.

The Proposed Amendments provide, in respect of amounts that become payable after 1999, other than on a redemption of PrimeWest Units, that there will be a reduction of the adjusted cost base to Unitholders of the PrimeWest Units (and not a disposition of the PrimeWest Units) where the Trust distributes an amount to Unitholders in excess of the income of the Trust and the non-taxable portion of capital gains made payable to Unitholders in a year. The non-taxable portion of capital gains realized by the Trust that is paid or made payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year and will not reduce the adjusted cost base to the Unitholder of the PrimeWest Units. To the extent that the adjusted cost base of PrimeWest Units would otherwise be less than zero, the negative amount will be treated as a capital gain from the disposition of PrimeWest Units.

Upon the disposition or deemed disposition by a Unitholder of a PrimeWest Unit, whether on a redemption or otherwise, the Unitholder will generally realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition are greater (or less) than the aggregate of the Unitholder's adjusted cost base of the PrimeWest Unit and any reasonable costs associated with the disposition.

Generally, one-half (three-quarters if the Proposed Amendments are not enacted) of any capital gain (a "taxable capital gain") realized by a Unitholder in a taxation year must be included in the Unitholder's income under the Tax Act for the year, and one-half (three-quarters if the Proposed Amendments are not enacted) of any capital loss (an "allowable capital loss") realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

A Unitholder that throughout the relevant taxation year is a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay an additional refundable tax of $\frac{2}{3}\%$ on certain investment income, including taxable capital gains.

Taxable capital gains realized by a Unitholder that is an individual may give rise to alternative minimum tax depending on the Unitholder's circumstances.

Retraction/Redemption of Trust Units

Where the Trust distributes property of the Trust to a Unitholder on a redemption of PrimeWest Units, the Trust will be deemed to receive proceeds of disposition equal to the fair market value of such property at that time (the "Deemed Proceeds"), and such distribution may give rise to a capital gain or income to the Trust. The Trust will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for tax on its net taxable capital gains by an amount determined under the Tax Act based on the redemption or retraction of PrimeWest Units during the year (the "Capital Gains Refund"). The Capital Gains Refund in a particular year may not completely offset the Trust's tax liability for such taxation year which may arise upon distributions of property in connection with the redemption of PrimeWest Units. The PrimeWest Declaration of Trust accordingly provides that income of the Trust which is required to satisfy any tax liability on the part of the Trust shall not be payable to Unitholders.

Where the Trust distributes property of the Trust, other than the Royalty, to a Unitholder on a redemption of PrimeWest Units, the Proposed Amendments will deem the Unitholder to have disposed of its PrimeWest Units for proceeds of disposition equal to the Deemed Proceeds (other than the portion, if any, of the Deemed Proceeds that is considered to be a payment to the Unitholder out of the income or capital gains of the Trust for the year) less the amount, if any, by which the income or capital gain realized by the Trust on such distribution exceeds the portion, if any, of such income or capital gain that is considered to be a payment to the Unitholder out of the income or capital gains of the Trust for the year. Where the property that is distributed to the Unitholder is the Royalty, the Unitholder will be deemed to have disposed of its PrimeWest Units for proceeds of disposition equal to the Deemed Proceeds.

The cost to a Unitholder of any property distributed to a Unitholder by the Trust will be deemed under the Proposed Amendments to be equal to the Deemed Proceeds (other than the portion, if any, of the Deemed Proceeds that is considered to be a payment to the Unitholder out of the income or capital gains of the Trust for the year).

Exempt Plans

The PrimeWest Units will be qualified investments under the Tax Act for Exempt Plans. An Exempt Plan will generally not be liable for tax in respect of any distributions received from the Trust or any capital gain realized on the disposition of any PrimeWest Units. Based on representations of the Trust and PrimeWest Energy as to certain factual matters, the PrimeWest Units are not foreign property to Exempt Plans or other Unitholders subject to Part XI of the Tax Act.

Non-Residents of Canada

This portion of the summary applies to a Unitholder who, for the purposes of the Tax Act and at all relevant times, is not resident in Canada and is not deemed to be resident in Canada, does not use or hold, and is not deemed to use or hold, PrimeWest Units in, or in the course of, carrying on a business in Canada, and is not an insurer who carries on an insurance business in Canada and elsewhere (a "Non-Resident Unitholder").

General

Generally, that portion of the cash distributions paid by the Trust to a Non-Resident Unitholder that constitutes a portion of the net income of the Trust for a taxation year that is paid or becomes payable to the Non-Resident Unitholder in that particular taxation year will be subject to Canadian withholding tax under the Tax Act at a rate of 25%, subject to reduction under an applicable bilateral tax treaty. In the case of a Non-Resident Unitholder who is a resident of the United States for the purposes of the Canada-United States Income Tax Convention, the rate of such withholding tax is generally reduced to 15%.

Generally, no other Canadian taxes will be payable by a Non-Resident Unitholder in respect of Trust distributions or in respect of a disposition, whether by way of redemption or otherwise, by the Non-Resident Unitholder of PrimeWest Units, provided the PrimeWest Units do not constitute "taxable Canadian property" (within the meaning of the Tax Act) to the Non-Resident Unitholder. Generally, PrimeWest Units will not constitute taxable Canadian property to a Non-Resident Unitholder at a particular time provided the Non-Resident Unitholder, persons with whom the Non-Resident Unitholder does not deal at arm's length (within the meaning of the Tax Act), or the Non-Resident Unitholder together with such persons does not own or have an interest in or option in respect of 25% or more of the issued units of the Trust at any time during the 60 month period that ends at that particular time.

11. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS REGARDING PRIMEWEST UNITS

The following is a general description of the material United States federal income tax consequences of the ownership and disposition of PrimeWest Units to a holder of PrimeWest Units who is a United States person and who receives PrimeWest Units pursuant to the Offer, a Compulsory Acquisition, a Subsequent Acquisition Transaction or market purchase and holds PrimeWest Units as capital assets (a "U.S. PrimeWest Unitholder"). This description, prepared by Paul, Weiss, Rifkind, Wharton & Garrison, U.S. counsel to the Trust, is for general information purposes only and is based on the United States Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations promulgated thereunder, and judicial and administrative interpretations thereof, all as in effect on the date hereof and all of which are subject to change. The tax treatment of a U.S. PrimeWest Unitholder may vary depending upon his particular situation. Certain holders (including persons that are not United States persons, banks, insurance companies, tax-exempt organization, financial institutions, persons whose functional currency is not the U.S. dollar, persons subject to the alternative minimum tax and broker-dealers) may be subject to special rules not discussed below. The discussion below does not address the effect of any state, local or foreign tax law on a U.S. PrimeWest Unitholder. Purchasers of PrimeWest Units are advised to consult their own tax advisors with respect to an investment in the PrimeWest Units.

As used herein, the term "United States person" means an individual who is a citizen or resident of the United States, a partnership, corporation or other entity organized in or under the laws of the United States or any state thereof, an estate that is subject to United States federal income taxation without regard to the source of its income or a trust if a United States court has primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust.

Ownership of the PrimeWest Units

Passive Foreign Investment Company Status

For U.S. tax purposes, a foreign corporation, or trust treated as a foreign corporation for U.S. tax purposes such as the Trust, is classified as a passive foreign investment company ("PFIC") for each taxable year in which either (1) at least 75 percent of its gross income is "passive" income (the "income test") or (2) at least 50 percent of the average value of its assets is attributable to assets that produce passive income or are held for the production of passive income (the "assets test"). For purposes of the income test and the assets test, if a foreign corporation owns (directly or indirectly) at least 25 percent (by value) of the stock of another corporation, such foreign corporation shall be treated as if it (1) held its proportionate share of the assets of such other corporation, and (2) received directly its proportionate share of the income of such other corporation. Also, for purposes of such tests, passive income does not include any income which is interest, a dividend or a rent or royalty, which is received or accrued from a "related" person to the extent such amount is properly allocable to the income of such related person which is not passive income. For these purposes, a person is related with respect to a foreign corporation if such person "controls" the foreign corporation or is controlled by the foreign corporation or by the same persons that control the foreign corporation. For these purposes, "control" means ownership, directly or indirectly, of stock possessing more than 50 percent of the total voting power of all classes of stock entitled to vote or of the total value of stock of a corporation.

If the Trust is classified as a PFIC, for any year during which a U.S. PrimeWest Unitholder holds PrimeWest Units and the U.S. PrimeWest Unitholder has not made a "qualified electing fund" election (a "QEF election") or a mark to market election (as described below), the U.S. PrimeWest Unitholder will generally be subject to special rules (regardless of whether the Trust continues to be a PFIC) with respect to (1) any "excess distribution" (as described below) and (2) any gain realized upon the sale or other disposition of PrimeWest Units. Under these rules:

- the excess distribution or gain will be allocated rateably over the U.S. PrimeWest Unitholder's holding period;
- the amount allocated to the current taxable year and any year prior to the first year in which the Trust was a PFIC will be taxed as ordinary income in the current year,
- the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year; and
- an interest charge for the deemed deferral benefit will be imposed with respect to the resulting tax attributable to each such other taxable year.

An excess distribution is, in general, any distribution received by the U.S. PrimeWest Unitholder on PrimeWest Units in a taxable year that is greater than 125 percent of the average annual distributions received by the U.S. PrimeWest Unitholder in the three preceding taxable years or, if shorter, the U.S. PrimeWest Unitholder's holding period for the PrimeWest Units. No amount will be treated as an excess distribution for the taxable year in which a U.S. PrimeWest Unitholder's holding period for the PrimeWest Units begins. A U.S. PrimeWest Unitholder would also generally be subject to similar rules with respect to excess distributions to the Trust by, and dispositions by the Trust of the stock of, any direct or indirect subsidiary of the Trust that is also a PFIC. Some or all of the distributions from the Trust received by U.S. PrimeWest Unitholders may not constitute "excess distributions" (as described above), and such distributions will be taxable under the rules described below in "*Tax Consequences if PrimeWest is not a PFIC - Dividends.*"

Certain Canadian tax withheld with respect to an excess distribution on the PrimeWest Units may be eligible for foreign tax credits, subject to the limitations set forth in "*Tax Consequences if PrimeWest is not a PFIC - Dividends - Foreign Tax Credits*," including additional special limitations under the excess distribution rules. Because of the complexity of these limitations, each U.S. PrimeWest Unitholder should consult his own tax advisor with respect to the amount of foreign taxes that may be claimed as a credit.

If U.S. PrimeWest Unitholders were able to make a timely QEF election, they would be able to avoid the foregoing tax rules and instead would be required to include in income each year their share of the Trust's net ordinary income and capital gains, if any. A QEF election must be made in a timely manner as specified in applicable Treasury regulations. Generally, in order to avoid the tax rules described in the preceding paragraph, the QEF election must be made in a timely filed federal income tax return of a U.S. PrimeWest Unitholder for the first taxable year of the U.S. PrimeWest Unitholder during which the Trust was (at any time) a PFIC. A QEF election cannot, however, be validly made unless the Trust agrees to provide certain U.S. tax basis information and meet certain other requirements. The Trust has not yet determined whether it will provide such information or meet such requirements. Therefore, no assurance can be given that U.S. PrimeWest Unitholders will be in a position to make a timely QEF election. U.S. PrimeWest Unitholders who receive PrimeWest Units pursuant to the Offer should consult with their own tax advisors regarding the possible availability of a QEF election.

Alternatively, a United States person who holds "marketable stock" of a PFIC may avoid the imposition of the additional tax and interest rules described above by making a "mark to market" election in the first year of such United States person's holding period with respect to the PFIC stock. The PrimeWest Units should be treated as "marketable stock" for purposes of making such election. If a U.S. PrimeWest Unitholder makes a timely mark to market election with respect to the PrimeWest Units it owns at the close of its taxable year, the U.S. PrimeWest Unitholder would include as ordinary income in that taxable year any excess of the fair market value of the U.S. PrimeWest Unitholder's PrimeWest Units as of the close of such year over its adjusted basis. Any mark to market loss is treated as an ordinary deduction, but only to the extent of prior ordinary income included pursuant to the election. The electing U.S. PrimeWest Unitholder's basis in the PrimeWest Units would be adjusted to reflect any such income or loss amounts. Any gain or loss on the sale of such PrimeWest Units would be ordinary income or loss, except that any loss will be an ordinary loss only to the extent of the previously included net mark to market gain. An election to mark to market applies to the year for which the election is made and the following years unless the PFIC stock ceases to be marketable or the IRS consents to the revocation of such election. If a timely QEF election were made by such U.S. PrimeWest Unitholder, the foregoing rules would not apply.

Because, after the completion of the Offer, the Trust will indirectly own approximately 99% of the value of the total voting stock of Cypress and other subsidiaries which are oil and gas operating companies, the Trust will be treated as related to such companies for purposes of the income test and assets test under the PFIC rules. Because it is anticipated that more than 25 percent of the gross income of the Trust will consist of royalties received from oil and gas operating companies which are related parties, such income will not be treated as passive income for purposes of the income test and, therefore, the Trust will not satisfy the income test. Also, because it is anticipated that more than 50 percent of the Trust's assets are attributable to assets that do not produce passive income, the Trust will not meet the requirements of the assets test. Accordingly, since the Trust will not satisfy either the income test or the assets test upon the completion of the Offer, the Trust should not be treated as a PFIC for U.S. federal income tax purposes after completion of the Offer. However, because PFIC status is fundamentally factual in nature, such status generally cannot be determined until the close of the taxable year in question,

and because such status is determined annually, there can be no certainty or assurance that the Trust will not be a PFIC for either the current taxable year or for any subsequent taxable year. U.S. Holders are urged to consult their own tax advisers regarding the possible classification of the Trust as a PFIC and the consequences to such U.S. Holders if such classification were to occur.

Tax Consequences if the Trust is not a PFIC

Dividends

If the Trust is not classified as a PFIC and makes a distribution to U.S. PrimeWest Unitholders, or if the Trust is a PFIC and makes a distribution which is not an "excess distribution" (as described above), a U.S. PrimeWest Unitholder will be required to include in gross income as ordinary income the gross amount of any of such distribution, to the extent that the distribution does not exceed the current or accumulated earnings and profits of the Trust as calculated for U.S. tax purposes (a "dividend"). These dividends will not be eligible for the dividends received deduction, which is generally allowed to U.S. corporate shareholders on dividends received from a domestic corporation. Distributions in excess of the current and accumulated earnings and profits of the Trust will first be treated as a tax-free return of capital to the extent of the U.S. PrimeWest Unitholder's tax basis in the PrimeWest Units and will be applied against and reduce such basis on a dollar-for-dollar basis (thereby increasing the amount of gain and decreasing the amount of loss recognized on a subsequent disposition of PrimeWest Units). To the extent that the distribution exceeds the U.S. PrimeWest Unitholder's tax basis, the excess will constitute gain from a sale or exchange of the PrimeWest Units.

Foreign Tax Credits

Any Canadian tax withheld with respect to the dividends on the PrimeWest Units may, subject to certain limitations, be claimed as a foreign tax credit against a U.S. PrimeWest Unitholder's U.S. Federal income tax liability or may be claimed as a deduction for U.S. Federal income tax purposes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, amounts distributed by the Trust with respect to PrimeWest Units will be "passive income" or, in the case of certain U.S. PrimeWest Unitholders, "financial services income". Because of the complexity of those limitations, each U.S. PrimeWest Unitholder should consult his own tax advisor with respect to the amount of foreign taxes that may be claimed as a credit.

Foreign Currency Gains

Taxable dividends with respect to PrimeWest Units that are paid in Canadian dollars will be included in the gross income of a U.S. PrimeWest Unitholder as translated into U.S. dollars calculated by reference to the exchange rate in effect on the day the dividend is received by the U.S. PrimeWest Unitholder regardless of whether the Canadian dollars are converted into U.S. dollars at that time. A U.S. PrimeWest Unitholder who receives payment in Canadian dollars and converts Canadian dollars into United States dollars at a conversion rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss. U.S. PrimeWest Unitholders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of Canadian dollars.

Sale or Exchange of PrimeWest Units

If the Trust is not classified as a PFIC, a U.S. PrimeWest Unitholder will generally recognize gain or loss upon the sale or exchange of PrimeWest Units equal to the difference (if any) between (i) the

amount realized by such holder on the sale or exchange and (ii) the U.S. PrimeWest Unitholder's adjusted tax basis in the PrimeWest Units. Any gain or loss will be capital gain or loss and will be long-term capital gain or loss if the U.S. PrimeWest Unitholder's holding period for the PrimeWest Units is more than one year at the time of such sale or exchange. Gain or loss, if any, realized by a U.S. PrimeWest Unitholder upon a sale or exchange of PrimeWest Units generally will be treated as having a U.S. source for U.S. foreign tax credit limitation purposes.

Foreign Currency Gains

In the case of a cash basis U.S. PrimeWest Unitholder who receives foreign currency (e.g., Canadian dollars) in connection with a sale, exchange or other disposition of Cypress Shares, the amount realized will be based on the U.S. dollar value of the foreign currency received with respect to the PrimeWest Units as determined on the settlement date of such sale or exchange. An accrual basis U.S. PrimeWest Unitholder may elect the same treatment required of cash basis taxpayers with respect to a sale or exchange of PrimeWest Units, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the Internal Revenue Service (the "IRS"). In the event that an accrual basis U.S. PrimeWest Unitholder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury Regulations applicable to foreign currency transactions), such holder may have a foreign currency gain or loss for U.S. Federal income tax purposes because of differences between the U.S. dollar value of the currency received prevailing on the date of the sale or exchange of PrimeWest Units and the date of payment. Any such currency gain or loss would be treated as ordinary income or loss and would be in addition to gain or loss, if any, recognized by such holder on the sale, exchange or other disposition of such PrimeWest Units.

United States Information and Backup Withholding

Distributions on PrimeWest Units paid within the United States or through certain United States-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 31% rate unless the holder is a corporation or other exempt recipient or provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Information reporting requirements and backup withholding may also apply to the cash proceeds of a sale of PrimeWest Units.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. PrimeWest Unitholder's U.S. tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

12. ELIGIBILITY FOR INVESTMENT

In the opinion of Stikeman Elliott, counsel to the Trust and PrimeWest Energy, based on legislation in effect on the date of the Offer, the PrimeWest Units issuable pursuant to the Offer will not be precluded as investments, in each case subject to general investment standards and the satisfaction of additional requirements relating to investment or lending policies, standards, procedures, or goals, under or by the following statutes and where applicable, the relevant regulations:

Cooperative Credit Associations Act (Canada)
Insurance Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Trust and Loan Companies Act (Canada)
Employment Pension Plans Act (Alberta)
Loan and Trust Corporations Act (Alberta)
Financial Institutions Act (British Columbia)
The Insurance Act (Manitoba)
The Pension Benefits Act (Manitoba)
The Trustee Act (Manitoba)
Pension Benefits Act (Ontario)
Supplemental Pension Plans Act (Quebec)

An Act respecting insurance (Quebec) (in respect of insurers, as defined therein, incorporated under the laws of the Province of Quebec, other than a guarantee fund corporation)
An Act respecting Trust Companies and Savings Companies (Quebec) (for a trust company investing its own funds and deposits it receives or a savings company, as defined therein, which invests its own funds)

13. LEGAL MATTERS

Certain legal matters in connection with the Offer will be passed upon on behalf of the Trust and PrimeWest Energy by Stikeman Elliott, Calgary, Alberta. The partners and associates of Stikeman Elliott, as a group, own, directly or indirectly, less than 1% of the outstanding PrimeWest Units.

14. AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Trust are PricewaterhouseCoopers LLP, Chartered Accountants, 1200, 425 – 1st Street S.W., Calgary, Alberta T2P 3V7.

The transfer agent and registrar for the PrimeWest Units is The Trust Company of Bank of Montreal at its principal offices in Toronto and Calgary.

SCHEDULE B

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

COMPILATION REPORT

TO: The Trustee of PrimeWest Energy Trust
AND TO: The Directors of PrimeWest Energy Inc.
AND TO: The Directors of PrimeWest Oil and Gas Corp.

We have reviewed, as to compilation only, the accompanying unaudited pro forma consolidated balance sheets of PrimeWest Energy Trust (the "Trust") as at September 30, 2000 and December 31, 1999 and the unaudited pro forma consolidated statements of income and cash available for distribution for the nine month period ended September 30, 2000 and for the year ended December 31, 1999, which have been prepared for inclusion in the offer and circular dated March 6, 2001 relating to the offer by PrimeWest Oil and Gas Corp. to purchase all of the outstanding common shares of Cypress Energy Inc. In our opinion, the unaudited pro forma consolidated balance sheets and unaudited pro forma consolidated statements of income and cash available for distribution have been properly compiled to give effect to the proposed transactions and the assumptions described in the accompanying notes thereto.

Calgary, Canada
Dated: March 6, 2001

(signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

PRIMEWEST ENERGY TRUST
PRO FORMA CONSOLIDATED BALANCE SHEET

As at December 31, 1999
(in thousands of dollars)

	<u>PrimeWest</u>	<u>Venator</u>	<u>Reserve Royalty</u>	<u>Cypress</u>	<u>Ranchero</u>	<u>Adjustments (Unaudited)</u>	<u>Pro Forma (Unaudited)</u>
Assets							
Current Assets							
Cash	\$ 5,504	\$	\$ 275	\$	\$ 1,436	\$ 831	\$ 8,046
Accounts Receivable	21,811	1,829	4,247	17,112	1,715		46,714
Prepaid Expenses and Inventory	2,626		564	2,452	67		5,709
Assets Held for Sale				5,395			5,395
	<u>29,941</u>	<u>1,829</u>	<u>5,086</u>	<u>24,959</u>	<u>3,218</u>	<u>831</u>	<u>65,864</u>
Cash Reserved for Site Restoration	1,060						1,060
Capital Assets	289,209	14,960	115,979	270,572	16,821	517,207 (4,080)	1,220,668
	<u>\$ 320,210</u>	<u>\$ 16,789</u>	<u>\$ 121,065</u>	<u>\$ 295,531</u>	<u>\$ 20,039</u>	<u>\$ 513,958</u>	<u>\$ 1,287,592</u>
Liabilities and Unitholders'/ Shareholders' Equity							
Current Liabilities							
Accounts Payable and Accrued Liabilities	\$ 19,150	\$ 2,593	\$ 6,394	\$ 25,511	\$ 2,774	\$ 4,926	\$ 61,348
Accrued Distributions Due to Related Company	3,555						3,555
Current Portion of Long Term Debt	1,280						1,280
	106				2,813		2,919
	<u>24,091</u>	<u>2,593</u>	<u>6,394</u>	<u>25,511</u>	<u>5,587</u>	<u>4,926</u>	<u>69,102</u>
Long-Term Debt	92,180	2,187	35,055	92,760	11,488	154,426	388,096
Site Restoration Provision	3,899	242	382	2,043	393		6,959
Deferred Charges				772			772
Deferred Income Taxes		2,575		8,017		(10,592)	
Unitholders'/ Shareholders' Equity	200,040	9,192	79,234	166,428	2,571	365,198	822,663
	<u>\$ 320,210</u>	<u>\$ 16,789</u>	<u>\$ 121,065</u>	<u>\$ 295,531</u>	<u>\$ 20,039</u>	<u>\$ 513,958</u>	<u>\$ 1,287,592</u>

PRIMEWEST ENERGY TRUST

**PRO FORMA CONSOLIDATED STATEMENT OF INCOME AND
CASH AVAILABLE FOR DISTRIBUTION**

**For the year ended December 31, 1999
(in thousands of dollars except for per trust unit/share amounts)**

	<u>PrimeWest</u>	<u>Venator</u>	<u>Reserve Royalty</u>	<u>Cypress</u>	<u>Ranchoero</u>	<u>Adjustments (Unaudited)</u>	<u>Pro Forma (Unaudited)</u>
Revenues							
Sales Revenue	\$ 98,247	\$ 7,372	16,475	\$ 78,168	\$ 9,586	\$	\$ 209,848
Crown and Other Royalties	(17,182)	(327)	(327)	(17,270)	(607)	(2,482)	(38,195)
Other Income	1,998	30	2,963		26		5,017
	<u>83,063</u>	<u>7,075</u>	<u>19,111</u>	<u>60,898</u>	<u>9,005</u>	<u>(2,482)</u>	<u>176,670</u>
Expenses							
Operating	28,609	1,360	2,719	11,983	3,358		48,029
Cash General and Administrative	5,321	842	4,308	3,508	2,049		16,028
Non-Cash General and Administrative	586						586
Attempted Takeover Costs	1,146						1,146
Cash Management Fees	1,386					1,834	3,220
Non-Cash Management Fees	446					939	1,385
Interest	4,885	153	4,625	3,758	1,137	9,826	24,384
Depletion, Depreciation and Amortization	34,699	1,832	41,998	26,417	33,899	26,897	165,742
	<u>77,078</u>	<u>4,187</u>	<u>53,650</u>	<u>45,666</u>	<u>40,443</u>	<u>39,496</u>	<u>260,520</u>
Income (Loss) before Income Taxes	5,985	2,888	(34,539)	15,232	(31,438)	(41,978)	(83,850)
Income Tax Expense (Recovery)							
Current		321	(100)	746	25	(215)	777
Deferred		689		7,049		(7,738)	
		<u>1,010</u>	<u>(100)</u>	<u>7,795</u>	<u>25</u>	<u>(7,953)</u>	<u>777</u>
Net Income (Loss) for the Year	5,985	1,878	(34,439)	7,437	(31,463)	(34,025)	(84,627)
Add Back (Deduct) Amounts to Reconcile to Cash Available for Distribution							
Depletion, Depreciation and Amortization	34,699	1,832	41,998	26,417	33,899	26,897	165,742
Undistributed Reserve	(2,485)						(2,485)
Deferred Income Taxes		689		7,049		(7,738)	
Attempted Takeover Costs, net of Income	(635)						(635)
Reclamation Fund Contributions	(868)					(785)	(1,653)
Non-Cash Management Fees	446					939	1,385
Non-Cash General and Administrative	586						586
Cash Available for Distribution	37,728	4,399	7,559	40,903	2,436	(14,712)	78,313
Cash Available for Distribution to Trust Unitholders/Shareholders	37,351	4,355	7,483	40,494	2,412	(14,565)	77,530

Cash Available for Distribution per Trust Unit/Share	1.10	0.77
Weighted Average Units/Shares Outstanding	33,965	100,390

PRIMEWEST ENERGY TRUST
PRO FORMA CONSOLIDATED BALANCE SHEET

As at September 30, 2000
(in thousands of dollars)

	<u>PrimeWest</u> (Unaudited)	<u>Cypress</u> (Unaudited)	<u>Ranchero</u> (Unaudited)	<u>Adjustments</u> (Unaudited)	<u>Pro Forma</u> (Unaudited)
Assets					
Current Assets					
Cash	\$ 11,625	\$	\$ 177	\$ 5,519	\$ 17,321
Accounts Receivable	28,481	21,331	6,412		56,224
Prepaid Expenses and Inventory	3,613	3,696			7,309
	<u>43,719</u>	<u>25,027</u>	<u>6,589</u>	<u>5,519</u>	<u>80,854</u>
Cash Reserved for Site Restoration	1,737				1,737
Capital Assets	391,226	329,823	21,419	551,409 (4,080)	1,289,797
	<u>\$ 436,682</u>	<u>\$ 354,850</u>	<u>\$ 28,008</u>	<u>\$ 552,848</u>	<u>\$ 1,372,388</u>
Liabilities and Unitholders'/Shareholders' Equity					
Current Liabilities					
Accounts Payable and Accrued Liabilities	\$ 26,280	\$ 27,987	\$ 4,415	\$ 1,700	\$ 60,382
Accrued Distributions	7,979				7,979
Due to Related Company	2,608				2,608
Current Portion of Long Term Debt	106		1,307		1,413
	<u>36,973</u>	<u>27,987</u>	<u>5,722</u>	<u>1,700</u>	<u>72,382</u>
Long-Term Debt	84,274	115,447	7,525	154,429	361,675
Long-term Incentive Liability	5,471				5,471
Deferred Charges		592			592
Site Restoration Provision	3,278	2,752	624		6,654
Future Income Taxes		47,935		32,065	80,000
Unitholders'/Shareholders' Equity	306,686	160,137	14,137	364,654	845,614
	<u>\$ 436,682</u>	<u>\$ 354,850</u>	<u>\$ 28,008</u>	<u>\$ 552,848</u>	<u>\$ 1,372,388</u>

PRIMEWEST ENERGY TRUST

**PRO FORMA CONSOLIDATED STATEMENT OF INCOME AND
CASH AVAILABLE FOR DISTRIBUTION**

**For the nine months ended September 30, 2000
(in thousands of dollars except for per trust unit/share amounts)**

	<u>PrimeWest</u> (Unaudited)	<u>Venator</u> (Unaudited)	<u>Reserve</u> <u>Royalty</u> (Unaudited)	<u>Cypress</u> (Unaudited)	<u>Ranchero</u> (Unaudited)	<u>Adjustments</u> (Unaudited)	<u>Pro Forma</u> (Unaudited)
Revenues							
Sales Revenue	\$ 126,971	\$ 4,490	\$ 10,298	\$ 117,768	\$ 8,534	\$ (349)	\$ 267,712
Crown and Other Royalties	(23,668)	(731)	(207)	(28,267)	(1,061)	(708)	(54,642)
Other Income	258				3,513		3,771
	<u>103,561</u>	<u>3,759</u>	<u>10,091</u>	<u>89,501</u>	<u>10,986</u>	<u>(1,057)</u>	<u>216,841</u>
Expenses							
Operating	22,069	594	774	13,393	2,561	(66)	39,325
Cash General and Administrative	3,080	1,315	6,071	3,164	587		14,217
Non-Cash General and Administrative	6,713						6,713
Cash Management Fees	2,112					2,347	4,459
Non-Cash Management Fees	497					981	1,478
Interest	4,692	48	1,436	5,565	847	7,588	20,176
Depletion, Depreciation and Amortization	31,215	1,182	6,525	29,973	3,452	39,014	111,361
	<u>70,378</u>	<u>3,139</u>	<u>14,806</u>	<u>52,095</u>	<u>7,447</u>	<u>49,864</u>	<u>197,729</u>
Net Income (Loss) for the Period before Taxes	33,183	620	(4,715)	37,406	3,539	(50,921)	19,112
Provision for Income Taxes							
Current Income Taxes	411	566	34	859		(483)	1,387
Future Taxes (Recovery)		(208)	(416)	15,555		(14,931)	
Net Income (Loss) for the Period	<u>32,772</u>	<u>262</u>	<u>(4,333)</u>	<u>20,992</u>	<u>3,539</u>	<u>(35,507)</u>	<u>17,725</u>
Depletion, Depreciation and Amortization	31,215	1,182	6,525	29,973	3,452	39,014	111,361
Undistributed Reserve	(19,582)						(19,582)
Future Tax Recovery		(208)	(416)	15,555		(14,931)	
Reclamation Fund Contributions	(2,581)					(1,123)	(3,704)
Gain on settlement of debt					(3,513)		(3,513)
Non-Cash Management Fees	497					981	1,478
Non-Cash General and Administrative	6,713						6,713
Cash Available for Distribution	49,034	1,236	1,776	66,520	3,478	(11,566)	110,478
Cash Available for Distribution to Trust	48,544	1,224	1,758	65,855	3,443	(11,450)	109,373

	<u>PrimeWest</u> (Unaudited)	<u>Venator</u> (Unaudited)	<u>Reserve</u> <u>Royalty</u> (Unaudited)	<u>Cypress</u> (Unaudited)	<u>Ranchero</u> (Unaudited)	<u>Adjustments</u> (Unaudited)	<u>Pro Forma</u> (Unaudited)
Unitholders/Shareholders							
Cash Available for Distribution per Trust Unit/Share	1.17						1.07
Weighted Average Units/Shares Outstanding	41,491						101,960

PRIMEWEST ENERGY TRUST

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the year ended December 31, 1999 and
as at and for the nine months ended September 30, 2000**
(Unaudited)

1) Basis of Presentation

PrimeWest Oil and Gas Corp. (the "Offeror") has made an offer to the shareholders of Cypress Energy Inc. ("Cypress") to acquire all of the issued and outstanding shares of Cypress on the terms and conditions set forth in the offer and circular dated March 6, 2001 (the "Offer"). The accompanying unaudited pro forma consolidated financial statements ("pro forma statements") have been prepared from information derived from the published audited and unaudited financial statements of PrimeWest Energy Trust (the "Trust"), of Venator Petroleum Company Ltd. ("Venator"), of Reserve Royalty Corporation ("Reserve Royalty"), of Cypress and of Rancho Energy Inc. ("Rancho"), as at and for the year ended December 31, 1999 and, (i) in the case of the Trust, Cypress and Rancho, as at and for the nine months ended September 30, 2000, (ii) in the case of Venator, unaudited financial statements as at and for the period ended April 18, 2000, the date of change of control of Venator, and (iii) in the case of Reserve Royalty, unaudited financial statements as at and for the period ended July 27, 2000, the date of change of control of Reserve Royalty.

In the opinion of management of the Trust, these pro forma statements include all material adjustments necessary for fair presentation in accordance with generally accepted accounting principles in Canada. The pro forma consolidated balance sheets give effect to the transactions described in note 2 as if they occurred on the respective balance sheet dates while the pro forma consolidated statements of income and cash available for distribution give effect to those transactions as if they had occurred at the beginning of the relevant period.

These pro forma statements may not be indicative either of the results that actually would have occurred if the events reflected herein had taken place on the dates indicated or of the results which may be obtained in the future, including administrative efficiencies that would occur from the combination of the two companies.

The pro forma statements should be read in conjunction with the published financial statements of the Trust, which are incorporated by reference in the offer and circular, and the published financial statements of Venator, Reserve Royalty, Cypress and Rancho.

2) Pro forma assumptions and adjustments

The accounting principles used in preparation of the pro forma statements are in accordance with those used in the preparation of the statements of the Trust, Venator, Reserve Royalty, Cypress and Rancho as at and for the year ended December 31, 1999. Other than the changes in accounting for income taxes adopted by Cypress, Rancho, Venator and Reserve Royalty in the first quarter of 2000, there were no changes in the accounting principles employed in the interim financial statements.

The pro forma consolidated balance sheet and statement of income and cash available for distribution give effect to the following assumptions and adjustments:

- 2.1 The Trust purchased approximately 97% of the outstanding shares of Venator on April 18, 2000 by issuing 0.657 Trust Units or exchangeable shares of PrimeWest Resources Ltd. for each Venator share deposited. The remaining shares of Venator were acquired by way of compulsory acquisition pursuant to the *Business Corporations Act* (Alberta). The total number of PrimeWest Trust Units issued pursuant to the offer was 2,368,936 and the total number of exchangeable shares issued pursuant to the offer was 2,012,422. For purposes of the pro forma statements, PrimeWest trust units and exchangeable shares have been ascribed a value of \$6.60 per trust unit and per

PRIMEWEST ENERGY TRUST

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the year ended December 31, 1999 and
as at and for the nine months ended September 30, 2000**
(Unaudited)

exchangeable share, which was the closing price of the trust units on the day immediately preceding the date of announcement of the offer, resulting in aggregate consideration, excluding the assumption of debt and working capital, of \$28,916,963. On April 18, 2000, the exchangeable shares were convertible to trust units on a one to one basis. As of the date of the Offer, the exchange ratio is 1.145 trust units for each exchangeable share.

- 2.2 The Trust purchased approximately 95% of the outstanding shares of Reserve Royalty on July 27, 2000 by issuing 0.065 PrimeWest trust units for each Reserve Royalty share tendered. The remaining shares of Reserve Royalty were acquired by way of a compulsory acquisition pursuant to the *Business Corporations Act* (Alberta). The total number of PrimeWest trust units issued pursuant to the offer was 6,660,082. For purposes of the pro forma statements, PrimeWest trust units have been ascribed a value of \$8.10 per trust unit, which is the closing price of those trust units on the last trading day preceding the announcement of the take-over bid, resulting in an aggregate consideration, excluding the assumption of debt and working capital, of \$53,946,664.
- 2.3 Concurrently with the making of the Offer, Cypress is offering to purchase all of the outstanding shares of Rancho on the basis of either \$1.68 in cash or 0.1723 Cypress shares (to an aggregate maximum of 1,076,900 Cypress shares) for each share of Rancho. The pro forma consolidated financial statements have been prepared on the assumptions that all Rancho shareholders accept the Cypress offer, all options to acquire Rancho shares are exercised, and that an aggregate of \$26,428,690 in cash and 1,076,900 Cypress shares are issued in connection with that acquisition. For purposes of the pro form consolidated financial statements, the Cypress shares issued to Rancho shareholders have been ascribed a value of \$14.1375, which is based on the value ascribed to the trust units of the Trust described below and on the assumption that all Cypress shareholders accept the Fixed Unit Alternative described below.
- 2.4 The pro forma consolidated financial statements have been prepared on the assumptions that all Cypress shareholders accept the Fixed Unit Alternative, which provides for the payment of \$1.42 in cash and the issuance of 1.30436 PrimeWest trust units for each Cypress share acquired, and all options to acquire Cypress shares are cashed out. For purposes of the pro forma statements, the trust units of the Trust have been ascribed a value of \$9.75 per trust unit, which is the weighted average closing prices of those trust units on the last five trading days preceding the announcement of the Offer, resulting in an aggregate consideration, including cash, of \$598,928,052.
- 2.5 (a) The transactions have been accounted for using the purchase method. The following tables show the assumptions made with respect to the allocation of the aggregate purchase price to net assets and the adjustments necessary to their historical cost carrying value at December 31, 1999:

PRIMEWEST ENERGY TRUST

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the year ended December 31, 1999 and
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(Unaudited)**

		('000)	<u>Ranchero</u>
Fair value of Cypress shares issued	\$	10,500	
Cash consideration		26,428	
Related fees and expenses		1,700	
Cost of acquisition		38,628	
Book value of assets acquired		(70)	
Purchase price discrepancy ⁽¹⁾		38,698	

Note:

(1) Allocated against oil and gas assets.

	('000)							
	<u>Venator</u>	<u>Reserve Royalty</u>	<u>Cypress</u>	<u>Total</u>				
Fair value of PrimeWest trust units issued	\$ 28,917	\$ 53,947	\$ 538,928	\$ 621,792				
Cash consideration			60,000	60,000				
Related fees and expenses ⁽¹⁾	835	2,390	68,000	71,225				
Cost of acquisition	29,752	56,337	666,928	753,017				
Book value of net assets acquired	11,767	79,234	183,507	274,508				
Purchase price discrepancy ⁽²⁾	17,985	(22,897)	483,421	478,509				

Note:

(1) Includes cash out of Cypress employee options

(2) Allocated against oil and gas assets.

(b) The following tables show the assumptions made with respect to the allocation of the aggregate purchase price to net assets and the adjustments necessary to their historical cost carrying value at September 30, 2000:

PRIMEWEST ENERGY TRUST

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the year ended December 31, 1999 and
as at and for the nine months ended September 30, 2000
(Unaudited)**

	('000)	
	<u>Cypress</u>	<u>Ranchero</u>
Fair value of PrimeWest trust units/Cypress shares issued	\$ 538,928	\$ 10,500
Cash consideration	60,000	26,429
Related fees and expenses ⁽¹⁾	32,000	1,700
Cost of acquisition	630,928	38,629
Book value of net assets acquired	104,712	13,436
Purchase price discrepancy ⁽²⁾	526,216	25,193

Note:

- (1) Includes cash out of Cypress employee options.
- (2) Allocated against oil and gas assets.

- 2.6 (a) The issuance of trust units of the Trust is calculated based upon Cypress' and Ranchero's outstanding shares as of September 30, 2000. It is assumed that all of the outstanding in the money options under Cypress' and Ranchero's stock option plans will be either cashed out or exercised prior to the completion of the Offer.
- (b) Depreciation, depletion and amortization has been adjusted to reflect the pro forma value of capital assets as if the acquisitions had occurred at the beginning of the year.
- (c) Pro forma per trust unit calculations give effect to the issuance of additional trust units of the Trust and exchangeable shares of PrimeWest Resources Ltd. for the acquisition by the Trust of Venator, Reserve Royalty and Cypress (after giving effect to the acquisition of Ranchero by Cypress) as if the trust units and exchangeable shares had been issued at the beginning of the year and the exchangeable shares were exchanged for trust units at that time.
- (d) Cash and non-cash management fees, interest and contribution to the reclamation fund have been calculated assuming the acquisitions by the Trust of Venator, Reserve Royalty and Cypress and the acquisition by Cypress of Ranchero had been completed at the beginning of the year.
- (e) Future income taxes have been recorded pertaining to the purchase of Cypress and Ranchero as at September 30, 2000 using the liability method of accounting for income taxes. Future income taxes have not been recorded in the pro forma consolidated statement of income and cash available for distribution for the nine months ended September 30, 2000 or in the December 31, 1999 pro forma financial statements since the Trust is adopting this new method of accounting on September 30, 2000 for the purpose of the pro forma financial statements.

SCHEDULE C

FINANCIAL STATEMENTS OF RESERVE ROYALTY CORPORATION

AUDITORS' REPORT

TO: The Shareholders of Reserve Royalty Corporation

We have audited the consolidated balance sheets of Reserve Royalty Corporation as at December 31, 1999 and 1998, and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in accordance with generally accepted accounting principles.

(signed) KPMG LLP
Chartered Accountants

Calgary, Alberta
April 14, 2000

RESERVE ROYALTY CORPORATION
CONSOLIDATED BALANCE SHEETS

At December 31

(thousands)		1999	1998
Assets			
Current			
Cash		\$ 275	\$ 200
Marketable securities (market \$17; 1998 - \$1,831)		14	1,831
Accounts receivable		4,247	11,940
Inventory, prepaid expenses and deposits		550	1,444
Notes receivable		-	700
		5,086	16,115
Petroleum and natural gas properties	Note 2	115,979	212,693
		\$ 121,065	\$ 228,808
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities		\$ 6,394	\$ 10,155
Current portion of long-term debt	Note 3	-	38,866
		6,394	49,021
Long-term debt	Note 3	35,055	61,314
Hedging contracts assumed on acquisition	Note 6	-	1,710
Future site restoration provision		382	3,090
		41,831	115,135
Shareholders' equity			
Share capital	Note 4	212,558	212,558
Deficit		(133,324)	(98,885)
		79,234	113,673
		\$ 121,065	\$ 228,808

See accompanying notes to Consolidated Financial Statements.

RESERVE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the Years Ended December 31			
(thousands, except per share amounts)		1999	1998
Resource revenue	\$	21,605	\$ 39,478
Other income (loss)			
Gain (loss) from marketable securities		2,887	(89)
Gas marketing gain (loss)	Note 7	(4,640)	1,066
Interest and other income		76	538
Commodity and exchange hedging losses		(490)	(649)
		19,438	40,344
Expenses			
Administration		(4,308)	(4,172)
Interest and financing		(4,625)	(6,843)
Production		(2,719)	(8,758)
Royalties		(327)	(3,039)
Writedown of marketable securities		-	(1,909)
Writedown of inventory and accounts receivable		-	(819)
Depletion, depreciation and amortization		(11,998)	(21,727)
Writedown of petroleum and natural gas properties		(30,000)	(118,591)
		(53,977)	(165,858)
Loss before income taxes		(34,539)	(125,514)
Provision for income taxes			
Current recovery (expense)		100	(664)
Deferred reduction		-	18,591
		100	17,927
Loss for the year		(34,439)	(107,587)
Retained earnings (deficit), beginning of period		(98,885)	8,702
Deficit, end of period	\$	(133,324)	\$ (98,885)
Loss per common share	\$	(0.34)	\$ (1.10)
Weighted average number of common shares outstanding		102,252	97,533

See accompanying notes to Consolidated Financial Statements.

RESERVE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31

(thousands, except per share amounts)	1999	1998
Net inflow (outflow) of cash related to the following activities:		
Operations		
Loss for the year	\$ (34,439)	\$ (107,587)
Items not affecting cash:		
Writedown of marketable securities	-	1,909
Writedown of inventory and accounts receivable	-	819
Depletion, depreciation and amortization	11,998	21,727
Writedown of petroleum and natural gas properties	30,000	118,591
Deferred income taxes	-	(18,591)
Funds from operations	7,559	16,868
Net change in non-cash working capital items	7,343	(11,030)
Cash provided by operating activities	14,902	5,838
Financing		
Long-term debt repayments	(65,125)	(13,120)
Payment on hedging contracts assumed on acquisition	(1,710)	(617)
Issue of common shares, net of issue costs	-	146
Share purchase loans	-	(340)
Cash provided by financing activities	(66,835)	(13,931)
Investments		
Petroleum and natural gas properties	(4,600)	(20,037)
Proceeds on disposal of petroleum & natural gas properties	56,608	28,318
Cash provided by investing activities	52,008	8,281
Increase in cash during the year	75	188
Cash, beginning of year	200	12
Cash, end of year	\$ 275	\$ 200
Funds from operations per common share:		
Basic	\$ 0.07	\$ 0.17
Fully diluted	\$ 0.07	\$ 0.16

See accompanying notes to Consolidated Financial Statements.

RESERVE ROYALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended December 31, 1999 and 1998

General

The Company's principal activities are the ownership of royalty interests and the production of crude oil and natural gas.

1. Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements of the Company include the accounts of all subsidiary companies. A portion of activities is conducted jointly with others and these financial statements include only the Company's proportionate interest in such activities.

(b) Capital assets

The Company follows the full cost method of accounting for its investment in crude oil and natural gas interests whereby all costs related to the acquisition, exploration and development for production of crude oil and natural gas are capitalized. These costs include those related to the acquisition and retention of royalties, reserves, and mineral rights, geological and geophysical activities, the drilling of productive and non-productive wells, and overhead directly related to exploration, development and acquisition activities. The costs are accumulated on a country by country basis with substantially all of the Company's activities and costs centered in Canada.

Capitalized costs, plus an estimate for future costs associated with proven non-producing interests, are depleted and depreciated using the unit-of-production method based upon production volumes as a proportion of proven reserves after royalties, as estimated by internal and independent engineers. For purposes of depletion and depreciation, proven reserves and production volumes are converted to a common unit of measure on the basis of relative energy content. The carrying value of undeveloped interests is excluded from the depletion and depreciation calculation.

Proceeds on the disposition of interests reduce the accumulated capitalized costs. Gains and losses on the disposition of interests are only recognized where crediting of the proceeds results in a change in the unit depletion and depreciation rate which exceeds 20%.

Estimated future abandonment and site restoration costs for petroleum and natural gas interests are provided for over the life of the proven reserves on a unit-of-production basis. Actual restoration costs are charged to the site restoration provision as incurred.

The net book value of interests is subject to a cost recovery test whereby the net book value, including an estimate for future costs associated with proven non-producing interests, is compared to the estimated future net revenue from proven reserves less a provision for future abandonment and site restoration costs, administration, financing costs, and income taxes. Additional depletion and depreciation is provided where the carrying value exceeds the future recoverable net revenue from the proven reserves. The amounts recorded for depletion, depreciation and amortization of capital assets and the provision for future site restoration, if any, are based on estimates of proved reserves and future costs. The recoverable value of the capital asset is based on a number of factors

RESERVE ROYALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1999 and 1998

including estimated proven reserves, crude oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and the impact on these financial statements and future periods can be material.

(c) Income taxes

The Company follows the deferral method of accounting for income taxes which relates the provision for income taxes to the accounting income for the period. Under the deferral method, the amount by which the tax provision differs from the amount of tax currently payable is considered to represent the deferring to future periods of benefits obtained or expenditures incurred in the current period, and accordingly is computed at current tax rates. The accumulated tax allocation debit or credit is not adjusted to reflect subsequent changes in tax rates.

(d) Stock option plan

The Company has a stock option plan described in note 4c. The Company does not record a compensation expense at the time of granting. Proceeds received on the exercise of stock options are credited to share capital when received.

(e) Per share information

Per share amounts are based on the weighted average number of common shares outstanding. Fully diluted amounts are based on the weighted average number of common shares outstanding adjusted for the inclusion of stock options and warrants which would be dilutive. The calculation of fully diluted amounts include imputed interest on the proceeds that would have been received.

(f) Comparative figures

Certain comparative amounts have been restated to conform with current year presentation.

2. **Petroleum and Natural Gas Properties**

(thousands)	1999	1998
Petroleum and natural gas properties, at cost	\$ 315,333	\$ 370,115
Other equipment	1,360	1,294
Accumulated depletion, depreciation	(200,714)	(158,716)
	\$ 115,979	\$ 212,693

For the year ended December 31, 1999, \$1,639,000 (1998 - \$1,701,000) of administrative expenses directly related to exploration, development, acquisition and divestiture activities were capitalized. At December 31, 1999 undeveloped properties with a carrying value of \$17,057,000 (1998 - \$76,609,000) have been excluded from costs subject to depletion and depreciation. At December 31, 1999, \$60 million of costs associated with unproven properties at December 31, 1998 have been moved into the full cost pool and included in the ceiling test evaluation.

In conducting the December 31, 1999 ceiling test evaluation, the Company determined that the capitalized costs in respect of oil and gas properties exceeded the estimated future net revenues from proven

RESERVE ROYALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended December 31, 1999 and 1998

reserves by \$30 million and a writedown for the same amount has been recorded. At December 31, 1999, the evaluation was performed using the December 1999 prices for the Company of \$34.52 Cdn per barrel for oil and natural gas liquids (based on an average 1999 WTI price of \$26.09 US per barrel), and \$2.35 Cdn per thousand cubic feet for natural gas.

In conducting the December 31, 1998 ceiling test evaluation, the Company determined that the capitalized costs in respect of oil and gas properties exceeded the estimated future net revenues from proven reserves by \$100 million (net of recovery of \$18.6 million of deferred taxes) and a writedown for the same amount has been recorded. At December 31, 1998, the evaluation was performed using average 1998 prices for the Company of \$19.33 Cdn per barrel for oil and natural gas liquids (based on an average 1998 WTI price of \$14.43 US per barrel), and \$1.96 Cdn per thousand cubic feet for natural gas.

The ceiling test is a cost recovery test and is not intended to result in an estimate of fair value.

3. Long term Debt

At December 31, 1999 the Company had a revolving term credit facility of \$39,000,000 with a Canadian chartered bank in accordance with a Credit Agreement dated November 18, 1999. At December 31, 1999, \$35,055,000 had been drawn under this credit facility. The credit facility revolves until May 31, 2000, at which time the revolving period may be extended based on an annual review. The Company has requested a new revolving period extending beyond December 31, 2000. The bank has advised the Company that, subject to possible changes in the Borrowing Base and to the Company satisfying the general conditions and general borrowing reporting conditions of the Credit Agreement, the bank will not require either, that any principal repayments will be required under the credit limit prior to January 1, 2001, or that any demand will be made by the bank for repayments of the credit limit prior to January 1, 2001. Security for the indebtedness is provided by a general assignment of accounts receivable, a demand debenture conveying a first floating charge overall assets, and a registered assignment over oil and gas properties. Interest, at bank prime rate plus 1/8%, in the amount of \$47,986 was paid under this credit facility during 1999.

Subsequent to December 31, 1999, the Company received proceeds of \$6.9 million on the disposal of oil and gas properties. These proceeds were applied to the outstanding bank debt and the authorized credit facility was reduced to \$36,000,000.

At December 31, 1998, the Company had combined credit facilities of \$101,707,212 with two Canadian chartered banks against which \$100,180,000 had been drawn.

A portion of the long term debt at December 31, 1998, was a revolving credit facility of \$19,000,000 against which \$18,080,000 had been drawn. Under conditions at the time, the Company did not expect that principal repayment would be required within the next year. Security for this indebtedness was provided by a general assignment of accounts receivable, a demand debenture conveying a first floating charge over all assets, and a registered assignment over oil and gas properties for the Company and a wholly owned subsidiary. Interest, at bank prime rate plus 1/8 %, in the amount of \$1,118,688 was paid under this credit facility during 1998.

RESERVE ROYALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1999 and 1998

The Company had a non-revolving term loan at December 31, 1998 of \$82,707,212 against which \$82,100,000 had been drawn. The credit facility was repayable with minimum repayments of \$5,067,996 by December 31, 1998, \$2,905,394 by January 8, 1999, \$12,019,818 by February 28, 1999, and \$7,980,182 quarterly from May 31, 1999. Security for this indebtedness was provided by a general assignment of accounts receivable, a demand debenture conveying a first floating charge over all assets, and a registered assignment over oil and gas properties of a wholly owned subsidiary. Interest, at bank prime rate plus 1%, in the amount of \$3,229,748 was paid under these credit facilities during 1998.

4. Share Capital

(a) Authorized:

Unlimited number of common shares

Unlimited number of first preferred shares, non-voting, cumulative dividend of 10% of redemption value, redeemable on or after January 1, 1995 at \$1.00 each plus any unpaid dividends thereon, convertible into common shares at the rate of 1 common share for each \$15.00 of redemption value.

Unlimited number of second and third preferred shares with attributes to be determined by the board of directors.

(b) Issued:

Common shares (all amounts in thousands)	1999		1998	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	102,252	\$ 212,558	57,124	\$ 46,302
Conversion of special warrants ⁽ⁱ⁾		-	45,000	166,426
Share issue costs, net of deferred tax		-		(30)
Exercise of stock options ⁽ⁱⁱ⁾		-	128	200
Share purchase loans ⁽ⁱⁱⁱ⁾		-		(340)
	102,252	\$ 212,558	102,252	\$ 212,558

i. On November 5, 1997, the Company issued 45,000,000 special warrants at a price of \$3.80 per special warrant for gross proceeds of \$171,000,000. These warrants were converted into 45,000,000 common shares between February 3rd and 11th, 1998 pursuant to a prospectus dated January 30, 1998.

ii. A total of 127,834 common shares were issued in 1998 on the exercise of share purchase options which had exercise prices of between \$0.90 and \$2.40.

iii. Share purchase loans of \$340,000 secured by common shares of the Company were recorded as a reduction in share capital in 1998. These loans to officers of the Company are secured by 99,500 common shares of the Company.

(c) Options

Under the Stock Option Plan of the Company, the Board of Directors of the Company or a committee thereof, may allocate non-transferable options to purchase common shares to such directors, officers or employees of the Company, or any other person or company engaged in providing ongoing management or consulting services for the Company, as the Board of Directors may determine from time to time. Options issued pursuant to the Plan will have an exercise price equal to the average price of common shares in respect of all

RESERVE ROYALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1999 and 1998

board lot trades on the TSE on the day such option is granted. The options granted are exercisable one third at time of granting, one third a year after granting, and one third two years after granting. The options expire five years after the date they are granted. A summary of the status of the Company's stock option plan as of December 31, 1999 and changes during the year is presented below:

Fixed Options	1999 Shares	Weighted Avg. Exercise Price
Outstanding, beginning of year	3,491,500	\$ 1.93
Granted	2,643,000	\$ 0.41
Exercised	-	
Forfeited	(568,000)	\$ 1.86
Outstanding, end of year	<u>5,566,500</u>	\$ 0.97

Including the re-pricing of 428,500 employee options from \$1.35 per share to \$0.41 per share in 1999.

Options exercisable at December 31, 1999 3,444,167

The following table summarizes information about the fixed stock options outstanding at December 31, 1999:

Exercise Price	Options Outstanding		Options Exercisable	
	Dec 31-99	Weighted Avg. Remaining Contract Life	Dec 31-99	Weighted Avg. Remaining Contract Life
\$ 0.41	2,769,000	4.6	965,000	4.6
\$ 0.90	850,000	0.9	850,000	0.9
\$ 1.12	250,000	1.4	250,000	1.4
\$ 1.35	862,500	3.7	589,167	3.7
\$ 2.40	200,000	2.4	200,000	2.4
\$ 4.25	635,000	3.0	590,000	3.0
\$ 0.97	<u>5,566,500</u>	3.5	<u>3,444,167</u>	2.9

(d) Warrants

On January 8, 1999, the Company issued 200,000 warrants associated with a financing arrangement. The warrants are exercisable into 200,000 common shares of the Company at \$0.60 per share expiring January 8, 2000. The Warrants expired unexercised on January 8, 2000.

RESERVE ROYALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1999 and 1998

5. Income Tax

The provision for income taxes varies from that calculated by applying the combined statutory Canadian federal and provincial income tax rate to income before tax as follows:

(dollar amounts in thousands)	1999		1998	
Earnings before income taxes	\$	(34,539)	\$	(125,514)
Statutory income tax rate		45%		45%
Expected income tax provision	\$	(15,543)	\$	(56,482)
Effect on taxes of:				
Non-deductible Crown charges, net of ARTC		130		575
Federal resource allowance		(212)		(596)
Non-deductible depletion & ceiling test writedown		13,951		37,740
Non-taxable portion of capital loss (gain)		(504)		172
Unrecognized benefit of losses		2,178		-
Other		(250)		-
Large corporations tax & provincial surtaxes		150		664
	\$	(100)	\$	(17,927)

Oil and gas properties with a net book value of \$20 million (1998 - \$51 million) have no cost basis for income tax purposes arising from the purchase of oil and gas properties through corporate transactions.

6. Financial Instruments

The Company is exposed to fluctuations in commodity prices, interest rates, and exchange rates.

In order to mitigate the exposure to cash flow risk associated with product prices, foreign currency transactions, and interest rates, the Company may be party to certain financial instruments such as commodity futures and swap arrangements, forward exchange contracts and interest rate swap contracts. Except as noted below, these instruments are not reflected in the financial statements at inception, rather payments and receipts from these contracts are recognized as revenues in the same period as the production revenue to which they relate. Payment and receipts under the interest rate swap contracts are reflected as adjustments to interest expense. Financial instruments are subject to fluctuations in price and rates, but by nature of being hedges of an actual or anticipated transaction, any gains or losses are offset by gains or losses on the hedged transaction.

The Company is exposed to losses in the event of non-performance by counter-parties to the financial instruments. The Company deals with major institutions and does not anticipate non-performance by counterparties.

At December 31, 1999, the Company had a hedging contract associated with interest rates which was acquired in a 1997 corporate acquisition and restructured during 1998, and a hedging contract associated with oil prices pursuant to an agreement dated September 22, 1999. At December 31, 1999, a net payment by the Company of \$466,806 would have been required to terminate the open position of the

RESERVE ROYALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended December 31, 1999 and 1998

financial instrument relating to interest rates and a net payment by the Company of \$213,857 would have been required to terminate the open position of the financial instrument relating to oil price.

At December 31, 1998, the Company had hedging contracts associated with exchange rates and interest rates which were acquired in the 1997 corporate acquisition and restructured during 1998. At December 31, 1998, it was estimated that a net payment by the Company of \$5.2 million would have been required to terminate the open position of financial instruments relating to exchange rates, and \$2.0 million to terminate the open position of financial instruments relating to interest rates.

Hedging contracts which are acquired as part of the purchase of a subsidiary are valued at the date of the acquisition, and the resulting asset or liability is reduced over the period of the hedging contract. As at December 19, 1997, with the acquisition of Jordan, and at December 31, 1997, it was estimated that net payment by the Company of \$2.3 million would have been required to terminate the open positions of financial instruments relating to natural gas prices, exchange rates, and interest rates. The estimated net market value of hedging contracts assumed on acquisition at December 19, 1997 was recorded as a liability on the balance sheet. The liability set up December 19, 1997 was settled with payments by the Company of \$617,057 in 1998, and \$1,710,300 in 1999.

(a) Foreign currency risk management

At December 31, 1999 the Company had no outstanding hedging commitments associated with exchange rates.

At December 31, 1998 the Company had a forward exchange swap transaction for a period ending December 31, 1999, with an option for the counterparty to extend to December 31, 2001, whereby \$1,000,000 US per month has been sold forward at a rate of 1.3952.

(b) Interest rates risk management

At December 31, 1998 and 1999 the Company had an interest rate swap for a period ending May 22, 2002, with an option for the counterparty to extend to May 25, 2004, whereby the interest rate on \$25 million has been fixed at 6.48%.

(c) Oil price risk management

At December 31, 1999 the Company had an oil price swap for a period ending September 30, 2000, whereby 350 barrels per day of oil is sold forward at a price of \$30.60 per barrel.

(d) Credit risk management

Accounts receivable include amounts receivable from oil and gas sales. These sales are generally made to large, credit worthy purchasers. The Company views the credit risks on these items as low. Amounts receivable from royalty payers and joint venture partners are secured by production or debentures and, accordingly, the Company views credit risks as minimal.

(e) Fair values of financial instruments

RESERVE ROYALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended December 31, 1999 and 1998

Accounts receivable, accounts payable, and accrued liabilities have carrying values that approximate fair value due to the near term maturity of these financial instruments. Portfolio investments are carried at cost, and their quoted market value at year-end is disclosed. Long-term debt, all of which is subject to floating interest rates, has a carrying value that approximates fair value.

7. Gas Delivery Contracts

At December 31, 1999 subsidiaries of the Company have contracts to deliver natural gas in excess of current natural gas production of approximately 9,500 GJ's per day. These contracts have expiry dates from October 2000 to October 2007.

With respect to the delivery of natural gas, the Company contracted in December 1999 to buy 4,000 GJ's per day from January to October 2000 for the filling of a fixed price contract which expires October 31, 2000. The difference between the fixed sales price and the contracted supply price has been recorded as a current liability at December 31, 1999 of \$1,573,800. This liability will be settled monthly from January to October 2000. The remaining 5,500 GJ's per day of contracted volume in excess of current natural gas production relates to a contract to deliver natural gas into the Northeastern U.S. At December 31, 1999 it was estimated that \$419,354 would have been received by the Company to terminate the natural gas delivery contract.

At December 31, 1998 subsidiaries of the Company had contracts to deliver natural gas in excess of current natural gas production of approximately 22,800 GJ's per day. These contracts have expiry dates from October 2000 to October 2007. At December 31, 1998 it was estimated that a net payment by the Company of \$10.5 million would have been required to terminate excess natural gas delivery contracts. The expected settlement amount for these contracts had been recognized in the ceiling test evaluation of petroleum and natural gas properties as a reduction.

The excess gas delivery contracts are principally related to the delivery of natural gas into the Northeastern U.S. and are priced based on those markets on a month to month basis. The natural gas required to fill these excess delivery contracts is purchased based on the Alberta market. The net differential in pricing between the Northeastern U.S. markets and the Alberta market generates a gas marketing gain or loss. The Company reported a loss of \$4,639,914 for 1999, including the loss relating to the gas supply contract for the fixed price sales contract which expires at the end of October 2000, and a gain of \$890,889 for 1998 related to this activity.

RESERVE ROYALTY CORPORATION
CONSOLIDATED BALANCE SHEET
(Unaudited)

(thousands)	June 30, 2000
Assets	
Current	
Marketable securities	\$ 3
Accounts receivable	4,194
Inventory, prepaid expenses and deposits	527
	4,724
Petroleum and natural gas properties	103,680
	\$ 108,404
Liabilities and Shareholders' Equity	
Current	
Bank indebtedness	\$ 195
Accounts payable and accrued liabilities	3,100
	3,295
Long-term debt	27,030
Future site restoration provision	399
Future income taxes	12,360
	43,084
Shareholders' equity	
Share capital (102,459,000 shares outstanding)	212,656
Deficit	(147,336)
	65,320
	\$ 108,404

See accompanying notes to Consolidated Financial Statements.

RESERVE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited)

For the Six Months Ended June 30 (thousands, except per share amounts)	2000	1999
Resource revenue	\$ 9,786	\$ 12,133
Other income (loss)		
Gas marketing gain (loss)	(533)	(1,554)
Interest and other income	52	13
Commodity and exchange hedging losses	(731)	(281)
	8,574	10,311
Expenses		
Administration	(2,545)	(1,910)
Interest and financing	(1,255)	(2,713)
Production	(636)	(1,793)
Royalties	(189)	(223)
Depletion, depreciation and amortization	(5,563)	(6,820)
	(10,188)	(13,459)
Loss before income taxes	(1,614)	(3,148)
Provision for income taxes		
Current expense	(38)	(186)
Future recovery (Note 1)	556	
	518	(186)
Loss for the period	(1,096)	(3,334)
Change in accounting policy (Note 1)	(12,916)	
Deficit, beginning of period	(133,324)	(98,885)
Deficit, end of period	\$ (147,336)	\$ (102,219)
Loss per common share	\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding	102,379	102,252

See accompanying notes to Consolidated Financial Statements.

RESERVE ROYALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Six Months Ended June 30 (thousands, except per share amounts)	2000	1999
Net inflow (outflow) of cash related to the following activities:		
Operations		
Loss for the period	\$ (1,096)	\$ (3,334)
Items not affecting cash:		
Depletion, depreciation and amortization	5,563	6,820
Future income taxes	(556)	
Funds from operations	3,911	3,486
Net change in non-cash working capital items	(3,208)	3,547
Cash provided by operating activities	703	7,033
Financing		
Long-term debt	(8,025)	(54,969)
Issuance of share capital	98	
Payment on hedging contracts assumed on acquisition		(1,710)
Cash provided by financing activities	(7,927)	(56,679)
Investments		
Petroleum and natural gas properties	(680)	(2,196)
Proceeds on disposal of petroleum & natural gas properties	7,434	51,849
Cash used in investing activities	6,754	49,653
Increase (decrease) in cash during the period	(470)	7
Cash, beginning of period	275	200
Cash (bank indebtedness), end of period	\$ (195)	\$ 207
Funds from operations per common share:		
Basic	\$ 0.04	\$ 0.03
Fully diluted	\$ 0.04	\$ 0.03

See accompanying notes to Consolidated Financial Statements.

RESERVE ROYALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Six Months Ended June 30, 2000 and 1999 (Unaudited)

1. Change in Accounting Policy

In the first quarter of 2000, the Company changed its policy on accounting for income taxes. Effective January 1, 2000, the liability method was adopted; prior thereto, the Company followed the deferral method. The new method was applied retroactively without restatement of prior period financial statements. At January 1, 2000, a future income tax liability was recorded for \$12,916,000 and retained earnings was decreased by \$12,916,000. These adjustments were a result of the future tax cost recognition where the tax base of acquired companies was less than the acquisition cost. The effect of adopting the policy on the six month period ended June 30, 2000 was to increase net income by \$416,400 to recognize the decrease in income tax rates during the period and the recovery of future income taxes from the utilization of current period losses.

2. Subsequent Event

On July 27, 2000, the Company was amalgamated with its subsidiary companies and continued under the name Reserve Royalty Corporation. Immediately following this amalgamation, approximately 97% of the outstanding common shares of the Company were acquired by PrimeWest Royalty Corp. by way of a takeover bid circular. The remaining shares of the Company were acquired by way of a compulsory acquisition pursuant to the *Business Corporations Act* (Alberta). Subsequent to this transaction, the Company was amalgamated with PrimeWest Royalty Corp. and continued under the name PrimeWest Royalty Corp.

The Depository for the Offer is Computershare Trust Company of Canada

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