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**INFORMATION CIRCULAR
AND PROXY STATEMENT OF
ULSTER PETROLEUMS LTD.
AND
CANADIAN WESTGROWTH LTD.
SEPTEMBER 25, 1987**

HOWARD ROSS LIBRARY OF MANAGEMENT
McGILL UNIVERSITY
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ABBREVIATIONS

The following is a list of certain of the abbreviations and their definitions utilized in this Information Circular and Proxy Statement:

- (a) "bbl" means a barrel of oil comprising 34.972 imperial gallons or 42 U.S. gallons; "mbbl" means a thousand bbl.
- (b) "bopd" means a bbl of oil production per day.
- (c) "BCA" means the *Business Corporations Act (Alberta)*.
- (d) "/d" means per day.
- (e) "Effective Date" means the Effective Date referred to in the Arrangement Agreement dated September 21, 1987, made between Ulster and Westgrowth attached as Appendix I.
- (f) "mcf" means a thousand cubic feet of natural gas; "mmcf" means a million cubic feet of natural gas; "bcf" means a billion cubic feet of natural gas.
- (g) "Interim Order" means the Order of the Court of Queen's Bench dated September 23, 1987.
- (h) "NGL" means natural gas liquids.
- (i) "Special Meetings" means collectively the Ulster Special Meeting and the Westgrowth Special Meeting.
- (j) "Ulster" means Ulster Petroleum Ltd.
- (k) "Ulster Common Shares" means the common voting shares in the capital of Ulster.
- (l) "Ulster Debentures" means the Convertible Debentures (unsecured and redeemable) of Ulster.
- (m) "Ulster Preferred Shares" means the first preferred shares in the capital of Ulster.
- (n) "Ulster Special Meeting" means the Special Meeting of the holders of the Ulster Common Shares to be held on the 23rd day of October, 1987.
- (o) "Ulster Warrants" means the warrants to purchase Ulster Common Shares which will be issued to Westgrowth warrant holders in conjunction with the Plan of Arrangement.
- (p) "Westgrowth" means Canadian Westgrowth Ltd.
- (q) "Westgrowth Common Shares" means the common shares in the capital of Westgrowth.
- (r) "Westgrowth Preferred Shares" means the First Preferred Shares in the capital of Westgrowth.
- (s) "Westgrowth Special Meeting" means the Special Meeting of the holders of the Westgrowth Common Shares to be held on the 23rd day of October, 1987.
- (t) "Westgrowth Warrants" means the warrants to purchase Westgrowth Common Shares in accordance with the warrant indenture dated November 24, 1986 made between Westgrowth and National Trust Company.

**INFORMATION CIRCULAR AND PROXY STATEMENT OF
ULSTER PETROLEUMS LTD. AND
CANADIAN WESTGROWTH LTD.
SEPTEMBER 25, 1987**

SOLICITATION OF PROXIES

THIS INFORMATION CIRCULAR AND PROXY STATEMENT IS FURNISHED IN CONNECTION WITH THE SOLICITATION OF PROXIES BY MANAGEMENT OF EACH OF ULSTER AND WESTGROWTH IN RESPECT OF THEIR RESPECTIVE SPECIAL MEETINGS OF SHAREHOLDERS TO BE HELD ON OCTOBER 23, 1987, AT THE TIME AND PLACE AND FOR THE PURPOSES SET FORTH IN THEIR RESPECTIVE NOTICES OF SPECIAL MEETING ACCOMPANYING THIS INFORMATION CIRCULAR AND PROXY STATEMENT. Solicitation is to be made by mail and may be made personally, by telephone or otherwise by the respective directors, officers and employees of Ulster or Westgrowth who will not be additionally compensated therefor. Ulster and Westgrowth will each bear the cost of their respective solicitations.

JOINT INFORMATION CIRCULAR AND PROXY STATEMENT

This information circular and proxy statement has been prepared, based upon information supplied by Ulster and Westgrowth. The information contained herein, as it pertains to Ulster, has been provided by management of Ulster and the information contained herein, as it pertains to Westgrowth, has been provided by management of Westgrowth.

Pursuant to the Arrangement Agreement, Ulster and Westgrowth have represented and warranted to each other that such information is true, correct and complete in all material respects and does not contain any misrepresentation within the meaning of the *Securities Act* (Alberta).

In addition, Ulster and Westgrowth have agreed to indemnify and save harmless the other, and any of their respective directors, officers and employees from any and all claims, damages, judgments, losses, costs, charges, expenses and suits which the respective company or any of its directors, officers or employees may sustain, incur or be liable for and which arise directly or indirectly from any misrepresentation, as defined in the *Securities Act* (Alberta), contained in such information.

APPOINTMENT AND REVOCATION OF PROXIES

Shareholders will each receive a form of proxy accompanying their respective notice of Special Meeting and this Information Circular and Proxy Statement. Any shareholder who executes a form of proxy and delivers it to either Ulster or Westgrowth, as the case may be, or their respective registrar and transfer agent, being The Canada Trust Company, 505 - 3rd Street S.W., Calgary, Alberta, T2P 3E6, in respect of Ulster, and National Trust Company, 1008, 324 - 8th Avenue S.W., Calgary, Alberta, T2P 3B2 in respect of Westgrowth, may revoke such appointment in any manner permitted by law, including by depositing an instrument in writing, executed by such holder or his attorney duly authorized in writing, at the office of Westgrowth at 1400, 144 - 4th Avenue S.W., Calgary, Alberta, T2P 3N4 or Ulster at 500, 700 - 4th Avenue S.W., Calgary, Alberta, T2P 3J4, as the case may be, on or before the last business day preceding the date of the respective Special Meeting or any adjournment thereof, or with the Chairman of the respective Special Meeting on the day thereof or any adjournment thereof.

A PERSON OR CORPORATION SUBMITTING A FORM OF PROXY SHALL HAVE THE RIGHT TO APPOINT A PERSON TO REPRESENT HIM OR IT AT THE RESPECTIVE SPECIAL MEETING OTHER THAN THE PERSONS DESIGNATED IN THE FORM OF PROXY FURNISHED BY WESTGROWTH OR ULSTER. SUCH APPOINTMENT MAY BE EXERCISED BY INSERTING THE NAME OF THE APPOINTED REPRESENTATIVE IN THE BLANK SPACE PROVIDED.

EXERCISE OF DISCRETION BY PROXIES

All shares represented at either Special Meeting by properly executed proxies will be voted and where a choice with respect to any matter to be acted upon has been specified in the form of proxy the shares represented by the proxy will be voted in accordance with such specification. **IN THE ABSENCE OF SUCH SPECIFICATION, SUCH SHARES, IN THE CASE OF WESTGROWTH, WILL BE VOTED FOR THE PROPOSED SPECIAL RESOLUTION, APPROVING AND AGREEING TO THE PLAN OF ARRANGEMENT INVOLVING WESTGROWTH AS DESCRIBED BELOW AND, IN THE CASE OF ULSTER, FOR THE ORDINARY AND SPECIAL RESOLUTIONS, AS DESCRIBED BELOW.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the applicable notices of Special Meeting and with respect to other matters which may properly come before the

Special Meetings or any adjournments thereof. At the time of printing of this Information Circular and Proxy Statement, management of Westgrowth and management of Ulster know of no such amendment, variation or other matter. If any matters which are not now known should properly come before the respective Special Meetings, the persons named in the proxy will vote on those matters in accordance with their best judgment.

VOTING OF SHARES

Shareholders of Ulster or Westgrowth of record on September 29, 1987 (the last business day preceding the date of mailing of the notices of Special Meeting) shall be entitled to attend their respective Special Meeting and vote thereat on the basis of one vote for each share held and carrying the right to vote thereat, except to the extent that (i) a shareholder has transferred the ownership of any of his shares after that date, and (ii) the transferee of those shares produces properly endorsed share certificates, or otherwise establishes that he owns the shares and demands, not later than 10 days before the respective Special Meeting, that his name be included in the list of shareholders entitled to vote at the respective Special Meeting, in which case, the transferee shall be entitled to vote his shares at the respective Special Meeting. The registers of transfers will not be closed.

SPECIAL MEETINGS

The following is certain information with respect to each of the Special Meetings.

MATTERS TO BE ACTED UPON AT THE WESTGROWTH SPECIAL MEETING

The Westgrowth Special Meeting has been called, pursuant to the Interim Order, in order that the holders of Westgrowth Common Shares may consider and, if thought advisable, pass a special resolution in the form set forth in Appendix II to this Information Circular and Proxy Statement, approving and agreeing to an Arrangement Agreement dated September 21, 1987 between Westgrowth and Ulster (the "Arrangement Agreement") and a Plan of Arrangement concerning Westgrowth and the holders of Westgrowth Common Shares (the "Plan of Arrangement") pursuant to Section 186 of the BCA. (See "Plan of Arrangement".)

The special resolution to be passed at the Westgrowth Special Meeting must be passed by a majority of not less than 2/3 of the votes cast by the Westgrowth shareholders who vote in respect of the special resolution.

Westgrowth is authorized to issue two classes of shares, each without nominal or par value, namely Common Shares ("Westgrowth Common Shares") and First Preferred Shares ("Westgrowth Preferred Shares") issuable in one or more series. 8,245,386 Westgrowth Common Shares and no Westgrowth Preferred Shares are presently issued and outstanding.

The holders of the Westgrowth Common Shares are entitled to one vote for each Westgrowth Common Share held, at the Westgrowth Special Meeting. A quorum at the Westgrowth Special Meeting will consist of two persons present in person, each being a shareholder entitled to vote thereat or a duly appointed proxyholder or representative for a shareholder so entitled, holding or representing not less than 5% of the Westgrowth Common Shares.

The principal holders of Westgrowth Common Shares are provided in a following segment herein. (See "Principal Holders of Westgrowth Common Shares".)

MATTERS TO BE ACTED UPON AT THE ULSTER SPECIAL MEETING

The Ulster Special Meeting has been called in order that the holders of Ulster Common Shares may consider and, if thought advisable:

- (1) pass the ordinary resolution in the form set forth in Appendix III to this Information Circular and Proxy Statement: (A) approving the issuance of the Ulster Common Shares in connection with the Plan of Arrangement (see "Required Ulster Vote"); and (B) electing the nominees as set forth in this Information Circular and the Proxy Statement as additional directors of Ulster;
- (2) pass the ordinary resolution set forth in Appendix III to this Information Circular and Proxy Statement approving the amendment to the Stock Option Plan of Ulster (see "Ulster Stock Option Plan"); and
- (3) pass the special resolution set forth in Appendix IV to this Information Circular and Proxy Statement increasing the maximum number of authorized Ulster Common Shares to an unlimited number. (See "Increase in Ulster's Share Capital".)

The ordinary resolutions to be passed at the Ulster Special Meeting must be passed by a majority of the votes cast by the holders of the Ulster Common Shares who vote in respect thereof.

The special resolution to be passed at the Ulster Special Meeting must be passed by a majority of not less than 2/3 of the votes cast by the Ulster shareholders who voted in respect of the special resolution.

Ulster is authorized to issue two classes of shares, each without nominal or par value, namely common voting shares ("Ulster Common Shares") and first preferred shares ("Ulster Preferred Shares"). 16,994,995 Ulster Common Shares and no Ulster Preferred Shares are presently issued and outstanding.

The holders of the Ulster Common Shares are entitled to one vote for each Ulster Common Share held, at the Ulster Special Meeting.

Not less than three shareholders represented in person or by proxy constitutes a quorum at the Ulster Special Meeting.

To the knowledge of the directors and officers of Ulster, no person or company beneficially owns or exercises control or discretion over more than 10% of the votes attaching to the Ulster Common Shares as at September 25, 1987.

THE PLAN OF ARRANGEMENT

Effective September 21, 1987 Ulster and Westgrowth entered into the Arrangement Agreement, a copy of which appears as Appendix I herein. The Plan of Arrangement is attached as Exhibit I to the Arrangement Agreement.

EFFECT OF THE PLAN OF ARRANGEMENT

Under the terms of the Plan of Arrangement, it is proposed that the holders of Westgrowth Common Shares will exchange all of their Westgrowth Common Shares for Ulster Common Shares on the basis of 1.5 Ulster Common Shares for every 1 Westgrowth Common Share.

The proposed share exchange shall be deemed to occur on the Effective Date of the Plan of Arrangement as defined therein, which is expected to be October 27, 1987, if all conditions to effect the Plan of Arrangement have been satisfied or waived. On such date, Westgrowth will become a wholly-owned subsidiary of Ulster.

Westgrowth has 1,528,843 warrants outstanding as at September 25, 1987. Each warrant entitles the holder to purchase one Westgrowth Common Share at a price of \$5.00 per share. These warrants expire on November 30, 1991.

As a consequence of the Plan of Arrangement, pursuant to the terms of the Warrant Trust Indenture dated November 24, 1986 between Westgrowth and National Trust Company, the holders of certificates of Westgrowth Warrants will be entitled to receive certificates for equivalent Ulster Warrants and letters of transmittal to facilitate the exchange of certificates will be mailed to warrant holders. Each Ulster Warrant will enable the holder to acquire 1.5 Ulster Common Shares for a consideration of \$5.00 on or before November 30, 1991.

Mr. Donne Traxel will remain as president of Ulster and representatives of Westgrowth's two major shareholders will be nominated to serve on the Board of Directors of Ulster. (See "Election of Additional Directors.")

REASONS FOR THE PLAN OF ARRANGEMENT

Although Ulster and Westgrowth are both financially solid junior exploration companies with significant oil and gas reserves and future production bases, the management and directors of both companies believe that implementation of the Plan of Arrangement will create a company which can:

- (i) maximize the return from its existing investments in oil and gas properties;**
- (ii) compete within the industry on a much broader and higher percentage interest basis due to its financial strength and technical expertise; and**
- (iii) provide better stock market exposure for the shareholders.**

EXCHANGE RATIO

The exchange ratio provided for in the Plan of Arrangement was negotiated at arm's length between the management of Westgrowth and the management of Ulster and was subsequently approved by the boards of directors of Westgrowth and Ulster. The exchange ratio was determined on the basis of many factors, including the respective party's assessment of the value of the oil and gas assets owned by each company, the financial status of each company, the present and forecast income tax position of each company, the trading prices of the securities involved and an assessment of the future prospects of the respective companies.

RECOMMENDATION OF THE BOARDS OF DIRECTORS

On September 9, 1987, the Boards of Directors of Westgrowth and Ulster approved the Plan of Arrangement in principle. The Boards of Directors of Ulster and Westgrowth have approved the execution of the Arrangement Agreement which provides for the Plan of Arrangement. In granting their approval, the Boards considered, among other things, the effect of the Plan of Arrangement on the respective holders of Westgrowth Common Shares and Ulster Common Shares.

IN LIGHT OF THE FOREGOING, THE BOARDS OF DIRECTORS OF WESTGROWTH AND ULSTER RECOMMEND THAT THE RESPECTIVE HOLDERS OF WESTGROWTH COMMON SHARES AND ULSTER COMMON SHARES VOTE “FOR” THEIR RESPECTIVE RESOLUTIONS.

CONDITIONS TO IMPLEMENTATION OF THE PLAN OF ARRANGEMENT

The obligations of Westgrowth and Ulster to consummate the transactions contemplated by the Arrangement Agreement and the Plan of Arrangement shall be subject to fulfillment, on or before the Effective Date, of certain conditions. Reference is made to the Arrangement Agreement for the full text of the conditions, including the following:

- (i) Court approval of the Plan of Arrangement on or before December 31, 1987;
- (ii) Approval by the Shareholders of Westgrowth of the Plan of Arrangement on or before December 31, 1987;
- (iii) Approval by the Shareholders of Ulster of the issuance of the Ulster Common Shares pursuant to the Arrangement Agreement on or before December 31, 1987.

REQUIRED WESTGROWTH VOTE AND COURT APPROVAL

The Plan of Arrangement is proposed pursuant to Section 186 of the BCA. The following procedural steps must be taken under the BCA for the Plan of Arrangement to become effective:

- (a) the Plan of Arrangement must be approved and agreed to by a special resolution of the holders of Westgrowth Common Shares, passed by a majority of at least two-thirds of the votes cast by the shareholders who vote in respect of the said resolution at the Westgrowth Special Meeting (See Appendix II);
- (b) the Plan of Arrangement must be approved by the Court of Queen’s Bench of Alberta (“Court”) following Westgrowth shareholder approval. In hearing Westgrowth’s application, the Court may, among other things, approve the Plan of Arrangement either as presented or subject to compliance with such terms and conditions as the Court thinks fit having regard to the rights and interests of the creditors and shareholders affected. The hearing of the application for such order approving the Plan of Arrangement will be held at 2:00 o’clock in the afternoon (Calgary time) on October 26, 1987 at the Courthouse, 611 - 4th Street S.W., Calgary, Alberta. All shareholders of Westgrowth have the right to appear in person or by counsel and to make submissions at that hearing. (See “Rights of Westgrowth Shareholders”) and
- (c) the order approving the Plan of Arrangement and the articles of arrangement must be filed with the Registrar of Corporations for Alberta. The order must be filed within the time specified therein, otherwise it becomes null and void.

THE LOCK-UP AGREEMENTS

United Helicopters Ltd., Imasco Limited and Edmalec Holdings Ltd., representing shareholders who beneficially own, in the aggregate, approximately 65% of the Westgrowth Common Shares have entered into agreements with Ulster (the “Lock-up Agreements”) pursuant to which such shareholders have agreed, among other things, to vote all of the shares under their control in favour of the Plan of Arrangement and the Arrangement Agreement.

RIGHTS OF WESTGROWTH SHAREHOLDERS

Holders of Westgrowth Common Shares have the right to attend and vote at the Westgrowth Special Meeting. All holders of Westgrowth Common Shares have the right to attend and be heard by the Court at the hearing at which the Court will be asked to approve the Plan of Arrangement.

Shareholders of Westgrowth do not have, in respect of the Plan of Arrangement, dissenting rights pursuant to Section 184 of the BCA to have their shares appraised and to receive the fair value thereof. Any Westgrowth shareholder desiring to oppose the making of an order approving the Plan of Arrangement may appear at the time of the hearing in person or by counsel for that purpose. If such shareholder does not attend such hearing in person or by counsel, at that time, the Court may approve the Plan of Arrangement as presented or may approve it subject to such terms and conditions as the Court shall deem fit.

The hearing shall be held before Mr. Justice G. R. Forsyth, at the Court House, 611 - 4th Street S.W., Calgary, Alberta on the 26th day of October, 1987 at the hour of 2:00 o'clock in the afternoon, or so soon thereafter as counsel may be heard.

REQUIRED ULSTER VOTE

Approval of Issuance of Common Shares

Ulster is listed on The Toronto Stock Exchange. The Toronto Stock Exchange requires a listed company to obtain the approval of its shareholders prior to the issuance of shares in excess of 25% of the number of shares issued by such company (on a non-diluted basis) prior to giving effect to such a transaction. As the number of Ulster Common Shares to be issued to holders of Westgrowth Common Shares exceeds the 25% limit, The Toronto Stock Exchange has conditionally approved the issuance of Ulster Common Shares to holders of Westgrowth Common Shares pursuant to the Plan of Arrangement, subject to approval of such issuance by the shareholders of Ulster and receipt by The Toronto Stock Exchange of the necessary documentation. The resolution must be approved by a majority of votes cast, in person or by proxy, at the Ulster Special Meeting. The full text of the ordinary resolution regarding the approval of issuance of common shares is set forth in Appendix III.

Election of Additional Directors

In recognition of the increase in size of Ulster as a result of the Plan of Arrangement, it is proposed that the Board of Directors of Ulster be increased from 3 to 5 persons.

The additional persons proposed for election to the Board of Directors of Ulster are John A. Howard, Financial Director, Bristow Helicopters Limited, Sussex, England, and Roy R. Schwartz, Vice-President, Corporate Development, Imasco Limited, Montreal, Quebec. Mr. Howard and Mr. Schwartz are each current Directors of Westgrowth. (See "Management of Westgrowth".)

The following information is submitted for each individual nominated for election as an additional director of Ulster and each other individual whose term of office as a director of Ulster will continue after the Ulster Special Meeting:

<u>Name and Principal Occupation of Each Director of Ulster whose Term of Office will Continue after the Ulster Special Meeting</u>	<u>Date First Became a Director</u>	<u>Shares of Ulster Beneficially Owned as at September 25, 1987</u>
Donne C. Traxel* President of Ulster	1977	531,000 common shares
Bruce A. Macdonald* President, TransCanada Resources Ltd.	1976	85,000 common shares
Derek C. Martin* Lawyer Partner in Code Hunter	1981	119,488 common shares

*Member of the Audit Committee

<u>Name and Residence of Nominees as Additional Directors of Ulster</u>	<u>Present Principal Occupation</u>	<u>Shares of Ulster Beneficially Owned as at September 25, 1987</u>
John A. Howard Sussex, England	Financial Director, Bristow Helicopters Limited	Nil
Roy R. Schwartz Montreal, Quebec	Vice-President, Corporate Development Imasco Limited	Nil

Note: The information as to shares owned by each continuing and additional director, not being within the knowledge of management, has been furnished by such nominee.

Mr. Howard and Mr. Schwartz have been engaged for more than five years in their present principal occupation or in other executive capacities with the companies with which they are presently associated or with affiliates thereof.

The term of office for the existing directors and for the proposed directors shall expire at the next Annual Meeting of shareholders of Ulster or the date that their respective successors have been elected. The full text of the ordinary resolution regarding the election of additional directors is set forth in Appendix III.

VARIATION OF THE PLAN OF ARRANGEMENT

After this Information Circular and Proxy Statement has been mailed to shareholders, Westgrowth and Ulster may, by resolution of their respective Board's, assent to any alteration, modification or condition to the Plan of Arrangement that the Court may think fit to approve or impose, provided that such alteration, modification or condition does not affect the number of Ulster Common Shares to be received by holders of the Westgrowth Common Shares.

SHARE CERTIFICATES

On the Effective Date holders of Westgrowth Common Shares will become holders of Ulster Common Shares, and share certificates representing Westgrowth Common Shares shall represent only the right to receive certificates for Ulster Common Shares. As soon as practicable after the Effective Date a letter of transmittal containing instructions with respect to the surrender of Westgrowth Common Share certificates will be furnished to former Westgrowth Common Shareholders for use in exchanging their certificates. Upon the receipt of a properly completed letter of transmittal, together with the applicable Westgrowth Common Share certificates, the holders of Westgrowth Common Shares will be issued certificates for the appropriate number of Ulster Common Shares. After the Effective Date, if a certificate representing such shares is presented for transfer, a certificate representing the appropriate number of Ulster Common Shares will be issued.

FRACTIONAL SHARES

No share certificates representing fractional Ulster Common Shares will be issued. In the event that the exchange ratio would otherwise result in a registered Westgrowth shareholder being entitled to a fractional Ulster Common Share, an adjustment will be made to the next higher whole Ulster Common Share and a certificate for the resulting whole number of Ulster Common Shares will be issued.

ALBERTA STOCK SAVINGS PLAN CONSIDERATIONS FOR CERTAIN WESTGROWTH SHAREHOLDERS

Generally, an investor who withdraws eligible shares from a stock savings plan at any time within the two years following the year in which the shares were contributed to the plan will be required to repay the stock savings plan tax credit unless the investor has acquired in substitution therefor eligible shares having at least the same tax credit value. Shareholders of Westgrowth who have contributed Westgrowth Common Shares to a stock savings plan and who receive Ulster Common Shares pursuant to the Plan of Arrangement will be considered not to have disposed of their Westgrowth Common Shares from the stock savings plan if the share certificate evidencing the Ulster Common Shares is remitted directly by Ulster to the qualified dealer holding the Westgrowth Common Shares or it is issued and registered by Ulster in the name of the qualified dealer or of a person designated by the qualified dealer. Where this condition is satisfied, the Ulster Common Shares are considered to be eligible shares that were included in the stock savings plan of the eligible investor at the same time and at the same cost as the Westgrowth Common Shares.

FEDERAL INCOME TAX CONSEQUENCES

In the opinion of Code Hunter, counsel for Ulster, and Macleod Dixon, counsel for Westgrowth, the following is a fair summary of the principal Canadian federal income tax consequences generally applicable to a holder of Westgrowth Common Shares or Westgrowth Warrants arising from the transactions contemplated by the Plan of Arrangement. As to the Westgrowth Common Shares, this summary is applicable only to a holder of Westgrowth Common Shares who is resident in Canada, who holds such shares as capital property and who will acquire and hold the Ulster Common Shares as capital property all within the meaning of the *Income Tax Act* (Canada) (the "Income Tax Act"). Furthermore, this summary is applicable only to a holder of Westgrowth Common Shares who deals with Ulster at arm's length under the Income Tax Act and who does not, immediately after the exchange contemplated herein, either alone or with persons with whom the holder does not deal at arm's length, control Ulster, either directly or indirectly, or beneficially own shares of Ulster having a fair market value in excess of 50% of the fair market value of all outstanding shares of Ulster. As to the Westgrowth Warrants, this summary is applicable to a holder of Westgrowth Warrants who is resident in Canada and who holds such warrants as capital property and who will acquire and hold the Ulster Warrants as capital property all within the meaning of the Income Tax Act.

This summary is based upon the current provisions of the Income Tax Act, the Regulations thereunder and counsel's understanding of the current administrative policies and practices of the Department of National Revenue. This summary also takes into account Bill C-64 which received second reading in the House of Commons on June 30, 1987 (the "Bill"). It has been assumed for the purposes of this summary that the provisions

contained in the Bill will become law although no assurances can be given in that regard. **On June 18, 1987 certain tax reform proposals (the "Tax Reform Proposals") were introduced in the House of Commons by the Minister of Finance.** These proposals are complex and generally broadly worded and draft legislation has not been published for many of the proposals. This summary does not assume that the Tax Reform Proposals will be enacted as proposed, but where such proposals are relevant to this summary the proposed effect of the Tax Reform Proposals is summarized. No assurances can be given that the Tax Reform Proposals will be enacted in their present form or at all. Except for the Bill and the Tax Reform Proposals and where otherwise indicated, this summary does not consider any proposed or possible change in law, whether by legislative or judicial action, and does not consider the potential applicability of the income tax laws of any province in Canada or of any foreign country.

THIS SUMMARY DOES NOT AND IS NOT INTENDED TO CONSTITUTE LEGAL OR INCOME TAX ADVICE TO ANY PARTICULAR HOLDER OF WESTGROWTH COMMON SHARES OR WESTGROWTH WARRANTS. ACCORDINGLY, EACH HOLDER OF WESTGROWTH COMMON SHARES OR WESTGROWTH WARRANTS IS ENCOURAGED TO CONSULT A TAX ADVISOR WITH RESPECT TO HIS PARTICULAR CIRCUMSTANCES AND THE FEDERAL AND PROVINCIAL INCOME TAX CONSEQUENCES TO SUCH HOLDER OF THE PLAN OF ARRANGEMENT.

Tax Consequences to Holders of Westgrowth Common Shares

In summary, the exchange of Westgrowth Common Shares for Ulster Common Shares may be treated by a holder of Westgrowth Common Shares as a non-taxable rollover. The Ulster Common Shares acquired will have the same adjusted cost base as the Westgrowth Common Shares exchanged. However, holders of Westgrowth Common Shares who report any capital gain or loss on the exchange of shares in their income tax returns will not be able to claim the benefit of the non-taxable rollover.

A holder of Westgrowth Common Shares desiring to take advantage of the non-taxable rollover may treat the exchange of Westgrowth Common Shares for Ulster Common Shares as being a disposition of the Westgrowth Common Shares for proceeds of disposition equal to the adjusted cost base of such Westgrowth Common Shares, in which case no capital gain or loss will be realized on the exchange. The aggregate cost to the holder of the Ulster Common Shares received on the exchange will equal the aggregate adjusted cost base of the exchanged Westgrowth Common Shares computed immediately before the exchange. No election form is required by the Income Tax Act to be filed in connection with the exchange of Westgrowth Common Shares for Ulster Common Shares.

However, if a holder, in the holder's income tax return for the taxation year in which the exchange occurs, includes in computing income any portion of the capital gain or loss otherwise determined (which capital gain or loss will, subject to certain specific provisions in the Income Tax Act, be the amount by which the fair market value on the Effective Date of the Ulster Common Shares exceeds, or is exceeded by, the aggregate of expenses related to the disposition and the adjusted cost base to the holder of the Westgrowth Common Shares exchanged), the holder will be required to realize all of such capital gain or loss for such taxation year, and the aggregate cost to the holder of the Ulster Common Shares will equal the fair market value on the Effective Date of the Westgrowth Common Shares so exchanged.

Tax Consequences to Holders of Westgrowth Warrants

The exchange of Westgrowth Warrants for Ulster Warrants must be treated by holders of Westgrowth Warrants as a taxable disposition with the proceeds of disposition being the fair market value of the Ulster Warrants received on the Effective Date. This will result in the holder of Westgrowth Warrants realizing a capital gain or capital loss which, subject to certain specific provisions in the Income Tax Act, will be the amount by which the fair market value on the Effective Date of the Ulster Warrants exceeds, or is exceeded by, the aggregate of the expenses related to the disposition and the adjusted cost base to the holder of the Westgrowth Warrants exchanged. The aggregate cost to the holder of the Ulster Warrants so acquired, for purposes of computing his adjusted cost base, will equal the fair market value on the Effective Date of the Westgrowth Warrants so exchanged. If the holder exercises the Ulster Warrants to acquire Ulster Common Shares, the adjusted cost base of the Ulster Warrants shall be included in computing his cost of the Ulster Common Shares. If, on the other hand, the holder allows his Ulster Warrants to expire, he will realize a capital loss equal to his adjusted cost base of the Ulster Warrants.

Tax Treatment of Capital Gains and Capital Losses

One-half of any capital gain (a taxable capital gain) resulting from a disposition must be included in computing the income of a taxpayer in the year in which a disposition takes place, while one-half of any capital

loss (an allowable capital loss) may be deducted by a taxpayer from taxable capital gains for the year, any of the three preceding years, or any subsequent years, subject to the detailed provisions of the Income Tax Act in that regard. Under the Tax Reform Proposals, the proportion of a capital gain or loss required to be included in computing a taxpayer's taxable capital gain or allowable capital loss will be increased to two-thirds of such capital gains or losses realized after 1987 by individuals and Canadian controlled private corporations (and realized after June 30, 1988 by other corporations) and to three-quarters of such gains or losses realized by all taxpayers after 1989. Those corporations whose taxation years straddle the effective dates for such rate changes will be required to pro-rate their capital gains or losses realized in such taxation years accordingly. Net capital losses carried forward to those years will be adjusted upwards to reflect the increased rate of capital gains inclusion.

Individuals, other than trusts, are entitled to a cumulative lifetime exemption for post-1984 capital gains (net of capital losses) up to a limit of \$500,000 of cumulative net capital gains. The exemption is to be phased in over six years with cumulative limits of \$100,000 of net capital gains in 1987, \$200,000 in 1988, \$300,000 in 1989 and \$500,000 in 1990 and subsequent years. The availability of the capital gains exemption is subject to significant restrictions and qualifications and the Income Tax Act contains broad anti-avoidance provisions. Holders of Westgrowth Common Shares should consult their own income tax advisors as to the availability of the capital gains exemption in their particular circumstances.

The Tax Reform Proposals, if enacted as proposed, will limit the lifetime capital gains exemption to a maximum of \$100,000 of capital gains from the disposition of most types of property. In addition, net capital gains realized in any year after 1987 eligible for the exemption will be reduced by an individual's "cumulative net investment loss" at the end of the year. It is proposed that an individual's cumulative net investment loss at the end of a year will be the amount by which his "investment expenses" deducted for the year and all prior years commencing after 1987 exceed his "investment income" for those years. As stated previously, holders of Westgrowth Common Shares who intend to utilize the lifetime capital gains exemption should consult with their own tax advisors in that regard.

Alternative Minimum Tax

Under the Income Tax Act, a minimum tax (the "Minimum Tax") is payable by individuals and certain trusts where their Minimum Tax payable exceeds their income tax otherwise payable. In computing "adjusted taxable income" on which the Minimum Tax is based, certain deductions, adjustments and credits allowed in computing income tax otherwise payable are limited or disallowed and one-half of capital gains eligible for the lifetime capital gains exemption and the full amount of other capital gains are included in adjusted taxable income. However, in computing adjusted taxable income a basic exemption of \$40,000 is allowed which is not available in computing ordinary income. The rate of federal tax for Minimum Tax purposes is a flat 17% compared to graduated rates culminating at 34% for ordinary income tax (excluding surtax). Whether the Minimum Tax will have any impact on a holder of Westgrowth Common Shares will therefore depend on a holder's personal circumstances and holders should consult their own tax advisors in that regard.

The Tax Reform Proposals do not specifically address the manner in which the alternative minimum tax is calculated and paid. It is therefore assumed that the calculation and payment of the alternative minimum tax will remain unchanged after implementation of the Tax Reform Proposals subject only to adjustments to the "adjusted taxable income" which may be required as a result of the Tax Reform Proposals.

OTHER ULSTER BUSINESS

Amendment to Stock Option Plan

By resolution of the Board of Directors dated June 22, 1987, Ulster's Stock Option Plan was amended, subject to shareholder approval, to provide for the granting of options to Ulster's directors in lieu of annual directors fees.

Accordingly the shareholders of Ulster are being asked to pass the ordinary resolution approving this amendment. The full text of the ordinary resolution regarding the amendment to the Ulster Stock Option Plan is set forth in Appendix III.

Increase in Ulster Share Capital

In order to accommodate the future capital requirements of Ulster, it is proposed that the share capital of Ulster be increased. The full text of the special resolution regarding the increase of the number of Ulster Common Shares to an unlimited number is set forth in Appendix IV.

The Board of Directors of Ulster has the right to revoke the special resolution if it considers it appropriate without further reference to or approval by Ulster Common Shareholders.

Dissent Rights of Ulster Shareholders in Respect of the Proposed Ulster Special Resolution

The dissent rights discussed below apply only to shareholders of Ulster with respect to the special resolution regarding the increase in the authorized share capital of Ulster (the "Ulster Special Resolution") and do not apply to shareholders of Westgrowth.

Section 184 of the BCA provides that the holders of Ulster Common Shares may dissent if Ulster resolves to amend its articles to increase the maximum number of Ulster Common Shares which Ulster is authorized to issue. Such a shareholder (a "dissenting shareholder") may send to Ulster a written objection (a "notice of objection") to the Ulster Special Resolution. In addition to any other right a dissenting shareholder may have, a dissenting shareholder is entitled to be paid by Ulster the fair value of the Ulster Common Shares held by him in respect of which he dissents, determined as of the close of business on the last business day on which the Ulster Special Resolution is adopted.

A dissenting shareholder may claim under Section 184 only with respect to all Ulster Common Shares held by him or on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

A dissenting shareholder is required to send to Ulster his notice of objection at or before the Ulster Special Meeting, or if Ulster does not send to such shareholder notice of the purpose of the Ulster Special Meeting or of his right to dissent, within a reasonable time after he learns that the Ulster Special Resolution was adopted and of his right to dissent.

Once the dissenting shareholder has sent his notice of objection, either the dissenting shareholder or Ulster may then make application to the Court of Queen's Bench of Alberta (the "Court") by originating notice to fix the fair value, in accordance with Section 184(3) of the BCA, of the shares of the dissenting shareholder.

If such an application is made Ulster shall, unless the Court otherwise orders, send to each dissenting shareholder a written offer to pay him an amount considered by the directors of Ulster to be the fair value of his Ulster Common Shares.

Unless the Court otherwise orders, the offer referred to above shall be sent to each dissenting shareholder, at least 10 days before the date on which the above referred to application is returnable, if Ulster is the applicant or within 10 days after Ulster is served with a copy of the originating notice, if a shareholder is the applicant.

Every offer referred to above shall be made on the same terms and contain or be accompanied by a statement showing how the fair value was determined. A dissenting shareholder may make an agreement with Ulster for the purchase of his Ulster Common Shares by Ulster, in the amount of Ulster's offer, as referred to above, or otherwise at any time before the Court pronounces an order fixing the fair value of the shares.

A dissenting shareholder is not required to give security for costs in respect of the above referred to application, and except in special circumstances shall not be required to pay the costs of the application or appraisal.

Upon application the Court shall make an order fixing the fair value of the Ulster Common Shares, in accordance with Section 184(3) of the BCA, of all dissenting shareholders who are parties to the application, giving judgment in that amount against Ulster and in favour of each of those dissenting shareholders, and fixing the time within which Ulster must pay that amount to a shareholder.

Notwithstanding the above, Ulster cannot make a payment to any dissenting shareholder under Section 184 if there are reasonable grounds for believing that Ulster is or would after the payment be unable to pay its liabilities as they become due, or the realizable value of Ulster's assets would thereby be less than the aggregate of its liabilities.

The above is only a summary of the provisions of Section 184 of the BCA which is technical and complex. Section 184 is set out in Appendix V hereto. It is recommended that any Ulster shareholder wishing to avail himself of his right to dissent seek his own legal advice as failure to comply strictly with the provisions of the statute may prejudice his right of dissent.

CANADIAN WESTGROWTH LTD.

HISTORY OF WESTGROWTH

Westgrowth is the continuing corporation formed on December 31, 1986 by the amalgamation under the BCA of two predecessor corporations, Canadian Westgrowth Ltd. and Flame Energy Ltd.

The predecessor corporation, Canadian Westgrowth Ltd., was incorporated as a specially limited company on July 11, 1956 under the British Columbia Companies Act as Freehold Gas & Oil Ltd. (Non-Personal Liability). Its name was changed to Westgrowth Petroleum Ltd. (N.P.L.) on January 19, 1979 and on July 28, 1980 it was converted to the status of a limited company, Westgrowth Petroleum Ltd., pursuant to the British Columbia Companies Act. On August 12, 1980 it was continued to the jurisdiction of Alberta under the Alberta Companies Act. On July 11, 1984 it was continued as a corporation under the BCA and on October 7, 1986, as part of a plan of arrangement under the BCA, changed its name to Canadian Westgrowth Ltd.

The predecessor corporation, Flame Energy Ltd., was incorporated as 142426 Canada Ltd. on April 29, 1985. On November 29, 1985, 142426 Canada Ltd. changed its name to Flame Energy Ltd.

On November 28th, 1986, Westgrowth acquired Flame Energy Ltd. On December 31, 1986 Westgrowth amalgamated under the BCA with Flame Energy Ltd. retaining the name and capital structure of Canadian Westgrowth Ltd.

The head office and principal place of business of Westgrowth is at 1400, 144 - 4th Avenue S.W., Calgary, Alberta, T2P 3N4. The registered office of Westgrowth is at 1500 Home Oil Tower, 324 - 8th Avenue S.W., Calgary, Alberta, T2P 2Z2.

INTERCORPORATE RELATIONSHIPS

Westgrowth has four wholly owned subsidiaries: Westgrowth Petroleum, Inc.; British Canadian Resources Ltd.; St. John's Petroleum Ltd.; and Flame Oil & Gas Inc.

Westgrowth Petroleum, Inc. is a company incorporated under and subject to the laws of the State of Delaware.

British Canadian Resources Ltd. was incorporated under the name 98567 Canada Inc. on May 13, 1980 under the provisions of the Canada Business Corporations Act. On October 20, 1980 the company's name was changed to British Canadian Resources Ltd. and it was continued to the jurisdiction of Alberta under the BCA on June 23, 1986.

St. John's Petroleum Ltd. was originally incorporated as Columbia Metals Exploration Co., Ltd. pursuant to the provisions of the Companies Act of Saskatchewan effective as of October 12, 1954. By Certificate No. 3276 dated February 22, 1965 the company's name was changed to Mid-Can Exploration Ltd., and then to St. John's Petroleum Ltd. by Certificate of Amendment No. 301874 on May 17, 1982. Effective June 25, 1985, St. John's Petroleum Ltd. amalgamated with 573828 Saskatchewan Ltd. thus becoming a wholly-owned subsidiary of Westgrowth. The assets and liabilities of St. John's Petroleum Ltd. are currently in the process of transfer to Westgrowth. Once that process is complete it will be liquidated.

Flame Oil & Gas Inc. was incorporated in Texas on August 7, 1981.

Unless the context indicates otherwise, reference to Westgrowth also includes Westgrowth's subsidiaries.

BUSINESS OF WESTGROWTH

Westgrowth is an independent Alberta-based public company, actively engaged in exploration, development and production of petroleum and natural gas. Principal areas of activity are centered in Alberta.

Westgrowth's business plan is to increase its asset base through exploration and development of its properties and through pursuing attractive merger or acquisition opportunities. It is Westgrowth's practice to generate its own oil and gas prospects, beginning with the initial geologic concept and continuing through seismic evaluation, land acquisition, formation of joint ventures, drilling and production.

The objective in the near term is to enlarge Westgrowth through corporate developments designed to maintain cash reserves and create a larger exploration and production company.

For the longer term, Westgrowth has the advantage of proven enhanced oil recovery technology, proven and probable non-producing gas reserves awaiting markets, a competent exploration and development staff, and the internal financial resources to capitalize on future opportunities.

Westgrowth's daily oil production averaged 640 bopd and its natural gas production averaged 3.5 mmcf/d in the first six months of 1987.

Westgrowth has a staff of 18 employees, 2 of whom are located at the Retlaw field office.

Major Producing Properties

The following table sets forth the principal producing properties of Westgrowth and the present worth (proved and probable) as of December 31, 1986 as per the CNP Report, (before income taxes and Alberta Royalty Tax Credits ("ARTC"), at 15% Discount Factor).

Property (all in Alberta)	(\$000)
1. Retlaw Area	\$ 11,041.0
2. Little Bow	2,149.3
3. Craigmyle	1,792.8
4. Virgo-Zama	1,721.7
5. Shiningbank	1,620.9
6. Rainbow	1,589.8
7. Utikuma	1,529.7
8. Taber South	1,408.8
9. Paddle River	1,353.4
10. Berland River	1,178.3
11. Leduc D-3 (Unit)	999.8
12. Harmattan E. (Unit)	977.3
13. Carrot Creek	911.4
14. Leedale	468.1
	<u>\$ 28,742.3</u>

Note: This represents 76% of the total present worth value.

A brief description of Westgrowth's more significant oil and gas interests are as follows:

Retlaw Area

The Retlaw area, 100 miles southeast of Calgary, is Westgrowth's most significant property in that at December 31, 1986 it represented about 30% of Westgrowth's net present value, and produced over half of Westgrowth's revenues in 1986.

Most of Westgrowth's oil reserves are produced under enhanced recovery through the Retlaw Upper Mannville 'V' Pool Unit (the "Unit") formed in October, 1983 and at that time Westgrowth began a carbon dioxide enhanced oil recovery project with royalty relief accorded by the Energy Resources Conservation Board of Alberta. Carbon dioxide displaces more of the original oil in place increasing the total amount which can be eventually recovered. It is expected that ultimate recovery from the pool in which Westgrowth owns a 39% interest, could increase from about 8% on a primary basis up to 35% of the original oil in place.

In 1987 a water alternating with gas scheme was implemented in the northern portion of the Unit to reduce operating costs, while maintaining production. The level of production is expected to increase in 1987-88 from the benefit of carbon dioxide, particularly in the southern portion of the Unit. Currently, the daily production from the Retlaw Unit is being restricted to less than 350 bopd, while reservoir pressure is being increased.

The majority of Westgrowth's 3.5 mmcf/d of net natural gas production is from 12 gas wells in the Retlaw area. Approximately two-thirds of gas sales in 1986 were to full price contracts and one-third to discount contracts. The trend of full price contracts has been to lower "takes" and lower prices, but Westgrowth expects to increase sales of discount gas in 1987.

Little Bow

Westgrowth has a 48% interest in the Mannville "D" oil pool, located 90 miles southeast of Calgary. Using waterflood recovery, as of December 31, 1986, Westgrowth nets 55 bopd and the net recoverable oil reserves are estimated to be 362,000 bbls.

Craigmyle

Westgrowth has working interests ranging from 8% to 50% in 13,300 gross (2,000 net) acres and produces 36 bopd net from five wells. At December 31, 1986 proven net reserves to Westgrowth have been established at 37,000 bbls recoverable on primary production.

In addition, there are 13 Belly River gas wells located on Westgrowth properties with net proven reserves of 1 bcf of gas. Currently 3 of these wells are producing.

Virgo-Zama

Westgrowth has an interest in three oilwells which contribute 200 bopd net to Westgrowth's production. The most significant well is at 4-36-114-6 W6M which Westgrowth operates and has a 27.9% working interest. This well is currently producing at a rate of 600 bopd gross, however it is anticipated that its production allowable rate will be reduced effective October 1, 1987.

Rainbow

Westgrowth currently has varying working interests (from 1% to 50%) in eight Keg River oilwells in the Rainbow Basin. These wells produce 56 bopd net.

Utikuma

Westgrowth owns a 75% working interest in an oilwell at 6-30-80-9 W5M and a 25% working interest in two other Gilwood Sandstone wells in this area which are contributing a net 90 bopd to Westgrowth.

Taber South

In this area, Twp 8, Rge 17, W4M, Westgrowth has working interests varying from 19.6% to 33.5% in 2400 gross (715 net) acres. Currently the property has four Glauconite Channel Sandstone wells producing a net 30 bopd to Westgrowth.

The following table sets forth Westgrowth's production volume for the five years ended December 31, 1986 and for the six months ending June 30, 1987.

	Crude Oil (bbl)	Natural Gas (mcf)	Total Value after Royalties (Can. \$)
1982			
Canada	74,582	1,717,268	5,292,087
United States	7,208	34,983	329,902
Daily Average	224 bopd	4.8 mmcf/d	—
1983			
Canada	50,964	1,043,534	4,023,206
United States	6,676	24,796	214,915
Daily Average	158 bopd	2.9 mmcf/d	—
1984			
Canada	74,281	861,840	5,752,882
United States	2,082	27,436	195,280
Daily Average	209 bopd	2.4 mmcf/d	—
1985			
Canada	117,951	1,153,317	6,079,530
United States	1,198	20,650	165,832
Daily Average	326 bopd	3.2 mmcf/d	—
1986			
Canada	162,500	1,136,200	4,878,000
United States	1,200	17,400	55,000
Daily Average	448 bopd	3.2 mmcf/d	—
1987 (6 mos.)			
Canada	115,134	564,300	3,187,000
United States	1,290	80,400	41,000
Daily Average	640 bopd	3.5 mmcf/d	—

Major Non-producing Properties

The following lists Westgrowth's major non-producing properties and the distance therefrom, in miles, to the nearest pipeline:

Berland River, Alberta	10
Craigmyle, Alberta	3
East Retlaw, Alberta	2
Sexsmith, Alberta	3
Shiningbank, Alberta	6
Jedney, British Columbia	2

Oil and Natural Gas Wells

The following table summarizes Westgrowth's producing wells and interests in producing units.

	<u>Oil Wells</u>	<u>Gas Wells</u>	<u>Total</u>
Producing Wells (Non-Unit) Canada			
Operated	10	16	26
Non-Operated	55	14	69
Producing Wells (Non-Unit) U.S.A.			
Non-Operated	4	12	16
	<u>69</u>	<u>42</u>	<u>111</u>

<u>Interest in Producing Units</u>	<u>Operator</u>	<u>Production</u>	<u>Unit W.I. %</u>
Retlaw, Alberta	Westgrowth	Oil	39.07
Leduc D-2, Alberta	Esso	Oil	0.37
Leduc D-3, Alberta	Esso	Oil	0.29
Harmattan E. Viking, Alberta	Mobil Oil	Oil	0.88
Brownfield Gas Unit, Alberta	Dome Petroleum	Gas	0.19
Weyburn Unit, Saskatchewan	Pan Canadian	Oil	0.17

Oil and Natural Gas Reserves

A report (as amended, the "CNP Report") prepared by Coles, Nikiforuk, Pennell Associates Ltd., independent engineering consultants, estimated as at December 31, 1986, the proved and probable oil and natural gas reserves of Westgrowth and the estimated future net cash flow from such reserves. These estimates are summarized in the table below.

The table set forth below assumes some escalation of prices and costs. The critical assumptions relating to these forecasts are set forth in detail in the notes accompanying the table.

Reserve estimates are by their very nature inexact. The estimates are expected to change as future information becomes available. THE ESTIMATES ARE NOT TO BE CONSTRUED AS A REPRESENTATION OF THE FAIR MARKET VALUE OF THE PROPERTIES TO WHICH THEY RELATE. IN THE CURRENT WORLD MARKET, OIL AND NATURAL GAS PRICES ARE EXTREMELY VOLATILE; SHAREHOLDERS ARE WARNED THAT TOTAL RELIANCE UPON THE VALUE SET FORTH IN THE FOLLOWING TABLES IS INADVISABLE. IN ADDITION, THE PRESENT WORTH OF NET REVENUES OF THE PROBABLE RESERVES HAS NOT BEEN REDUCED FOR RISK.

All estimates of future cash flow set forth in the tables are stated prior to a provision for income taxes. All Proved Producing Reserves as set out in the following estimates are currently on production. Other assumptions relating to costs, prices for future production and other matters are included in the CNP Report and summarized in the notes below.

Canadian Petroleum and Natural Gas Reserves and Estimated Future Net Cash Flow Before Income Tax as at December 31, 1986, based on CNP's November 1, 1986 price assumptions (1)(8)(9)

	<u>Net Reserves (2)</u>		<u>Net Cash Flow at the Discount Rate Indicated Below (In \$Million)</u>			
	<u>Oil & NGL (mbbl)</u>	<u>Natural Gas (bcf)</u>	<u>0%</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>
Proved Producing (3)	1,444.4	6.9	38.8	19.9	16.0	13.4
Proved Non-Producing (4)(5)	149.7	11.8	58.4	14.1	8.7	5.5
Total Proved (6)	1,594.1	18.7	97.2	34.0	24.7	18.9
Probable (7)	928.6	7.4	63.8	19.5	12.7	9.3
ARTC	—	—	29.7	10.9	7.9	6.0
Proved and Probable	<u>2,522.7</u>	<u>26.1</u>	<u>190.7</u>	<u>64.4</u>	<u>45.3</u>	<u>34.2</u>

(1) CNP pricing and exchange rate assumption tables.

**Summary of Price Forecasts
Effective November 1, 1986**

Year	Oil (A) (U.S. \$/Bbl)	Oil (B) (Cdn. \$/Bbl)	Gas (C) (Cdn. \$/Mcf)	Exchange Rate (\$U.S./\$Cdn.)
1987	16.00	21.00	1.70	.72
1988	17.00	22.00	1.75	.73
1989	18.00	24.00	1.90	.74
1990	20.00	26.00	2.20	.75
1991	22.00	28.00	2.50	.75
1992	24.00	31.00	2.80	.75
1993	26.00	34.00	3.25	.75
1994	29.00	37.00	3.75	.75
1995	32.00	41.00	4.25	.75
1996	35.00	45.00	4.55	.75
1997	37.50	48.00	4.85	.75
1998	40.00	51.50	5.20	.75
1999	43.00	55.00	5.55	.75
2000	46.00	59.00	5.95	.75
2001 +	6% p.a.	6% p.a.	6% p.a.	.75

Notes to Summary of Price Forecasts

(A) West Texas Intermediate at Cushing, Oklahoma spot market average price (D2/S2).

(B) Edmonton city gate prices based on D2/S3 quality.

(C) TCPL contract price with "Topgas" payments.

**Gas Purchaser Nomination Forecast
Effective December 31, 1986**

Year	TCPL Nomination	Pan-Alberta Nomination	KannGaz Nomination	British Columbia Nomination
1987	50% DCQ	60% DCQ	—	40% MDV
1988	55% DCQ	65% DCQ	—	45% MDV
1989	65% DCQ	70% DCQ	20% DCQ	50% MDV
1990	75% DCQ	80% DCQ	85% DCQ	55% MDV
1991	90% DCQ	90% DCQ	85% DCQ	65% MDV
1992	100% DCQ	100% DCQ	85% DCQ	72% MDV
1993	100% DCQ	100% DCQ	85% DCQ	72% MDV
1994	100% DCQ	100% DCQ	85% DCQ	72% MDV
1995	100% DCQ	100% DCQ	85% DCQ	72% MDV
1996 +	100% DCQ	100% DCQ	85% DCQ	72% MDV

Note to Gas Purchaser Nomination Forecast

Nomination estimates are for calendar **not** contract years

DCQ = Daily Contract Quantity

MDV = Maximum Daily Volume

- (2) Net after royalty reserves
- (3) "Proved Developed Producing Reserves" are those proved reserves that are expected to be recovered from completion intervals open at the time of the estimate and capable of producing to market. Improved recovery reserves are only considered "developed producing" after an improved recovery project is in operation.
- (4) "Proved Developed Nonproducing Reserves" are those proved reserves that could be recovered from existing wells, including behind pipe reserves, which will require additional completion work and/or the installation of certain minor facilities prior to the start of actual production. These reserves are classified as proved developed as the investment required to commence production is relatively small compared to the cost of a new well or facilities.
- (5) "Proved Undeveloped Reserves" are those proved reserves that are expected to be recovered from (1) new wells on undrilled acreage, (2) deepening of existing wells to a different reservoir, or where a relatively large expenditure is required for recompletion and (3) acreage where the application of an improved recovery project is planned and the costs required to place the project in operation are relatively large.
- (6) "Proved Reserves" are those reserves estimated as recoverable under current technology and existing economic conditions, 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. Where reserves are clearly known to exist in a reservoir and would be physically recoverable but cannot be termed "proved reserves" because they are not commercially recoverable due to their remote location (i.e., frontier reserves), these reserves should be itemized separately in the report and their special circumstances should be fully explained.
- (7) "Probable Reserves" are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category 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.

(8) Westgrowth has no appreciable reserves in the U.S.A.

(9) These values include the assets of Allcora Exploration Ltd., which were purchased on July 1, 1987.

Net undiscounted capital expenditures required to produce the proved reserves are \$3,602,100, with an expenditure of \$688,400 in 1987 and \$302,600 in 1988. These amounts have been deducted when calculating the present value of the net pre-tax cash flow from the reserves.

A copy of the CNP Report will be available for inspection at the offices of Westgrowth at 1400, 144 - 4th Avenue S.W., Calgary, Alberta, during normal business hours for a period of sixty days from September 30, 1987.

Undeveloped Acreage

Westgrowth's undeveloped oil and natural gas acreage holdings at September 15, 1987 are set out in the following table:

	Gross Acres	Net Acres
Alberta	167,915	43,499
Saskatchewan	20,498	6,159
British Columbia	1,701	349
Total	<u>190,114</u>	<u>50,007</u>

At December 31, 1986, Westgrowth maintained a gross 197,486 acres (net 45,174 acres) of undeveloped land. An in-house evaluation of Westgrowth's undeveloped land holdings was done at that time, and a value of \$2,999,989 was assigned.

Westgrowth's land holdings in the United States are minimal and not of significant value.

Drilling Activity

Since January 1, 1982, Westgrowth has drilled and/or participated in the drilling of 137 gross wells as set forth in the following table:

	Gross Wells				Net Wells			
	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
1987*	4	2	11	17	.93	.17	3.75	4.85
1986	8	5	13	26	1.91	1.90	3.48	7.29
1985	13	6	6	25	not available			
1984	12	2	10	24	not available			
1983	7	10	6	23	not available			
1982	10	8	4	22	not available			
Total	<u>54</u>	<u>33</u>	<u>50</u>	<u>137</u>				

*to September 15, 1987

Capital Expenditures

Westgrowth's capital expenditures since the end of 1981 are set forth in the following table:

	June 30, 1987	Year Ended December 31,				
		1986	1985	1984	1983	1982
Gross expenditures	\$2,149,000	5,861,000	3,396,000	1,307,000	3,063,000	3,124,000
Less government grants	(100,000)	(754,000)	(709,000)	(272,000)	(115,000)	(1,105,000)
Net expenditures	<u>\$2,049,000</u>	<u>5,107,000</u>	<u>2,687,000</u>	<u>1,035,000</u>	<u>2,948,000</u>	<u>2,019,000</u>

CAPITALIZATION OF WESTGROWTH

The following table sets forth the capital structure of Westgrowth:

Designation of Security	Authorized	Amount Outstanding		
		December 31, 1986	June 30, 1987	September 15, 1987
Bank Loan (1)	\$5,500,000	NONE	NONE	NONE
Convertible Debentures (2)	\$5,000,000	NONE	NONE	NONE
Preferred Shares (3)	Unlimited	NONE	NONE	NONE
Common Shares (4)	Unlimited	\$45,737,000 (8,172,809 shares)	\$45,838,000 (8,198,103 shares)	\$46,038,000 (8,245,386 shares)

Notes

- (1) The bank loan represents an operating line of credit with Westgrowth's Canadian banker providing for loans of up to \$5,500,000. Borrowings under this line of credit bear interest at 1/4% above the bank's prime lending rate.
- (2) Pursuant to an agreement between Westgrowth and Helicopter Rentals Limited, Westgrowth issued a convertible debenture on October 8, 1986 in the amount of \$3,000,000 which serves as a line of credit made available up to October 8, 1987 for future corporate purposes. Westgrowth also entered into an agreement with Imasco Limited, a shareholder, which provides Imasco Limited with the right to be issued a convertible debenture in the amount of \$2,000,000 with terms and conditions similar to those contained in the debenture issued to Helicopter Rentals Limited.
The debentures, when drawn down, bear interest of 8% per annum of the principal amount and mature on the third anniversary of the date of draw down. The debentures are convertible into Westgrowth Common Shares at the option of the holder on the basis of \$5.00 per share to October 8, 1987, \$6.00 per share to October 8, 1988, and \$8.00 per share thereafter.
- (3) Westgrowth Preferred Shares authorized are unlimited in number, without nominal or par value, and issuable in one or more series.
- (4) Westgrowth Common Shares authorized are unlimited in number and are without nominal or par value. As at December 31, 1986 and June 30, 1987 the common equity values represent the Common Share Capital of Westgrowth.
- (5) As at June 30, 1987 Westgrowth had a deficit of \$21,000.
- (6) A total of 2,785,693 Westgrowth Common Shares are reserved for issuance: 256,850 pursuant to share purchase options for directors and employees, 1,000,000 pursuant to the convertible debentures with Helicopter Rentals Limited and Imasco Limited, respectively, and 1,528,843 for the exercise of the Westgrowth Warrants.

The authorized share capital of Westgrowth, as at September 25, 1987, consists of an unlimited number of Westgrowth Common Shares without nominal or par value, of which 8,245,386 are issued and outstanding, and an unlimited number of Westgrowth Preferred Shares without nominal or par value, issuable in series, of which none is outstanding.

The following is a brief summary of the material rights, privileges, restrictions and conditions attaching to the shares of Westgrowth.

Westgrowth Common Shares

Holders of Westgrowth Common Shares are entitled to dividends as and when declared by the directors, subject to the preferential rights as to dividends of the holders of the Westgrowth Preferred Shares. Holders of Westgrowth Common Shares are entitled to one vote per share on a ballot at any meeting of Westgrowth other than special meetings for shareholders of a particular class or series other than the class of Westgrowth Common Shares. In the event of the dissolution of Westgrowth, subject to the preferential rights of the holders of the Westgrowth Preferred Shares, the holders of Westgrowth Common Shares are entitled to share pro rata in the remaining assets of Westgrowth.

Westgrowth Preferred Shares

(a) *Issuable in Series*

The Westgrowth Preferred Shares as a class may, at any time and from time to time, be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be determined by resolution duly passed by the board of directors of Westgrowth (the "Series Resolution"). Subject to the provisions of any applicable law, the board of directors of Westgrowth may, in the Series Resolution relating to any series of Westgrowth Preferred Shares, fix the designation, rights, restrictions, conditions and limitations attaching to the Westgrowth Preferred Shares of such series.

(b) *Priority*

The Westgrowth Preferred Shares of each series rank on a parity with the Westgrowth Preferred Shares of every other series with respect to priority on payment of dividends and the distribution of assets in the event

of liquidation, dissolution or winding-up of Westgrowth, whether voluntary or involuntary, or any other distribution of the assets of Westgrowth amongst shareholders for the purpose of winding up its affairs unless the Series Resolution expressly provides that the series will be subordinate in any respect to any prior series of Westgrowth Preferred Shares, whether or not issued.

Subject to the provisions of the Series Resolution, the Westgrowth Preferred Shares are entitled to preference over the Westgrowth Common Shares and over any other shares ranking junior to the Westgrowth Preferred Shares with respect to payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of Westgrowth, whether voluntary or involuntary, or any other distribution of the assets of Westgrowth amongst its shareholders for the purpose of winding-up its affairs.

(c) *Voting Rights*

Except as required by law, the holders of the Westgrowth Preferred Shares are not entitled to receive notice of or attend any meeting of the shareholders of Westgrowth or to vote thereat.

(d) *Pre-emptive Rights*

The holders of Westgrowth Preferred Shares will not be entitled to subscribe for, purchase or receive any part of any issue of shares, bonds, debentures, or other securities of Westgrowth hereinafter authorized, or any rights to acquire the same, other than in accordance with the conversion, exchange or other rights, if any, which may from time to time be attached to any series of the Westgrowth Preferred Shares.

Westgrowth Warrants

Westgrowth has 1,528,843 warrants outstanding as at September 25, 1987. Each whole warrant entitles the holder to purchase a Westgrowth Common Share at a price of \$5.00 per share. These warrants expire on November 30, 1991.

DIVIDEND RECORD AND POLICY

No dividends have been paid on the Westgrowth Common Shares since the date of its formation. At the present time, Westgrowth intends to use all available funds to finance the operations of its business and is not anticipating that dividends will be paid in the foreseeable future.

PRICE RANGE AND TRADING VOLUME OF WESTGROWTH COMMON SHARES

The Westgrowth Common Shares are listed on both The Toronto Stock Exchange and the Alberta Stock Exchange. The following table sets forth the volume of trading and price ranges of the Westgrowth Common Shares on The Toronto Stock Exchange for the periods indicated:

		Price Range \$		Volume
		High	Low	Shares
Common Shares				
1986:	1st Quarter	0.66	0.32	532,767
	2nd Quarter	0.37	0.15	760,051
	3rd Quarter	0.24	0.15	272,773
	October 1-10	0.22	0.18	250,605
*	October 14 to December 31	4.05	3.40	140,996
1987:	1st Quarter	4.60	3.90	274,445
	2nd Quarter	4.40	3.90	248,559
	July	5.00	4.00	54,611
	August	4.60	4.00	12,796
	September 1-25	4.85	4.10	62,160

*The Westgrowth Common Shares were consolidated on a twenty old shares for one new share basis on October 8, 1986 and began trading on that basis on October 14, 1986.

No Westgrowth Common Shares have traded on the Alberta Stock Exchange since they were listed in April of 1987.

On September 4, 1987, the last day that Westgrowth Common Shares traded on The Toronto Stock Exchange prior to approval in principle of the Plan of Arrangement by the Boards of Directors of Westgrowth and Ulster, the closing sale price of the Westgrowth Common Shares was \$4.30. On September 25, 1987, the closing sale price of Westgrowth Common shares was \$4.50.

PRINCIPAL HOLDERS OF SECURITIES

The following table sets forth, as at September 15, 1987, the number of securities of each class of voting securities of Westgrowth owned of record or beneficially, directly or indirectly, by each person or company who owns of record, or is known by Westgrowth to own beneficially, directly or indirectly, more than 10% of any class of voting securities:

<u>Name</u>	<u>Type of Ownership</u>	<u>Number of Common Shares</u>	<u>Percentage of Total Common Shares</u>
British and Commonwealth Shipping Company PLC (1)	Beneficial (Indirect)	3,096,674	37.6%
Imasco Limited	Beneficial	1,774,376	21.5%

(1) The shares are held by Heli-Union BEAS Limited, Helicopter Rentals Limited and United Helicopter Ltd., which are controlled by British and Commonwealth Shipping Company PLC.

The shareholders listed above collectively own, beneficially or of record, 4,871,050 (59.1%) of the Westgrowth Common Shares issued and outstanding.

As at September 25, 1987, the directors and senior officers of Westgrowth, as a group, beneficially owned, directly or indirectly, approximately 8% of the outstanding Westgrowth Common Shares.

PRIOR SALES OF SECURITIES

In the twelve months preceding September 25, 1987 Westgrowth issued Westgrowth Common Shares in the following transactions:

	<u>Number of Westgrowth Common Shares</u>	<u>Amount (\$)</u>
Issued upon conversion of Preferred Shares on October 7, 1986	1,725,067	8,625,000
Issued in connection with the acquisition of assets from Heli-Union BEAS Limited on October 8, 1986	800,000	3,997,000
Issued pursuant to a rights offering to shareholders on November 18, 1986	2,802,570	14,013,000
Issued for the acquisition of Flame Energy Ltd. on November 28, 1986	2,148,960	9,696,000
Issued on settlement of former Flame employees' stock options	17,294	69,000
Issued on exercise of employee stock option	8,000	32,000
Issued for the purchase of certain Joint Venture oil and gas assets	47,505	200,000

MANAGEMENT OF WESTGROWTH

Directors and Officers

The names, municipality of residence, positions held with Westgrowth and principal occupations of the directors and officers of Westgrowth are as follows:

<u>Name and Municipality of Residence</u>	<u>Office Held</u>	<u>Principal Occupation</u>
*John M. S. Lecky Calgary, Alberta	Chairman and Director	Chairman and President, The Resource Service Group Ltd.
*Dr. William G. Ayrton Calgary, Alberta	President, Chief Operating Officer and Director	President and Chief Operating Officer of Westgrowth
J. Keith Farries, P.Eng. Calgary, Alberta	Director	President, Farries Engineering (1977) Ltd.
*John A. Howard Sussex, England	Director	Financial Director, Bristow Helicopters Limited
*Stephen M. Krasnow Calgary, Alberta	Director	President, Krasnow Financial Ltd.
Charles H. D. Mayhew Southampton, Bermuda	Director	Managing Director, Helicopter Rentals Limited
*Roy R. Schwartz Montreal, Quebec	Director	Vice-President, Corporate Development, Imasco Limited
Dr. Phillip M. Sigmund Calgary, Alberta	Director	Associate Professor, Department of Chemical and Petroleum Engineering, University of Calgary
Harold M. Wright Vancouver, British Columbia	Director	Chairman, Wright Engineers Limited
John Chan Wong Calgary, Alberta	Chief Financial Officer and Secretary	Chief Financial Officer and Secretary of Westgrowth

*Member of the Audit Committee

All of the directors and officers have been engaged for more than five years in their present principal occupation or in other executive capacities with the companies or firms with which they are presently associated or with affiliates thereof, except as follows:

- (1) Dr. William G. Ayrton was Chairman, President and Chief Executive Officer of Flame Energy Ltd. prior to assuming his present position with Westgrowth on October 14, 1986.
- (2) Stephen Krasnow was Vice-President and Treasurer, The Resource Service Group Ltd. prior to December 31, 1986.

Compensation of Executive Officers and Directors

Executive Officers

Westgrowth has two executive officers, only one of whom receives compensation. During the financial year ending December 31, 1986, and for the period ending June 30, 1987, Westgrowth paid a total of approximately \$9,000 and \$54,000 respectively for services provided to Westgrowth.

Directors

Certain outside Directors are paid \$3,500 per annum and \$500 for attendance at Board Meetings, plus long distance travel expenses.

For the period commencing January 1, 1987 and ending September 15, 1987, approximately \$9,750 in fees have been paid.

Options to Purchase Securities

As at September 15, 1987 there were 256,850 Westgrowth Common Shares reserved for issuance upon the exercise of Westgrowth Common Share purchase options, of which 240,850 purchase options have been granted and are outstanding. The following table sets forth the share purchase options held by employees as at September 15, 1987.

Number of Shares	Date of Grant	Date of Expiry	Exercise Price	Market Value on Date of Grant
15,850	November 13, 1984	November 13, 1987	\$11.00	\$11.00
225,000	February 25, 1987	February 25, 1990	\$ 4.00	\$ 4.00

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Pursuant to a Management Agreement made as of January 1, 1984 between Westgrowth and The Resource Service Group Ltd. ("RSG"), Suite 1450, 144 - 4th Avenue S.W. Calgary, Alberta T2P 3N4, and amended January 1, 1987, RSG provides certain management services to Westgrowth for an annual consideration of \$81,600 payable quarterly on the first day of January, April, July and October of each year. RSG is controlled by the Chairman of Westgrowth, Mr. John Lecky of Calgary, Alberta.

One of Westgrowth's United States subsidiaries participates on a partnership basis with a subsidiary of Imasco Limited in oil and gas development programs. The terms of the partnership agreement are considered similar to those with non-related parties.

MATERIAL CONTRACTS OF WESTGROWTH

Except for contracts entered into in the normal and ordinary course of business or set out elsewhere in this Information Circular and Proxy Statement, the only material contracts entered into by Westgrowth, Pre-Amalgamation Canadian Westgrowth Ltd. or Flame Energy Ltd. (for which contracts Westgrowth continues to be liable) within the last three years preceding the date hereof are:

1. During 1984 Westgrowth disposed of its carbon dioxide processing facility. Subsequent to this sale, Westgrowth entered into a processing agreement with the owners of the facility whereby Westgrowth has agreed to pay a minimum processing fee in return for the utilization of the facility to process carbon dioxide recovered from waste gas. Westgrowth has provided the owners of the facility with security for these obligations by means of collateral debentures aggregating \$2,000,000 and an assignment of its related processing revenue.
2. By an agreement dated April 17, 1985, which was amended in June, 1986, and on June 29, 1987, Westgrowth is a party to a carbon dioxide sale, site storage and injection equipment supply agreement with a supplier of liquid carbon dioxide whereunder Westgrowth contracted for the purchase of specified levels of carbon dioxide over a variable period of time. The supply agreement was amended to defer Westgrowth's purchase commitment during a period of low oil prices subject to \$5,000 per month payments commencing in July, 1989 unless purchases are restored prior thereto.
3. Westgrowth has made an offer to the participants in the Flame Joint Venture '81 to acquire their oil and gas assets, effective June 30, 1987, in exchange for 164,706 Westgrowth Common Shares. The offer is open for acceptance until Wednesday, September 30, 1987 at 5:00 P.M.
4. Westgrowth has entered into an agreement with Nesbitt Thomson Deacon Inc. ("Nesbitt Thomson") whereby Nesbitt Thomson agreed to act as financial advisor to Westgrowth in regard to mergers and acquisitions. Westgrowth is obligated to pay Nesbitt Thomson a \$50,000 work fee plus a success fee upon conclusion of an acquisition of, or merger with Westgrowth. The success fee will be equal to 1% of the deemed value with a minimum fee of \$250,000 and a maximum fee of \$500,000. The deemed value will be determined by the market value of the securities issued by the acquiring company.
5. The Arrangement Agreement dated September 21, 1987 between Ulster and Westgrowth.
6. (a) Westgrowth has entered into a 3 year employment contract with W.G. Ayrton effective the 14th day of October, 1986 to serve as President and Chief Operating Officer.
(b) Westgrowth has entered into severance agreements with its employees providing for:
 - (i) 6 months basic severance pay plus 1 month's pay for each year of service for senior employees, and
 - (ii) 3 months basic severance pay plus 1 month's pay for each year of service for junior employees in the event of severance resulting from a merger or takeover.

Copies of the agreements described above may be inspected at the principal office of Westgrowth, 1400, 144 - 4th Avenue S.W., Calgary, Alberta during normal business hours for a period of sixty days from September 30, 1987 with the exception of the April 17, 1985 agreement which cannot be released for reasons of confidentiality.

LEGAL PROCEEDINGS

Westgrowth is not aware of any actions, suits or proceedings, pending or threatened against Westgrowth before any court, tribunal or other government agency or authority and is not aware of any existing ground on which any such action, suit or proceeding might be commenced with any reasonable likelihood of success other than as set out below.

Westgrowth is a defendant in legal action instituted in the Alberta Court of Queen's Bench by a Canadian chartered bank as assignee of a certain drilling company. The amount claimed is approximately \$1,300,000 (U.S. \$913,000) plus interest and costs and Westgrowth is vigorously contesting the claim. Westgrowth's legal counsel is unable, at the present time, to give any opinion with respect to the merits of this action.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF WESTGROWTH'S OPERATIONS

Six Months Ended June 30, 1987 and 1986

To date in 1987 oil prices have held between U.S. \$18 and \$22 per barrel, a marked increase over 1986. Due to continuing uncertainty over oil prices and our desire to have a stabilized and predictable cash flow, Westgrowth has hedged its oil prices by selling oil futures and will average US \$18.80/barrel for the balance of the year.

Revenue from oil and gas sales for the six months ended June 30, 1987 was \$3.2 million. This increase of 17% over the corresponding period in 1986 is mainly due to increased oil production and improved world oil prices in 1987 which has offset lower gas volumes and prices.

General and administrative costs were disproportionately high in the second quarter of 1987 due primarily to non-recurring items related to finalizing the recent reorganization of Westgrowth.

In the second quarter, Westgrowth experienced higher year over year operating costs partially related to the normal seasonal increase in oil operating costs traditionally seen in this period. However, oil production has increased 31% in the first half of 1987 versus the same period in 1986, while operating costs have only increased by 8%.

Cash flow from operations improved by 5% from \$1.26 million in 1986 to \$1.32 million in 1987.

Crude oil production for the first six months of 1987 increased to an average of 640 bopd, up 32% from 485 bopd in the corresponding period in 1986. In April and May Westgrowth experienced some production and marketing problems which caused oil production to drop to an average of 543 bopd. In June these problems were resolved and production volumes reached a high of 732 barrels a day. We expect these higher levels of oil production to continue for the third quarter. Natural gas production increased slightly to 3.5 mmcf/d for the first six months of 1987 from 3.3 mmcf/d for the corresponding period in 1986.

The first stage of the waterflood phase of the CO₂ Enhanced Recovery Project at Retlaw was initiated in the second quarter of 1987.

During the first half Westgrowth concentrated its efforts on generating new prospects and preparing for an active fall and winter drilling program which will take advantage of the CEDIP grants (one third of well cost) and the 5 year royalty free period on successful wells. As a result, six new projects were added by Crown land purchases at Nipisi, Utikuma, Paddle River, Otter East, Ogston and Ronalane, all in Alberta. Four exploratory wells were drilled during the quarter. Three were drilled to define the high risk Glauconite sand channels at Taber, and one at Rainbow South was drilled to evaluate expiring acreage and define the extent of Westgrowth's productive Keg River Reef pool. All of these were dry and abandoned.

Westgrowth plans a 13 well third quarter drilling program which is currently underway. Projects to be drilled are located at Retlaw, Atlee, Taber, Ronalane, Michichi, Delia, Keystone, Alberta and at Bench, Saskatchewan. Several additional newly acquired northern Alberta projects will be drilled in the winter.

1986 Compared to 1985

Revenue declined from \$7,948,000 to \$6,293,000 during 1986 in comparison with 1985, principally reflecting the impact of lower oil prices, notwithstanding Westgrowth's increased oil and gas production. Increased production volumes in 1986 are reflected in slightly higher production and processing costs and greater depletion

charges. Cash flow from operations declined by 45% from \$3,969,000 to \$2,192,000 for 1986. Net earnings for the first half and second quarter were significantly lower than for 1985.

Capital expenditures for 1986 were \$5,861,000 versus \$3,396,000 in the prior year.

While Westgrowth was able to increase its average oil production in 1986 by 37% to 448 bopd from 326 bopd in 1985, this has been insufficient to counteract the impact of declining oil prices.

1985 Compared to 1984

Westgrowth's objectives achieved during 1985 were: increased proven oil and gas reserves, increased oil and gas production, continued success with the Retlaw enhanced recovery CO₂ project, and new areas of productive activity.

Net oil production averaged 326 bopd in 1985, up 56% from 209 bopd during 1984. Net gas production rose by 33% from 2.4 to 3.2 mmcf/d. Operating costs increased 29% overall reflecting production growth although declining product prices held the revenue increase to 26%.

Production from Retlaw showed good results with the Unit producing at 550 bopd by year-end, nearly a four fold increase in the year. Unit partners voted in October, 1985 to expand the Unit to include eleven new wells in the southern extension. Higher discount sales were also achieved from the Retlaw area.

The two most successful areas of new activity were Little Bow and Craigmyle. In Little Bow, Westgrowth drilled 4 oil wells to earn a 31% working interest in the entire Little Bow Mannville 'D' Pool which now has 7 oil wells and 2 injectors. At Craigmyle, Westgrowth participated in the drilling of four oil wells, two of which should repay drilling and completion costs in full in less than one year. Westgrowth has been aggressive in pursuing land sale and other opportunities in the Craigmyle/Handhills area.

Westgrowth's exploration and development efforts were maintained during 1985. Twenty-five working interest wells were drilled with results of 13 oil, 6 gas and 6 dry and abandoned for a success rate of 76%.

These drilling results enabled Westgrowth to replace production and to increase proven oil and gas reserves. Net proven oil reserves increased 10% from 1,019,000 bbls to 1,122,000 bbls and net proven gas reserves increased 14% from 15.9 bcf to 18.1 bcf. Proven plus probable oil reserves dropped by 9% from 1,930,000 bbls to 1,746,000 bbls due mainly to reserve reclassifications.

1984 Compared to 1983

Total revenues increased from \$5.1 million to \$7.2 million, including a gain of \$757,000 on the sale of fixed assets, while oil and gas revenues rose modestly to \$5.3 million. Expenses were about \$2 million lower than 1983 principally due to a large drop in depletion expense from discontinued U.S. operations which impacted depletion charges particularly in the 1981-83 period.

Cash flow from operations rose from \$1.4 million to \$3.0 million in 1984 against which preferred dividend requirements rose from \$1.2 million to \$2.1 million, reflecting the issuance in late 1983 of additional preferred capital. Net capital expenditures for the year of \$1.3 million were down from \$3.1 million in 1983. Westgrowth ended the year with a cash position of \$1.7 million in relation to a July, 1985 \$2.0 million debt maturity commitment.

1983 Compared to 1982

Total revenues fell sharply from \$7.7 million to \$5.1 million of which \$715,000 was due to the non-recurrence of a prior year gain on sale of a major property interest and \$2.0 million reflected lower oil and gas revenue due largely to reduced oil and gas production. Expenses decreased from \$9.9 million to \$6.8 million reflecting the impact of lower production on production costs and depletion expense as well as lower interest expenses due to reduced indebtedness subsequent to additional equity being raised in 1982 and to lower interest rates during 1983.

Cash flow from operations dropped from \$1.9 million in 1982 to \$1.4 million in 1983 against which preferred dividend requirements rose from \$560,000 to \$1.2 million. Net capital expenditures in both years approached \$3.1 million. The acquisition of British Canadian Resources Ltd. in 1983 gave rise to the issue of an additional \$11.6 million in common and preferred equity out of which \$5.3 million financed the acquisition of oil and gas property interests with the balance financing cash acquired thereby and used to retire bank debt.

LISTING ON STOCK EXCHANGES

The Westgrowth Common Shares are listed on The Alberta Stock Exchange and The Toronto Stock Exchange.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of Westgrowth are Touche Ross & Co., Chartered Accountants, 3500, 700 - 2nd Street S.W., Calgary, Alberta.

The registrar and transfer agent for the Westgrowth Common Shares is National Trust Company at its offices in Calgary, Toronto, Montreal and Vancouver.

AUDITORS' REPORT

The Board of Directors
Calgary Westgrowth Ltd.

We have examined the balance sheets of Canadian Westgrowth Ltd. as at December 31, 1986 and 1985 and the consolidated statements of earnings, retained earnings and changes in cash resources for the two years ended December 31, 1986. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1986 and 1985 and the results of its operations and the changes in its cash resources for the two years ended December 31, 1986 in accordance with generally accepted accounting principles applied, except for the change in accounting for oil and gas properties as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

The comparative financial statements for years prior to 1984 have been reported upon by other auditors, and accordingly our opinion does not extend thereto.

Calgary, Canada
February 18, 1987
September 25, 1987 as to Note 13

Touche Ross & Co.
Chartered Accountants

CANADIAN WESTGROWTH LTD.
Consolidated Balance Sheets

	June 30 1987	December 31	
	(unaudited)	1986	1985
ASSETS			
Current Assets			
Cash and deposits	\$ 7,638,000	9,587,000	—
Accounts receivable	2,339,000	1,849,000	1,824,000
Marketable securities	—	—	96,000
Inventory	85,000	75,000	65,000
Prepaid expenses	29,000	25,000	19,000
	<u>10,091,000</u>	<u>11,536,000</u>	<u>2,004,000</u>
Property, Plant and Equipment (Notes 2, 4 and 5)	39,477,000	38,851,000	28,506,000
Other	30,000	38,000	48,000
	<u><u>\$49,598,000</u></u>	<u><u>50,425,000</u></u>	<u><u>30,558,000</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 1,464,000	2,095,000	2,994,000
Deferred Revenue	434,000	627,000	706,000
Long-Term Debt (Note 6)	—	—	3,100,000
Deferred Income Taxes	1,883,000	1,958,000	1,851,000
SHAREHOLDERS' EQUITY			
Share Capital (Notes 3 and 8)	45,838,000	45,737,000	33,646,000
Retained Earnings (Deficit) (Notes 3 and 8)	(21,000)	8,000	(11,739,000)
	<u>45,817,000</u>	<u>45,745,000</u>	<u>21,907,000</u>
Commitments and Contingency (Notes 11 and 12)			
	<u><u>\$49,598,000</u></u>	<u><u>50,425,000</u></u>	<u><u>30,558,000</u></u>

See accompanying notes.

On behalf of the Board:

(Signed) **John M. S. Lecky**, Director

(Signed) **Stephen M. Krasnow**, Director

CANADIAN WESTGROWTH LTD.
Consolidated Statements of Earnings

	Six Months Ended June 30		Years Ended December 31				
	1987	1986	1986	1985	1984	1983	1982
	(unaudited)				(Restated)	(Restated)	(Restated)
Revenue							
Sale of petroleum and natural gas	\$3,228,000	2,750,000	4,933,000	6,668,000	5,313,000	4,859,000	6,830,000
Processing income	270,000	484,000	1,071,000	1,058,000	1,035,000	—	—
Gain on sale of property, plant and equipment	—	—	—	—	757,000	—	715,000
Management fees	—	—	—	—	—	—	26,000
Other	379,000	135,000	289,000	222,000	103,000	240,000	163,000
	<u>3,877,000</u>	<u>3,369,000</u>	<u>6,293,000</u>	<u>7,948,000</u>	<u>7,208,000</u>	<u>5,099,000</u>	<u>7,734,000</u>
Expenses							
Production and processing costs	1,484,000	1,371,000	2,673,000	2,649,000	2,042,000	1,762,000	2,375,000
Petroleum and gas revenue tax	—	—	—	42,000	149,000	8,000	263,000
General and administrative	1,074,000	419,000	968,000	901,000	845,000	1,219,000	1,435,000
Interest expense	—	254,000	396,000	387,000	379,000	725,000	1,791,000
Depletion	1,225,000	805,000	1,707,000	1,139,000	801,000	2,702,000	3,743,000
Depreciation	198,000	173,000	368,000	351,000	507,000	371,000	322,000
Bad debt expense	—	—	—	249,000	—	—	—
Loss on sale of marketable securities	—	64,000	64,000	—	—	—	—
	<u>3,981,000</u>	<u>3,086,000</u>	<u>6,176,000</u>	<u>5,718,000</u>	<u>4,723,000</u>	<u>6,787,000</u>	<u>9,929,000</u>
Earnings (loss) before income taxes and extraordinary item	(104,000)	283,000	117,000	2,230,000	2,485,000	(1,688,000)	(2,195,000)
Deferred income taxes (recovery) (Note 7a)	(75,000)	100,000	109,000	944,000	961,000	59,000	60,000
Earnings (loss) before extraordinary item	(29,000)	183,000	8,000	1,286,000	1,524,000	(1,747,000)	(2,255,000)
Extraordinary item (Note 7b)	—	—	—	—	135,000	—	—
Net earnings (loss)	<u>\$ (29,000)</u>	<u>183,000</u>	<u>8,000</u>	<u>1,286,000</u>	<u>1,659,000</u>	<u>(1,747,000)</u>	<u>(2,255,000)</u>

CANADIAN WESTGROWTH LTD.
Consolidated Statements of Retained Earnings

	Six Months Ended June 30		Years Ended December 31				
	1987	1986	1986	1985	1984	1983	1982
	(unaudited)				(Restated)	(Restated)	(Restated)
Retained earnings (deficit), beginning of period	\$ 8,000	(11,739,000)	(11,739,000)	(10,911,000)	(10,458,000)	(7,485,000)	(4,496,000)
Net earnings (loss)	(29,000)	183,000	8,000	1,286,000	1,659,000	(1,747,000)	(2,255,000)
Dividends on Preferred Shares	—	(352,000)	(352,000)	(2,114,000)	(2,112,000)	(1,226,000)	(560,000)
Deduct:							
Contributed surplus on conversion of preferred shares (Note 8b)	—	—	6,026,000	—	—	—	—
Reduction of common share capital (note 3e)	—	—	6,065,000	—	—	—	—
Expenses relating to issue of preferred shares net of deferred income tax	—	—	—	—	—	—	(174,000)
Retained earnings (deficit) end of period	<u>\$ (21,000)</u>	<u>(11,908,000)</u>	<u>8,000</u>	<u>(11,739,000)</u>	<u>(10,911,000)</u>	<u>(10,458,000)</u>	<u>(7,485,000)</u>

See accompanying notes.

CANADIAN WESTGROWTH LTD.
Consolidated Statements of Changes in Cash Resources

	Six Months Ended June 30		Years Ended December 31				
	1987	1986	1986	1985	1984	1983	1982
	(unaudited)						
Cash provided by internal sources:							
Cash flow from operations	\$ 1,319,000	1,261,000	2,192,000	3,969,000	3,036,000	1,385,000	1,870,000
Changes in working capital excluding cash	(1,135,000)	759,000	(844,000)	(1,576,000)	346,000	(2,780,000)	(9,017,000)
	<u>184,000</u>	<u>2,020,000</u>	<u>1,348,000</u>	<u>2,393,000</u>	<u>3,382,000</u>	<u>(1,395,000)</u>	<u>(7,147,000)</u>
Cash provided by (used in) financing activities:							
Issuance of common shares, net	101,000	—	27,147,000	1,635,000	—	3,792,000	—
Issuance (conversion) of preferred shares	—	—	(2,965,000)	—	—	7,838,000	9,106,000
Preferred share subscription	—	—	—	—	—	—	100,000
Increase (decrease) in long-term debt	—	850,000	(3,100,000)	37,000	957,000	(39,000)	145,000
Dividends on preferred shares	—	(352,000)	(352,000)	(2,114,000)	(2,112,000)	(1,226,000)	(560,000)
Preferred share issue expense	—	—	—	—	—	—	(234,000)
Deferred revenue	(193,000)	(48,000)	(136,000)	(157,000)	(247,000)	(141,000)	656,000
Acquisition of subsidiary company net of working capital of \$2,438,000 (1985 - \$865,000), (1983 - \$11,996,000)	—	—	(7,258,000)	(770,000)	—	(5,325,000)	—
	<u>(92,000)</u>	<u>450,000</u>	<u>13,336,000</u>	<u>(1,369,000)</u>	<u>(1,402,000)</u>	<u>4,899,000</u>	<u>9,213,000</u>
Cash provided by (used in) investments:							
Additions to property, plant and equipment — net	(2,149,000)	(2,577,000)	(5,861,000)	(3,396,000)	(1,307,000)	(3,063,000)	(3,124,000)
Less government incentives	100,000	200,000	754,000	709,000	272,000	115,000	1,105,000
Other	8,000	17,000	10,000	(48,000)	152,000	58,000	(47,000)
	<u>(2,041,000)</u>	<u>(2,360,000)</u>	<u>(5,097,000)</u>	<u>(2,735,000)</u>	<u>(883,000)</u>	<u>(2,890,000)</u>	<u>(2,066,000)</u>
Increase (decrease) in cash	(1,949,000)	110,000	9,587,000	(1,711,000)	1,097,000	614,000	—
Cash, beginning of period	9,587,000	—	—	1,711,000	614,000	—	—
Cash, end of period	<u>\$ 7,638,000</u>	<u>110,000</u>	<u>9,587,000</u>	<u>—</u>	<u>1,711,000</u>	<u>614,000</u>	<u>—</u>

See accompanying notes

CANADIAN WESTGROWTH LTD.

Notes to Consolidated Financial Statements

(Information as at June 30, 1987 and subsequent thereto,
and for the six months ended June 30, 1987 and 1986 is unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of Consolidation:

The consolidated financial statements include the accounts of Canadian Westgrowth Ltd. (the Company) and its principal wholly owned subsidiaries, Westgrowth Petroleums, Inc., British Canadian Resources Ltd., St. John's Petroleum Ltd. and Flame Energy Ltd. Effective December 31, 1986 Flame Energy Ltd. was amalgamated with the Company.

(b) Full Cost Method of Accounting:

The Company follows the full cost method of accounting for exploration and development expenditures, whereby all costs relating to the exploration for and the development of petroleum and natural gas reserves are capitalized on a country-by-country basis. Such costs include those related to lease acquisition, geological and geophysical activities, costs of drilling productive and nonproductive wells and overhead charges related to exploration and development activities. The Company capitalizes petroleum and natural gas properties at cost to the extent that they do not exceed the estimated net revenue to be recovered with respect to the production of proved reserves after deduction of general and administrative expenses and income taxes ("ceiling test"). The net revenue is calculated using the oil and gas market prices prevailing at the balance sheet date.

Costs related to the acquisition of unproved properties are excluded from capitalized costs to be depleted until it is determined whether proven reserves are attributable to the properties or impairment in value has occurred.

Depletion of petroleum and natural gas properties is calculated on the unit of production method based upon estimated proven reserves before royalties as determined by independent engineers. Gas volumes are converted to equivalent units of oil based on relative energy content.

Depreciation of production equipment, related facilities and other equipment is calculated on a declining balance basis at rates of 5% to 30%.

Gains or losses on significant property, plant and equipment sales are recognized in the consolidated statement of earnings.

(c) Joint Venture Operations:

Substantially all of the Company's petroleum and natural gas exploration, development and production activities are conducted in Canada and jointly with others. Accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(d) Foreign Currency Translation:

The foreign currency accounts of the Company and its United States subsidiaries are translated to Canadian dollars using the temporal method.

(e) Deferred Revenue:

The deferred gas production revenue represents payments received under take-or-pay gas contracts. These amounts are included in revenue when the gas to which the payments relate is delivered or reduced in the case of a required repayment.

(f) Inventory:

The Company's inventory is valued at the lower of the cost and net realizable value.

2. CHANGE IN ACCOUNTING POLICY:

In 1986 the Company adopted on a prospective basis the Canadian Institute of Chartered Accountants guideline for Full Cost Accounting in the Oil and Gas Industry which was released in September 1986. In applying the guideline, no write down of property, plant and equipment was required.

3. REORGANIZATION:

At the shareholders' meeting held on October 6, 1986, the shareholders of the Company approved a number of transactions reorganizing the business and capital of the Company which resulted in a change of the name

of the Company to Canadian Westgrowth Ltd. and a consolidation of its common shares on a one new for twenty old basis. The reorganization provided principally for the following:

- (a) The conversion of all outstanding preferred shares of the Company at the election of each preferred share holder for cash of \$2,965,000 and the issuance of 1,725,067 common shares.
- (b) The implementation of a share rights issue on November 18, 1986 wherein all shareholders of the Company were granted rights to subscribe for Units, each Unit consisting of one common share and one and one-half share purchase warrants at a price of \$5.00 per Unit.
Each whole warrant entitles the holder to purchase a new common share at a price of \$5.00 on or before November 30, 1991. 1,019,229 Units were subscribed for in December 1986 with proceeds of \$5,096,000. Accordingly, there are outstanding warrants for the purchase of a further 1,528,843 common shares.
- (c) The Company entered into an agreement with Helicopter Rentals Limited providing for its participation in the reorganization wherein 1,783,341 common shares were issued for cash of \$8,917,000. Additionally, in respect of a line of credit (Note 6) the Company issued a debenture in the amount of \$3,000,000 which debenture has not been drawn down at the present time.
- (d) The Company also entered into an agreement with Heli-Union B.E.A.S. Limited ("Heli-Union") providing for the issuance of the Company's common shares in exchange for the conveyance to the Company of all assets held under the terms of the July, 1985 joint venture agreement between the Company and Heli-Union. This conveyance agreement was effected on October 8, 1986 and the Company issued to Heli-Union 800,000 common shares in consideration for \$2,497,000 in cash and petroleum and natural gas properties valued at \$1,500,000.
- (e) The reduction of the common share capital of the Company by \$6,065,000 being the amount of the deficit as at December 31, 1985 plus preferred share dividends paid prior to the reorganization and after deduction of the Contributed Surplus realized upon conversion of the preferred shares.

4. ACQUISITION OF FLAME ENERGY LTD.:

Effective November 28, 1986, the Company acquired Flame Energy Ltd. for a total consideration of \$9,696,000. The acquisition has been accounted for by the purchase method. The results of operations of Flame Energy Ltd. have been included in the consolidated accounts of the Company from the date of acquisition.

The difference between the book value of net assets acquired and the purchase price has been attributed to petroleum and natural gas properties.

The net assets acquired at attributed values consist of:

Working capital	\$2,438,000
Petroleum and natural gas properties	7,318,000
Long-term liabilities	(60,000)
	<u>\$9,696,000</u>

Consideration given:

2,148,960 common shares of Canadian Westgrowth Ltd.	<u>\$9,696,000</u>
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5. PROPERTY, PLANT AND EQUIPMENT:

	June 30 1987	December 31	
		1986	1985
Cost:			
Petroleum and natural gas properties:			
Developed	\$46,147,000	44,262,000	31,535,000
Undeveloped	4,106,000	4,106,000	4,413,000
	<u>50,253,000</u>	<u>48,368,000</u>	<u>35,948,000</u>
Accumulation, depletion and depreciation	10,776,000	9,517,000	7,442,000
Net Book Value	<u>\$39,477,000</u>	<u>38,851,000</u>	<u>28,506,000</u>
Exploration and development overhead capitalized during the period	<u>\$ 220,000</u>	<u>399,000</u>	<u>476,000</u>

6. LINES OF CREDIT:

The Company has an unused line of credit with its Canadian banker providing for loans of approximately \$5,500,000 at December 31, 1986, and June 30, 1987. Borrowings under this line of credit bear interest at 1/4% above the bank's prime lending rate.

The line of credit is evidenced by a demand note and is secured by certain of the Company's Canadian petroleum and natural gas properties, a general assignment of accounts receivable and a first floating charge debenture.

Pursuant to the agreement (as referred to in Note 3c) between the Company and Helicopter Rentals Limited, the Company issued a convertible debenture on October 8, 1986 in the amount of \$3,000,000 which serves as a line of credit made available up to October 8, 1987 for future corporate purposes.

The Company also entered into an agreement with Imasco Limited, a shareholder, which provides Imasco Limited with the right to be issued a convertible debenture in the amount of \$2,000,000 with terms and conditions similar to those contained in the debenture issued to Helicopter Rentals Limited.

The debentures, when drawn down, bear interest of 8% per annum on the principal amount and mature on the third anniversary of the date of draw down. The debentures are convertible into common shares at the option of the holder on the basis of \$5.00 per share to October 8, 1987, \$6.00 per share to October 8, 1988, and \$8.00 per share thereafter.

7. DEFERRED INCOME TAXES:

- (a) The provision for deferred income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate to the earnings before income taxes. This difference results from the following items:

	Six Months Ended June 30	Year Ended December 31				
	1987	1986	1985	1984	1983	1982
Computed expected tax (recovery)	\$ (49,000)	55,000	1,049,000	1,168,000	108,000	(107,000)
Increase (decrease) in taxes resulting from:						
Non-deductible expenses . .	100,000	276,000	556,000	333,000	215,000	797,000
Government tax allowances and credits	(110,000)	(258,000)	(661,000)	(540,000)	(264,000)	(630,000)
Losses (income) from subsidiary companies	(16,000)	36,000	—	—	—	—
Deferred income taxes	<u>\$ (75,000)</u>	<u>109,000</u>	<u>944,000</u>	<u>961,000</u>	<u>59,000</u>	<u>60,000</u>

(b) Extraordinary Item:

Tax benefit of prior years' losses, December 31, 1984	<u>\$ 135,000</u>
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8. SHARE CAPITAL:

(a) Authorized:

The authorized capital of the Company consists of:

- (i) Preferred:
unlimited number of cumulative first preferred shares without nominal or par value, issuable in one or more series.
- (ii) Common:
unlimited number of shares without nominal or par value.

(b) Issued:

	Shares	Amount
First preferred shares, Series A		
Balance, December 31, 1985	1,550,000	\$ 7,750,000
Converted into common shares	(1,550,000)	(5,300,000)
Transferred to contributed surplus	—	(2,450,000)
Balance, December 31, 1986	—	\$ —
First preferred shares, Series B		
Balance, December 31, 1985	1,973,156	\$ 9,866,000
Converted into common shares	(1,973,156)	(6,290,000)
Transferred to contributed surplus	—	(3,576,000)
Balance, December 31, 1986	—	\$ —
Common Shares		
Balance, December 31, 1985	696,654	\$16,030,000
Issued upon conversion of preferred shares (Note 3a)	1,725,067	8,625,000
Issued pursuant to the rights offering (Note 3b and 3c)	2,802,570	14,013,000
Issued for Joint Venture assets (Note 3d)	800,000	3,997,000
Issued for the acquisition of Flame Energy Ltd. (Note 4)	2,148,960	9,696,000
Purchase of shares for cancellation	(442)	(2,000)
	8,172,809	52,359,000
Less:		
Share issue expenses	—	(557,000)
Elimination of the deficit	—	(6,065,000)
Balance, December 31, 1986	8,172,809	45,737,000
Issued on settlement of former Flame employees' stock options	17,294	69,000
Issued on exercise of employee stock option	8,000	32,000
Balance, June 30, 1987	8,198,103	\$45,838,000

- (i) The common shares of the Company were consolidated on a twenty old common shares for one new common share basis on October 8, 1986 pursuant to the reorganization of the Company's business and share capital approved by the shareholders.
- (ii) On October 6, 1986, the Company's shareholders approved a resolution to reduce the common share capital of the Company by \$6,065,000 being the amount of the deficit as at December 31, 1985 plus preferred share dividends paid prior to the reorganization and after deduction of the Contributed Surplus realized upon conversion of the preferred shares.
- (iii) The Company realized a contributed surplus of \$6,026,000 upon conversion of all the outstanding first preferred shares, series A and B, for a combination of cash and common shares of the Company.

(c) **Common Shares Reserved:**

Common shares are reserved for issue under share purchase options granted to directors and employees. The options provide for the exercise of one third of the options per year cumulatively over three year periods. Options were as follows:

On December 31, 1986 - (30,200 shares outstanding)	
On June 30, 1987 - (240,850 shares outstanding)	256,850
These options are exercisable at prices ranging from \$4.00 to \$11.00 per share and expire between 1987 and 1990.	
On conversion of the convertible debentures	1,000,000
On exercise of all warrants issued pursuant to the share rights offering expiring on November 30, 1991	1,528,843
	<u>2,785,693</u>

9. **EARNINGS (LOSS) PER COMMON SHARE:**

The earnings (loss) per common share is calculated after deduction of dividends on preferred shares by dividing the weighted daily average number of common shares outstanding during the year into the earnings (loss) attributable to the common shareholders.

	Six Months Ended June 30		Year Ended December 31				
	1987	1986	1986	1985	1984	1983	1982
						(Restated)	
Earnings (loss) per share before extraordinary item	\$0.00	(1.20)	0.00	(1.40)	(1.00)	(6.80)	(7.40)
Net earnings (loss) per share	\$0.00	(1.20)	0.00	(1.40)	(0.80)	(6.80)	(7.40)

The exercise of warrants and options would be anti-dilutive.

10. **RELATED PARTY TRANSACTIONS**

Details of related party transactions are as follows:

- (a) Included in general and administrative expense are amounts which represent management fees payable to The Resource Service Group Ltd. ("RSG"), a related Company for the following periods:

June 30		December 31	
1987	1986	1986	1985
<u>\$40,800</u>	<u>37,500</u>	<u>81,000</u>	<u>100,000</u>

The Company also paid \$91,000 to RSG for expenses incurred on its behalf pertaining to the financial reorganization of the Company and to the acquisition of Flame Energy Ltd.

One of the Company's United States subsidiaries participates on a partnership basis with a subsidiary of Imasco Limited in oil and gas development programs. The terms of the partnership agreement are considered similar to those with non-related parties.

- (b) In May 1982 RSG purchased 1,200,000 series A first preferred shares for an aggregate amount of \$6,000,000 representing 77.4% of the outstanding series A first preferred shares. RSG held \$1,200,000 of the issued debentures and was paid \$70,000 (1984 - \$120,000) of interest related to this debenture in 1985.
- (c) The Company had unsecured promissory notes receivable amounting to approximately \$57,000 as at December 31, 1983 and \$117,000 as at December 31, 1982 (1981 - \$70,000). The promissory notes, which bore interest at rates of 10% to 12% per annum, were due in 1984 and represented funds advanced to officers and a director.
- (d) During 1982 the Company paid commissions in the amount of \$40,000 (1981 - \$60,000) for professional services to a Company, whose chairman is a former director of the Company.
- (e) During 1982 the Company's United States subsidiary participated on a joint venture basis with a subsidiary of RSG in oil and gas development progress. The terms of the joint venture agreement were identical to transactions with non-related parties.

11. COMMITMENTS:

In 1984 the Company disposed of its carbon dioxide processing facility. Subsequent to this sale, the Company entered into a processing agreement with the owners of the facility whereby the Company has agreed to pay a minimum processing fee in return for the utilization of the facility to process its waste gas. The Company has provided the owners of the facility with security for these obligations by means of collateral debentures aggregating \$2,000,000 and an assignment of its related processing revenue.

The Company has lease agreements for office space expiring February 28, 1989 and December 31, 1996. The Company's lease rental payments on one of the leases are calculated based on a prescribed formula which includes restrictions on the payment of management fees to associated companies and on the payment of dividends. The minimum payments estimated to be required in the next five years are as follows:

1987	.....	\$ 334,000
1988	.....	379,000
1989	.....	341,000
1990	.....	334,000
1991	.....	334,000
		<u>\$1,722,000</u>

12. CONTINGENCY:

The Company is a defendant in a legal action instituted in the Alberta Provincial Court by a Canadian chartered bank as assignee for a certain drilling company. The amount claimed is approximately \$1,333,000 (U.S. \$959,000) plus interest and costs and the Company is vigorously contesting the claim. The Company's legal counsel is unable, at the present time, to give any opinion with respect to the merits of this action.

13. SUBSEQUENT EVENT:

On September 9, 1987, the Company had reached an agreement in principle to a merger with Ulster Petroleums Ltd. ("Ulster"). This merger is to be effected by an exchange of common shares of Ulster for all the common shares outstanding of the Company; whereby the Company's shareholders will receive 1.5 common shares of Ulster for each common share of the Company. Accordingly, the Company will become a wholly owned subsidiary of Ulster.

This agreement is subject to certain conditions which include the approval of the shareholders of each company and regulatory authorities.

ULSTER PETROLEUMS LTD.

HISTORY OF ULSTER

Ulster was formed by statutory amalgamation on January 12, 1970 and continued under the BCA on June 4, 1984.

Ulster has approximately 4,000 registered shareholders. The Ulster Common Shares are listed on The Toronto Stock Exchange and trade under the stock symbol ULP.

The head and principal office of Ulster is located at Suite 500, 700 - 4th Avenue S.W., Calgary, Alberta, T2P 3J4.

BUSINESS OF ULSTER

The principal business of Ulster is the exploration for, and development and production of, oil and natural gas in western Canada.

Since 1982, Ulster's daily oil production has increased from 75 to 1,000 barrels per day as at June 30, 1987. Although daily gas production initially declined, it subsequently has increased to the point where it now averages 2,500 mcf/d which is double the comparable 1982 level.

Ulster has a staff of seventeen employees, eleven of whom form the exploration and development group. This group is responsible for generating Ulster's exploration prospects which are concentrated in those oil prone areas of Alberta where significant land positions can be assembled. This approach enables Ulster to take advantage of initial drilling successes, to pursue similar prospects along the same trend, and to concentrate its efforts in those areas of its greatest expertise.

In most cases, Ulster invites others in the industry to participate and share the costs of prospects developed internally and, in a like manner, Ulster participates and shares the costs of prospects developed by other companies. In this manner, Ulster is able to broaden its exposure and limit the risks and costs associated with any one particular prospect.

Oil and natural gas interests are acquired through the purchase of leases and licenses offered for sale at various provincial Crown land sales and through negotiations with owners of freehold mineral rights. Interests are also acquired through negotiated farmin agreements with other companies in the industry.

Producing Properties

The following table sets forth the principal producing properties of Ulster and the production therefrom for the indicated periods.

	Six Months Ended June 30 1987	Year Ended December 31	
		1986	1985
Oil and Liquids (bbls)			
Loon	121,000	183,100	84,000
Wainwright	20,400	44,500	45,300
Provost	10,300	23,600	16,200
Heath	5,300	13,400	19,400
Other			
Alberta	11,100	19,900	12,100
Saskatchewan	4,100	8,300	9,100
	<u>172,200</u>	<u>292,800</u>	<u>186,100</u>
Natural Gas (mcf)			
Medicine Hat	134,500	278,700	143,400
Sedalia	17,500	53,600	103,800
Huxley	23,500	52,600	60,700
Wainwright	28,100	50,600	47,000
Other			
Alberta	254,400	171,000	180,100
	<u>458,000</u>	<u>606,500</u>	<u>535,000</u>

The following table sets forth Ulster's production volumes of oil and natural gas for the five years ended December 31, 1982 to 1986 inclusive and the six months ended June 30, 1987.

Oil and Liquids

	bbls		bopd	
	Gross	Net	Gross	Net
1987 (1)	172,200	140,500	946	770
1986	292,800	239,000	802	655
1985	186,100	146,700	510	402
1984	109,400	88,800	300	243
1983	50,000	40,600	138	111
1982	27,400	22,300	75	61

Natural Gas

	mcf		mcf/d	
	Gross	Net	Gross	Net
1987 (1)	458,000	374,000	2,500	2,100
1986	606,500	529,000	1,700	1,400
1985	535,000	437,000	1,500	1,200
1984	469,000	376,000	1,300	1,000
1983	322,000	258,000	900	700
1982	491,000	393,000	1,300	1,100

(1) Six months ended June 30, 1987.

Oil and Natural Gas Wells

Ulster's interest in producing and non-producing wells as at September 1, 1987 is as set forth in the following table:

	Gross Wells		Net Wells	
	Producing	Non-Producing	Producing	Non-Producing
Oil Wells				
Loon	44	—	14.977	—
Wainwright	59	—	12.721	—
Provost	6	—	1.583	—
Heath	11	—	1.833	—
Other				
Alberta	16	—	2.318	—
Saskatchewan	13	—	2.946	—
Total Oil Wells	149	—	36.378	—
Natural Gas Wells				
Medicine Hat	35	—	33.250	—
Sedalia	2	1	0.500	0.600
Huxley	5	—	0.500	—
Wainwright	14	1	3.327	0.270
Others	20	31	5.959	4.486
Total Gas Wells	76	33	43.536	5.356
Total Wells	225	33	79.914	5.356

The net interests shown may change for some wells after payout.

Although the majority of Ulster's non-producing natural gas wells are located in close proximity to pipelines, they have not been placed on production for a variety of reasons, including but not limited to (i) a lack of markets, (ii) a lack of facilities, or (iii) the need for additional development activity within the area.

Oil and Natural Gas Reserves

D & S Petroleum Consulting Group Ltd., independent petroleum engineers, of Calgary, have prepared a report dated April 22, 1987 (the "D & S Report") which summarizes the proved producing, proved non-producing, proved undeveloped and probable additional reserves of Ulster as at January 1, 1987. This report will be available for inspection at the head office of Ulster during normal business hours for a period of sixty days from September 30, 1987.

Reserve estimates are inherently imprecise and are subject to change as further information becomes available. Reserve estimates may be affected by several factors. Initially, reserve information is imprecise due to inherent uncertainties in, and the limited nature of, the data base upon which the estimating is predicated. The methods and data used in estimating reserves are often necessarily indirect or analogical in character rather than direct or deductive. Furthermore, reserve estimates are based on normal operating procedures and on prices, development and lifting costs at the dates on which the estimates are prepared. Variations in actual prices and costs at the time of production can significantly affect the accuracy of such estimates. **ACCORDINGLY, THESE ESTIMATES SHOULD NOT BE CONSTRUED AS A REPRESENTATION OF THE FAIR MARKET VALUE OF THE PROPERTIES TO WHICH THEY RELATE.**

The following tables set forth the gross and net reserves so reported and the future cash flows therefrom before income taxes discounted at annual rates of 0%, 10%, 15% and 20% to present value. These estimates were prepared without consideration of income taxes and indirect costs such as interest and administrative expenses.

	Gross Reserves		Net Reserves		Future Cash Flows Before Income Tax			
	Oil & NGL	Natural Gas	Oil & NGL	Natural Gas	Discounted			
	(mmbbl)	(mmcf)	(mmbbl)	(mmcf)	0%	10%	15%	20%
					(S'000's)			
Escalated Prices and Costs								
Proved Developed								
Producing	3,172	5,907	2,704	4,832	82,547	37,691	30,000	25,106
Non-Producing	484	17,951	393	14,781	58,700	13,703	8,551	5,863
Proved Undeveloped	220	2,198	165	1,691	12,687	2,560	1,491	945
Total Proved	3,876	26,056	3,262	21,304	153,934	53,954	40,042	31,914
Probable Additional	570	4,122	467	3,479	28,670	6,089	3,771	2,528
Alberta Royalty Tax Credits					19,837	9,944	7,810	6,427
Total Reserves	4,446	30,178	3,729	24,783	202,441	69,987	51,623	40,869
Unescalated Prices and Costs								
Proved Developed								
Producing	3,243	5,752	2,764	4,735	49,297	28,737	24,260	21,137
Non-Producing	501	18,124	412	15,351	21,740	6,819	4,732	3,535
Proved Undeveloped	219	2,198	165	1,755	4,441	1,138	709	467
Total Proved	3,963	26,074	3,341	21,841	75,478	36,694	29,701	25,139
Probable Additional	615	4,084	504	3,526	11,193	3,231	2,173	1,546
Alberta Royalty Tax Credits					11,684	7,156	6,013	5,207
Total Reserves	4,578	30,158	3,845	25,367	98,355	47,081	37,887	31,892

(1) Proved reserves are defined to be those quantities of crude oil, natural gas and natural gas liquids which, upon analyses of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and natural gas reservoirs under existing economic and operating conditions. Proved reserves are limited to those quantities of oil and natural gas which can be expected to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing conventional equipment and operating methods. Depending upon their status of development such proved reserves are subdivided into "proved developed reserves" and "proved undeveloped reserves". Proved developed reserves are further subdivided into "proved developed producing" and "proved developed non-producing" categories.

- "Proved developed producing" reserves are proved developed reserves which are expected to be produced from completion intervals now on production in existing wells.
- "Proved developed non-producing" reserves are proved developed reserves which exist behind the casing of existing wells, which are expected to be produced through these wells in the predictable future, where the cost of making such oil and natural gas available for production is relatively small compared to the cost of a new well.
- "Proved undeveloped" reserves are proved reserves which are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units, which are reasonably certain of production when drilled.

- (2) "Probable additional" reserves are defined as those reserves which may be recoverable but to which there may be attached some economic, engineering or geological risk.

THE D & S REPORT DID NOT APPLY SPECIFIC RISK FACTORS TO ALLOW FOR GEOLOGICAL AND ENGINEERING RISK ASSOCIATED WITH PROBABLE RESERVES. ULSTER HAS NOT APPLIED A RISK FACTOR TO THE PROBABLE ADDITIONAL RESERVES AND PRESENT WORTH VALUES CALCULATED IN THE D & S REPORT TO ALLOW FOR GEOLOGICAL AND ENGINEERING RISK SINCE THE RESERVES AND AMOUNTS RELATED THERETO ARE NOT MATERIAL RELATIVE TO THE TOTALS FOR ULSTER.

- (3) (a) "Gross reserves" means those reserves accruing to Ulster after deduction of all outside working interests but before deduction of provincial, freehold and overriding royalties.
- (b) "Net reserves" means those reserves accruing to Ulster after deduction of all outside working interests and provincial, freehold and overriding royalties.
- (4) (a) "Escalated Future Net Cash Flow" is income derived from the sale of reserves and net of operating costs, future investments and outside royalty interests but before provision for income taxes. All operating and capital costs have been escalated at 5% to 1989, 6% per year until the year 2005, and held constant thereafter.
- (b) Conventional oil and natural gas price forecasts as contained in the D & S Report are as follows:

	WESTERN CANADIAN OIL	ALBERTA GAS	
	Oil Price \$/bbl	Topgas Gas \$/mcf	Other Gas \$/mcf
1987	23.32	1.85	2.05
1988	24.63	1.94	2.10
1989	25.93	2.24	2.34
1990	27.76	2.63	2.68
1991	29.72	2.88	2.88
1992	31.81	3.09	3.09
1993	34.06	3.33	3.33
1994	36.46	3.58	3.58
1995	39.03	3.84	3.84
1996	41.78	4.13	4.13
1997	44.73	4.44	4.44
1998	47.88	4.77	4.77
1999	51.26	5.12	5.12
2000	54.88	5.51	5.51
2001	58.17	5.84	5.84
2002	61.66	6.19	6.19
2003	65.36	6.56	6.56
2004	69.28	6.95	6.95
2005	73.44	7.37	7.37

"Topgas gas contract" means agreements between TransCanada Pipelines Limited ("TCPL") and those gas producers who agreed to modify various provisions of TCPL's existing natural gas sales contracts.

- (c) The capital expenditures required to achieve the future net revenue attributable to proved reserves are estimated to be \$3,311,000 of which \$395,000 is required in 1987, \$ 610,000 in 1988, \$316,000 in 1989, \$773,000 in 1990, \$145,000 in 1991 and \$1,072,000 thereafter.
- (5) "Unescalated Future Net Cash Flows" were calculated using prices received as of December 31, 1986 except as follows. Where the sale of gas is covered by contract, the applicable contract prices, including fixed and determinable escalations provided by contract, were used for the duration of the contract and thereafter the last contract price was used. Revenues from those properties currently not producing were included at the time the properties are expected to be placed on production; however, there is a possibility that sales from these properties will occur either earlier or later than anticipated.

Operating costs, royalties and future recompletion and development costs were based on current prices with no escalation and have been deducted in arriving at the estimated future net revenues. No deduction has been made for general corporate overhead or any other indirect costs.

While it may be anticipated that the prices received by Ulster for the sale of its production may be higher or lower than the prices used in this evaluation, as described above, and the operating costs and other costs relating to such production may also differ from existing levels, such changes in prices and costs were omitted from consideration in making this evaluation.

- (6) The D & S Report is based on representations made by Ulster with respect to its working interests and other factual data, which representations were accepted by D & S without independent verification.

Undeveloped Acreage

Ulster's oil and natural gas acreage holdings at September 1, 1987 are set out in the following table:

	Acres		
	Gross	Net	Net Undeveloped
Alberta	321,872	104,560	54,648
Saskatchewan	10,524	2,185	2,200
British Columbia	12,432	643	563
	344,828	107,388	57,411
Beaufort Sea	1,085,878	112,400	112,400
Total	1,430,706	219,788	169,811

Ulsters' net undeveloped acreage was not evaluated as of September 1, 1987 since the recent oil and natural gas price fluctuations preclude determination of a meaningful market value for such undeveloped lands.

The foregoing undeveloped acreage will form the basis for Ulster's future exploration and development activities. The nature and extent of such activity, however, cannot be precisely predicted at this time since it is dependent upon ongoing geological and geophysical work by Ulster and the concurrence of our partners once specific operations have been proposed.

Drilling Activity

Since January 1, 1982 Ulster has drilled and/or participated in the drilling of 189 gross wells as set forth in the following table:

	Gross Wells				Net Wells			
	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
Exploratory Wells								
1987 (1)	1	1	5	7	0.15	0.50	2.96	3.61
1986	7	—	3	10	1.43	—	1.13	2.56
1985	9	—	12	21	1.75	—	4.78	6.53
1984	2	3	9	14	1.25	0.70	2.38	4.33
1983	6	2	9	17	1.76	0.31	2.66	4.73
1982	4	2	3	9	1.51	0.36	1.35	3.22
	29	8	41	78	7.85	1.87	15.26	24.98
Development Wells								
1987 (1)	6	1	1	8	1.36	1.00	1.00	3.36
1986	16	2	3	21	3.90	1.50	0.83	6.23
1985	20	1	1	22	5.00	0.33	0.50	5.83
1984	28	—	4	32	7.11	—	1.63	8.74
1983	19	1	—	20	2.31	0.05	—	2.36
1982	6	—	2	8	0.73	—	0.50	1.23
	95	5	11	111	20.41	2.88	4.46	27.75
Total Wells	124	13	52	189	28.26	4.75	19.72	52.73

(1) To September 1, 1987.

The working interest in certain of these wells may change after payout.

Ulster has also participated in the drilling of 7 wells which are used in the enhanced recovery of oil reserves. In addition, 30 wells were drilled by farmers on Ulster lands at no cost to Ulster, which have resulted in 6 oil wells, 7 natural gas wells and 17 dry holes.

Capital Expenditures

Capital expenditures for the periods indicated are summarized in the following table:

	Six Months Ended June 30	Year Ended December 31				
	1987	1986	1985	1984	1983	1982
			(5000)			
Exploration and development	1,940	5,895	6,156	6,214	3,306	4,719
Land acquisition	1,256	1,133	1,317	506	2,689	548
Geological, geophysical and related administrative expenses capitalized	283	534	509	357	307	345
Less: grants received under the petroleum incentive programs	—	(1,063)	(1,676)	(1,459)	(733)	(670)
	<u>3,479</u>	<u>6,499</u>	<u>6,306</u>	<u>5,618</u>	<u>5,569</u>	<u>4,402</u>

CAPITALIZATION OF ULSTER

The following table sets forth the long-term debt and capitalization of Ulster. All dollar amounts are in thousands.

	Amount Authorized	Amount Outstanding			Amount Outstanding After Giving Effect to the Plan of Arrangement
		December 31 1986	June 30 1987	September 25 1987	September 25 1987
			(000)		
Long-Term Debt					
Bank Advances (1)	\$10,000	\$4,900	NONE	NONE	NONE
Debentures (2)	\$ 5,500	NONE	\$5,500	\$5,500	\$5,500
Shareholders' Equity					
Common Shares					
(3)(4)(5)(6)(7)(8)	—	\$33,822	\$35,947	\$35,947	\$74,288
	(47,961,920 shares)	(15,894,495 shares)	(16,994,995 shares)	(16,994,995 shares)	(29,363,074 shares)
Preferred Shares	—	—	—	—	—
	(5,000,000 shares)	NONE	NONE	NONE	NONE

- (1) Ulster has a revolving line of credit with a Canadian chartered bank which is secured by an assignment of accounts receivable and certain oil and gas properties pursuant to section 177 of the Bank Act. There are no fixed repayment terms for this demand loan which bears interest at prime on advances up to \$5,000,000 and prime plus ½% on any excess.
- (2) \$5,500,000 principal amount of 7% Convertible Debentures (unsecured and redeemable) ("Ulster Debentures"). See "Ulster Debentures" for details.
- (3) Since 1983 Ulster has repurchased and cancelled 2,038,080 of its Ulster Common Shares under the terms of two normal course issuer bids at an average price of \$1.25 per share through the facilities of The Toronto Stock Exchange.
- (4) The 12,368,079 common shares proposed to be issued to the shareholders of Westgrowth have, for the purposes of this table, been assigned a value of \$3.10 per share being the closing market price on September 8, 1987.
- (5) Ulster has reserved 1,000,000 Ulster Common Shares for issuance under its Stock Option Plan. As at September 1, 1987 options on 522,000 Ulster Common Shares were outstanding. See "Stock Option Plan" for details of outstanding options.
- (6) Ulster has reserved 2,123,552 Ulster Common Shares issuable upon conversion of the Ulster Debentures.
- (7) Ulster has reserved 2,293,265 Ulster Common Shares for issuance to the holders of Westgrowth warrants who will receive equivalent warrants upon completion of the proposed transaction and 361,275 for issuance to the holders of Westgrowth stock options.
- (8) Each Ulster Warrant will entitle the holder to acquire 1.5 Ulster Common Shares for a consideration of \$5.00 on or before November 30, 1991.
- (9) Prepayments under natural gas sales contracts were \$230,000 and \$200,000 and deferred income taxes \$197,000 and \$575,000 as at December 31, 1986 and June 30, 1987, respectively.
- (10) Retained earnings were \$350,000 as at December 31, 1986 and \$1,591,000 as at June 30, 1987.

The authorized share capital of Ulster as at September 25, 1987 consists of 47,961,920 Ulster Common Shares (of which 16,994,995 are issued and outstanding) and 5,000,000 Ulster Preferred Shares (none of which are outstanding). The following is a brief summary of the material rights, privileges, restrictions and conditions attaching to the shares of Ulster.

Ulster Common Shares

Holders of Ulster Common Shares are entitled to one vote per share, to receive dividends as declared by the Board of Directors, and to receive the remaining property upon dissolution. There are no pre-emptive or conversion rights attaching to the Ulster Common Shares and they are not redeemable or subject to any sinking or purchase fund provisions. Ulster may however offer to purchase its Ulster Common Shares in accordance with the BCA and applicable securities legislation.

Ulster Preferred Shares

The Ulster Preferred Shares rank in priority to the Ulster Common Shares with respect to dividends and return of capital. The Ulster Preferred Shares may be issued in one or more series, each series to consist of the number of shares and to have attached thereto such attributes as are determined by resolution of the Board of Directors at the time of issue. Holders of Ulster Preferred Shares shall not be entitled to receive notice of or to attend any meetings of the shareholders of Ulster or to vote at any such meetings unless eight quarterly dividends on the Ulster Preferred Shares of any one series shall remain unpaid. Thereafter and so long as any dividends on any Ulster Preferred Shares remain unpaid such shares shall carry the right to receive notice of, to attend and vote at meetings of shareholders on the basis of one vote per share and shall have the right to elect two persons to the Board of Directors.

Ulster Debentures

\$5,500,000 in principal amount of Ulster Debentures were issued as of March 31, 1987, pursuant to the trust indenture, dated March 31, 1987 made between Ulster and The Canada Trust Company (the "Trust Indenture"). The Ulster Debentures bear interest at the rate of 7% per annum payable semi-annually and will mature on March 31, 1997.

The Ulster Debentures are direct unsecured obligations of Ulster ranking equally and rateably with all other unsecured indebtedness of Ulster. The Trust Indenture does not restrict Ulster from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness.

The holder of each Ulster Debenture has the right, at his option, at any time prior to the close of business on March 31, 1997 to convert the whole or, any part of the principal amount of such Ulster Debentures into fully paid and non-assessable Ulster Common Shares at a conversion price of \$2.59 for each Ulster Common Share.

The Ulster Debentures will not be redeemable on or prior to March 31, 1989. Thereafter and on or prior to March 31, 1990, the Ulster Debentures will not be redeemable unless the weighted average price per share for Ulster Common Shares on The Toronto Stock Exchange during 20 consecutive trading days ending not more than three trading days preceding the date on which such notice of redemption is first given was at least 125% of the Conversion Price. Thereafter and on or prior to March 31, 1992, the Ulster Debentures will not be redeemable unless the weighted average price per share for Ulster Common Shares on The Toronto Stock Exchange was at least 120% of the Conversion Price. Thereafter and on or prior to March 31, 1997, the Ulster Debentures will not be redeemable unless the weighted average price per share for Ulster Common Shares on The Toronto Stock Exchange was at least 100% of the Conversion Price.

Ulster can at any time purchase for cancellation all or any part of the Ulster Debentures in the open market or by invitation for tenders to all holders of Ulster Debentures at any price, or by private contract at a price per Ulster Debenture not exceeding the principal amount thereof plus accrued and unpaid interest to the date of purchase and the costs of purchase.

DIVIDEND RECORD AND POLICY

No dividends have been paid on the Ulster Common Shares. Ulster expects to use all of its available funds to finance the development and expansion of its business and therefore does not anticipate paying dividends in the foreseeable future.

PRICE RANGE AND TRADING VOLUME OF ULSTER COMMON SHARES

The Ulster Common Shares are listed on The Toronto Stock Exchange. The following table summarizes the price ranges and aggregate volume of trading for such Ulster Common Shares for the periods indicated, as reported by The Toronto Stock Exchange:

	<u>High</u>	<u>Low</u>	<u>Volume</u>
1985			
First Quarter	\$ 1.37	\$ 1.10	1,535,907
Second Quarter	1.48	1.25	2,107,223
Third Quarter	1.55	1.24	1,815,208
Fourth Quarter	2.10	1.44	4,902,797
1986			
First Quarter	1.95	1.17	1,942,414
Second Quarter	1.59	1.23	1,428,914
Third Quarter	1.60	1.26	797,706
Fourth Quarter	1.80	1.36	1,775,353
1987			
First Quarter	2.75	1.72	3,983,753
Second Quarter	3.10	2.40	2,716,720
July	3.45	2.75	1,018,940
August	3.90	3.25	1,613,740
September 1-25	3.45	3.00	627,674

On September 8, 1987, the last trading day prior to agreement on the proposed share exchange ratio by the boards of directors of Ulster and Westgrowth, the closing sale price of the Ulster Common Shares on The Toronto Stock Exchange was \$3.10 per Ulster Common Share. On September 25, 1987 the closing sale price of Ulster Common Shares was \$3.10.

PRINCIPAL HOLDERS OF SECURITIES

To the knowledge of the directors and officers of Ulster, no person or company beneficially owned or exercised control or discretion over more than 10% of the votes attaching to the Ulster Common Shares as at September 25, 1987.

PRIOR SALES OF SECURITIES

In the twelve months preceding September 25, 1987 Ulster issued Ulster Common Shares in the following transactions:

- (a) In September, 1986 Ulster privately placed seven units for a total consideration of \$700,000. Each unit carried the right to earn 60,000 Ulster Common Shares after expenditure of the proceeds by Ulster on its oil and gas properties. Prior to December 31, 1986 the entire proceeds of this issue had been expended and a total of 420,000 Ulster Common Shares were issued to the participants.
- (b) Effective March 31, 1987 Ulster issued 1,000,000 Ulster Common Shares at \$2.25 per share and \$5,500,000 in Ulster Debentures in connection with its prospectus dated June 11, 1987.
- (c) Effective August 1, 1987 Ulster entered into an agreement with Royal Trust Energy Flow-Through Limited Partnership — 1987 ("The Partnership"). Under the terms of this agreement The Partnership will incur Canadian Exploration Expenses in the amount of \$3,000,000 on Ulster's oil and gas properties prior to February 28, 1988. In consideration for the foregoing expenditures Ulster will issue Ulster Common Shares to The Partnership. The price for the Ulster Common Shares to be issued will be determined in accordance with a formula set forth in the agreement.

MANAGEMENT OF ULSTER

Directors and Officers

The following sets forth the names, municipalities of residence, offices held with Ulster, and principal occupations of the directors and officers of Ulster:

<u>Name and Municipality of Residence</u>	<u>Office Held</u>	<u>Principal Occupation</u>
Donne C. Traxel (1) Calgary, Alberta	President and Director	President of Ulster
Bruce A. Macdonald (1) Calgary, Alberta	Director	President, TransCanada Resources Ltd., an oil and gas exploration company
Derek C. Martin (1) Calgary, Alberta	Director	Partner, Code Hunter, Barristers and Solicitors
Cedric Stapleton Calgary, Alberta	Vice-President, Exploration	Vice-President of Ulster
John Frank Calgary, Alberta	Vice-President, Operations	Vice-President of Ulster
T. Robert Woima Calgary, Alberta	Controller	Controller and Chief Financial Officer of Ulster
Anne Ries Calgary, Alberta	Secretary	Secretary of Ulster

(1) Members of the audit committee

All of the directors and senior officers have been in the same positions during the last five years except Messrs. Stapleton and Frank who during that period have held progressively senior positions with Ulster and Derek Martin who has been a partner in Code Hunter from April 1, 1987 to present and previously in Moore, O'Connor, Martin & Iredale from December 15, 1984 to March 31, 1987 and in Moore Martin prior thereto.

As at September 25, 1987, the directors and senior officers of Ulster, as a group, beneficially owned, directly or indirectly, approximately 4% of the outstanding Ulster Common Shares.

The senior officers of Ulster are as follows:

Donne C. Traxel — President and Chief Executive Officer

Mr. Traxel has been President of Ulster since June 1978. Prior to joining Ulster, Mr. Traxel spent ten years with a major firm of chartered accountants. Mr. Traxel graduated from the University of Calgary with a Bachelor of Commerce degree and obtained his designation as a Chartered Accountant in 1969.

Cedric Stapleton — Vice-President, Exploration

Mr. Stapleton joined Ulster in 1980 as Exploration Manager and was promoted to Vice-President, Exploration in 1985. Prior to joining Ulster, Mr. Stapleton was with Golden Eagle Oil & Gas and has been involved in oil and gas exploration and development for 20 years. Mr. Stapleton graduated from University of Alberta with a Bachelor of Science degree in Geology (Honors).

John Frank — Vice-President, Operations

Mr. Frank joined Ulster in 1981 as Operations Manager and was promoted to Vice-President, Operations in 1985. Prior to joining Ulster, Mr. Frank was with Union Oil Co. and has been involved in the resource industry for 20 years. Mr. Frank graduated from the University of Calgary with a Bachelor of Science degree in Mechanical Engineering.

Bob Woima — Controller and Chief Financial Officer

Mr. Woima has been Controller of Ulster since 1981. Prior to joining Ulster, Mr. Woima held similar positions in the construction industry. Mr. Woima obtained his designation as a Chartered Accountant in 1968.

Remuneration of Executive Officers (Total Number: 4)

	Year Ended December 31, 1986
Nature of Remuneration	
Salaries	\$381,000
Royalty incentive plan (1)	61,780
Stock option plan (2)	Nil
Non-cash benefits (3)	13,284
	<u>\$456,064</u>

(1) See detailed description of "The Royalty Incentive Plan".

(2) See details of the "Stock Option Plan".

(3) Non-cash benefits received by executive officers in 1986 include taxable auto benefits totalling \$5,326 and a deemed benefit of \$7,958 to the president of Ulster on the interest free loan to purchase Ulster Common Shares.

Remuneration of Directors (Total Number: 3)

The directors, one of whom is also an executive officer, received an annual remuneration of \$4,000 each, in 1986. In 1987, annual directors fees were increased to \$5,000. All of the directors, however, have agreed to waive this fee in consideration for the granting of Ulster stock options.

Indebtedness of Directors and Senior Officers

On March 31, 1982, Ulster granted its president, Donne Traxel of Calgary, Alberta, an interest free loan in the amount of \$248,625 to acquire 250,000 Ulster Common Shares from its treasury. The balance outstanding on this loan as at January 1, 1986 of \$161,000 was repaid in full during 1986.

In September 1986, Ulster privately placed seven units at a price of \$100,000 each. Each unit consisted of the right to earn 60,000 Ulster Common Shares after expenditure of the subscription price on Ulster's 1986 exploration activities. Two directors of Ulster, Mr. Martin and Mr. Macdonald, participated in the purchase of one unit each upon the same terms and conditions as all of the other subscribers. All amounts due with respect to this participation have been paid.

Stock Option Plan

Ulster has reserved 1,000,000 Common Shares for issuance under its Stock Option Plan (the "Plan") which provides for the granting of options to full time employees and directors to purchase Ulster Common Shares. The Board of Directors administers the Plan and determines the options to be granted and the exercise price which shall not be less than the closing price on the trading day preceding the date of grant less the discount permitted by The Toronto Stock Exchange. Options are exercisable as to one-fifth of the number of Ulster Common Shares granted thereby annually commencing on the date of the grant.

By resolution of the Board of Directors dated June 22, 1987, Ulster's Stock Option Plan was amended, subject to shareholder approval, to provide for the granting of options to the Ulster's directors in lieu of annual directors fees.

The following table summarizes the options outstanding under the Plan as of September 1, 1987:

Number of Common Shares Optioned	Option Exercise Price Per Common Share	Expiry Date
Executive Officers and Directors		
240,000	\$0.94 - 1.30	December 31, 1989
75,000	\$2.38	December 31, 1996
Other Employees		
30,000	\$0.94	December 31, 1988
112,000	\$0.94 - 1.31	December 31, 1989
65,000	\$1.50 - 2.45	December 31, 1995

No options were exercised by, nor granted to executive officers during the year ended December 31, 1986. Options on 25,000 Ulster Common Shares were granted to executive officers, 50,000 to directors and 50,000 to other employees during 1987.

Options on 15,000 Ulster Common Shares were exercised by executive officers and options on 67,500 Ulster Common Shares by other employees during the eight months ended August 31, 1987.

Royalty Incentive Plan

Ulster's Royalty Incentive Plan was formed effective January 1, 1980 and holds an overriding royalty of three (3%) per cent of production on Ulster's interest in certain properties. This plan is administered by the president of Ulster who determines the eligibility for participation and the properties to be included. Generally, all full-time employees involved in the exploration effort have been included and all properties in which Ulster has acquired an interest since January 1980 (excluding properties with proven reserves when acquired) have been assigned a maximum of three (3%) per cent royalty. A separate royalty agreement has been established on each occasion when an employee was added or deleted from the Royalty Incentive Plan and each royalty agreement is administered by a committee of three, one appointed by the Board of Directors and two by the participants. All royalties are paid to Canada Trust Company as trustee and distributed quarterly to the appropriate employees. Executive officers received \$61,780 from the plan during the fiscal year ended December 31, 1986. Future payments will depend upon the success of exploration activities and future production volumes and prices.

MATERIAL CONTRACTS OF ULSTER

Ulster has not entered into any material contracts other than in the ordinary course of business within two years prior to the date hereof, except for:

- (a) The Agency Agreement made as of March 27, 1987 between Ulster Petroleum Ltd. and Richardson Greenshields of Canada Limited giving rise to the issuance of 1,000,000 Ulster Common Shares and \$5,500,000 in Ulster Debentures.
- (b) The Trust Indenture made as of March 31, 1987 between Ulster Petroleum Ltd. and The Canada Trust Company in connection with the Ulster Debentures.
- (c) The Flow-Through Share Agreement dated August 1, 1987 with the Royal Trust Energy Flow-Through Limited Partnership — 1987 (See "Prior Sales of Securities").
- (d) The Arrangement Agreement dated as of September 21, 1987 between Ulster and Westgrowth.

These agreements will be made available for inspection at the head office of Ulster during normal business hours for a period of sixty days from September 30, 1987.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF ULSTER'S OPERATIONS

Liquidity and Capital Resources

Expenditures required to maintain Ulster's level of exploration and development activities have historically exceeded its capacity to generate funds from existing operations. As a result, external sources of funding, including both debt and equity, have been utilized to finance Ulster's exploration and development activities.

Based on current market conditions, Ulster believes that its available sources of funding and lines of bank credit are adequate to continue its operations at current levels and to meet its capital commitments for the foreseeable future.

Results of Operations

Six Months Ended June 30, 1987 and 1986

Production revenues increased by 43% to \$4,331,000 primarily due to increased daily oil production to 946 barrels per day (compared to 790 barrels per day in 1986) and increased daily gas production to 2,530 mcf per day (compared to 1,627 mcf per day in 1986).

Net earnings before extraordinary items were \$1,241,000 (\$0.08 per Common Share) as compared to \$652,000 (\$0.04 per Common Share) in 1986.

Realization of prior years' income tax benefits totalled \$186,000 in 1986. This extraordinary item was recognized in full in 1986 and as such will not be available in subsequent years.

Working capital from operations increased 58% to \$3,124,000 as a direct result of production volume increases.

Capital expenditures totalled \$3,479,000 as compared to \$5,100,000 in 1986 and were financed from cash provided from operations.

On March 31, 1987 Ulster issued 1,000,000 Ulster Common Shares at \$2.25 each and \$5,500,000 in Ulster Debentures for a total net consideration of \$7,500,000 after deducting share issuance expenses of \$250,000. These funds were used to repay Ulster's outstanding bank advances and the balance was added to working capital.

Years Ended December 31, 1986 and 1985

Although Ulster increased its oil production by 57% to 802 barrels per day and its natural gas production by 14% to 1,700 mcf per day, production revenues declined to \$5,896,000 (compared to \$7,447,000 in 1985) due to a reduction in the average selling price of a barrel of Ulster's oil production from \$37.77 in 1985 to \$18.04 in 1986. Other income increased from \$280,000 in 1985 to \$458,000 in 1986 primarily due to increased fees earned on third party gas purchases for resale under Ulster's industrial gas sales contracts.

Production expenses declined in 1986 as a result of a 37% reduction in per barrel oil operating costs and a 46% reduction in per mcf natural gas costs. These declines are expected to be permanent in nature since they arose as a direct result of Ulster's concentration of new production in low cost light gravity oil areas and the more efficient utilization of existing natural gas facilities.

Interest expense increased to \$608,000 (as compared to \$352,000 in 1985) as a direct result of the increased drilling activity undertaken by Ulster during the first quarter of 1986 in anticipation of the expiry of the Alberta Petroleum Incentive Program.

As a result of the foregoing earnings before extraordinary item were \$914,000 (\$0.06 per Ulster Common Share) as compared to \$1,977,000 (\$0.12 per Ulster Common Share) in 1985.

Realization of prior years' income tax benefits totalled \$187,000 as compared to \$835,000 in 1985. This extraordinary item has been recognized in full and as such will not be available in subsequent years.

Working capital from operations declined 27% in 1986 as a direct result of the oil price reductions experienced during the year.

Capital expenditures totalled \$6,499,000 and remained essentially unchanged from 1985's level. These expenditures were financed primarily from cash provided from operations (\$4,450,000) and an increase in bank advances (\$1,000,000).

The sale of a portion of Ulster's interests at Provost in 1986 for \$1,442,000 produced a gain of \$1,072,000 which was credited against resource properties in the year end financial statements.

In September, 1986 Ulster privately placed seven units for a total consideration of \$700,000. Each of these units carried the right to earn 60,000 Ulster Common Shares of Ulster after expenditure of the proceeds by Ulster on its oil and gas properties. Prior to December 31, 1986 the entire proceeds of this issue had been expended and a total of 420,000 Ulster Common Shares were earned by the participants.

During the year, Ulster purchased 283,100 Ulster Common Shares for \$376,000 under the terms of a normal course issuer bid. These shares were cancelled and the authorized share capital was reduced accordingly.

Years Ended December 31, 1985 and 1984

Production revenues increased to \$7,447,000 (as compared to \$4,672,000 in 1984) as a result of a 70% increase in Ulster's oil production and a 10% increase in the average selling price of a barrel of oil.

Production expenses, depletion and depreciation increased primarily in response to the greater production volumes. Interest expense increased to \$352,000 (as compared to \$107,000 in 1984) as a direct result of a doubling of the Ulster's long-term debt to \$3,900,000 during the year.

An extraordinary benefit of \$835,000 was recorded in 1985 upon realization of prior years' income tax benefits. There was no comparable benefit in 1984.

As a result of the foregoing, earnings before extraordinary item, were \$1,977,000 (\$0.12 per Ulster Common Share) as compared to \$900,000 (\$0.06 per Ulster Common Share) in 1984.

Cash provided from operations increased 77% to \$5,245,000. These funds together with an increase in bank advances of \$1,900,000 were used to finance additions to oil and gas properties and equipment which totalled \$6,306,000.

During the year, Ulster purchased 905,000 Ulster Common Shares for \$1,224,000 under the terms of a normal course issuer bid. These shares were cancelled and the authorized share capital was reduced accordingly.

Years Ended December 31, 1984 and 1983

Production revenues totalled \$4,672,000 (as compared to \$2,456,000 in 1983) as a result of a 120% increase in Ulster's oil production and a 44% increase in natural gas production during the year.

Production expenses, depletion and depreciation increased primarily in response to the greater production volumes.

Net earnings for the year were \$900,000 (\$0.06 per Ulster Common Share) as compared to \$361,000 (\$0.03 per Ulster Common Share) in 1983.

In September 1983, Ulster privately placed 25 units at a price of \$100,000 each. Each unit consisted of the right to earn 40,000 Ulster Common Shares. At December 31, 1984, all of the funds had been expended on petroleum and natural gas properties. Accordingly, 940,000 Ulster Common Shares were issued in 1984 and the remaining 60,000 in 1985.

During the year Ulster purchased 849,980 Ulster Common Shares for \$1,042,000 under the terms of a normal course issuer bid. The shares were cancelled and the authorized share capital was reduced accordingly.

Years Ended December 31, 1983 and 1982

Production revenues increased to \$2,456,000 (as compared to \$2,061,000 in 1982) as a result of an 84% increase in Ulster's oil sales which more than offset a 30% decline in natural gas sales volumes for the year.

Production expenses, depletion and depreciation increased primarily in response to the greater oil production volumes.

Net earnings for the year were \$361,000 (\$0.03 per Ulster Common Share) as compared to \$316,000 (\$0.03 per Ulster Common Share) in 1982.

In September 1983, Ulster privately placed 25 units at a price of \$100,000 each. Each unit consisted of the right to earn 40,000 Ulster Common Shares after expenditure of the proceeds by Ulster on its oil and gas properties. As at December 31, 1983, \$1,145,000 out of the total proceeds of \$2,500,000 had been expended on petroleum and natural gas properties and the balance was spent in 1984. Under the terms of the agreement to purchase the units, Ulster received \$650,000 of the proceeds in 1983 and the balance in 1984.

In July, 1983, Ulster successfully completed a rights offering to its shareholders on the basis of one Ulster Common Share for every four Ulster Common Shares held at a subscription price of \$1.65 per share. The offer was fully subscribed and resulted in the issue of 3,298,515 Ulster Common Shares for a net consideration of \$5,222,000 after deducting share issuance expenses of \$430,000.

The proceeds from the foregoing equity issues were used to eliminate Ulster's outstanding bank loan and the balance was used to finance ongoing exploration activities.

LISTING ON STOCK EXCHANGE

The Ulster Common Shares are listed on The Toronto Stock Exchange.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of Ulster are Peat Marwick, Chartered Accountants, 2500, 700 - 2nd Street S.W., Calgary, Alberta.

The transfer agent and registrar of the Ulster Common Shares is The Canada Trust Company at its principal offices in Vancouver, Calgary, and Toronto.

The register for the Ulster Debentures is kept at the principal office of the Trustee, The Canada Trust Company, in Calgary and facilities for registration, exchange and transfer of the Ulster Debentures are maintained at the principal offices of The Canada Trust Company in Calgary and Toronto.

AUDITORS' REPORT

The Board of Directors
Ulster Petroleum Ltd.

We have examined the balance sheets of Ulster Petroleum Ltd. as at December 31, 1986 and 1985 and the statements of earnings and retained earnings and changes in financial position for each of the years in the five year period ended December 31, 1986. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the years in the five year period ended December 31, 1986 in accordance with generally accepted accounting principles applied, except for the change in accounting policy in the year ended December 31, 1986 as described in Note 2, on a consistent basis.

Calgary, Canada
April 1, 1987

Peat Marwick
Chartered Accountants

ULSTER PETROLEUMS LTD.
Balance Sheets

	ASSETS	December 31	
		June 30 1987 (unaudited)	1986 1985
Current Assets			
Cash	\$ 2,235,000	516,000	62,000
Accounts receivable	1,533,000	1,400,000	2,512,000
Notes due under private placement (Note 6)	—	390,000	78,000
Total current assets	3,768,000	2,306,000	2,652,000
Note due under private placement (Note 6)	—	—	83,000
Oil and gas properties and equipment (Note 3)	42,798,000	40,618,000	37,904,000
	<u>\$46,566,000</u>	<u>42,924,000</u>	<u>40,639,000</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities			
Accounts payable and accrued liabilities	\$ 2,753,000	3,425,000	3,846,000
Bank advances (Note 4)	—	4,900,000	3,900,000
Convertible debentures (Note 5)	5,500,000	—	—
Deferred revenue	200,000	230,000	269,000
Deferred income taxes	575,000	197,000	—
Shareholders' Equity			
Share capital (Note 6)	35,947,000	33,822,000	33,375,000
Retained earnings (deficit)	1,591,000	350,000	(751,000)
	<u>37,538,000</u>	<u>34,172,000</u>	<u>32,624,000</u>
	<u>\$46,566,000</u>	<u>42,924,000</u>	<u>40,639,000</u>

On behalf of the Board:

(Signed) **Donne C. Traxel**, Director

(Signed) **Derek Martin**, Director

See accompanying notes.

ULSTER PETROLEUMS LTD.
Statements of Earnings and Retained Earnings

	Six Months Ended June 30		Years Ended December 31				
	1987	1986	1986	1985	1984	1983	1982
	(unaudited)						
Revenue							
Production	\$4,331,000	3,037,000	5,896,000	7,447,000	4,672,000	2,456,000	2,061,000
Other	181,000	292,000	458,000	280,000	157,000	190,000	179,000
	<u>4,512,000</u>	<u>3,329,000</u>	<u>6,354,000</u>	<u>7,727,000</u>	<u>4,829,000</u>	<u>2,646,000</u>	<u>2,240,000</u>
Expenses							
Production	1,001,000	843,000	1,707,000	1,979,000	1,312,000	757,000	581,000
General and administrative	182,000	211,000	398,000	376,000	357,000	326,000	344,000
Interest	205,000	296,000	608,000	352,000	107,000	155,000	61,000
Depletion and depreciation	1,299,000	1,020,000	2,343,000	2,122,000	1,592,000	920,000	771,000
	<u>2,687,000</u>	<u>2,370,000</u>	<u>5,056,000</u>	<u>4,829,000</u>	<u>3,368,000</u>	<u>2,158,000</u>	<u>1,757,000</u>
Earnings before deferred income taxes and extraordinary item	1,825,000	959,000	1,298,000	2,898,000	1,461,000	488,000	483,000
Deferred income taxes (Note 7)	584,000	307,000	384,000	921,000	561,000	127,000	167,000
Earnings before extraordinary item	<u>1,241,000</u>	<u>652,000</u>	<u>914,000</u>	<u>1,977,000</u>	<u>900,000</u>	<u>361,000</u>	<u>316,000</u>
Realization of prior years' income tax benefits	—	186,000	187,000	835,000	—	—	—
Net earnings	<u>1,241,000</u>	<u>838,000</u>	<u>1,101,000</u>	<u>2,812,000</u>	<u>900,000</u>	<u>361,000</u>	<u>316,000</u>
Retained earnings (deficit), beginning of period	350,000	(751,000)	(751,000)	(3,563,000)	(4,463,000)	(4,824,000)	(5,140,000)
Retained earnings (deficit), end of period	<u>\$1,591,000</u>	<u>87,000</u>	<u>350,000</u>	<u>(751,000)</u>	<u>(3,563,000)</u>	<u>(4,463,000)</u>	<u>(4,824,000)</u>
Per Share Data:							
Earnings before extraordinary item	<u>\$0.08</u>	<u>0.04</u>	<u>0.06</u>	<u>0.12</u>	<u>0.06</u>	<u>0.03</u>	<u>0.03</u>
Net earnings	<u>\$0.08</u>	<u>0.05</u>	<u>0.07</u>	<u>0.17</u>	<u>0.06</u>	<u>0.03</u>	<u>0.03</u>

See accompanying notes.

ULSTER PETROLEUMS LTD.
Statements of Changes in Financial Position

	Six Months Ended June 30		Years Ended December 31				
	1987	1986	1986	1985	1984	1983	1982
	(unaudited)						
Cash provided by operations							
Earnings before extraordinary item	\$1,241,000	652,000	914,000	1,977,000	900,000	361,000	316,000
Add items not requiring a current cash payment:							
Depletion and depreciation	1,299,000	1,020,000	2,343,000	2,122,000	1,592,000	920,000	771,000
Deferred income taxes	584,000	307,000	384,000	921,000	561,000	127,000	167,000
	<u>3,124,000</u>	<u>1,979,000</u>	<u>3,641,000</u>	<u>5,020,000</u>	<u>3,053,000</u>	<u>1,408,000</u>	<u>1,254,000</u>
Decrease (increase) in accounts receivable	(284,000)	585,000	327,000	68,000	(255,000)	(184,000)	(325,000)
Increase (decrease) in accounts payable	609,000	(234,000)	482,000	157,000	161,000	70,000	300,000
	<u>3,449,000</u>	<u>2,330,000</u>	<u>4,450,000</u>	<u>5,245,000</u>	<u>2,959,000</u>	<u>1,294,000</u>	<u>1,229,000</u>
Cash provided by financing activities							
Bank advances, net	(4,900,000)	3,900,000	1,000,000	1,900,000	2,000,000	(1,800,000)	(800,000)
Convertible debentures	5,500,000	—	—	—	—	—	—
Issue of shares	2,309,000	—	433,000	98,000	1,270,000	5,552,000	2,354,000
Shares purchased	—	(275,000)	(376,000)	(1,224,000)	(1,042,000)	—	—
Reduction (increase) in notes due under private placements	—	78,000	161,000	88,000	—	—	(249,000)
Increase (decrease) in deferred revenue	(30,000)	(16,000)	(39,000)	(10,000)	13,000	80,000	22,000
	<u>2,879,000</u>	<u>3,687,000</u>	<u>1,179,000</u>	<u>852,000</u>	<u>2,241,000</u>	<u>3,832,000</u>	<u>1,327,000</u>
Total cash available for investment	<u>6,328,000</u>	<u>6,017,000</u>	<u>5,629,000</u>	<u>6,097,000</u>	<u>5,200,000</u>	<u>5,126,000</u>	<u>2,556,000</u>
Cash used in investing activities							
Additions to oil and gas properties	(3,479,000)	(5,100,000)	(6,499,000)	(6,306,000)	(5,618,000)	(5,569,000)	(4,402,000)
Proceeds from sale of oil & gas properties	—	1,442,000	1,442,000	—	—	—	—
Decrease (increase) in capital accounts receivable	151,000	(486,000)	785,000	(623,000)	(302,000)	(21,000)	1,986,000
Increase (decrease) in capital accounts payable	(1,281,000)	(1,909,000)	(903,000)	463,000	326,000	(164,000)	1,247,000
	<u>(4,609,000)</u>	<u>(6,053,000)</u>	<u>(5,175,000)</u>	<u>(6,466,000)</u>	<u>(5,594,000)</u>	<u>(5,754,000)</u>	<u>(1,169,000)</u>
Net increase (decrease) in cash during the period	1,719,000	(36,000)	454,000	(369,000)	(394,000)	(628,000)	1,387,000
Cash, beginning of period	516,000	62,000	62,000	431,000	825,000	1,453,000	66,000
Cash, end of period	<u>\$2,235,000</u>	<u>26,000</u>	<u>516,000</u>	<u>62,000</u>	<u>431,000</u>	<u>825,000</u>	<u>1,453,000</u>

See accompanying notes.

ULSTER PETROLEUMS LTD.

Notes to Financial Statements

(Information for the six months ended June 30, 1987 and 1986
and subsequent to December 31, 1986 is unaudited.)

The principal business of the company is the exploration for and development and production of oil and natural gas in Western Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Oil and gas properties

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. These costs include land acquisition costs, geological and geophysical expenditures, lease rentals, costs of drilling productive and non-productive wells, and overhead expenses directly related to exploration activities after deducting related government grants receivable by the Company.

Effective October 1, 1986 the Company changed to the unit of production method of depletion whereby all capitalized costs are allocated to individual periods in the same proportion as current production volumes are to the total estimated production volumes from proven reserves of oil and gas as determined by independent engineers. Reserves and production of oil and gas are calculated after royalties and are converted to equivalent units based on current prices. All costs relating to oil and gas properties are subject to depletion.

The Company applies a ceiling test to capitalized costs in each cost centre to ensure that such costs do not exceed estimated future net revenues from production of proven reserves plus the costs less impairment of significant unproved properties. Future net revenues are evaluated at the prices and costs at the balance sheet dates and take account of anticipated general and administrative expenses, interest expense and income taxes in future years.

Proceeds of property sales are normally credited to the net book value of oil and gas properties and equipment without recognizing any gain or loss on disposition, however, gains or losses on major property sales are recognized in the statement of earnings.

Depreciation and amortization is provided using the following rates and methods:

Production equipment	— unit of production method
Other equipment	— 20-30% declining balance
Leasehold improvements	— over the term of the lease

(b) Deferred revenue

Deferred revenue represents amounts received in respect of take-or-pay natural gas contracts. These revenues have been deferred pending ultimate natural gas delivery, however all operating costs are expensed as incurred.

(c) Joint interest operations

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

(d) Earnings per share

Earnings per share is calculated using the weighted monthly average number of shares outstanding during the year. Assuming the exercise of the stock options and share warrants at the beginning of each year, there would be no dilution in earnings per share.

(e) Reclassification

Certain comparative figures have been reclassified to conform to the current year's presentation.

2. CHANGE IN ACCOUNTING POLICY

In September, 1986 the Canadian Institute of Chartered Accountants issued an Accounting Guideline for applying the full cost method of accounting in the oil and gas industry. In order to fully comply with the requirements of this guideline, the Company has prospectively adopted the unit of production method (as compared to the revenue method) of calculating depletion and depreciation on its oil and gas properties and equipment, effective October 1, 1986. This change did not have a material effect on the financial results of the Company for the year ended December 31, 1986.

3. OIL AND GAS PROPERTIES AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net Book Value
June 30, 1987			
Oil and gas properties	\$47,525,000	9,707,000	37,818,000
Production equipment	6,658,000	2,014,000	4,644,000
Other equipment	625,000	289,000	336,000
	<u>\$54,808,000</u>	<u>12,010,000</u>	<u>42,798,000</u>
December 31, 1986			
Oil and gas properties	\$45,497,000	9,456,000	36,041,000
Production equipment	6,196,000	1,865,000	4,331,000
Other equipment	546,000	300,000	246,000
	<u>\$52,239,000</u>	<u>11,621,000</u>	<u>40,618,000</u>
December 31, 1985			
Oil and gas properties	\$41,713,000	7,601,000	34,112,000
Production equipment	4,744,000	1,355,000	3,389,000
Other equipment	763,000	360,000	403,000
	<u>\$47,220,000</u>	<u>9,316,000</u>	<u>37,904,000</u>

Grants under the Petroleum Incentive Program, amounting to \$nil for 1987, \$1,063,000 for 1986, \$1,676,000 for 1985, \$1,459,000 for 1984, \$733,000 for 1983 and \$670,000 for 1982 were treated as a reduction in the cost of the related exploration and development expenditures made.

The following geological, geophysical and related administrative expenses were capitalized: \$283,000 for 1987, \$534,000 for 1986, \$509,000 for 1985, \$357,000 for 1984, \$307,000 for 1983 and \$345,000 for 1982.

4. BANK ADVANCES

Bank advances bear interest at the bank prime rate up to \$5,000,000 and prime plus 1/2% on any excess and are secured by an assignment of accounts receivable and oil and gas properties. Although the bank reserves the right to request payment on demand, no principal payments are scheduled for the year ending December 31, 1987 providing that certain conditions of the bank agreement continue to be satisfied.

5. CONVERTIBLE DEBENTURES

On March 31, 1987 a private placement of \$5,500,000 ten year 7% convertible debentures was made by the Company. The convertible debentures are convertible at the option of the holder into common shares at any time prior to the close of business on March 31, 1997 at a conversion price of \$2.59 per common share. The convertible debentures are not redeemable on or prior to March 31, 1989 but may be redeemed in the third year if the market price of the Company's common shares is 125% of the conversion price; in the fourth and fifth years if the market price is 120% of the conversion price; and in the sixth through tenth years if the market price is 100% of the conversion price.

The maximum number of common shares issuable upon conversion of all convertible debentures is 2,123,552.6.

6. SHARE CAPITAL

	June 30 1987	December 31	
		1986	1985
Authorized:			
Common shares without nominal or par value	47,961,920	47,961,920	48,245,020
Convertible first preferred shares	5,000,000	5,000,000	5,000,000
Issued:			
Common Shares	\$35,947,000	33,822,000	33,375,000
	(16,994,995 shares)	(15,894,495 shares)	(15,737,595 shares)

(a) Private placements

In September, 1986 the Company privately placed 7 units for a total consideration of \$700,000. Each of these units carried the right to earn 60,000 common shares of the Company after expenditure of the proceeds by the Company on its oil and gas properties. Prior to December 31, 1986 the entire proceeds of

this issue had been expended and a total of 420,000 shares were earned by the participants. The shares were recorded as being issued on December 31, 1986 thereby giving effect to the transaction as if the notes, which were subsequently paid, had been paid at that date. Two directors of the Company participated in the purchase of one unit each upon the same terms and conditions as all of the other subscribers.

An interest free loan of \$161,000 to the president to acquire common shares of the Company under a 1982 private placement arrangement was repaid in full during 1986.

On March 31, 1987 the Company privately placed 1,000,000 common shares at a price of \$2.25 per share.

(b) Normal course issuer bids

In 1986 the Company purchased 283,100 common shares for \$376,000 and in 1985 purchased 905,000 common shares for \$1,224,000 under the terms of its normal course issuer bids. These shares were cancelled and the authorized share capital was reduced accordingly. The stated capital of the Company amounts to \$34,327,000 on June 30, 1987, and \$32,203,000 and \$32,059,000 on December 31, 1986 and 1985 respectively.

(c) Stock options

The Company has reserved 1,000,000 common shares for granting under option to full time employees. As at June 30, 1987 options on 522,000 common shares have been granted and are exercisable at prices ranging from \$0.94 to \$2.45 per share to a maximum of 20% per annum on a cumulative basis. Options aggregating 30,000 terminate on December 31, 1988, 352,000 on December 31, 1989, 65,000 on December 31, 1995 and 75,000 on December 31, 1996. During 1986 options on 20,000 common shares were exercised at \$1.15 per share and options on 5,000 shares expired. During the six months ended June 30, 1987 options on 100,500 common shares were exercised at \$0.94 to \$1.50 per share.

7. INCOME TAXES

The provision for income taxes differs from the result which would have been obtained by applying the combined Federal and Provincial income tax rate to the Company's earnings before income taxes. This difference results from the following items:

	Six Months Ended June 30		Year Ended December 31				
	1987	1986	1986	1985	1984	1983	1982
			(thousands)				
Computed "expected" income tax expense	\$ 889	467	633	1,388	709	234	236
Increase (decrease) in taxes resulting from:							
Royalties and other payments to provincial governments	234	150	309	534	297	112	109
Non-deductible depreciation and depletion	139	110	223	215	212	132	112
Petroleum and natural gas revenue tax (recovery)	—	—	—	(5)	39	(33)	22
Resource allowance	(350)	(265)	(471)	(644)	(418)	(208)	(172)
Depletion allowance	(127)	(40)	(73)	(273)	(144)	(29)	(50)
Alberta royalty tax credit	(201)	(115)	(237)	(243)	(134)	(69)	(76)
Other	—	—	—	(51)	—	(12)	(14)
	<u>\$ 584</u>	<u>307</u>	<u>384</u>	<u>921</u>	<u>561</u>	<u>127</u>	<u>167</u>

Petroleum and natural gas properties with a net book value of \$9,607,000 as at June 30, 1987 (\$9,893,000 as at December 31, 1986) have no cost for income tax purposes. This amount relates primarily to the private placement of common shares by the Company whereby all wells drilled and production obtained accrued to the Company and the related income tax deductions and grants accrued to the investors.

8. SUBSEQUENT EVENT

On September 9, 1987, the Company reached an agreement in principle with respect to the acquisition of Canadian Westgrowth Ltd. (Westgrowth). This acquisition is to be effected by the issuance of 1.5 common shares of Ulster for each common share outstanding of Westgrowth.

Upon completion of this transaction Westgrowth will become a wholly owned subsidiary of Ulster.

This agreement is subject to certain conditions which include the approval of the shareholders of each company and regulatory authorities.

MATERIAL CHANGES IN FINANCIAL POSITION OF WESTGROWTH

Except as elsewhere described herein, Westgrowth has no information that indicates any material change in its affairs, financial position or prospects since June 30, 1987 the date of its last unaudited financial statements.

MATERIAL CHANGES IN FINANCIAL POSITION OF ULSTER

Except as elsewhere described herein, Ulster has no information that indicates any material change in its affairs, financial position or prospects since June 30, 1987 the date of its last unaudited financial statements.

EFFECTIVE DATE

Unless otherwise specifically indicated the information given herein is given as of September 25, 1987.

WESTGROWTH DIRECTORS' APPROVAL

The contents of this Information Circular and Proxy Statement and the sending thereof to the shareholders of Westgrowth have been approved by the Board of Directors of Westgrowth.

BY ORDER OF THE BOARD OF DIRECTORS
OF CANADIAN WESTGROWTH LTD.

(Signed) John Chan Wong

John Chan Wong, Secretary

ULSTER DIRECTORS' APPROVAL

The contents of this Information Circular and Proxy Statement and the sending thereof to the shareholders of Ulster have been approved by the Board of Directors of Ulster.

BY ORDER OF THE BOARD OF DIRECTORS
OF ULSTER PETROLEUMS LTD.

(Signed) Anne Ries

Anne Ries, Secretary

ULSTER CERTIFICATE

The foregoing 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.

Chief Executive Officer

Chief Financial Officer

(Signed) Donne C. Traxel

(Signed) T. R. Woima

WESTGROWTH CERTIFICATE

The foregoing 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.

Chief Executive Officer

Chief Financial Officer

(Signed) John M. S. Lecky

(Signed) John Chan Wong

APPENDIX I

THIS ARRANGEMENT AGREEMENT is made as of the 21st day of September, 1987.

BETWEEN:

CANADIAN WESTGROWTH LTD., a corporation formed by amalgamation under the **Business Corporations Act** (Alberta) (hereinafter referred to as "Westgrowth")

OF THE FIRST PART

- and -

ULSTER PETROLEUMS LTD., a corporation continued under the **Business Corporations Act** (Alberta) (hereinafter referred to as "Ulster")

OF THE SECOND PART

WHEREAS:

- A. Westgrowth and Ulster desire to carry out the Arrangement and related transactions herein and therein provided for (including without limitation, the exchange of Westgrowth Common Shares for Ulster Common Shares) on the basis hereinafter set forth;
- B. The parties intend to cause such Arrangement to occur pursuant to, and in accordance with, Section 186 of the Act as a result of which Westgrowth will become a wholly-owned subsidiary of Ulster; and
- C. The parties have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to the proposed Arrangement.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree as follows:

ARTICLE I INTERPRETATION

1.01 DEFINITIONS

In this Agreement, unless the context otherwise requires, the following words and phrases shall have the meanings hereinafter set forth:

- (a) "**Act**" means the Business Corporations Act, being S.A. 1981, c. B-15, as from time to time amended to the Effective Date, together with all regulations adopted thereunder;
- (b) "**Agreement**", "**this Agreement**", "**hereof**", "**herein**" and "**hereunder**" and similar expressions refer to this Agreement and the Arrangement attached as Exhibit I hereto and not to any particular article, section or other portion hereof or thereof and include any agreement or instrument supplementary or ancillary hereto or thereto;
- (c) "**Arrangement**" means the plan of arrangement concerning Westgrowth and its security holders attached hereto as Exhibit I and any amendments or variations thereto made in accordance herewith;
- (d) "**Business Day**" means, in respect of any city, a day which is not a Saturday or Sunday or legal holiday in such city;
- (e) "**Court**" means the Court of Queen's Bench of Alberta;
- (f) "**Depository**" means The Canada Trust Company through its offices in Calgary, Alberta;
- (g) "**Effective Date**" means the date the Final Order is filed with the Registrar;
- (h) "**Final Order**" means the final order of the Court approving the Arrangement pursuant to Section 186 of the Act which order shall provide, among other things, that the Arrangement shall be effective upon filing of the Final Order with the Registrar of Corporations pursuant to the Act and that such Final Order shall become null and void if not filed with the Registrar of Corporations on or before the date specified therein;
- (i) "**Flame Joint Venture Offer**" means the offer made by Westgrowth to participants in the Flame Joint Venture '81 to acquire the joint venture interest of such participants in exchange for 164,706 Westgrowth Common Shares;
- (j) "**Interim Order**" means the order of the Court which order provides, among other things, for the consideration of the Arrangement at the Westgrowth Special Meeting;

- (k) **"Proxy Circular"** means the Joint Information Circular and Proxy Statement sent to the holders of Westgrowth Common Shares and Ulster Common Shares in connection with the Westgrowth Special Meeting and the Ulster Special Meeting respectively;
- (l) **"Registrar"** means the Registrar appointed under the Act;
- (m) **"RTEC Agreement"** means the agreement dated August 1, 1987 between Ulster and RTEC First Funds Management Ltd;
- (n) **"Subsidiaries"** means with respect to Westgrowth, Westgrowth Petroleum Inc., British Canadian Resources Ltd, St. John's Petroleum Ltd. and Flame Oil and Gas Inc.;
- (o) **"Supplemental Indenture"** means the agreement to be entered into among Westgrowth, Ulster, The Canada Trust Company and National Trust Company pursuant to which the Warrant Trust Indenture governing the Westgrowth Warrants shall be amended to permit the Westgrowth Warrants to be exchanged for warrants of Ulster;
- (p) **"Ulster Common Shares"** means the common voting shares without nominal or par value in the capital stock of Ulster;
- (q) **"Ulster Counsel"** means Code Hunter, Calgary, Alberta, or such other counsel as may be designated by Ulster;
- (r) **"Ulster Special Meeting"** means the special meeting of the holders of Ulster Common Shares to consider, and if thought advisable, to approve the issuance of Ulster Common Shares from treasury pursuant to the Agreement;
- (s) **"Ulster Financial Statements"** means the audited balance sheet of Ulster as at December 31, 1986, and the audited statements of earnings and retained earnings and changes in financial position for the year ended December 31, 1986, together with the unaudited financial statements of Ulster for the period ended June 30, 1987 all of which are included in the Proxy Circular;
- (t) **"Westgrowth Counsel"** means Macleod Dixon, Calgary, Alberta, or such other counsel as may be designated by Westgrowth;
- (u) **"Westgrowth Common Shares"** means the common shares without nominal or par value in the capital stock of Westgrowth;
- (v) **"Westgrowth Financial Statements"** means the audited consolidated balance sheet of Westgrowth as at December 31, 1986 and the audited consolidated statements of operations and deficit and changes in cash resources for the year ended December 31, 1986, together with the unaudited financial statements of Westgrowth for the period ended June 30, 1987, all of which are included in the Proxy Circular;
- (w) **"Westgrowth Special Meeting"** means the special meeting of the holders of Westgrowth Common Shares to consider and, if thought advisable, to approve the Arrangement;
- (x) **"Westgrowth Warrants"** means the warrants to purchase Westgrowth Common Shares issued pursuant to the Warrant Trust Indenture dated the 24th day of November, 1986 between Westgrowth and National Trust Company;

and words and phrases used herein that are defined in the Act shall have the same meaning herein as in the Act unless the context otherwise requires.

1.02 CURRENCY

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada.

1.03 INTERPRETATION NOT AFFECTED BY HEADINGS, ETC.

The division of this Agreement into articles, sections paragraphs, and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

1.04 NUMBER, ETC.

Unless the context requires the contrary, words importing the singular number only shall include the plural and vice versa, words importing the use of any gender shall include all genders and words importing persons shall include firms and corporations and vice versa.

1.05 DATE FOR ANY ACTION

In the event that any date on which any action is required to be taken hereunder by any of the parties is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a Business Day in such place.

1.06 RECITALS

Each of the parties hereto covenants and agrees that the recitals relating to such party are true and form an integral part hereof.

ARTICLE II COVENANTS

2.01 COVENANTS OF WESTGROWTH

Westgrowth covenants and agrees with Ulster, on its own behalf and on behalf of its Subsidiaries, that it and its Subsidiaries each will, until the earlier of the termination of this Agreement and the day following the Effective Date, except as expressly agreed to in writing by Ulster:

- (a) take all actions necessary to give effect to the transactions contemplated by this Agreement and the Arrangement;
- (b) not declare or pay any dividends or make any distribution of its properties or assets to its shareholders or retire or redeem any Westgrowth Common Shares or other of its securities or issue any additional shares of stock or other securities except pursuant to the Flame Joint Venture Offer or as contemplated herein or in the Proxy Circular;
- (c) except as herein or in the Plan of Arrangement specifically provided, not issue or enter into any agreement to issue or grant options, warrants or rights to purchase or subscribe for shares of its capital stock or other of its securities except pursuant to the Flame Joint Venture Offer;
- (d) not liquidate, wind-up, merge into or with, consolidate with, or sell any material part of its assets to any other corporation or person or perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions hereby contemplated or which would render materially inaccurate any of the representations and warranties set forth in Section 3.01 if such representations and warranties were made at a time subsequent to such act or transaction and all references to the date of this Agreement were deemed to be such later date;
- (e) except as required in the ordinary course of business or by law or regulation, not disclose to any person other than to Ulster or its representatives and other than to officers, directors, key employees and professional advisors of Westgrowth or its Subsidiaries, as the case may be, any information concerning the business or operations of Westgrowth or its Subsidiaries, as the case may be, and except as required by law or regulation, not disclose to any person other than to officers, directors, key employees and professional advisors of Westgrowth or its Subsidiaries, as the case may be, any information concerning the business or operations of Ulster and its subsidiaries, as the case may be, which has not been disclosed to its shareholders generally;
- (f) not alter or amend its Articles or By-laws as the same exist at the date of this Agreement;
- (g) use its best efforts to obtain all necessary consents, assignments, waivers, amendments or terminations to any instruments and take such other measures as may be appropriate to fulfill its obligations under this Agreement and to carry out the transactions contemplated by this Agreement;
- (h) not engage in any business, enterprise or other activity different from that carried on by it at the date of this Agreement or establish any new office or enter into any transaction or incur any obligation other than in the ordinary course of its business, as presently conducted;
- (i) carry on its business and the business of its Subsidiaries in the ordinary course provided that they shall not make any capital expenditures or commitments in excess of \$100,000 other than those approved in advance by Ulster, except as required to maintain licenses, leases and other petroleum, natural gas and mineral interests in good standing;
- (j) furnish to Ulster such information, in addition to the information contained in this Agreement, relating to the financial condition, business, properties, title, assets and affairs of Westgrowth, as may be reasonably requested by Ulster or Ulster Counsel, which information shall be true and complete in all material respects and shall not contain an untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they are made, not misleading, and permit Ulster to make investigation of the title to all of its interests and the rights to all of its properties;
- (k) furnish to Ulster, if requested, such information as may be required under applicable securities legislation with respect to the transactions contemplated herein;
- (l) apply for the Interim Order;

- (m) convene the Westgrowth Special Meeting and solicit proxies to be voted at such meeting in favour of the Arrangement in accordance with the Interim Order;
- (n) give Ulster prior written notice of (such notice to be accompanied by reasonable information), and consult with Ulster in connection with any proposed amendment, alteration or modification in the "take or pay" obligations of any corporation to Westgrowth and its Subsidiaries under any contract to purchase natural gas or other hydrocarbons;
- (o) not issue, grant, assume, guarantee or otherwise incur any additional debt obligations (including working capital deficit and long term debt) on or after the date hereof exceeding \$50,000;
- (p) hold, and require its respective officers, employees, agents and representatives to hold, in strict confidence all data and information obtained from Ulster or from any officer, employee, agent or representative of Ulster, whether pertaining to the financial condition, assets, results of operations or methods of operation of Ulster or otherwise, except any of the same which:
 - (i) was or is in the public domain;
 - (ii) is required to be disclosed by any such persons in connection with any court action or proceeding before, or the regulatory requirements of, any governmental, regulatory or administrative body or in connection with securing any consent required hereunder; or
 - (iii) thereafter, other than through an act or failure to act on the part of Westgrowth, becomes information generally available to the public;

provided that if the Arrangement shall not be consummated, Westgrowth shall return or cause to be returned to Ulster all data, information and other written material respecting Ulster obtained by any of the foregoing persons from Ulster or from any officer, employee, agent or representative of Ulster in connection with the negotiation or consummation of this Agreement or other matters contemplated by this Agreement;
- (q) ensure that the Proxy Circular and related documentation to be distributed in connection with the solicitation of proxies by the management of Westgrowth for the Westgrowth Special Meeting shall comply as to form and substance with the requirements of the Interim Order and the information and data contained therein shall, except as it relates to Ulster, be true, correct and complete in all material respects and shall not contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they are made; and
- (r) use its best efforts to cause each of the conditions precedent set forth in Sections 4.01 and 4.03 hereof to be complied with on or before the Effective Date.

2.02 COVENANTS OF ULSTER

Ulster covenants and agrees with Westgrowth that it will until the earlier of the termination of this Agreement and the day following the Effective Date:

- (a) take all actions necessary to give effect to the transactions contemplated by this Agreement, including without limitation conditionally allotting and reserving for issuance the Ulster Common Shares;
- (b) not declare or pay any dividends or make any distribution of its properties or assets to its shareholders or retire or redeem any Ulster Common Shares or other of its securities or issue any additional shares of stock or other securities other than pursuant to the RTEC Agreement;
- (c) not issue or enter into any agreement to issue or grant options, warrants or rights to purchase shares of its capital stock or other of its securities except:
 - (i) to employees, officers and directors of Ulster pursuant to the stock option plan referred to in the Proxy Circular;
 - (ii) except pursuant to the RTEC Agreement;
 - (iii) except as otherwise herein specifically provided;
- (d) not merge into or with, consolidate with, or sell all or any substantial part of its assets to any other corporation or person or perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions hereby contemplated or which would render materially inaccurate any of the representations and warranties set forth in Section 3.02 if such representations and warranties were made at a time subsequent to such act or transaction and all references to the date of this Agreement were deemed to be such later date;
- (e) except as required in the ordinary course of business or by law or regulation, not disclose to any person

other than to Westgrowth or its representatives and other than to officers, directors, key employees and professional advisors of Ulster or its subsidiaries, as the case may be, any information concerning the business or operations of Ulster or its subsidiaries, as the case may be, and except as required by law or regulation, not disclose to any person other than to officers, directors, key employees and professional advisors of Ulster or its subsidiaries, as the case may be, any information concerning the business or operations of Westgrowth and its Subsidiaries, as the case may be, which has not been disclosed to its shareholders generally;

- (f) not alter or amend its Articles or By-laws as the same exist at the date of this Agreement other than to increase the number of authorized Ulster Common Shares to an unlimited number;
- (g) not engage in any business, enterprise or other activity different from that carried on by it at the date of this Agreement or enter into any transaction or incur any obligation other than in the ordinary course of its business, as presently conducted;
- (h) hold, and require its respective officers, employees, agents and representatives to hold, in strict confidence all data and information obtained from Westgrowth or from any officer, employee, agent or representative of Westgrowth, whether pertaining to the financial condition, assets, results of operations or methods of operation of Westgrowth or otherwise, except any of the same which:
 - (i) was or is in the public domain;
 - (ii) is required to be disclosed by any such persons in connection with any court action or any proceeding before, or the regulatory requirements of, any governmental, regulatory or administrative body or in connection with securing any consent required hereunder; or
 - (iii) thereafter, other than through an act or failure to act on the part of Ulster, becomes information generally available to the public;

provided that if the Arrangement shall not be consummated, Ulster shall return or cause to be returned to Westgrowth all data, information and other written material respecting Westgrowth or its Subsidiaries obtained by any of the foregoing persons from Westgrowth or from any officer, employee, agent or representative of Westgrowth in connection with the negotiation or consummation of this Agreement or other matters contemplated by this Agreement;

- (i) furnish to Westgrowth such information, in addition to the information contained in this Agreement, relating to the financial condition, business, properties, title, assets and affairs of Ulster as may be reasonably requested by Westgrowth, which information shall be true and complete in all material respects and shall not contain an untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances in which they are made, not misleading;
- (j) use its best efforts to obtain all necessary consents, assignments, waivers, amendments or terminations to any instruments and take such other measures as may be appropriate to fulfill its obligations under and to carry out the transactions contemplated by this Agreement;
- (k) furnish to Westgrowth, if requested, such information as may be required under applicable securities legislation with respect to the transactions contemplated herein;
- (l) not issue, grant, assume, guarantee or otherwise incur any additional debt obligations (including working capital deficit and long term debt) on or after the date hereof exceeding \$50,000;
- (m) enter into the Supplemental Indenture;
- (n) use its best efforts to cause each of the conditions precedent set forth in Sections 4.01 and 4.02 hereof to be complied with on or before the Effective Date.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

3.01 REPRESENTATIONS AND WARRANTIES OF WESTGROWTH

Westgrowth represents and warrants to and in favour of Ulster as follows (which representations and warranties are given by Westgrowth on its own behalf and on behalf of its Subsidiaries) and acknowledges that Ulster is relying upon such representations and warranties:

- (a) Westgrowth and its Subsidiaries, which are the only subsidiaries of Westgrowth, are duly organized, validly subsisting and current and up-to-date with respect to all filings required under the laws of their respective jurisdiction of incorporation and have the corporate power to own or lease their respective properties and assets and to carry on their respective businesses as now conducted by them, and are duly

licensed or qualified in each jurisdiction in which the character of the properties and assets now owned by them or the nature of their respective businesses as now conducted by them requires them to be so licensed or qualified, save where failure to have such license or qualification is not in the aggregate material, and Westgrowth has the corporate power to enter into this Agreement and to perform its obligations hereunder;

- (b) the authorized capital of Westgrowth consists of an unlimited number of Westgrowth Common Shares, of which 8,245,386 are issued and outstanding and of which a further 256,850 have been reserved for issuance to employees of Westgrowth pursuant to Westgrowth's employee stock option plan, and upon implementation of the Arrangement no person, firm, corporation or other entity will hold any securities convertible into Westgrowth Common Shares or will have any agreement, warrant or option or any right capable of becoming an agreement, warrant, option or right for the purchase or other acquisition of any unissued Westgrowth Common Shares other than pursuant to the Westgrowth Warrants or the Flame Joint Venture Offer, or as otherwise specifically provided herein;
- (c) the Westgrowth Financial Statements contained in the Proxy Circular present fairly the consolidated financial position of Westgrowth at the date stated therein and the results of Westgrowth's operations and the changes in its cash resources for the periods indicated in the said statements and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis except as otherwise stated in the notes to such statements;
- (d) there has been no material adverse change in the consolidated business, condition, affairs, financial or otherwise, of Westgrowth from that shown in the Westgrowth Financial Statements;
- (e) there are no agreements, covenants, instruments, undertakings or other commitments of Westgrowth or its Subsidiaries binding on any of them or any of their respective properties:
 - (i) under which the transactions contemplated in this Agreement or the Arrangement would have the effect of imposing restrictions or obligations on Westgrowth or its Subsidiaries, materially greater than those imposed upon Westgrowth or its Subsidiaries at the date hereof; or
 - (ii) which would give a third party as a result of the transactions contemplated in this Agreement or the Arrangement a right to terminate any material agreement to which Westgrowth or its Subsidiaries is a party or to purchase any of their respective assets or require any of them to purchase any assets of such third party; or
 - (iii) which would impose material restrictions on the ability of Westgrowth or its Subsidiaries or Ulster or any of its subsidiaries to carry on any business which they might choose to carry on within any geographical area, to acquire property or dispose of their respective properties and assets in their entirety or to change their corporate status other than area of mutual interest clauses and similar clauses in existing agreements; or
 - (iv) which would impose material restrictions on the ability of Westgrowth or its Subsidiaries or Ulster or any of its subsidiaries to pay any dividends or make other distributions to their shareholders or to borrow money and to mortgage and pledge their property as security thereof;
- (f) Westgrowth or its Subsidiaries are not parties to any material contract not made in the ordinary course of business or not made at arm's length entered into since December 31, 1986 except as otherwise disclosed herein;
- (g) the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby and the fulfillment of and compliance with the terms and provisions hereof do not and will not:
 - (i) result in the breach of or violate any term or provision of the constating documents of Westgrowth or its Subsidiaries; or
 - (ii) conflict with, result in a breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by any agreement, instrument, licence, permit or authority to which Westgrowth or its Subsidiaries are a party or by which any of them are bound or to which any material property of any of them is subject or result in the creation of any lien, charge or encumbrance upon any of the material assets of Westgrowth or its Subsidiaries under any such agreement or instrument, or give to others any material interest or rights, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, licence, permit or authority; or
 - (iii) violate the provision of any statute or regulation thereunder or any judicial or administrative order, writ, injunction, award, judgment or decree applicable to Westgrowth or its Subsidiaries, the breach of which would have a material adverse effect on Westgrowth or its Subsidiaries;
- (h) since December 31, 1986 Westgrowth has not declared or paid or agreed to pay any dividend or otherwise

made any distribution of any kind or nature whatsoever to shareholders or others or taken any corporate proceedings for such purpose and Westgrowth has not made any changes to its Articles or By-laws and Westgrowth has not disposed of any of its assets or incurred any indebtedness except in the ordinary course of business;

- (i) the execution and delivery of this Agreement and the completion of the transactions contemplated herein have been duly approved by the Board of Directors of Westgrowth and this Agreement constitutes a valid and binding obligation of Westgrowth enforceable against it in accordance with its terms;
- (j) Westgrowth has not incurred any liability for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any transactions contemplated hereby other than corporate financial consulting fees relating to the Plan of Arrangement which will not exceed \$500,000.00;
- (k) except to the extent provided for in the Westgrowth Financial Statements, Westgrowth and its Subsidiaries are not obligated by virtue of any prepayment arrangement under any material contract for the sale of hydrocarbons and containing a "take or pay" or similar provision or of a production payment or of any other arrangement, to deliver hydrocarbons at some future time without then or thereafter receiving full payment therefor;
- (l) there are no known or anticipated material debts, liabilities or obligations of Westgrowth or its Subsidiaries of any kind whatsoever (including absolute, accrued or contingent) nor any commitments whether or not determined or determinable, in respect of which Westgrowth or its Subsidiaries are or may become liable other than the liabilities disclosed on, reflected in or provided for in the Westgrowth Financial Statements or in the Proxy Circular or incurred in the ordinary course of business except for agreements between Westgrowth and its employees pursuant to which the employees of Westgrowth will be entitled to receive severance pay in the event that they are not offered equivalent employment upon a take over of Westgrowth or a merger of Westgrowth with another company on the basis of six month's pay plus one additional month's pay for each year of service for professional employees and three month's pay plus one additional month's pay for each year of service for other employees;
- (m) neither Westgrowth nor its Subsidiaries to their knowledge are in default in any material respect with respect to any permit held or order, writ, injunction or decree of any court or governmental department, commission, bureau, board, agency or instrumentality, domestic or foreign, or any arbitration panel;
- (n) Westgrowth and its Subsidiaries have conducted and are conducting all material aspects of their businesses in accordance with good oilfield practice and such businesses are not being conducted in violation of any law, ordinance or regulation of any governmental entity, except for violations which will not either singly or in the aggregate have a material adverse effect on the business, operations, properties, assets or affairs, financial or otherwise, of Westgrowth and its Subsidiaries taken as a whole;
- (o) neither Westgrowth nor any of its Subsidiaries to their knowledge (after due inquiry) is in default or in breach of any provisions of any material contract, agreement, lease, licence, in each case whether written or oral, indenture or other instrument to which any of them is a party, and there exists no state of facts which after notice or lapse of time, or both, would constitute such a default or breach;
- (p) there have been no material adverse changes in the Canadian oil and gas properties of Westgrowth from those described in that certain report dated as at December 31, 1986 and prepared by Coles Nikiforuk Pennell Associates Ltd., except such as may have occurred through normal production or as a result of transactions in the ordinary course of business, and Westgrowth has done nothing whereby its interest in its Canadian oil and gas properties as reflected in such report has been encumbered or impaired subsequent to the preparation of such report;
- (q) to the knowledge of Westgrowth (after due inquiry), all ad valorem, property, production, severance and similar taxes, including without limitation the Petroleum and Gas Revenue Tax, and assessments and royalties based on or measured by the ownership of property or the production of oil and gas or the receipt of proceeds therefrom on the Canadian oil and gas properties of Westgrowth payable or for which Westgrowth or any of its Subsidiaries is liable have been properly paid;
- (r) neither Westgrowth nor its Subsidiaries has entered into any agreements, other than in the normal course of business, for the sale of production or any portion thereof from the Canadian oil and gas properties of Westgrowth and they are presently receiving their share of the sale proceeds of production attributable to such properties;
- (s) the description of the business of Westgrowth, its respective financial condition and properties in the Proxy Circular contains sufficient detail to permit holders of Westgrowth Common Shares and the holders of Ulster Common Shares to form a reasoned judgment in respect of the Arrangement and such

description and information is true, correct and complete in all material respects and does not contain any misrepresentation as defined in the **Securities Act** (Alberta);

- (t) none of the representations, warranties or statements of fact made in this Section contain any untrue statement of a material fact or omit to state any material fact necessary to make any such warranty or representation not misleading to Ulster in its review of Westgrowth, its assets, liabilities and business; and
- (u) Westgrowth is a "Canadian Corporation" within the meaning of the **Income Tax Act** (Canada).

3.02 REPRESENTATIONS AND WARRANTIES OF ULSTER

Ulster represents and warrants to and in favour of Westgrowth as follows (which representations and warranties are given by Ulster on its own behalf and on behalf of its subsidiaries) and acknowledges that Westgrowth is relying upon such representations and warranties:

- (a) Ulster and its subsidiaries are duly organized, validly subsisting and current and up-to-date with respect to all filings required under the laws of Alberta and have the corporate power to own or lease their respective properties and assets and to carry on their respective businesses as now conducted by them and are duly licensed or qualified in each jurisdiction in which the character of the property and assets now owned by them or the nature of their respective businesses as now conducted by them requires them to be so licensed or qualified, save where failure to have such license or qualification is not in the aggregate material, and Ulster has the corporate power to enter into this Agreement and to perform its obligations hereunder;
- (b) the authorized capital of Ulster now consists of 47,961,920 Ulster Common Shares and 5,000,000 first preferred shares of which 16,994,995 Ulster Common Shares are issued and outstanding, and of which a further 1,000,000 have been reserved for issuance pursuant to the Ulster stock option plan, and a further 2,123,552 have been reserved for issuance upon conversion of the convertible debentures issued by Ulster, and upon implementation of the Arrangement, no person, firm, corporation or other entity will hold any securities convertible into Ulster Common Shares or will have any agreement, warrant or option or any right capable of becoming an agreement, warrant, option or right for the purchase or other acquisition of any unissued Ulster Common Shares, other than pursuant to the RTEC Agreement or as specifically provided for herein;
- (c) the Ulster Financial Statements contained in the Proxy Circular present fairly the financial position of Ulster at such date and the results of its operations and the changes in its financial position for the periods indicated in the said statements and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, except as otherwise stated in the notes to such statements;
- (d) there has been no material adverse change in the consolidated business, condition, affairs, financial or otherwise, of Ulster from that shown in the Ulster Financial Statements;
- (e) there are no agreements, covenants, instruments, undertakings or other commitments of Ulster or its subsidiaries binding on any of them or any of their respective properties:
 - (i) under which the transactions contemplated in this Agreement would have the effect of imposing restrictions or obligations on Ulster or any of its subsidiaries materially greater than those imposed upon Ulster or any of its subsidiaries at the date hereof; or
 - (ii) which would give a third party as a result of the transactions contemplated in this Agreement a right to terminate any material agreement to which Ulster or any of its subsidiaries is a party or to purchase any of their respective assets or require any of them to purchase any assets of such third party; or
 - (iii) which would impose material restrictions on the ability of Ulster or any of its subsidiaries to carry on any business which they might choose to carry on within any geographical area, to acquire property or dispose of their respective properties and assets in their entirety or to change their corporate status, other than area of mutual interest clauses and similar clauses in existing agreements; or
 - (iv) which would impose material restrictions on the ability of Ulster or any of its subsidiaries to pay any dividends or make other distributions to its shareholders or to borrow money and to mortgage and pledge its property as security thereof;
- (f) Ulster or its subsidiaries are not parties to any material contract not made in the ordinary course of business or not made at arm's length entered into since December 31, 1986 except the RTEC Agreement and an Agency Agreement made as of the March 27, 1987 between Ulster and Richardson Greenshields of Canada Limited giving rise to the issuance of 1,000,000 Ulster Common Shares and \$5,500,000 in 7% convertible debentures;
- (g) the execution and delivery of this Agreement and the completion of the transactions contemplated herein have been duly approved by the Board of Directors of Ulster and at closing this Agreement will constitute

a valid and binding obligation of Ulster enforceable against it in accordance with its terms;

- (h) the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby and the fulfillment of and compliance with the terms and provisions hereof do not and will not:
 - (i) result in the breach of or violate any term or provision of the Articles or By-laws of Ulster or any of its subsidiaries; or
 - (ii) conflict with, result in a breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement, instrument, licence, permit or authority to which Ulster or any of its subsidiaries is a party or by which any of them are bound or to which any material property of any of them is subject or result in the creation of any lien, charge or encumbrance upon any of the material assets of Ulster or any of its subsidiaries under any such agreement or instrument, or give to others any material interest or rights, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, licence, permit or authority; or
 - (iii) violate the provision of any statute or regulation thereunder or any judicial or administrative order, writ, injunction, award, judgment or decree applicable to Ulster or any of its subsidiaries, the breach of which would have a material adverse effect on Ulster or any of its subsidiaries;
- (i) since December 31, 1986, Ulster has not declared or paid or agreed to pay any dividend or otherwise made any distribution of any kind or nature whatsoever to shareholders or others or taken any corporate proceedings for such purpose and Ulster has not made any changes to its Articles or By-laws and Ulster has not disposed of any of its assets or incurred any indebtedness except in the ordinary course of business with the exception of the issuance of \$5,500,000 in 7% convertible debentures;
- (j) Ulster has not incurred any liability for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation in connection with this Agreement or any transactions contemplated hereby;
- (k) except to the extent provided for in the Ulster Financial Statements, Ulster or any of its subsidiaries are not obligated by virtue of any prepayment arrangement under any material contract for the sale of hydrocarbons and containing a "take or pay" or similar provision or of a production payment or of any other arrangement, to deliver hydrocarbons at some future time without then or thereafter receiving full payment therefor;
- (l) there are no known or anticipated material debts, liabilities or obligations, of Ulster or any of its subsidiaries of any kind whatsoever (including absolute, accrued or contingent) nor any commitments whether or not determined or determinable, in respect of which Ulster or any of its subsidiaries are or may become liable other than the liabilities disclosed on, reflected in or provided for in the Ulster Financial Statements or in the Proxy Circular or incurred in the ordinary course of business;
- (m) neither Ulster nor its subsidiaries to their knowledge are in default in any material respect with respect to any permit held or order, writ, injunction or decree of any court or governmental department, commission, bureau, board, agency or instrumentality, domestic or foreign, or any arbitration panel;
- (n) Ulster and its subsidiaries have conducted and are conducting all material aspects of their businesses in accordance with good oilfield practice and such businesses are not being conducted in violation of any law, ordinance or regulation of any governmental entity, except for violations which will not either singly or in the aggregate have a material adverse effect on the business, operations, properties, assets or affairs, financial or otherwise, of Ulster and its subsidiaries taken as a whole;
- (o) neither Ulster nor any of its subsidiaries to their knowledge (after due inquiry) is in default or in breach of any provisions of any material contract, agreement, lease, licence, in each case whether written or oral, indenture or other instrument to which any of them is a party, and there exists no state of facts which after notice or lapse of time, or both, would constitute such a default or breach;
- (p) there have been no material adverse changes in the Canadian oil and gas properties of Ulster from those described in that certain report dated as at January 1, 1987 and prepared by D & S Petroleum Consulting Group Ltd. except such as may have occurred through normal production or as a result of transactions in the ordinary course of business, and Ulster has done nothing whereby its interest in its Canadian oil and gas properties as reflected in such report has been encumbered or impaired subsequent to the preparation of such report;
- (q) to the knowledge of Ulster (after due inquiry), all ad valorem, property, production, severance and similar taxes, including without limitation the Petroleum and Gas Revenue Tax, and assessments and royalties based on or measured by the ownership of property or the production of oil and gas or the receipt of proceeds therefrom on the Canadian oil and gas properties of Ulster payable or for which Ulster or any of its subsidiaries is liable have been properly paid;

- (r) neither Ulster nor its subsidiaries has entered into any agreements, other than in the normal course of business, for the sale of production or any portion thereof from the Canadian oil and gas properties of Ulster and they are presently receiving their share of the sale proceeds of production attributable to such properties;
- (s) the description of the business of Ulster, its respective financial condition and properties in the Proxy Circular contains sufficient detail to permit holders of Westgrowth Common Shares and the holders of Ulster Common Shares to form a reasoned judgment in respect of the Arrangement and such description and information is true, correct and complete in all material respects and does not contain any misrepresentation as defined in the **Securities Act** (Alberta);
- (t) none of the representations, warranties or statements of fact made in this Section contain any untrue statement of a material fact or omit to state any material fact necessary to make any such warranty or representation not misleading to Westgrowth in its review of Ulster, its assets, liabilities and business; and
- (u) Ulster is a "Canadian corporation" within the meaning of the **Income Tax Act** (Canada).

ARTICLE IV

CONDITIONS PRECEDENT

4.01 MUTUAL CONDITIONS PRECEDENT

The respective obligations of the parties hereto to consummate the transactions contemplated by this Agreement shall be subject to fulfillment, on or before the Effective Date, of the following conditions:

- (a) the Arrangement and the transactions contemplated thereby shall have been approved at the Westgrowth Special Meeting and the issuance of Ulster Common Shares pursuant to this Agreement shall have been approved at the Ulster Special Meeting in accordance with the provisions of the Act, the Interim Order and any applicable regulatory requirements;
- (b) the Court shall not have amended, altered, modified or varied the Arrangement in a manner not acceptable to either of Westgrowth or Ulster;
- (c) the Final Order shall have been obtained and the Final Order and Articles of Arrangement shall have been filed with the Registrar pursuant to Subsection 186(10) of the Act;
- (d) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement or the Arrangement; and
- (e) all necessary regulatory and similar approvals in respect of the transactions contemplated hereby, including in particular the Arrangement, shall have been obtained.

4.02 CONDITIONS TO OBLIGATIONS OF WESTGROWTH

The obligation of Westgrowth to complete the transactions contemplated by this Agreement and, in particular the Arrangement, is subject to the satisfaction, on or before the Effective Date, of the following conditions, any of which may be waived by it without prejudice to its right to rely on any of the other conditions:

- (a) each of the covenants of Ulster to be performed on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed by Ulster;
- (b) Ulster shall have furnished Westgrowth with:
 - (i) certified copies of the resolution or resolutions duly passed by the Board of Directors of Ulster approving the entering into of this Agreement and the completion of the transactions contemplated herein and allotting and reserving Ulster Common Shares to be issued to the holders of Westgrowth Common Shares in accordance with the Agreement;
 - (ii) certified copies of the resolution of the holders of the Ulster Common Shares duly passed at the Ulster Special Meeting, approving the issuance of Ulster Common Shares pursuant to the Arrangement;
 - (iii) a letter from the Depositary acknowledging delivery by Ulster of a conditional irrevocable direction to the Depositary to issue certificates representing the Ulster Common Shares to be delivered to the holders of the Common Shares in accordance with this Agreement, conditional only upon the Arrangement becoming effective;
- (c) Westgrowth shall have received a favourable opinion of Ulster Counsel dated the Effective Date, satisfactory in form and substance in all material respects to Westgrowth and Westgrowth Counsel, addressed to Westgrowth and Westgrowth Counsel, to the effect that:
 - (i) Ulster and its subsidiaries are duly incorporated and validly subsisting under the laws of their respective jurisdictions of incorporation and have the power to own or lease their property and

assets and to carry on their businesses as now conducted by them;

- (ii) the Ulster Common Shares to be issued to the Canadian holders of Westgrowth Common Shares pursuant to the Arrangement shall be duly qualified for issuance to and will be received by such Canadian holders of Westgrowth Common Shares free of any "hold period" or other restriction on trading;
- (iii) Ulster Common Shares are listed and posted for trading on The Toronto Stock Exchange and Ulster has obtained the consent of The Toronto Stock Exchange to list and post for trading the Ulster Common Shares to be issued to holders of Common Shares under the Arrangement;
- (iv) Ulster has the corporate power and authority to execute, deliver and perform its obligations here under;
- (v) Ulster has taken all necessary corporate action to authorize or ratify the execution and delivery of this Agreement and the performance of all its obligations hereunder;
- (vi) this Agreement has been duly executed and delivered by Ulster and, assuming valid execution and delivery by Westgrowth, constitutes a valid and binding obligation of Ulster, enforceable by Westgrowth in accordance with its terms, subject to bankruptcy and similar laws affecting creditors generally and to equitable remedies being in the discretion of a court;
- (vii) the authorized capital of Ulster, unless amended at the Ulster Special Meeting, consists of 47,961,920 Ulster Common Shares and 5,000,000 first preferred shares, of which 16,994,995 Ulster Common Shares are issued and outstanding;
- (viii) the execution, delivery and performance of this Agreement do not, and the performance and the completion of the transactions contemplated herein will not conflict with, result in a breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement or instrument to which Ulster is a party or by which it is bound or to which any property of it is subject or result in the creation of any lien, charge or encumbrance upon any of the assets of Ulster under any such agreement or instrument, or give to others any material interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement or instrument, in each case known to Ulster Counsel;
- (ix) the execution, delivery and performance of this Agreement does not, and the performance and the completion of the transactions contemplated herein will not, result in a breach of or violate any terms or provisions of, the Articles or By-laws of Ulster or the constating documents of any of its subsidiaries and shall not and will not violate any provision of law or administrative regulation by which Ulster or any of its subsidiaries is bound;
- (x) the Ulster Common Shares to be issued to the holders of Westgrowth Common Shares have been validly created, allotted and reserved for issuance in accordance with the terms of the Arrangement and when issued in accordance with the terms of the Arrangement will be allotted and issued as fully paid and non-assessable shares; and
- (xi) the conditional irrevocable direction referred to in sub-clause 4.02(b)(iii) hereof is a valid and binding obligation of Ulster.

In giving such opinion, Ulster Counsel may rely, in respect of matters of fact, upon a certificate of an officer of Ulster and, in respect of matters governed by the laws of any jurisdiction other than the laws of the Province of Alberta and the federal laws of Canada applicable therein, upon the opinion of local counsel in such jurisdiction; provided that, in the case of any such opinion, Ulster Counsel is of the opinion that the opinion of such local counsel's opinion is one upon which Westgrowth Counsel, Ulster Counsel, Ulster and Westgrowth may properly rely;

- (d) except as affected by the transactions contemplated by this Agreement, each of the representations and warranties of Ulster as set forth herein shall be true in all material respects as at the Effective Date with the same effect as though such representations and warranties had been made at and as of such time and Westgrowth shall have received a certificate of a senior officer of Ulster dated the Effective Date to such effect;
- (e) the Ulster Common Shares reserved for issuance pursuant to the Arrangement shall have been conditionally accepted for listing on The Toronto Stock Exchange, subject only to notice of issuance; and
- (f) there shall have been no material adverse change in the business or affairs, financial or otherwise, of Ulster and its subsidiaries taken as a whole since June 30, 1987 except as contemplated in the Proxy Circular and Westgrowth shall have received a certificate of a senior officer of Ulster, dated the Effective Date, to such effect.

4.03 CONDITIONS TO OBLIGATIONS OF ULSTER

The obligation of Ulster to complete the transactions contemplated by this Agreement is subject to the satisfaction, on or before the Effective Date, of the following conditions, any of which may be waived by it without prejudice to its right to rely on any of the other conditions:

- (a) each of the covenants of Westgrowth to be performed on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed by Westgrowth;
- (b) Westgrowth shall have furnished Ulster with:
 - (i) certified copies of the resolution or resolutions duly passed by the Board of Directors of Westgrowth approving the entering into of this Agreement and the completion of the transactions contemplated herein and directing the submission thereof for approval at the Westgrowth Special Meeting;
 - (ii) certified copies of the special resolutions of the holders of Westgrowth Common Shares duly passed at the Westgrowth Special Meeting, approving and agreeing to the Arrangement and the completion of the transactions contemplated thereby; and
 - (iii) true copies of the Interim Order, the Final Order and the articles of arrangement and all materials which are filed by Westgrowth in support of the granting of such orders.
- (c) Ulster shall have received a favourable opinion of Westgrowth Counsel dated the Effective Date, satisfactory in form and substance in all material respects to Ulster and to Ulster Counsel, addressed to Ulster and Ulster Counsel, to the effect that:
 - (i) Westgrowth and its Subsidiaries are duly incorporated and validly subsisting under the laws of their respective jurisdictions of incorporation and have the power to own or lease their property and assets and to carry on their businesses as now conducted by them;
 - (ii) Westgrowth has the corporate power and authority to execute, deliver and perform its obligations hereunder;
 - (iii) Westgrowth has taken all necessary corporate action to authorize the execution and delivery of this Agreement and the performance of all of its obligations hereunder;
 - (iv) this Agreement has been duly executed and delivered by Westgrowth and, assuming valid execution and delivery by Ulster, constitutes a valid and binding obligation of Westgrowth, enforceable by Ulster in accordance with its terms, subject to bankruptcy and similar laws affecting creditors generally and to equitable remedies being in the discretion of a court;
 - (v) the authorized capital of Westgrowth consists of an unlimited number of Common Shares without nominal or par value, of which 8,245,386 are issued and outstanding;
 - (vi) the execution, delivery and performance of this Agreement do not, and the performance and the completion of the transactions contemplated herein will not conflict with, result in a breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement or instrument to which Westgrowth is a party or by which it is bound or to which any property of it is subject or result in the creation of any lien, charge or encumbrance upon any of the assets of Westgrowth under any such agreement or instrument, or give to others any material interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement or instrument, in each case known to Westgrowth Counsel;
 - (vii) the execution, delivery and performance of this Agreement does not, and the performance and the completion of the transactions contemplated herein will not result in the breach of, or violate any term or provision of, the articles or by-laws of Westgrowth or the constating documents of its Subsidiaries and shall not and will not violate any provision of law or administrative regulation by which Westgrowth or its Subsidiaries is bound;
 - (viii) the Arrangement is binding on Westgrowth and the holders of Westgrowth Common Shares; and
 - (ix) the terms of the Interim Order and the Final Order, other than the filing of the Final Order with the Registrar of Corporations under the Act, have been complied with.

In giving such opinion, Westgrowth Counsel may rely, in respect of matters of fact, upon a certificate of an officer of Westgrowth and, in respect of matters governed by the laws of any jurisdiction other than the laws of the Province of Alberta and the federal laws of Canada applicable therein, upon the opinion of local counsel in such jurisdiction; provided that, in the case of any such opinion, Westgrowth Counsel is of the opinion that such local counsel's opinion is one upon which Westgrowth Counsel, Ulster and Ulster Counsel may properly rely;

- (d) except as affected by transactions contemplated by this Agreement, each of the representations and warranties of Westgrowth as set forth herein shall be true in all material respects as at the Effective Date with the same effect as though such representations and warranties had been made at and as of such time and Ulster shall have received a certificate of the Chairman of Westgrowth, dated the Effective Date, to such effect;
- (e) Ulster shall have received from the directors and officers of Westgrowth and its Subsidiaries such resignations and releases as requested in writing by Ulster in form and substance satisfactory to Ulster and Ulster Counsel; and
- (f) there shall have been no material adverse change in the business or affairs, financial or otherwise, of Westgrowth and its Subsidiaries taken as a whole since June 30, 1987 except as contemplated in the Proxy Circular and Ulster shall have received a certificate of the Chairman of Westgrowth, dated the Effective Date, to such effect.

ARTICLE V NOTICES

5.01 NOTICES

All notices which may or are required to be given pursuant to any provision of this Agreement shall be given or made in writing and shall be served personally, upon the respective parties as follows:

- (a) Westgrowth, addressed to:
 CANADIAN WESTGROWTH LTD.
 1400, 144 - 4th Avenue S.W.
 Calgary, Alberta T2P 3N4
 Attention: Mr. John M.S. Lecky
 Attention: Mr. William G. Ayrton
- (b) Ulster, addressed to:
 ULSTER PETROLEUMS LTD.
 500, 700 - 4th Avenue S.W.
 Calgary, Alberta T2P 3J4
 Attention: Mr. Donne C. Traxel

or such other address as the parties may from time to time advise to the other parties hereto by notice in writing. The date of receipt of any such notice shall be deemed to be the date of delivery.

ARTICLE VI AMENDMENT AND TERMINATION OF AGREEMENT

6.01 AMENDMENT

This Agreement may, at any time and from time to time before or after the holding of the Westgrowth Special Meeting, be amended by written agreement of the parties hereto without further notice to or authorization on the part of their respective shareholders, and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the parties hereto;
- (b) waive any inaccuracies in or modify any representation contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the parties hereto; and
- (d) assent to any modification or alteration of this Agreement in accordance with or to comply with the directions or requirements of any regulatory authority, the Court, the Registrar or the Department of National Revenue;

provided that, notwithstanding the foregoing, the number of Ulster Common Shares which the shareholders of Westgrowth shall have the right to receive in accordance with the terms of the Arrangement may not be reduced without the approval of the holders of Westgrowth Common Shares given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court.

6.02 TERMINATION

This Agreement may be terminated by mutual agreement of the parties hereto, and the respective Boards of Directors of the parties may, on or before the Effective Date, without further action on the part of their

respective security holders authorize any such termination by mutual agreement, notwithstanding anything contained herein, including the approval of the shareholders of Westgrowth of the Arrangement or the granting by the Court of the Final Order. This Agreement shall also terminate upon the earliest of:

- (a) the failure of the Arrangement and the transactions contemplated therein to be approved and agreed to by the shareholders of Westgrowth at the Westgrowth Special Meeting;
- (b) the failure of the issuance of Ulster Common Share pursuant to the Arrangement and the transactions contemplated therein to be approved by the shareholders of Ulster at the Ulster Special Meeting;
- (c) a final determination of disapproval of the Arrangement by the Court or by a court of appeal therefrom; and
- (d) December 31, 1987 unless the Final Order shall have been filed with the Registrar pursuant to the Act.

ARTICLE VII GENERAL

7.01 BINDING EFFECT

This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns and to the holders from time to time of the Westgrowth Common Shares.

7.02 ASSIGNMENT

No party may assign its rights or obligations under this Agreement without the prior written consent of the other party hereto.

7.03 SURVIVAL OF REPRESENTATIONS AND WARRANTIES

The representations and warranties herein shall survive the performance of the parties' respective obligations hereunder and the termination of this Agreement, but shall expire on the date one year from the date hereof.

7.04 INDEMNIFICATION

Each party hereto shall indemnify, hold and save harmless the other party hereto and its directors, officers and employees from, and shall defend at its own expense against, any and all claims, damages, judgments, losses, costs, charges, expenses and suits of any kind whatsoever which the other party hereto or its directors, officers or employees may sustain, incur or be liable for, and which arise directly or indirectly, from any misrepresentation, as defined in the **Securities Act** (Alberta), contained in those portions of the Proxy Circular provided by such party and relating solely and exclusively to the business and affairs, financial or otherwise, of such party.

7.05 GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws in force in the Province of Alberta.

7.06 TIME

Time is of the essence in this Agreement.

7.07 ENTIRE AGREEMENT

This Agreement constitutes the whole of the agreement between the parties hereto with respect to the transactions and matters herein contemplated and supersedes all prior agreements whether written or oral in connection therewith.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first above written.

CANADIAN WESTGROWTH LTD.

ULSTER PETROLEUMS LTD.

Per: _____
(c/s)

Per: _____
(c/s)

Per: _____

Per: _____

EXHIBIT I
TO THE ARRANGEMENT AGREEMENT MADE AS OF SEPTEMBER 21, 1987
BETWEEN CANADIAN WESTGROWTH LTD. AND
ULSTER PETROLEUMS LTD.

PLAN OF ARRANGEMENT UNDER SECTION 186
OF THE BUSINESS CORPORATIONS ACT (ALBERTA)

ARTICLE I
INTERPRETATION

1.1 DEFINITIONS

In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following terms shall have the following meanings respectively:

- (a) "Act" means the **Business Corporations Act**, S.A. 1981, c. B-15 as amended;
- (b) "Arrangement" means an arrangement under the provisions of section 186 of the Act, on the terms and conditions set forth herein;
- (c) "Arrangement Agreement" means the agreement made as of September 21, 1987 between Ulster and Westgrowth to which this Plan of Arrangement is set out as Exhibit I;
- (d) "Court" means the Court of Queen's Bench of Alberta, Judicial District of Calgary;
- (e) "Depository" means The Canada Trust Company at its principal offices in Calgary and Toronto;
- (f) "Effective Date" means the date shown on the certificate to be issued by the Registrar under the Act giving effect to the Arrangement;
- (g) "Letter of Transmittal" means the letter of transmittal forwarded by the Depository to holders of Westgrowth Shares on the Effective Date;
- (h) "Westgrowth" means Canadian Westgrowth Ltd., a corporation incorporated and existing under the laws of Alberta;
- (i) "Westgrowth Common Shares" means the common shares of Westgrowth;
- (j) "Ulster" means Ulster Petroleum Ltd., a corporation continued and existing under the laws of the Province of Alberta; and
- (k) "Ulster Common Shares" means the common voting shares of Ulster.

1.2 INTERPRETATION NOT AFFECTED BY HEADINGS, ETC.

The division of this Plan of Arrangement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement. The terms "this Plan of Arrangement", "hereof", "herein", and "hereunder" and similar expressions refer to this Plan of Arrangement and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.3 NUMBER, ETC.

Unless the context requires the contrary, words importing the singular number only shall include the plural and vice versa; words importing the use of any gender shall include all genders; and words importing persons shall include firms and corporations.

ARTICLE II
ARRANGEMENT AGREEMENT

2.1 ARRANGEMENT AGREEMENT

This Plan of Arrangement is made pursuant and subject to the provisions of the Arrangement Agreement.

ARTICLE III
THE ARRANGEMENT

3.1 EXCHANGE OF WESTGROWTH COMMON SHARES

On the Effective Date, the following shall occur and be deemed to occur in the following order without any further act or formality;

- (a) each issued and outstanding Westgrowth Common Share shall be exchanged by the holder thereof with Ulster for 1.5 Ulster Common Shares;
- (b) in connection with the exchange referred to in paragraph 3.1(a), each holder of Westgrowth Common Shares shall be deemed to have transferred each issued and outstanding Westgrowth Common Share held by him to Ulster and Ulster shall issue to each such holder 1.5 fully-paid and non-assessable Ulster Common Shares in exchange for each Westgrowth Common Share so transferred on the basis described in paragraph 3.1(a);
- (c) upon the exchange referred to in paragraph 3.1(a);
 - (i) each holder of Westgrowth Common Shares shall cease to be such a holder, shall have his name removed from the register of Westgrowth Common Shares and shall become a holder of the number of fully-paid and non-assessable Ulster Common Shares to which he is entitled as a result of the exchange referred to in paragraph 3.1(a) and such holder's name shall be added to the register of Ulster Common Shares accordingly; and
 - (ii) all of the issued and outstanding Westgrowth Common Shares so exchanged shall be and be deemed to be held by Ulster and Ulster's name shall be added to the register of Westgrowth Common Shares accordingly; and
- (d) each option to acquire Westgrowth Common Shares pursuant to the Westgrowth stock option plans shall be exchanged by the holder thereof for an option to acquire 1.5 Ulster Common Shares in lieu of one Westgrowth Common Share for the term ending at the close of business on the 60th day subsequent to the Effective Date at the same price as provided in the Westgrowth employee stock option plan for the purchase of one Westgrowth Common Share, and all other terms of such option shall remain unaffected.

ARTICLE IV
SHARE CERTIFICATES

4.1 SHARE CERTIFICATES AND DIVIDENDS, ETC.

- (a) As soon as practicable after the Effective Date, Ulster shall cause to be issued to the Depositary for the benefit of holders of Westgrowth Common Shares, a share certificate or certificates representing in the aggregate the Ulster Common Shares to which such holders are entitled in accordance with the terms of the Arrangement and shall deliver such certificate or certificates to the Depositary to be delivered to such holders in accordance with the terms hereof.
- (b) Subject to paragraph 4.1(d), on or after the Effective Date, certificates formerly representing Westgrowth Common Shares shall represent only the right to receive certificates for Ulster Common Shares upon the holder depositing with the Depositary such certificates duly endorsed for transfer and accompanied by such other documents and instruments as would have been required to effect the transfer of the shares formerly represented by such certificates under the Act and the by-laws of Westgrowth and as the Depositary may reasonably require. Upon receiving such certificates, documents and instruments, the Depositary shall deliver to the holder depositing the same, a certificate or certificates representing the Ulster Common Shares to which such holder is entitled in accordance with the terms of the Arrangement.
- (c) All dividends paid and distributions made in respect of Ulster Common Shares issued to a holder of Westgrowth Common Shares but for which a certificate has not been delivered to such holder in accordance with paragraph 4.1(b), shall be paid and made to the Depositary to be held by the Depositary in trust for such holder. All monies received by the Depositary shall be invested by it in interest-bearing trust accounts upon terms which the Depositary may reasonably deem appropriate. The Depositary shall, subject to paragraph 4.1(d), pay and deliver to such holder, as soon as reasonably practicable after application therefor is made to the Depositary in such form as the Depositary may reasonably require, such dividends, distributions and interest accrued, net of withholding and other taxes, to which such holder is entitled.
- (d) Any certificate formerly representing Westgrowth Common Shares not deposited with all of the other documents and instruments required by paragraph 4.1(b) on or prior to the tenth anniversary of the Effective Date shall cease to represent a claim or interest of any kind or nature as a shareholder of

Westgrowth or Ulster. On such date, the Ulster Common Shares to which the former registered holder of the certificate referred to in the preceding sentence was entitled shall be deemed to have been surrendered to Ulster together with all dividends, distributions and interest thereon held for the former registered holder.

- (e) As soon as practicable after the Effective Date, Ulster shall forward to each former holder of Westgrowth Common Shares at the address of such holder as it appears on the register of members of Westgrowth, a Letter of Transmittal and instructions for obtaining delivery of Ulster Common Shares provided for in the Arrangement. Former holders of Westgrowth Common Shares may take delivery of Ulster Common Shares to which they are entitled by delivering the share certificate or certificates formerly representing the Westgrowth Common Shares to the Depositary at its principal office in the City of Calgary. Such certificate or certificates shall be accompanied by a proper assignment thereof duly completed in blank for transfer with signature appropriately guaranteed, a duly completed Letter of Transmittal and such other documents and instruments as the Depositary may reasonably require, and the certificates for the Ulster Common Shares resulting from such exchange shall be issued in such name or names and delivered to such address or addresses as such registered holder may direct in such Letter of Transmittal as soon as practicable after receipt by the Depositary of such certificate or certificates and such letter and other documents and instruments.

4.2 FRACTIONAL ULSTER COMMON SHARES

No share certificates or scrip representing fractional Ulster Common Shares will be issued. In the event that the exchange ratio referred to herein would otherwise result in the holder of a Westgrowth Common Share being entitled to a fractional Ulster Common Share, the number of Ulster Common Shares to which such holder is entitled shall be rounded up to the next highest whole number of Ulster Common Shares and a certificate for the resulting whole number of Ulster Common Shares shall be issued. Provided, however, that in calculating such fractional interest in each instance, all Westgrowth Common Shares registered in the name of a holder or nominee of such holder shall be aggregated.

APPENDIX II

SPECIAL RESOLUTION OF THE HOLDERS OF THE COMMON SHARES OF CANADIAN WESTGROWTH LTD.

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The Arrangement Agreement made as of September 21, 1987 between Ulster Petroleums Ltd. and Canadian Westgrowth Ltd. (the "Corporation") together with the Plan of Arrangement between the Company and its shareholders attached thereto as Schedule "A" pursuant to which the holders of Westgrowth Common Shares will exchange each Westgrowth Common Share for 1.5 Ulster Common Shares (as such terms are defined in the Plan of Arrangement) are hereby approved, agreed to, sanctioned, ratified, adopted and confirmed.
2. The directors and officers of the Corporation are hereby authorized to execute and deliver all such documentation and to perform all such other acts as may be necessary or desirable to give full force and effect to this resolution and to the transactions contemplated by the Arrangement Agreement and the Plan of Arrangement including, without limiting the generality of the foregoing:
 - (a) the application for an Order of the Queen's Bench of Alberta approving the Plan of Arrangement;
 - (b) the filing of the Order approving the Plan together with any other documents required to be filed therewith pursuant to Section 186 of the **Business Corporations Act** with the Registrar of Corporations;
3. The directors of the Corporation are hereby authorized to amend by written agreement with Ulster Petroleums Ltd. the terms and conditions of the Arrangement Agreement, except for the exchange ratio, without the prior approval or subsequent ratification of such amendment by the shareholders of the Corporation.

APPENDIX III
ORDINARY RESOLUTIONS OF THE SHAREHOLDERS
OF ULSTER PETROLEUMS LTD.

1. RESOLVED (as an ordinary resolution) THAT:
 - (A) the issuance of Ulster common voting shares to holders of common shares of Canadian Westgrowth Ltd. on the basis of 1.5 common voting shares of Ulster for each common share of Canadian Westgrowth pursuant to the Plan of Arrangement of Canadian Westgrowth Ltd. be approved; and
 - (B) Roy R. Schwartz and John A. Howard be elected as additional Directors of Ulster to hold office until the next Annual General Meeting of the Corporation or until their respective successors are duly elected.
2. RESOLVED (as an ordinary resolution) THAT Ulster's Stock Option Plan be amended to permit the granting of options to Directors of Ulster in lieu of monetary compensation.

APPENDIX IV
SPECIAL RESOLUTION OF THE SHAREHOLDERS
OF ULSTER PETROLEUMS LTD.

RESOLVED (as a special resolution) THAT:

- (1) the articles of Ulster be hereby amended to increase the number of common voting shares that Ulster is authorized to issue to an unlimited number of common voting shares without nominal or par value ranking on a parity with the existing common voting shares of Ulster provided that if the Board of Directors of the Corporation consider it appropriate the Board of Directors may revoke this special resolution without further reference to or approval of the shareholders of Ulster;
- (2) the directors and proper officers of Ulster be and they are hereby authorized to do all such things and execute all instruments and documents necessary or desirable to carry out the foregoing.

APPENDIX V

SECTION 184 OF THE BUSINESS CORPORATIONS ACT OF ALBERTA

184(1) Subject to Sections 185 and 234, a holder of shares of any class of a corporation may dissent if the corporation resolves to

- (a) amend its articles under Section 167 or 168 to add, change or remove any provisions restricting or constraining the issue or transfer of shares of that class,
- (b) amend its articles under Section 167 to add, change or remove any restrictions on the business or businesses that the corporation may carry on,
- (c) amalgamate with another corporation, otherwise than under Section 178 or 180.1,
- (d) be continued under the laws of another jurisdiction under Section 182, or
- (e) sell, lease or exchange all or substantially all its property under Section 183.

(2) A holder of shares of any class or series of shares entitled to vote under Section 170 may dissent if the corporation resolves to amend its articles in a manner described in that section.

(3) In addition to any other right he may have, but subject to subsection (20), a shareholder entitled to dissent under this section and who complies with this section is entitled to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the last business day before the day on which the resolution from which he dissents was adopted.

(4) A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him or on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(5) A dissenting shareholder shall send to the corporation a written objection to a resolution referred to in subsection (1) or (2)

- (a) at or before any meeting of the shareholders at which the resolution is to be voted on, or
- (b) if the corporation did not send notice to the shareholder of the purpose of the meeting or of his right to dissent, within a reasonable time after he learns that the resolution was adopted and of his right to dissent.

(6) An application may be made to the Court by originating notice after the adoption of a resolution referred to in subsection (1) or (2),

- (a) by the corporation, or
- (b) by a shareholder if he has sent an objection to the corporation under subsection (5),

to fix the fair value in accordance with subsection (3) of the shares of a shareholder who dissents under this section.

(7) If an application is made under subsection (6), the corporation shall, unless the Court otherwise orders, send to each dissenting shareholder a written offer to pay him an amount considered by the directors to be the fair value of the shares.

(8) Unless the Court otherwise orders, an offer referred to in subsection (7) shall be sent to each dissenting shareholder

- (a) at least 10 days before the date on which the application is returnable, if the corporation is the applicant, or
 - (b) within 10 days after the corporation is served with a copy of the originating notice, if a shareholder is the applicant.
- (9) Every offer made under subsection (7) shall
- (a) be made on the same terms, and
 - (b) contain or be accompanied by a statement showing how the fair value was determined.

(10) A dissenting shareholder may make an agreement with the corporation for the purchase of his shares by the corporation, in the amount of the corporation's offer under subsection (7) or otherwise, at any time before the Court pronounces an order fixing the fair value of the shares.

(11) A dissenting shareholder

- (a) is not required to give security for costs in respect of an application under subsection (6), and
- (b) except in special circumstances shall not be required to pay the costs of the application or appraisal.

- (12) In connection with an application under subsection (6), the Court may give directions for
- (a) joining as parties all dissenting shareholders whose shares have not been purchased by the corporation and for the representation of dissenting shareholders who, in the opinion of the Court, are in need of representations,
 - (b) the trial of issues and interlocutory matters, including pleadings and examinations for discovery,
 - (c) the payment to the shareholder of all or part of the sum offered by the corporation for the shares,
 - (d) the deposit of the share certificates with the Court or with the corporation or its transfer agent,
 - (e) the appointment and payment of independent appraisers, and the procedures to be followed by them,
 - (f) the service of documents, and
 - (g) the burden of proof on the parties.

(13) On an application under subsection (6), the Court shall make an order

- (a) fixing the fair value of the shares in accordance with subsection (3) of all dissenting shareholders who are parties to the application,
- (b) giving judgment in that amount against the corporation and in favour of each of those dissenting shareholders, and
- (c) fixing the time within which the corporation must pay that amount to a shareholder.

(14) On

- (a) the action approved by the resolution from which the shareholder dissents becoming effective,
- (b) the making of an agreement under subsection (1) between the corporation and the dissenting shareholder as to the payment to be made by the corporation for his shares, whether by the acceptance of the corporation's offer under subsection (7) or otherwise, or
- (c) the pronouncement of an order under subsection (13),

whichever first occurs, the shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares in the amount agreed to between the corporation and the shareholder or in the amount of the judgment, as the case may be.

(15) Subsection (14)(a) does not apply to a shareholder referred to in subsection (5)(b).

(16) Until one of the events mentioned in subsection (14) occurs,

- (a) the shareholder may withdraw his dissent, or
- (b) the corporation may rescind the resolution,

and in either event proceedings under this section shall be discontinued.

(17) The Court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder, from the date on which the shareholder ceases to have any rights as a shareholder by reason of subsection (14) until the date of payment.

(18) If subsection (20) applies, the corporation shall, within 10 days after

- (a) the pronouncement of an order under subsection (13), or
- (b) the making of an agreement between the shareholder and the corporation as to the payment to be made for his shares,

notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(19) Notwithstanding that a judgment has been given in favour of a dissenting shareholder under subsection (13)(b), if subsection (20) applies, the dissenting shareholder, by written notice delivered to the corporation within 30 days after receiving the notice under subsection (18), may withdraw his notice of objection, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder, failing which he retains a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(20) A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due, or
- (b) the realizable value of the corporation's assets would whereby be less than the aggregate of its liabilities.

