MATERIAL CHANGE REPORT

Under Section 85(1) of the *Securities Act* (British Columbia), Section 118(1) of the *Securities Act* (Alberta), Section 84(1) of the Securities Act (Saskatchewan) and Section 75(2) of the *Securities Act* (Ontario)

1. Reporting Issuer

Ranchero Energy Inc.
800, 555 - 4th Avenue S.W.
Calgary, Alberta
T2P 1E7

2. Date of Material Change

February 16, 2001

3. Publication of Material Change

Press release disclosing this material change was issued on February 19, 2001

4. Summary of Material Change

Ranchero Energy Inc. ("Ranchero") announced that it had entered into an agreement with Cypress Energy Inc. ("Cypress") providing for the acquisition by Cypress of all of the outstanding Class A Shares of Ranchero (the "Acquisition Agreement"). Under the terms of the Acquisition Agreement, the form of the proposed transaction previously announced by the parties on January 29, 2001 has been changed from a plan of arrangement to a takeover bid by Cypress.

Under the terms of the Acquisition Agreement, Cypress has agreed that, on or before February 28, 2001 and subject to satisfaction of certain conditions, it will make an offer (the "Offer") to acquire all of the outstanding Class A Shares for consideration, per Class A Share, of either:

(a) $1.50 plus an additional amount equal to the pro rata amount per Ranchero Class A Share of the proceeds to be received by Ranchero from the sale of certain assets of Ranchero (referred to below), all in cash (such pro rata amount referred to as the "Pro Rata Amount"), or

(b) 0.1538 of Cypress Class A Share plus a further fraction of Cypress Class A Share equal to the Pro Rata Amount divided by 9.75.

The additional Pro Rata Amount will be determined by the parties prior to the mailing of the offer by Cypress and will be reflected in the consideration amounts in the Offer. Ranchero shareholders will be entitled to elect to receive either the cash or share consideration referred to above subject to a maximum limit of 1,076,000 Cypress Class A Shares.

The board of directors of Ranchero has unanimously approved the offer and has determined unanimously that the Offer is fair to the Ranchero Shareholders and that it is in the best interests of Ranchero and the Ranchero Shareholders and has determined unanimously to recommend that Ranchero Shareholders accept the Offer.

5. **Full Description of Material Change**

Ranchero announced that it had entered into the Acquisition Agreement with Cypress providing for the acquisition by Cypress of all of the outstanding Class A Shares of Ranchero. A copy of the Acquisition Agreement is attached hereto as Schedule "A". Under the terms of the Acquisition Agreement, the form of the proposed transaction previously announced by the parties on January 29, 2001 has been changed from a plan of arrangement to a takeover bid by Cypress.

Under the terms of the Acquisition Agreement, Cypress has agreed that, on or before February 28, 2001 and subject to satisfaction of certain conditions, it will make an offer (the "Offer") to acquire all of the outstanding Class A Shares for consideration, per Class A Share, of either:

(a) $1.50 plus an additional amount equal to the pro rata amount per Ranchero Class A Share of the proceeds to be received by Ranchero from the sale of certain assets of Ranchero (referred to below), all in cash (such pro rata amount referred to as the "Pro Rata Amount"), or

(b) 0.1538 of Cypress Class A Share plus a further fraction of Cypress Class A Share equal to the Pro Rata Amount divided by 9.75.

The additional Pro Rata Amount will be determined by the parties prior to the mailing of the offer by Cypress and will be reflected in the consideration amounts in the Offer. Ranchero shareholders will be entitled to elect to receive either the cash or share consideration referred to above subject to a maximum limit of 1,076,000 Cypress Class A Shares. In the event that Ranchero shareholders elect to receive, in the aggregate, in excess of the 1,076,000 Cypress Class A Shares pursuant to the Offer, then such shareholders shall be deemed to have elected, on a proportionate basis, to have received the cash consideration to the extent necessary.

The board of directors of Ranchero has unanimously approved the offer and has determined unanimously that the Offer is fair to the Ranchero Shareholders and that it is in the best interests of Ranchero and the Ranchero Shareholders and has determined unanimously to recommend that Ranchero Shareholders accept the Offer. Griffiths McBurney & Partners, the financial advisors to Ranchero, will provide an opinion that the Offer is fair, from a financial point of view, to the Ranchero Shareholders. The directors and officers of Ranchero holding 4,434,679 Ranchero Class A Shares representing 20.1% of the outstanding Ranchero Class A Shares on a fully diluted basis have agreed to tender their shares to the Offer.

The obligation of Cypress to take up the Ranchero Class A Shares tendered under the Offer is subject to a number of conditions, including acceptance of the Offer by the holders of at least 66-2/3% of the outstanding Class A Shares of Ranchero on a fully-diluted basis.

Ranchero has agreed that it will pay to Cypress a non-completion fee of $1,600,000 in certain circumstances. Ranchero has agreed to terminate any discussions with other parties. Cypress has the right to match an unsolicited offer or proposal that Ranchero may receive.

Rather than receive a share of Newco, as previously released, Ranchero will sell certain Ranchero assets, including certain of Ranchero's oil and gas assets in Fox Creek and Provost areas, for cash consideration. The proceeds of this sale will form part of the Offer to Ranchero Shareholders as described above.

It is anticipated that the Offer for the Ranchero Shares would be completed prior to the recently announced takeover by Cypress by PrimeWest Energy Trust. As a result, Cypress Shares issued pursuant to the takeover of Ranchero by Cypress would be available for tender into the PrimeWest Energy Trust takeover bid for Cypress.

6. **Reliance on Confidential Filing Provision**

Not applicable.

7. **Omitted Information**

Not applicable.

8. **Senior Officers**

Joseph Durante, Managing Director and Chief Financial Officer of Ranchero is knowledgeable about the material change set forth herein and can be reached at (403) 781-1277.

9. **Statement of Senior Officer**

The foregoing accurately discloses the material change referred to herein.

DATED at the City of Calgary, in the Province of Alberta, this 23rd day of February, 2001.

RANCHERO ENERGY INC.

(signed) "Joseph Durante"

Per:____________________________

Joseph Durante
Managing Director and Chief
Financial Officer

Schedule A

Pre-Acquisition Agreement

Between

Cypress Energy Inc.

and

Ranchero Energy Inc.

February 16, 2000

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Pre-Acquisition Agreement
February 16, 2001

Between

CYPRESS ENERGY INC., an Alberta corporation ("**Cypress**")

and

RANCHERO ENERGY INC., an Alberta corporation ("**Ranchero**")

Recitals

A. Cypress is prepared to make an offer for all of the Ranchero Shares, subject to the terms and conditions of this Agreement;

B. The board of directors of Ranchero has unanimously determined that it would be in the best interests of Ranchero and its shareholders to recommend acceptance of the Cypress offer to the shareholders of Ranchero and to cooperate with Cypress with respect to, and take all reasonable action to support, the Cypress offer; and

C. The board of directors of Ranchero has unanimously determined that it would be in the best interests of Ranchero and its shareholders for Ranchero to enter into this Agreement.

The parties agree as follows.

Article 1
Interpretation

1.1 Definitions

In this Agreement (including the recitals hereto), unless there is something in the subject matter or context inconsistent therewith:

"**ABCA**" means the *Business Corporations Act* (Alberta), S.A. 1981, c. B-15, as amended, including the regulations promulgated thereunder ;

"**Agreement**", "**this Agreement**", "**herein**", "**hereto**", and "**hereof**" and similar expressions refer to this agreement (and not to any particular Article or Section hereof), as the same may be amended or supplemented from time to time and, where applicable, to the appropriate Schedules hereto;

"**Applicable Laws**" means all applicable corporate and securities laws, regulations and rules, all policies thereunder and rules of applicable stock exchanges;

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

"**Cypress**" means Cypress Energy Inc. and when used herein refers to Cypress and its subsidiaries taken as a whole;

"**Cypress Financial Statements**" means the audited financial statements of Cypress for the years ended December 31, 1999 and 1998 and the unaudited financial statements of Cypress for the nine months ended September 30, 2000;

"**Cypress Option Plan**" means the Cypress incentive share option plan;

"**Cypress Public Documents**" means all documents or information filed by or on behalf of Cypress in compliance with or intended compliance with Applicable Laws prior to the date of this Agreement;

"**Cypress Reserve Report**" means the report of Gilbert Laustsen Jung Associates Ltd. dated March 27, 2000 evaluating Cypress' oil, natural gas liquids and natural gas reserves and estimated future cash flow from such reserves, effective January 1, 2000;

"**Cypress Shares**" means Class A shares in the capital of Cypress;

"**diluted basis**" means, with respect to the number of Ranchero Shares outstanding at any time, such number of outstanding Ranchero Shares calculated assuming that all outstanding Ranchero Options, Ranchero Warrants and all other rights (other than the Rights), if any, to purchase Ranchero Shares are exercised;

"**Effective Time**" means the time that Cypress shall have acquired ownership of and paid for at least the Minimum Required Shares pursuant to the terms of the Offer;

"**Employee Obligations**" means any obligations or liabilities of Ranchero to pay any amount to or on behalf of the officers, directors, employees or consultants of Ranchero, other than for salary, bonuses, under their existing bonus arrangements and directors' fees in the ordinary course, in each case in amounts consistent with historic practices and, without limiting the generality of the foregoing, Employee Obligations shall include the obligations of Ranchero to officers, employees or consultants for: (i) severance or termination payments on the change of control of Ranchero pursuant to any existing agreements or severance policy and (ii) for the director's retainer in the amount of $27,500 payable to an independent director of Ranchero, together with per meeting fees in the amount of $500.00;

"**Encumbrance**" includes, without limitation, any mortgage, pledge, assignment, charge, lien, security interest, claim, trust, royalty or carried, participation, net profits or other third party interest and any agreement, option, right or privilege (whether by law, contract or otherwise) capable of becoming any of the foregoing;

"Environmental Laws" has the meaning set forth in Section 7.1(o);

"**Expiry Time**" means the Initial Expiry Time unless the Offer has been extended, in which case it means the expiry time of the Offer as extended from time to time;

"**Fox Creek**" means Fox Creek Petroleum Corp.;

"**Fox Creek Assets**" means those assets of Ranchero to be sold to Fox Creek pursuant to the Fox Creek Asset Sale, being comprised of the assets referred to in Schedule "A" to the "Term Sheet for Proposed Transaction" between Ranchero and Cypress dated January 24, 2001;

"**Fox Creek Asset Sale**" means the sale of the Fox Creek Assets by Ranchero to Fox Creek in exchange for the issuance by Fox Creek to Ranchero of shares of Fox Creek, which sale is to occur prior to the Fox Creek Share Sale;

"**Fox Creek Shares**" means all of the shares of Fox Creek outstanding at the time of the Fox Creek Share Sale;

"**Fox Creek Share Sale**" means the sale of the Fox Creek Shares for proceeds of $4.8 million (subject to downward adjustment as provided herein) as provided for in Section 2.1(f)(ii);

"Fox Per Share Net Proceeds" means: (a) in the event the Put Event does not occur, the proceeds to be received by Ranchero from the Fox Creek Share Sale; and (b) in the event the Put Event does occur, the proceeds received by Ranchero from the Fox Creek Share Sale less an amount reflecting the tax effect of the gain to Ranchero associated with the Fox Creek Share Sale, such amount to be agreed to between Cypress and Ranchero on or before February 21, 2001, divided by 21,881,509;

"**Income Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, C.1 (5th Supp), as amended, including the regulations promulgated thereunder;

"**Initial Expiry Time**" means 5:00 p.m. (Calgary time) on the first Business Day which falls after the 21st day following the day of the mailing of the Offer Documents to the shareholders of Ranchero (where the first day of this period is the day immediately following the day of mailing);

"**Material Adverse Change**" means any change (or any condition, event or development involving a prospective change) in the business, operations, results of operations, assets, capitalization, financial condition, licenses, permits, concessions, rights, liabilities, prospectus or privileges, whether contractual or otherwise, of a party or its subsidiaries which is materially adverse to the business of that Party on a consolidated basis, which shall include in respect of Ranchero, a determination by Cypress, acting reasonably, following due investigation, that there exists, a previously undisclosed Encumbrance of material significance on the assets of Ranchero; but "Material Adverse Change" shall not include a change resulting from (i) a matter of which the other party has been advised of in writing as of the date of this Agreement, (ii) a change in commodity prices, (iii) the completion of drilling of any well or wells in respect of Ranchero's drilling program, or (iv) a change in currency exchange rates; provided however that there will not be deemed to be a Material Adverse Change unless such change or changes in aggregate relates to one or more adverse changes from a financial point of view of at least $3.5 million, in the case of Ranchero, and $39 million, in the case of Cypress;

"**Material Adverse Effect**" means any effect that is, or would reasonably be expected to be material and adverse to the business, operations or financial condition of Cypress or Ranchero, as applicable, on a consolidated basis; but shall not include an effect resulting from (i) a matter of which the other party has been advised of in writing as of the date of this Agreement, (ii) a change in commodity prices, (iii) the completion of drilling of any well or wells in respect of Ranchero's drilling program, or (iv) a change in currency exchange rates; provided however that there will not be deemed to be a Material Adverse Effect unless such effect or effects in aggregate relates to one or more adverse effects from a financial point of view of at least $3.5 million, in the case of Ranchero, and at least $39 million, in the case of Cypress;

"**Material Subsidiary**" means any Subsidiary the total assets of which constituted more than 10% of the consolidated assets of a party hereof at December 31, 1999 or the total revenues of which constituted more than 10% of the consolidated revenues of a party hereof for the year ended December 31, 1999;

“**Minimum Condition**” means the condition set forth in paragraph (a) of Schedule A;

“**Minimum Required Shares**” means that number of the outstanding Ranchero Shares required pursuant to the Minimum Condition;

"**misrepresentation**" includes any untrue statement of a material fact, any omission to state a material fact that is required to be stated and any omission to state a material fact that is necessary to be stated in order for a statement not to be misleading;

“**Offer**” has the meaning set forth in Section 2.1(a);

“**Offer Documents**” has the meaning set forth in Section 2.3(a);

"**Put Event**" means when the well at 6-24-83-14 W5M fails to reach, on or before February 26, 2001 , a stabilized production rate, determined by pressure transient analysis, of 0.7 mmcf/day of natural gas at the back pressure necessary to flow into the facilities on section 18-24-83-14 W5M;

“**Ranchero**” means Ranchero Energy Inc.;

"**Ranchero Financial Statements**" means the audited consolidated financial statements of Ranchero for the years ended December 31, 1999 and 1998 and the unaudited financial statements of Ranchero for the nine months ended September 30, 2000;

"**Ranchero Options**" means all of the outstanding options to purchase Ranchero Shares pursuant to the Ranchero Option Plan or otherwise;

"**Ranchero Option Plan**" means the stock option plan of Ranchero, as provided to Cypress;

"**Ranchero Public Documents**" means all documents or information filed by or on behalf of Ranchero in compliance with or intended compliance with Applicable Laws prior to the date of this Agreement;

"**Ranchero Reserve Reports**" means the reports of McDaniel & Associates Consultants Inc. and Ryder Scott Company both dated April 11, 2000 and both evaluating Ranchero's oil, natural gas liquids and natural gas reserves and the estimated future cash flow from such reserves, effective January 1, 2000 ;

"**Ranchero Shares**" means the Class A shares of Ranchero as constituted on the date hereof;

"**Ranchero Warrants**" means the 133,334 share purchase warrants of Ranchero held by National Bank of Canada, each share purchase warrant entitling the holder to acquire one Ranchero Share at an exercise price of $0.84 per share until July 16, 2002;

"**Related Parties**" means any officer, director, employee or consultant of Ranchero and any associate or affiliate of the foregoing;

"**Rights**" means the rights to acquire Ranchero Shares granted to holders of Ranchero Shares pursuant to and in accordance with the Shareholder Rights Plan;

"**Shareholder Rights Plan**" means the shareholder rights plan agreement dated as of May 19, 2000, between Ranchero and Computershare Trust Company of Canada (formerly Montreal Trust Company of Canada);

"**Second Stage Transaction**" has the meaning set forth in Section 6.1;

"**Securities Authorities**" means The Toronto Stock Exchange and the securities commissions or similar regulatory authorities in Canada and each of the provinces and territories thereof and in the United States of America and each of the states thereof;

"**Securities Laws**" has the meaning set forth in Section 2.3(a);

"**Subsidiary**" has the meaning ascribed thereto in the ABCA;

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

"**Take-over Proposal**" means any take-over bid for 20% or more of the issued and outstanding Ranchero Shares or any proposal or offer for a merger, consolidation, amalgamation, arrangement or other business combination involving Ranchero or any proposal or offer to acquire in any manner a 20% or greater equity or beneficial interest in, or a material amount of the assets of, Ranchero, other than pursuant to the Offer;

"**Take-up Date**" means the date that Cypress first takes up Ranchero Shares pursuant to the Offer;

"**Taxes**" has the meaning set forth in Section 8.1(t)(i)(A);

"**Tax Pools**" means undepreciated capital cost of any particular class of depreciable property, earned depletion base, cumulative Canadian exploration expense, cumulative Canadian development expense, cumulative Canadian oil and gas property expense, foreign exploration and development expense, capital losses, non-capital losses, cumulative eligible capital, attributed Canadian royalty income and investment tax credits, all as defined in the Income Tax Act and the *Alberta Corporate Tax Act*, as the case may be; and

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

1.2 Singular, Plural, etc.

Words importing the singular number include the plural and vice versa and words importing gender include the masculine, feminine and neuter genders.

1.3 Currency

All dollar references herein are to Canadian dollars.

1.4 Headings, etc.

The division of this Agreement into Articles and Sections, the provision of a table of contents and the insertion of recitals and headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement and, unless otherwise stated, all references in this Agreement or in the Schedules to Articles, Sections and Schedules refer to Articles, Sections and Schedules of and to this Agreement or of the Schedules in which such reference is made.

1.5 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, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.6 Governing Law

This Agreement shall be governed by and interpreted in accordance with the laws of Alberta and the laws of Canada applicable therein.

1.7 Attornment

The parties hereby irrevocably and unconditionally consent to and submit to the courts of the Province of Alberta for any actions, suits or proceedings arising out of or relating to this Agreement or the matters contemplated hereby (and agree not to commence any action, suit or proceeding relating thereto except in such courts) and further agree that service of any process, summons, notice or document by delivery in the manner set forth in Section 14.1 shall be effective service of process for any action, suit or proceeding brought against either party in such court. The parties hereby irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the matters contemplated hereby in the courts of the Province of Alberta and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding so brought has been brought in an inconvenient forum.

1.8 Knowledge

In this Agreement, statements as to a party's knowledge with respect to any matter or thing shall be interpreted to mean the actual knowledge of the senior officers of such party after enquiry by such officers of the management or employees of such party who have management responsibility over the area of business of such party to which the subject matter of such party's knowledge relates.

1.9 Incorporation of Schedules

Schedules A to D attached hereto and described below shall, for all purposes hereof, form an integral part of this Agreement.

Schedule A	Conditions to the Offer
Schedule B	Forms of Press Releases
Schedule C	Letter for Recipients of Evaluation Materials
Schedule D	Form of Tender Agreement

Article 2
The Offer

2.1 The Offer

(a) Subject to the terms and conditions hereof, Cypress shall mail as soon as is practicable, but in any event not later than 11:59 p.m. (Calgary time) on February 28, 2001, to the holders of Ranchero Shares an offer to purchase all of the outstanding Ranchero Shares (including the associated Rights), which includes all Ranchero Shares which may become outstanding after the date of the Offer on exercise of Ranchero Options and Ranchero Warrants on the basis of per Ranchero Share, either: (i) $1.50 plus the Fox Per Share Net Proceeds, all in cash; or (ii) 0.1538 of Cypress Share plus a further fraction of a Cypress Share equal to the quotient obtained from dividing the Fox Per Share Net Proceeds by 9.75; for all of the outstanding Ranchero Shares, subject to the payment of an aggregate maximum of 1,076,900 Cypress Shares (subject to adjustment). In the event that holders of Ranchero Shares elect to receive, in the aggregate, in excess of 1,076,900 Cypress Shares pursuant to the Offer, then such holders of Ranchero Shares shall be deemed to have elected, on a proportionate basis, to have received cash to the extent necessary. To the extent a shareholder fails to elect, such shareholder shall be deemed to have elected to receive cash. The proportion of the

Cypress Shares available to be paid for Ranchero Shares acquired pursuant to the Offer will be the same as the proportion that the Ranchero Shares being taken-up on such Take-Up Date is of the outstanding Ranchero Shares on a diluted basis (the "Offer" which term shall include any one or more amendments or variations to, or extensions of, such Offer, as permitted by this Agreement). Notwithstanding the foregoing, Cypress shall not mail the Offer pursuant to the above until the earlier of (i) the occurrence of the Put Event; or (ii) February 28, 2001. The Offer shall be made in accordance with Securities Laws and be subject only to the conditions set forth in Schedule A hereto. The Offer Documents (in both the English and French languages) shall be prepared in accordance with Securities Laws and other Applicable Laws. Cypress shall provide Ranchero with a draft copy of the Offer Documents prior to mailing and shall provide Ranchero with a reasonable opportunity to review and provide any comments thereon. Any entitlement to fractional shares greater than 0.5 of a Cypress Share shall be rounded up to the next whole number of Cypress Shares.

(b) Cypress may make the Offer itself, or through one or more direct or indirect wholly-owned subsidiaries, or any combination thereof (which, for purposes hereof, may include a partnership, all of the partners of which are direct or indirect subsidiaries of Cypress, or any combination thereof). In the event that any of those entities makes or participates in the making of the Offer, the term "Cypress" as used herein shall include all of those entities, but Cypress shall continue to be liable to Ranchero for any default by any such entity in the performance of any of Cypress' obligations hereunder.

(c) The Offer shall expire on the Initial Expiry Time, except that the Offer shall be extended in accordance with the provisions of Section 2.1(e) if the conditions thereto set forth in Schedule A are not satisfied or waived on or by the date and time at which the Offer would otherwise expire and if Cypress determines, acting reasonably, that there is a reasonable prospect that those conditions of the Offer may be satisfied.

(d) Subject to the satisfaction or waiver of the conditions set forth in Schedule A, Cypress shall, as soon as is practicable in the circumstances and in any event within the time periods required by Applicable Law, accept for payment and pay for all Ranchero Shares validly tendered (and not properly withdrawn) pursuant to the Offer. Cypress shall use all commercially reasonable efforts to consummate the Offer, subject to the terms and conditions thereof.

(e) It is agreed that Cypress may, in its sole discretion:

(i) waive any term or condition of the Offer for its benefit (other than the Minimum Condition, provided that Cypress may reduce the Minimum Condition to 50.1%); and

(ii) vary any term or condition of the Offer, provided that Cypress shall not, without the prior written consent of Ranchero, acting reasonably, (A) change the number of Ranchero Shares for which the Offer is made or change the Minimum Condition to less than 50.1%, (B) decrease the consideration to be paid for each Ranchero Share, (C) change the form of consideration payable under the Offer, or (D) add to, amend or change the Offer or the conditions to the Offer in a manner that is adverse to the holders of Ranchero Shares.

Cypress agrees that it will advise Ranchero of any amendment to the Offer prior to its implementation.

(f) The obligation of Cypress to make the Offer shall be conditional upon the following:

(i) no Material Adverse Change shall have occurred in respect of Ranchero, no person shall have brought or threatened to bring a bona fide action for injunctive relief against the performance of this Agreement or the completion of the Offer and no other event shall have occurred or circumstance shall exist which would make it impossible or impracticable to satisfy one or more of the conditions of the Offer described in Schedule A;

(ii) Ranchero shall have entered into a purchase and sale agreement providing for the Fox Creek Asset Sale, in form satisfactory to Cypress, acting reasonably, on or before February 26, 2001;

(iii) Ranchero shall have entered into a purchase a nd sale agreement providing for the Fox Creek Share Sale, in form satisfactory to Ranchero and Cypress, acting reasonably, on or before February 26, 2001;

(iv) Fox Creek shall have entered into an indemnity agreement with Ranchero on or before February 26, 2001, in a form satisfactory to Cypress, providing for the indemnification of Ranchero by Fox Creek for the loss of any Tax Pools in excess of $1 million arising from the sale by Ranchero of the Fox Creek Assets;

(v) In the circumstances where the Put Event occurs, Ranchero and Fox Creek shall have entered into an indemnity agreement, in a form satisfactory to Cypress, relating to the reimbursement of Ranchero by Fox Creek, secured by a general security agreement and land charge, for all amounts payable from April 25, 2001 to October 21, 2001 under that certain gas marketing contract between Ranchero and Aquila Energy;

(vi) as at the date that the Offer is to be made, no representation or warranty by Ranchero contained in this Agreement shall have been determined by Cypress, acting reasonably, to be inaccurate in any material respect and no breach by Ranchero of, or non-compliance by Ranchero with, any covenant or obligation contained in this Agreement shall in a material respect have occurred except where the failure of such representations or warranties to be true and correct or where the breach or non-compliance with such covenant would not have a Material Adverse Effect on Ranchero;

(vii) Cypress shall have obtained such orders or exemptive relief from the Securities Authorities or other regulatory authorities in Canada, the United States and, as applicable, elsewhere as it deems necessary or appropriate in connection with the making of the Offer provided that Cypress shall have diligently pursued the obtaining of such orders or exemptive relief;

(viii) the board of directors of Ranchero shall not have withdrawn, modified or changed any of its recommendations, approvals, resolutions, or determinations referred to in Sections 2.2 or 2.4; and

(ix) Cypress' receipt of duly executed tender agreements in form attached as Schedule D in respect of Ranchero Shares which together with the Ranchero Shares referred to in Section 2.2(d) represents not less than 20.1% of the Ranchero Shares calculated on a fully diluted basis.

The foregoing conditions set forth in this Section 2.1(f) are for the exclusive benefit of Cypress and may be waived by Cypress, in whole or in part, in its sole discretion, at any time and from time to time.

2.2 Ranchero Directors' Circular and Related Matters

(a) Ranchero hereby consents to the Offer as set forth in Section 2.1 and represents and warrants to Cypress that its board of directors has received a verbal fairness opinion from its financial advisors and, after review of the fairness opinion and after consultation with its legal and financial advisors, has determined unanimously that:

(i) the Offer is fair to the holders of Ranchero Shares and is in the best interests of Ranchero and the holders of Ranchero Shares; and

(ii) it will recommend acceptance of the Offer by the holders of Ranchero Shares, except as provided for in Section 5.3 or in the event of the termination of this Agreement pursuant to Section 13.1, provided that the Offer does not differ in any material respect from the Offer contemplated in this Agreement or is not amended except in accordance with the terms of this Agreement.

Subject to the provisions contained herein, Ranchero covenants to cooperate with Cypress and to take all reasonable action to support the Offer.

(b) Ranchero shall prepare a directors' circular in accordance with Securities Laws. The directors' circular will, subject to the terms hereof, set forth (among other things) the unanimous recommendation of the board of directors of Ranchero as described above. Ranchero shall provide Cypress with a draft copy of the directors' circular prior to mailing and shall provide Cypress with a reasonable opportunity to review and provide any comments thereon. Ranchero shall use its reasonable commercial efforts to mail the directors' circular on the same date that Cypress mails the Offer Documents to the holders of Ranchero Shares.

(c) Ranchero and Cypress shall issue the respective press releases substantially in the forms attached hereto as Schedule B as soon as practicable after the signing of this Agreement. Cypress and Ranchero shall each file or cause to be filed, where required, a copy of its press release, a material change report and this Agreement with the Securities Authorities having jurisdiction over Ranchero as soon as practicable after the issuance of its press release (and, in any event, within the time periods set out in applicable Securities Laws).

(d) Ranchero represents that each of its directors and senior officers has advised that he intends to tender his Ranchero Shares representing an aggregate of 4,434,679 Ranchero Shares (including all Ranchero Shares he shall acquire between the date hereof and the Expiry Time, whether pursuant to the exercise of Ranchero Options or otherwise) under the Offer substantially in accordance with the form of tender agreement attached hereto as Schedule D. The directors' circular shall reflect the intention of the directors, senior officers and other applicable "insiders" and "significant shareholders" who may enter into tender agreements to tender their respective Ranchero Shares pursuant to the Offer.

(e) The board of directors of Ranchero may withdraw, modify or change any recommendation with respect to the Offer only as permitted under Section 5.3 or in the event the Agreement is terminated.

2.3 Offer Documents

(a) Within the time periods required by law, Cypress shall file or cause to be filed with the appropriate Securities Authorities an offer to purchase and take-over bid circular and the related letter of transmittal and notice of guaranteed delivery pursuant to which the Offer will be made (collectively, the "Offer Documents"). The Offer Documents, when filed with Securities Authorities and when mailed to holders of Ranchero Shares, shall contain (or shall be amended in a timely manner to contain) all information which is required to be included therein in accordance with any applicable Canadian provincial securities laws, applicable securities laws of the United States and the states thereof and any other such applicable law, regulation, rule or policy (collectively, the "Securities Laws").

(b) Ranchero agrees to provide such reasonable assistance as Cypress or its agents may reasonably request in connection with preparing and communicating the Offer Documents and any amendments and supplements thereto to the holders of the Ranchero Shares and to such other persons as are entitled to receive the Offer Documents under Securities Laws, including providing or causing to be provided lists of the holders of Ranchero Shares (including depository participant break-out lists) and of the holders of Ranchero Options and Ranchero Warrants and other securities convertible into or exchangeable for, or other rights to acquire, Ranchero Shares including names, addresses and numbers of Ranchero Shares or such other securities and mailing labels with respect to all such holders of securities as soon as practicable after the date of this Agreement but in any event no later than the date which is two days prior to the mailing of the Offer, as Ranchero shall be advised by Cypress, and updates or supplements thereto from time to time as may be reasonably requested by Cypress.

2.4 Outstanding Stock Options

Ranchero agrees and represents to Cypress that Ranchero's board of directors has:

(a) unanimously resolved to use its reasonable commercial efforts to encourage all persons holding Ranchero Options to either:

(i) exercise those Ranchero Options and tender all Ranchero Shares issued in connection therewith to the Offer; or

(ii) terminate their rights to exercise any of those Ranchero Options

prior to the Expiry Time, provided however that reasonable commercial efforts shall not include any payment by Ranchero in respect of the exercise or termination of the Ranchero Options; and

(b) authorized and directed Ranchero to:

(i) cause the vesting of option entitlements under the Ranchero Option Plan and any other compensation arrangements to accelerate prior to or concurrent with the mailing of the Offer, such that all outstanding Ranchero Options shall be exercisable and fully vested prior to the expiry of the Offer; and

(ii) satisfy all other obligations of Ranchero under the plans or arrangement referred to above (including, without limitation, the Ranchero Option Plan) or, upon the acquisition by Cypress of Ranchero Shares pursuant to the Offer, to cause all entitlements under such plans or arrangements to terminate upon the payment of an amount in respect of each outstanding Ranchero Option equal to the amount by which the cash consideration offered pursuant to the Offer exceeds the exercise price thereof for those Ranchero Options in respect of which the exercise price is less than the Offer price (as determined above);

and Ranchero agrees to apply for all consents and authorizations required in connection with the foregoing, including any exemptions or consents required from any Securities Authority in connection with any amendments to the Ranchero Option Plan required in connection with the foregoing and that all proceeds from the exercise of Ranchero Options and Ranchero Warrants shall be retained by Ranchero.

Cypress agrees to cooperate with Ranchero to facilitate the exercise of Ranchero Options and Ranchero Warrants and the tender of all Ranchero Shares issued in connection therewith prior to the Expiry Time pursuant to the Offer once all conditions to the Offer set forth in Schedule A hereto are satisfied or waived by Cypress.

2.5 Shareholder Rights Plan

Ranchero agrees that it shall waive the application of the Shareholder Rights Plan to the Offer.

Article 3
Publicity

3.1 Publicity

Each of Cypress and Ranchero shall receive the prior consent, not to be unreasonably withheld, of the other party prior to issuing, or permitting any of its subsidiaries (if applicable), directors, officers, employees or agents to issue, any press release or other written statement to the press with respect to this Agreement or the transactions contemplated hereby other than the press release provided for in Section 2.2(c). Cypress and Ranchero may issue a press release or other written statement prior to such consent on the advice of counsel that such action is required by applicable law or by obligations pursuant to any listing agreement with a stock exchange, but only after using its best efforts to consult the other party taking into account the time constraints to which it is subject as a result of any such law or obligation.

Article 4
Arrangements Respecting Fees

4.1 Non-completion Fee

Provided that Cypress is not then in material breach of any of the representations, warranties or covenants in this Agreement, if at any time after the date of this Agreement:

(a) the board of directors of Ranchero: (i) shall have failed to make the recommendation provided under Section 2.2 or, (ii) shall have withdrawn, modified or changed any of its recommendations, approvals, resolutions or determinations referred to in Sections 2.2 and 2.4 in a manner adverse to Cypress, or shall have resolved to do so; or (iii) shall have failed to promptly reaffirm any of its recommendations, approvals, resolutions or determinations referred to in Section 2.2 upon request from time to time by Cypress to do so, or upon a Take-over Proposal being publicly announced or proposed, offered or made to Ranchero or the Ranchero shareholders (such affirmation to be made within two days of such request being made or such Take-over Proposal being publicly announced, proposed, offered or made, whichever occurs first); or

(b) the board of directors of Ranchero shall have recommended that holders of Ranchero Shares deposit their Ranchero Shares under, vote in favour of or otherwise accept a Take-over Proposal; or

(c) Ranchero shall have entered into an agreement (other than a confidentiality agreement referred to in Section 5.2) with any person with respect to a Take-Over Proposal prior to the Expiry Time; or

(d) a Take-over Proposal is made or announced (and not withdrawn) to the shareholders of Ranchero or to Ranchero and at the Expiry Time the Minimum Condition has not been satisfied; or

(e) there has occurred a material breach by Ranchero of any material covenant, obligation, representation or warranty of Ranchero in this Agreement,

(a "Break Fee Event") then Ranchero shall, within one Business Day after the first to occur of the events described above, pay to Cypress a sum equal to $1,600,000. Such payment shall be made in immediately available funds to an account designated by Cypress.

4.2 Sole Remedy

Payment of the fees set forth in Section 4.1 constitutes the sole remedy of Cypress in respect of matters set forth in this Agreement.

Article 5
No Solicitation

5.1 Cessation of Existing Discussions

Ranchero shall immediately cease and cause to be terminated all existing discussions and negotiations, if any, with any parties (other than Cypress) conducted on or before the date of this Agreement with respect to any actual or potential Take-over Proposal. Ranchero shall immediately send a letter, with a copy to Cypress, in substantially the form of the letter attached hereto as Schedule C to all parties who have had such discussions or negotiations or who have entered into confidentiality agreements with Ranchero within the past six months pertaining to the sale of Ranchero or a substantial portion of its assets and shall use appropriate diligence to have all materials provided to such parties by Ranchero or prepared by such parties in respect of Ranchero destroyed or returned to Ranchero or its agents or advisors. Ranchero shall immediately advise Cypress orally and in writing of any response or action (actual, anticipated, contemplated or threatened) by any recipient of such letter which could hinder, prevent or delay or otherwise adversely affect the completion of the Offer. Ranchero agrees not to release any third party from any confidentiality or standstill obligation set forth in any agreement to which Ranchero and such third party are parties except for the standstill obligation in connection with a Superior Take-over Proposal by such third party.

5.2 No Solicitation

None of Ranchero or any of its directors, officers, employees, agents, financial advisors, counsel or other representatives shall, directly or indirectly:

(a) solicit, initiate or knowingly encourage (including, without limitation, by way of furnishing information) the initiation or continuation of any inquiries, discussions, negotiations, proposals or offers from any corporation, person or other entity or group (other than Cypress and its subsidiaries and their respective directors, officers, employees, agents, financial advisors, counsel or other representatives) in respect of any matter or thing which is inconsistent with the successful completion of the Offer and the merger of the operations of Cypress and Ranchero, including any Take-over Proposal; or

(b) participate in any discussions or negotiations regarding, or furnish to any person any information with respect to, or otherwise cooperate in any manner with, or assist or participate in, or facilitate or encourage, an effort or attempt by any other person to do anything mentioned in Section 5.2(a);

provided however, nothing contained herein shall restrict or limit the board of directors of Ranchero from responding or acting in any manner or from making any disclosure or providing any information, either directly or through its officers, employees, agents or other representatives, to another party who makes a bona fide written offer to Ranchero to enter into a Take-over Proposal, which arose other than by a breach of this Section 5.2, where such party has demonstrated that the funds or other consideration necessary for such proposal are available, (i) if the board of directors, acting reasonably and based on the written advise of its financial and legal advisors (confirmation of which shall be immediately delivered to Cypress), believes the offer would, if successful, result in a Superior Take-over Proposal or (ii) in any other circumstances if a failure to respond or act would, in the opinion of the board of directors of Ranchero (acting reasonably and on written advice of outside counsel, confirmation of which shall be immediately delivered to Cypress) be inconsistent with the performance by the directors of Ranchero of their fiduciary duties under applicable law. Ranchero or its board of directors shall not make any disclosure or provide any information in accordance with this proviso unless Ranchero shall have notified Cypress of that occurrence, required the party making the written offer to execute a confidentiality agreement in favour of Ranchero on terms and conditions no more favourable to such other party than those contained in the confidentiality agreement dated July 19, 2000 between Cypress and Ranchero and unless Ranchero shall have concurrently provided copies of the same information or made the same disclosure to Cypress. Additionally, Ranchero agrees to notify Cypress immediately of the receipt of any communication, whether oral or written, from any person that is related, directly or indirectly, to any Take-over Proposal.

5.3 Superior Take-Over Proposal

Notwithstanding Sections 2.2(a) and 2.2(b), in the event that, prior to the expiry of the Offer, a Superior Take-over Proposal is offered or made to the holders of Ranchero Shares or Ranchero, the board of directors of Ranchero may withdraw, modify or change any recommendation regarding the Offer if, in the opinion of the board of directors of Ranchero acting in good faith after written advice from outside counsel (confirmation of which shall be immediately delivered to Cypress), the failure to so withdraw, modify or change any recommendation regarding the Offer would be a breach by the directors of Ranchero of their fiduciary duties under applicable law. Ranchero shall as soon as possible but in any event prior to 10:00 a.m. (Calgary time) on the day following receipt of any Take-over Proposal, advise Cypress orally and in writing that a Take-over Proposal has been offered or made to the board of directors of Ranchero or to Ranchero (each of which notice in writing must identify the party proposing such transaction and the terms and conditions thereof, include a copy of the terms and conditions of any written form of Take-over Proposal and provide an undertaking to provide to Cypress any further documents relating to the terms or conditions thereof delivered to the board of directors of Ranchero or to Ranchero by the offeror). If the board of directors of Ranchero believes that the Take-over Proposal constitutes a Superior Take-over Proposal, Ranchero shall give Cypress at least 72 hours advance notice of any action to be taken by the board of directors of Ranchero to withdraw, modify or change any recommendation regarding the Offer or enter into an agreement to implement the Superior Take-over Proposal. Such notice shall provide to Cypress the right during such 72 hours to advise the board of directors of Ranchero that Cypress will immediately announce and as soon as possible in the circumstances amend its Offer to provide that the holders of Ranchero Shares shall receive a value per Ranchero Share from a financial point of view equal to or having a value greater than the value per Ranchero Share provided in the Superior Take-over Proposal. If Cypress so advises in writing the board of directors of Ranchero and publicly announces that it is prepared to amend the Offer prior to the expiry of such 72 hour period, the board of directors of Ranchero shall not withdraw, modify or change any recommendation with respect to the Offer, as so amended, enter into any agreement, take any action to approve or implement the Superior Take-over Proposal or release the party making the Superior Take-over Proposal from any standstill or confidentiality obligation.

5.4 Third Parties to be Made Aware

Ranchero shall ensure that the officers, directors and employees of Ranchero and any investment bankers or other advisers or representatives retained by Ranchero are aware of the provisions of this Article 5, and Ranchero shall be responsible for any breach of this Article 5 by such investment bankers, advisers or representatives.

Article 6
Transactions Following Completion of the Offer

6.1 Second Stage Transaction

If the Minimum Condition is satisfied and Cypress takes up and pays for, or otherwise acquires, directly or indirectly, at least the Minimum Required Shares pursuant to the terms of the Offer, Cypress agrees to use all commercially reasonable efforts to acquire, and Ranchero agrees to use all commercially reasonable efforts to assist Cypress in acquiring, the balance of the Ranchero Shares as soon as practicable and in any event within a period of six months following the Take-up Date by way of a statutory arrangement, amalgamation, merger, reorganization, consolidation, recapitalization or other type of acquisition transaction or transactions ("Second Stage Transaction") carried out for consideration per Ranchero Share not less than the consideration paid pursuant to the Offer. Nothing herein shall be construed to prevent Cypress from acquiring, directly or indirectly, additional Ranchero Shares in the open market or in privately negotiated transactions or otherwise, in accordance with Securities Laws (including by way of compulsory acquisition) following completion of the Offer.

6.2 Ranchero Board of Directors

The board of directors of Ranchero, immediately following the acquisition by Cypress of more than the Minimum Required Shares pursuant to the Offer, shall be reconstituted through resignations of all existing Ranchero directors designated by Cypress and the appointment of Cypress nominees in their stead. Ranchero shall, in accordance with the foregoing and subject to the provisions of the ABCA, assist Cypress to secure the resignations of all Ranchero directors to be effective at such time as may be required by Cypress and to use its best efforts to cause the appointment of the Cypress nominees to fill the vacancies so created in order to effect the foregoing without the necessity of a shareholder meeting.

Article 7
Representations and Warranties of Cypress

7.1 As of the date hereof, Cypress hereby represents and warrants (and as applicable, covenants) to Ranchero as follows and acknowledges that Ranchero is relying upon these representations and warranties in connection with the entering into of this Agreement:

(a) Cypress is a corporation duly amalgamated and organized and validly existing under the laws of the Province of Alberta and has the requisite power and authority to carry on its business as it is now being conducted. Cypress is duly registered to do business and is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities make such registration necessary, except where the failure to be so registered or in good standing would not have a Material Adverse Effect on Cypress;

(b) Cypress has the requisite authority to enter into this Agreement and all agreements contemplated hereunder and to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and all agreements contemplated hereunder and the consummation by Cypress of the transactions contemplated hereby and thereby have been duly authorized by the board of directors of Cypress and no other corporate proceedings on the part of Cypress are necessary to authorize this Agreement or any other agreement contemplated hereunder and the transactions contemplated hereby and thereby. This Agreement and all agreements contemplated hereunder have been or will be duly executed and delivered by Cypress and constitute, the legal, valid and binding obligation of Cypress enforceable against it in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights generally, and to general principles of equity;

(c) (i) Neither the execution and delivery of this Agreement or any other agreements contemplated hereunder by Cypress, the consummation of the transactions contemplated hereby and thereby nor compliance by Cypress with any of the provisions hereof or thereof will: (i) violate, conflict with, or result in a breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in a creation of an Encumbrance upon any of the properties or assets of Cypress or any of its subsidiaries under, any of the terms, conditions or provisions of (y) the constating documents of Cypress or (z) any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other material instrument or obligation to which Cypress or any of its subsidiaries is a party or to which any of them, or any of their respective properties or assets, may be subject or by which or any of its subsidiaries is bound; (ii) subject to compliance with the statutes and regulations referred to in Section 7.l(c)(ii), violate any judgement, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to Cypress or any of its subsidiaries (except, in the case of each of clauses (i) and (ii) above, for such violations, conflicts, breaches, defaults, terminations which, or any consents, approvals or notices which if not given or received, would not have any Material Adverse Effect on Cypress or on the ability of Cypress to consummate the transactions contemplated hereby); or (iii) cause the suspension or revocation of any authorization, consent, approval or license currently in effect which would have a Material Adverse Effect on Cypress;

(ii) Other than in connection with or in compliance with the provisions of securities laws and the rules of the TSE, (i) there is no legal impediment to Cypress' consummation of the transactions contemplated by this Agreement or any agreements contemplated hereunder and (ii) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is necessary by Cypress in connection with the making or the consummation of this Agreement or the Offer, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals, which, if not received, would not have a Material Adverse Effect on the ability of Cypress to consummate the transactions contemplated hereby;

(d) Cypress is a "reporting issuer" in all provinces of Canada in material compliance with all securities laws and the Cypress Shares are listed, and only listed, on the TSE;

(e) As of the date hereof, the authorized capital of Cypress consists of an unlimited number of Cypress Shares and an unlimited number of Class B Shares. As of January 31, 2001, 40,741,953 Cypress Shares and 558,000 Class B Shares are issued and outstanding and there are rights to acquire 4,114,100 additional Cypress Shares under the Cypress Option Plan and additional Cypress Shares are issuable upon conversion of the Class B Shares. Except as set forth in the immediately preceding sentence and except for rights issued and outstanding under the shareholders rights plan, there are no options, warrants or other rights, agreements or commitments of any character whatsoever requiring the issuance, sale or transfer by Cypress of any Cypress Shares of or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire, any Cypress Shares nor are there any outstanding stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or other attribute of Cypress. All outstanding Cypress Shares have been duly authorized and validly issued and are fully paid and non-assessable;

(f) Since December 31, 1999, there has not been any Material Adverse Change with respect to Cypress;

(g) To the best of the knowledge of Cypress, all material data and information provided by Cypress to Ranchero and its agents and representatives is complete and true and correct in all material respects;

(h) Except (a) as disclosed or reflected in the audited financial statements of Cypress as at December 31, 1999 previously delivered to Ranchero, and (b) for liabilities and obligations (i) incurred in the ordinary course of business and consistent with past practice, (ii) pursuant to the terms of this Agreement, or (iii) as disclosed in writing to Ranchero prior to the date of this Agreement, Cypress has not incurred any material liabilities of any nature, whether accrued, contingent or otherwise or which would be required by generally accepted accounting principles applicable in Canada to be reflected on the combined balance sheet of Cypress as of the date hereof;

(i) Since December 31, 1999 and except as disclosed in the Cypress Public Documents, Cypress has not taken any action that would have any Material Adverse Effect on Cypress or which would materially affect Cypress' ability to consummate the transactions contemplated hereby;

(j) Cypress has made available to Ranchero true and complete copies of (i) Cypress' Information Circular relating to Cypress' 2000 annual meeting of shareholders and 1999 Annual Report to shareholders and (ii) Cypress' annual information form for the year ended December 31, 1999 and (iii) all prospectus or other offering documents used by Cypress in the offering of its securities or filed with securities authorities since December 31, 1998 and (iv) the Cypress Financial Statements. As of their respective dates, such form, circular, statements, prospectuses and other offering documents (including all exhibits and schedules thereto and documents incorporated by reference therein) (i) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (ii) complied in all material respects with all applicable requirements of law including securities laws. The audited financial statements and unaudited interim financial statements of Cypress publicly issued by Cypress and the audited financial statements of Cypress as at December 31, 1999, previously delivered to Ranchero, or included or incorporated by reference in such form, circular, statements, prospectuses and other offering documents were prepared in accordance with generally accepted accounting principles in Canada (except (i) as otherwise indicated in such financial statements and the notes thereto or, in the case of audited statements, in the related report of Cypress's independent accountants, or (ii) in the case of unaudited interim financial statements), and fairly present the financial position, results of operations and changes in financial position of Cypress as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments);

(k) Cypress will during the term of this Agreement deliver to Ranchero as soon as they become available true and complete copies of any report or statement filed by it with any securities regulatory body subsequent to the date hereof. As of their respective dates, such reports and statements (excluding any information therein provided by Ranchero as to which Cypress makes no representation) (i) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading, and (ii) will comply in all material respects with all Applicable Laws, including all applicable securities laws. The financial statements of Cypress issued by Cypress or to be included in such reports and statements (excluding any information therein provided by Ranchero, as to which Cypress makes no representation) will be prepared in accordance with generally accepted accounting principles in Canada (except (i) as otherwise indicated in such financial statements and the notes thereto or, in the case of audited statements, in the related report of Cypress' independent accounts, or (ii) in the case of unaudited interim financial statements, to the extent they may not include footnotes or may be condensed or summary statements) and will present fairly the financial position, results of operations and changes in financial position of Cypress as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments);

(l) The corporate records and minute books of Cypress have been maintained in accordance with all applicable statutory requirements and are complete and accurate in all material respects;

(m) Cypress does not have a Material Subsidiary;

(n) Except as set forth or specifically reflected in any document disclosed in writing to Ranchero, there is no claim, action, proceeding or investigation pending or, to the knowledge of Cypress, threatened against or relating to Cypress or affecting any of their respective properties or assets before any court or governmental or regulatory authority or body that, if adversely determined, is likely to have a Material Adverse Effect on Cypress or prevent or materially delay consummation of the transactions contemplated by this Agreement, nor is Cypress aware of any basis of any such claim, action, proceeding or investigation. Cypress is not subject to any outstanding order, writ, injunction or decree that has had or is reasonably likely to have a Material Adverse Effect on Cypress or prevent or materially delay consummation of the transactions contemplated by this Agreement;

(o) Except as has been disclosed to Ranchero in writing, to the best knowledge and belief of Cypress:

(i) Cypress is not in material violation of any applicable federal, provincial, municipal or local laws, regulations, orders, government decrees or ordinances with respect to environment, health or safety matters (collectively, "Environmental Laws");

(ii) Cypress has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all contaminants without material violation of Environmental Laws;

(iii) there have been no material spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes which have not been rectified or are in the process of being rectified on any of the real property owned or leased by Cypress during the period of its ownership or tenure or under its control during the period in which it has had control;

(iv) there have been no releases, deposits or discharges in material violation of Environmental Laws, of any hazardous or toxic substances, contaminants or wastes into the earth, air or into any body of water or any municipal or other sewer or drain water systems by Cypress;

(v) no material orders, directions or notices have been issued and remain outstanding pursuant to any Environmental Laws relating to the business or assets of Cypress other than abandonment and similar notices issued in connection with the normal course of business of Cypress; and

(vi) Cypress holds all material licences, permits and approvals required under any Environmental Laws in connection with the operation of it business and the ownership and use of its assets, and all such licenses, permits and approvals are in full force and effect;

(p) Cypress has not received notice of any proposed environmental policies or laws which Cypress reasonably believes would have a Material Adverse Effect on any oil and/or gas exploration, development or production operations of Cypress taken as a whole, other than those that apply to the industry generally;

(q) All offers and sales of securities in the capital of Cypress have been made in compliance with Applicable Laws;

(r) Cypress has made available to Gilbert Lausten Jung Associates Ltd., prior to the issuance of the Cypress Reserve Report, for the purposes of preparing the Cypress Reserve Report, all information requested by Gilbert Lausten Jung Associates Ltd., which information did not contain any misrepresentation at the date thereof. Cypress has no knowledge of a material adverse change in any information provided to Gilbert Lausten Jung Associates Ltd. since the date that such information was so provided. Cypress believes that the Cypress Reserve Report accurately reflects the quantity and pre-tax present worth values of the oil and gas reserves evaluated in the Report as at January 1, 2000 based upon the assumptions as to commodity prices contained therein;

(s) Cypress has conducted and is conducting its business in accordance with good oilfield practices and in compliance in all material respects with all Applicable Laws, rules and regulations and, in particular, all applicable licencing and environmental legislation, regulations or by-laws or other lawful requirements of any governmental or regulatory bodies applicable to Cypress of each jurisdiction in which it carries on business and holds all licences, registrations and qualifications material to its business and assets in all jurisdictions in which it carries on business which are necessary or desirable to carry on the business of Cypress, as now conducted, and where the failure to so conduct business or be in such compliance would have Material Adverse Effect on Cypress and none of such licences, registrations or qualifications contains any burdensome term, provision, condition or limitation which has or is likely to have any Material Adverse Effect on Cypress;

(t) Except as provided for in that certain pre-acquisition agreement dated February 16, 2001 between Cypress and PrimeWest Energy Trust relating to the acquisition of the outstanding Cypress Shares, no person has any agreement, option, right or privilege (including, without limitation, whether by law, pre-emptive right, contract or otherwise) to purchase, subscribe for, convert into, exchange for or otherwise require the issuance of, nor any agreement, option, right or privilege capable of becoming any such agreement, option, right or privilege, any of the unissued shares or other securities of Cypress except as contemplated under this Agreement;

(u) The Cypress Financial Statements have been prepared in accordance with generally accepted accounting principles applicable in Canada applied on a basis consistent with that of prior periods (except as stated therein) and present fairly the financial position of Cypress as of the dates provided therein and the results of its operations and the changes in financial position for the periods then ended and reflect all assets, liabilities and obligations (absolute, accrued, contingent or otherwise) of Cypress as at the dates thereof;

(v) No securities commission or similar regulatory authority has issued any order preventing or suspending trading of any securities of Cypress, and Cypress is not in default of any requirement of Applicable Laws;

(w) The information and statements set forth in the Cypress Public Documents were true, correct and complete and did not contain any misrepresentations, as of their respective dates, no material change has occurred in relation to Cypress which is not disclosed in such public record, and Cypress has not filed any confidential material change reports which continue to be confidential;

(x) The Cypress Shares to be issued pursuant to the Offer will, upon issuance, be duly and validly issued as fully paid and non-assessable shares of Cypress;

(y) The Cypress Shares to be issued pursuant to the Offer will, prior to the issuance thereof, have been approved for issuance by the TSE and will, upon the issuance thereof, be freely-tradeable by the holders thereof subject to the provisions of Applicable Laws pertaining to "control blocks" and "control persons"; and

(z) Cypress has sufficient funds or financing available to make the Offer on the terms as contemplated hereby and to purchase all outstanding Ranchero Shares deposited pursuant to the Offer.

Article 8
Representations and Warranties of Ranchero

8.1 As of the date hereof, Ranchero hereby represents and warrants (and, as applicable, covenants) to Cypress as follows and acknowledges that Cypress is relying upon these representations, warranties and covenants in connection with the entering into of this Agreement:

(a) Ranchero is a corporation duly amalgamated and organized and validly existing under the laws of Alberta and has the requisite corporate power and authority to own its properties and conduct its business as now owned and conducted. Ranchero is duly registered to do business and is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities make such registration necessary, except where the failure to be so registered or in good standing would not have a Material Adverse Effect on Ranchero.

(b) Ranchero has the requisite corporate authority to enter into this Agreement and all agreements contemplated hereunder and to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and all agreements contemplated hereunder and the consummation of the transactions contemplated hereby and thereby have been duly authorized by Ranchero's board of directors, and no other corporate proceedings on the part of Ranchero are necessary to authorize this Agreement or any other agreement contemplated hereunder and the transactions contemplated hereby and thereby. This Agreement and all agreements contemplated hereunder have been or will be duly executed and delivered by Ranchero and constitute the legal, valid and binding obligation of Ranchero enforceable against Ranchero in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights generally, and to general principles of equity.

(c) Except as previously disclosed in writing to Cypress, neither the execution and delivery of this Agreement or any other agreement contemplated hereunder by Ranchero, the consummation of the transactions contemplated hereby and thereby nor compliance by Ranchero with any of the provisions hereof and thereof will: (i) violate, conflict with, or result in breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in a creation of any Encumbrance upon any of the properties or assets of Ranchero under, any of the terms, conditions or provisions of (x) the constating documents of Ranchero or (y) any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other material instrument or obligation to which Ranchero is a party or to which it, or any of its properties or assets, may be subject or by which Ranchero is bound; (ii) subject to compliance with the statutes and regulations referred to in 8.1(d), violate any judgement, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to Ranchero (except, in the case of each of clauses (i) and (ii) above, for such violations, conflicts, breaches, defaults, terminations which, or any consents, approvals or notices which if not given or received, would not have any Material Adverse Effect on Ranchero or on the ability of Ranchero to consummate the transactions contemplated hereby); or (iii) cause the suspension or revocation of any authorization, consent, approval or license currently in effect which would have a Material Adverse Effect on Ranchero.

(d) Except as previously disclosed in writing to Cypress, and other than in connection with or in compliance with the provisions of securities laws, and the rules of the TSE, (i) there is no legal impediment to Ranchero's consummation of the transactions contemplated by this Agreement or any agreement contemplated hereunder and (ii) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is necessary by Ranchero in connection with the making or the consummation by Ranchero of this Agreement or the Offer, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals, which, if not received, would not have a Material Adverse Effect on Ranchero or the ability of Ranchero to consummate the transactions contemplated hereby.

(e) As of the date hereof, the authorized share capital of Ranchero consists of an unlimited number of Ranchero Shares and an unlimited number of Class B Shares. As of the date hereof, only 19,968,694 Ranchero Shares and no others are issued and outstanding. As of the date hereof, 2,012,815 Ranchero Shares are issuable pursuant to the exercise of outstanding Ranchero Options and Ranchero Warrants. Except as set forth in the immediately preceding sentence and except for rights issued and outstanding under the Shareholder Rights Plan, there are no options, warrants or other rights, agreements or commitments of any character whatsoever requiring the issuance, sale or transfer by Ranchero of any shares of Ranchero (including Ranchero Shares) or any securities convertible into, or exchangeable or exercisable for, or otherwise evidencing a right to acquire, any shares of Ranchero (including Ranchero Shares), nor are there any outstanding stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or other attribute of Ranchero. All outstanding Ranchero Shares have been duly authorized and validly issued, are fully paid and non-assessable and are not subject to, nor were they issued in violation of, any pre-emptive rights, and all Ranchero Shares issuable upon exercise of outstanding Ranchero Options and Ranchero Warrants in accordance with their respective terms will be duly authorized and validly issued, fully paid and non-assessable and will not be subject to any pre-emptive rights.

(f) Since December 31, 1999, there has not been any Material Adverse Change in respect of Ranchero.

(g) To the best of the knowledge of Ranchero, all material data and information provided by Ranchero to Cypress and its agents and representatives is complete and true and correct in all material respects.

(h) Except (a) as disclosed or reflected in the audited financial statements of Ranchero as at December 31, 1999 previously delivered to Cypress, and (b) for liabilities and obligations (i) incurred in the ordinary course of business and consistent with past practice, (ii) pursuant to the terms of this Agreement, or (iii) as disclosed in writing to Cypress prior to the date of this Agreement, Ranchero has not incurred any material liabilities of any nature, whether accrued, contingent or otherwise or which would be required by generally accepted accounting principles applicable in Canada to be reflected on a consolidated balance sheet of Ranchero as of the date hereof.

(i) The Employee Obligations do not exceed an aggregate of $899,000.

(j) Ranchero has not retained nor will it retain any financial advisor, broker, agent or finder or paid or agreed to pay any financial advisor, broker, agent or finder on account of this Agreement, any transaction contemplated hereby or any transaction presently ongoing or contemplated, except that Griffiths McBurney & Partners has been retained as Ranchero's financial advisors in connection with certain matters including the transactions contemplated hereby and Ranchero has previously delivered to Cypress true, correct and complete copies of all agreements relating to such retainer and will not amend any such retainer agreements without the consent of Cypress.

(k) Since December 31, 1999 and except as disclosed in the Ranchero Public Documents, Ranchero has not taken any action that would be in violation of Section 9.1 if such provision had been in effect since such date, other than violations which are in the ordinary course of business of Ranchero or would not have any Material Adverse Effect on the business, operations or financial condition of Ranchero and would not materially affect Ranchero's ability to consummate the transactions contemplated hereby.

(l) Ranchero has heretofore delivered to Cypress true and complete copies of (i) Ranchero's Information Circular relating to Ranchero's 2000 annual meeting of shareholders and 1999 Annual Report to shareholders (ii) Ranchero's annual information form for the year ended December 31, 1999 and (iii) all prospectuses or other offering documents used by Ranchero in the offering of its securities or filed with securities authorities since December 31, 1998 and (iv) the Ranchero Financial Statements. As of their respective dates, such form, circular, statements, prospectuses and other offering documents (including all exhibits and schedules thereto and documents incorporated by reference therein) (i) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (ii) complied in all material respects with all Applicable Laws including securities laws. The audited financial statements and unaudited interim financial statements of Ranchero publicly issued by Ranchero and the audited financial statements of Ranchero as at December 31, 1999, previously delivered to Cypress, or included or incorporated by reference in such form, circular, statements, prospectuses and other offering documents were prepared in accordance with generally accepted accounting principles in Canada (except (i) as otherwise indicated in such financial statements and the notes thereto or, in the case of audited statements, in the related report of Ranchero's independent accountants, or (ii) in the case of unaudited interim financial statements, to the extent they may not include footnotes or may be condensed or summary statements), and fairly present the financial position, results of operations and changes in financial position of Ranchero as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments).

(m) Ranchero will during the term of this Agreement deliver to Cypress as soon as they become available true and complete copies of any report or statement filed by it with any securities authority under Applicable Laws subsequent to the date hereof. As of their respective dates, such reports and statements (excluding any information therein provided by Cypress, as to which Ranchero makes no representation) (i) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading, and (ii) will comply in all material respects with all applicable requirements of law including any securities authority under Applicable Laws. The financial statements of Ranchero issued by Ranchero or to be included in such reports and statements (excluding any information therein provided by Cypress, as to which Ranchero makes no representation) will be prepared in accordance with generally accepted accounting principles in Canada (except (i) as otherwise indicated in such financial statements and the notes thereto or, in the case of audited statements, in the related report of Ranchero's independent accounts, or (ii) in the case of unaudited interim financial statements, to the extent they may not include footnotes or may be condensed or summary statements) and will present fairly the financial position, results of operations and changes in financial position of Ranchero as of the dates thereof and for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments).

(n) Ranchero does not have a Material Subsidiary.

(o) The corporate records and minute books of Ranchero have been maintained in accordance with all applicable statutory requirements and are complete and accurate in all material respects.

(p) Except as set forth or specifically reflected in any document disclosed in writing to Cypress, there is no claim, action, proceeding or investigation pending or, to the knowledge of Ranchero, threatened against or relating to Ranchero or affecting any of its properties or assets before any court or governmental or regulatory authority or body that, if adversely determined, is likely to have a Material Adverse Effect on Ranchero or prevent or materially delay consummation of the transactions contemplated by this Agreement, nor is Ranchero aware of any basis for any such claim, action, proceeding or investigation. Ranchero is not subject to any outstanding order, writ, injunction or decree that has had or is reasonably likely to have a Material Adverse Effect on Ranchero or prevent or materially delay consummation of the transactions contemplated by this Agreement.

(q) Except as has been disclosed to Cypress in writing, to the knowledge of Ranchero:

(i) Ranchero is not in material violation of any Environmental Laws;

(ii) Ranchero has operated its business at all times and has received, handled, used, stored, treated, shipped and disposed of all contaminants without material violation of Environmental Laws;

(iii) there have been no material spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes which have not been rectified or are in the process of being rectified on any of the real property owned or leased by Ranchero during the period of its ownership or tenure or under its control during the period in which it has had control;

(iv) there have been no releases, deposits or discharges, in material violation of Environmental Laws, of any hazardous or toxic substances, contaminants or wastes into the earth, air or into any body of water or any municipal or other sewer or drain water systems by Ranchero;

(v) no material orders, directions or notices have been issued and remain outstanding pursuant to any Environmental Laws relating to the business or assets of Ranchero other than abandonment and similar notices issued in connection with the normal course of business of Ranchero; and

(vi) Ranchero holds all material licences, permits and approvals required under any Environmental Laws in connection with the operation of its business and the ownership and use of its assets, and all such licences, permits and approvals are in full force and effect.

(r) Ranchero has not received notice of any proposed environmental policies or laws which Ranchero reasonably believes would have a Material Adverse Effect on any oil and/or gas exploration, development or production operations of Ranchero taken as a whole, other than those that apply to the industry generally.

(s) Policies of insurance in force as of the date hereof naming Ranchero as an insured adequately cover all material risks reasonably and prudently foreseeable in the operation and conduct of the business of Ranchero as would be customary in respect of the businesses carried on by Ranchero. All such policies of insurance shall remain in force and effect and shall not be cancelled or otherwise terminated as a result of the transactions contemplated hereby.

(t) Tax Definitions.

(i) For purposes of this Agreement, the following definitions shall apply:

(A) The term "Taxes" shall mean all taxes, however denominated, including any interest, penalties or other additions that may become payable in respect thereof, imposed by any federal, territorial, state, local or foreign government or any agency or political subdivision of any such government, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including, but not limited to, federal income taxes and provincial income taxes), payroll and employee withholding taxes, employment insurance, social insurance taxes, sales and use taxes, ad valorem taxes, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, transfer taxes, workers' compensation and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which Ranchero is required to pay, withhold or collect.

(B) The term "Returns" shall mean all reports, estimates, declarations of estimated tax, information statements and returns relating to, or required to be filed in connection with, any Taxes.

(ii) Returns Filed and Taxes Paid. To the knowledge of Ranchero, all Returns required to be filed by or on behalf of Ranchero have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. To the knowledge of Ranchero, all Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis or have been accrued for on Ranchero's financial statements, and no other Taxes are payable by Ranchero with respect to items or periods covered by such Returns.

(iii) Tax Reserves. Ranchero has paid or provided adequate accruals in Ranchero's audited financial statements for the year ended December 31, 1999 for Taxes, including income taxes and related deferred taxes, in conformity with generally accepted accounting principles applicable in Canada.

(iv) Returns Furnished. For all periods ending on and after December 31, 1998, Cypress has been furnished by Ranchero with true and complete copies of (i) relevant portions of income tax audit reports, statements of deficiencies, closing or other agreements received by Ranchero or on behalf of Ranchero relating to Taxes, and (ii) all pro-forma separate federal and provincial income or franchise tax returns for Ranchero.

(v) Tax Deficiencies, Audits, Statutes of Limitations. To the knowledge of Ranchero, and except as disclosed in writing to Cypress, no material deficiencies exist or have been asserted with respect to Taxes of Ranchero. Ranchero is not a party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against Ranchero or any of its assets. To the knowledge of Ranchero, no waiver or extension of any statute of limitations is in effect with respect to Taxes or Returns of Ranchero. To the knowledge of Ranchero and except as disclosed in writing to Cypress, the Returns of Ranchero have never been audited by a government or taxing authority, nor is any such audit in process, pending or threatened.

(u) Other than as disclosed in writing to Cypress, Ranchero:

(i) has no defined benefit plans or other employee benefit plans, and has not made any promises with respect to increased benefits under such plans;

(ii) has provided adequate accruals in its audited financial statements for the year ended December 31, 1999 (or such amounts are fully funded) for all pension or other employee benefit obligations of Ranchero arising under or relating to each of the pension or retirement income plans or other employee benefit plans or agreements or policies maintained by or binding on Ranchero as well as for any other payment required to be made by Ranchero in connection with the termination of employment or retirement of any employee of Ranchero in respect of the fiscal period ended December 31, 1999; and

(iii) has no stock option plans or arrangements other than the Ranchero Option Plan and the Ranchero Warrants and, except as otherwise disclosed herein and except for rights issued and outstanding under the Shareholder Rights Plan, is not otherwise a party to any agreement to provide any Ranchero Shares or other Ranchero securities (including any securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire Ranchero Shares) or to provide any options to acquire Ranchero Shares or any other Ranchero securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, Ranchero Shares to any person other than pursuant to the Ranchero Option Plan and the Ranchero Warrants.

(v) Except as disclosed in writing to Cypress, Ranchero is not a party to any employment or consulting agreement or to any written or oral policy, agreement, obligation or understanding or any amendment thereto which contains any specific agreement as to notice of termination or severance pay in lieu thereof or which cannot be terminated without cause on giving reasonable notice as may be implied by law.

(w) Ranchero is a "reporting issuer" in each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario and is in material compliance with all securities laws of such provinces and the rules and policies of the TSE and the Ranchero Shares are listed on and only on the TSE.

(x) Except as disclosed in writing to Cypress, Ranchero has not made any payment or loan to, or borrowed monies from or is otherwise indebted to, any Related Party except for usual employee reimbursements and compensation paid in the ordinary and normal course of the business consistent with historical practices. Except for contracts of employment as disclosed in writing to Cypress, Ranchero is not a party to any contract, agreement or other commitment, written or oral, with any Related Party and no Related Party owns, directly or indirectly, any interest in or is an officer, director, employee or consultant of any person which is, or is engaged in business as, a lessor, lessee, client or supplier of Ranchero, or owns, directly or indirectly, in whole or in part, any property that is used in the operation of Ranchero's business, or has any cause of action or other claim whatsoever against or owes any amount to, Ranchero.

(y) Except as disclosed in writing to Cypress, there is no non-competition, exclusivity or other similar agreement, commitment or understanding in place, whether written or oral, to which Ranchero, or, to the knowledge of Ranchero, any director, officer, employee or consultant or any Affiliate of such persons is a party or is otherwise bound that would now or hereafter, in any way limit the business or operations of Ranchero: (i) in a particular manner or to a particular locality or geographic region, or (ii) for a limited period of time.

(z) The execution, delivery and performance of this Agreement does not and will not result in the restriction of either Ranchero from engaging in their respective businesses or from competing with any person or in any geographical area and do not and will not result in a Material Adverse Effect on their respective businesses or trigger or cause to arise any rights of any person under any contract or arrangement to restrict any of the foregoing from engaging in the business currently carried on by Ranchero.

(aa) Except as disclosed in writing to Cypress all agreements entered into by Ranchero with persons other than Cypress regarding the confidentiality of information provided to such persons or reviewed by such persons in the data room are in substantially the form of the confidentiality agreement between Ranchero and Cypress dated July 19, 2000. Ranchero has not negotiated any Take-over Proposal with any person who has not entered into such a confidentiality agreement. Ranchero has not waived the applicability of any "standstill" or other provision of any confidentiality agreements entered into by Ranchero which have not automatically expired by their terms.

(bb) As at August 31, 2000, Ranchero's Canadian and Alberta Tax Pools and losses and share issue expenses were not less than $38,000,000.

(cc) All offers and sales of securities by Ranchero in the capital of Ranchero including, without limitation, the Ranchero Shares, the Ranchero Options and Ranchero Warrants have been made in compliance with Applicable Laws.

(dd) Ranchero has made available to McDaniel & Associates Consultants Inc. and Ryder Scott Company prior to the issuance of the Ranchero Reserve Reports, for the purposes of preparing the Ranchero Reserve Reports, all information requested by McDaniel & Associates Consultants Inc. and Ryder Scott Company, which information did not contain any misrepresentation date thereof. Ranchero has no knowledge of a material adverse change in any information provided to McDaniel & Associates Consultants Inc. since the date that such information was so provided. Ranchero believes that the Ranchero Reserve Reports accurately reflects the quantity and pre-tax present worth values of the oil and gas reserves evaluated in the Ranchero Reserve Reports as at January 1, 2000 based upon the assumptions as to commodity prices contained therein;

(ee) To the knowledge of Ranchero, since January 1, 2000, Ranchero has conducted and is (conducting its business in accordance with good oilfield practices and in compliance in all material respects with all Applicable Laws, rules and regulations and, in particular, all applicable licencing and environmental legislation, regulations or by-laws or other lawful requirements of any governmental or regulatory bodies applicable to Ranchero in each jurisdiction in which it carries on business and holds all licences, registrations and qualifications material to its business and assets in all jurisdictions in which it carries on business which are necessary or desirable to carry on the business of Ranchero, as now conducted, and where the failure to so conduct business or be in such compliance would have a Material Adverse Effect on Ranchero and none of such licences, registrations or qualifications contains any burdensome term, provision, condition or limitation which has or is likely to have any Material Adverse Effect on Ranchero;

(ff) Ranchero is not aware of any defects, failures or impairments in the title of Ranchero to its oil and gas properties or facilities, which in aggregate could have a Material Adverse Effect on Ranchero, or the anticipated cash-flow of Ranchero;

(gg) Fox Creek Share Sale will be conducted in accordance with all Applicable Laws (including, but not limited to, Ontario Securities Commission Rule 61-501) and will not require the approval of the holders of Ranchero Shares; and

(hh) There are, at the date hereof, no actions, suits or proceedings commenced, or to the knowledge of Ranchero, threatened, affecting Ranchero or any subsidiary before or by any federal, provincial, state, local, foreign, municipal or other governmental department, commission, board, bureau, agency, court or instrumentality, which action, suit or proceeding involves a possibility of any judgement against or liability of Ranchero or any subsidiary or other person which, if successful, would have a Material Adverse Effect on Ranchero, or would materially adversely affect the ability of Cypress to consummate the transactions contemplated hereby.

Article 9
Conduct of Business

9.1 Conduct of Business by Ranchero

Ranchero covenants and agrees that, during the period from the date of this Agreement until this Agreement is terminated in accordance with its terms, unless Cypress shall otherwise agree in writing, except as required by law or as otherwise expressly permitted or specifically contemplated by this Agreement, by the Fox Creek Asset Sale or by the agreements referred to in s.2.1(f)(ii), (iii) or (iv):

(a) the business of Ranchero and other entities controlled by Ranchero, including any joint ventures directly or indirectly controlled by Ranchero, shall be conducted only in, and Ranchero shall not take any action except in, the usual and ordinary course of business and consistent with past practice, and Ranchero shall use all commercially reasonable efforts to maintain and preserve its business organization, assets, employees and advantageous business relationships;

(b) Ranchero shall not directly or indirectly do or permit to occur any of the following: (i) amend the constating documents of Ranchero; (ii) declare, set aside or pay any dividend or other distribution or payment (whether in cash, shares or property) in respect of its shares owned by any person; (iii) issue, grant, sell or pledge or agree to issue, grant, sell or pledge any securities of Ranchero, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, shares of Ranchero, other than Ranchero Shares issuable pursuant to the terms of the Ranchero Options or Ranchero Warrants (iv) redeem, purchase or otherwise acquire any of its outstanding shares or other securities, including, without limitation, under any normal course issuer bid; (v) split, combine or reclassify any of its shares; (vi) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization of Ranchero; or (vii) enter into or modify any contract, agreement, commitment or arrangement with respect to any of the foregoing, except as permitted above;

(c) other than pursuant to commitments entered into by Ranchero prior to the date of this Agreement and which have been disclosed to Cypress in writing, and the disposition of the Fox Creek Assets, Ranchero shall not directly or indirectly do any of the following (i) sell, pledge, dispose of or encumber any assets, except in the ordinary course of business for a consideration not in excess of $50,000 in aggregate; (ii) acquire (by merger, amalgamation, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division thereof, or, make any investment either by purchase of shares or securities, contributions of capital, property transfer, or, except in the ordinary course of business, purchase of any property or assets of any other individual or entity, (iii) incur any indebtedness for borrowed money or any other material liability or obligation or issue any debt securities or assume, guarantee, endorse or otherwise as an accommodation become responsible for, the obligations of any other individual or entity, or make any loans or advances, except in the ordinary course of business; (iv) except for Employee Obligations, pay, discharge or satisfy any material claims, liabilities or obligations other than the payment, discharge or satisfaction in the ordinary course of business, consistent with past practice, of liabilities reflected or reserved against it in its financial statements or incurred in the ordinary course of business consistent with past practice; (v) authorize, recommend or propose any release or relinquishment of any material contract right other than in the ordinary course of business, consistent with past practice; (vi) waive, release, grant or transfer any rights of material value or modify or change in any material respect any existing material license, lease, contract, production sharing agreement, government land concession or other document, other than in the ordinary course of business, consistent with past practice; (vii) incur any capital expenditures in excess of $25,000 for any single item or $100,000 in the aggregate; (viii) incur any capital expenditure in respect of the Fox Creek Assets except to the extent Ranchero is reimbursed therefor under the terms of the agreement providing for the Fox Creek Share Sale (ix) enter into any interest rate swaps, currency swaps or any other rate fixing agreement for a financial transaction or enter into any call arrangement of any sort or any forward sale agreement for commodities, or (x) authorize or propose any of the foregoing, or enter into or modify any contract, agreement, commitment or arrangement to do any of the foregoing;

(d) Ranchero shall use its reasonable commercial efforts to cause its current, insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance and re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect;

(e) Ranchero shall:

(i) use its reasonable commercial efforts to preserve intact its business organizations and goodwill, to keep available the services of its officers and employees as a group and to maintain satisfactory relationships with suppliers, agents, distributors, customers and others having business relationships with it;

(ii) not take any action that would render, or that reasonably may be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect; and

(iii) promptly notify Cypress orally and in writing of any Material Adverse Change in respect of Ranchero and of any material governmental or third party complaints, investigations or hearings (or communications indicating that the same may be contemplated);

(iv) make such reasonable accruals to its accounts and financial statements subsequent to the date of this Agreement and prior to the Initial Expiry Time as are materially in accordance with generally accepted accounting principles and as are satisfactory to Cypress, including in respect of inventory adjustments, allowance for doubtful accounts and certain other revenue and expense items and balance sheet reclassification items;

(v) confer, prior to taking action (other than in emergency situations) with Cypress with respect to all material operational matters involved in its business other than in respect of the Fox Creek Assets and Fox Creek Shares; and

(vi) work to familiarize Cypress personnel with the nature and workings of all of its production, accounting and land systems, such that Cypress personnel shall be able to continue the operation of all such systems following completion of the transactions contemplated herein;

(f) Ranchero shall not create any new Employee Obligations other than as discussed between the parties, Ranchero shall not grant to any officer, director or employee any increase in compensation in any form, grant any general salary increase other than in accordance with the requirements of any existing collective bargaining or union contracts, grant to any other employee any increase in compensation in any form other than routine increases in the ordinary course of business consistent with past practices, make any loan to any officer, director or employee, or take any action with respect to the grant of any severance or termination pay (other than as contemplated herein or as agreed to by Cypress, acting reasonably) arising from this Agreement or a change of control of Ranchero, or enter into any employment agreement with, any person, or increase any benefits payable under its current severance or termination pay policies;

(g) Ranchero shall not adopt or amend or make any contribution to any bonus, profit sharing, option, pension, retirement, deferred compensation, insurance, incentive compensation, other compensation or other similar plan, agreement, trust, fund or arrangements for the benefit of employees, except as is necessary to comply with the law or with respect to existing provisions of any such plans, programs, arrangements or agreements;

(h) Ranchero shall not enter into or modify any contract, agreement, commitment or arrangement with respect to any of the matters set forth in this Section 9.1, except as specifically permitted in this Section 9.1, without the prior consent of Cypress;

(i) it will make available and cause to be made available to Cypress, its agents and advisors, as Cypress may reasonably request, all documents and agreements (including without limitation, any correspondence between Ranchero and its advisors or any governmental body and all minute books) and excepting with respect to the Fox Creek Assets, access to Ranchero's premises, field operations, records, computer systems and employees in any way relating to or affecting the business of Ranchero, the Tax Pools, or the business, operations, prospects, affairs or financial status of Ranchero and such other documents or agreements as may be necessary to enable Cypress to verify the truth of the representations and warranties of Ranchero herein and compliance by Ranchero with the terms and conditions hereof, except where Ranchero is contractually precluded from making such document or agreement available, and cooperate with Cypress in securing access for Cypress to any such documentation not in the possession or under the control of Ranchero;

(j) it will not take any action or omit to take any action which results in a reduction of the Tax Pools of Ranchero except for actions permitted under this Agreement; and

(k) Ranchero agrees to work with Cypress to ensure that Ranchero operates in accordance with good oilfield practices and to ensure the proper and effective maintenance of the assets of Ranchero as may be required from time to time.

Article 10
Covenants of Ranchero

10.1 Structure of Transaction

Ranchero shall cooperate with Cypress in structuring the acquisition by Cypress of Ranchero.

10.2 Settlement of Shareholder Actions

Ranchero shall not settle or compromise any claim brought by any present, former or purported holder of any securities of Ranchero in connection with the transactions contemplated by this Agreement or the Offer which would have a Material Adverse Effect on Ranchero without the prior written consent of Cypress.

10.3 Provision of Information

Ranchero shall provide to Cypress such information concerning the business and affairs of Ranchero as Cypress may require, acting reasonably, for inclusion in the Offering Documents. Delivery of such information shall constitute a representation and warranty by Ranchero that such information does not contain any misrepresentation and contains in all material respects the disclosure requested by Cypress for inclusion in the Offer Documents.

10.4 Tender Agreements

Ranchero will use its reasonable commercial efforts to assist Cypress in securing tender agreements in a form acceptable to Ranchero and Cypress acting reasonably prior to the mailing of the Offer Documents from certain of Ranchero's shareholders.

10.5 Employee Obligations

Ranchero shall not make any payment of the Employee Obligations without first having obtained a release from each director, officer, employee or consultant receiving such payment in a form acceptable to Cypress, acting reasonably.

Article 11
Covenants of Cypress

11.1 Employment Agreements

Cypress covenants and agrees, and after the Effective Time, it will cause Ranchero and any successor to Ranchero to agree, to honour and comply with the terms of those existing executive employment agreements, termination and severance plans or policies of Ranchero which Ranchero has disclosed to Cypress in writing and that all payments in respect of severance arrangements payable to officers of Ranchero shall be made in accordance with such agreements.

11.2 Indemnities

Cypress agrees that if it acquires the Ranchero Shares under the Offer then, to the extent that there are current indemnities in place, it shall cause Ranchero to fulfill its obligations pursuant to indemnities provided or available to past and present officers and directors of Ranchero pursuant to the provisions of the Ranchero constating documents and the ABCA.

11.3 Directors' and Officers' Insurance

If prior to the Take-up Date, Ranchero secures directors' and officers' liability insurance for Ranchero's current and former directors and officers, covering claims made prior to or within six years after the Take-up Date which has a scope and coverage substantially equivalent in scope and coverage to that provided by Ranchero's current directors' and officers' insurance policy, at a total cost not in excess of $20,000, Cypress agrees not to take any action, or to cause Ranchero to take any action, to terminate such directors' and officers' liability insurance.

Article 12
Mutual Covenants

12.1 Notice of Material Change

From the date hereof until the termination of this Agreement, Ranchero and Cypress, as the case may be, shall promptly notify the other in writing of:

(a) any material change (actual, anticipated, contemplated or, to the knowledge of Ranchero or Cypress, as the case may be, threatened) in respect of Ranchero or Cypress, as the case may be; or

(b) any change in any representation or warranty set forth in Article 7 (respecting Cypress), or Article 8 (respecting Ranchero) or in the underlying basis thereof which change is or may be of such a nature as to render any such representation or warranty misleading or untrue in a material respect.

Ranchero and Cypress, as the case may be, shall in good faith discuss with the other any change in circumstances (actual, anticipated, contemplated or, to the knowledge of Ranchero or Cypress as the case may be, threatened, financial or otherwise) which is of such a nature that there may be a reasonable question as to whether notice need to be given to Cypress or Ranchero pursuant to this section.

12.2 Other Filings

Cypress and Ranchero shall, as promptly as practicable hereafter, prepare and file any filings required under the *Public Utilities Board Act* (Alberta), the *Gas Utilities Act* (Alberta), the requirements of the National Energy Board (Canada), any Securities Law and the rules of the TSE or any other applicable law relating to the transactions contemplated herein.

12.3 Additional Agreements

Subject to the terms and conditions herein provided and to fiduciary obligations under applicable law, each of the parties hereto agrees to use all commercially reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and to cooperate with each other in connection with the foregoing, including using commercially reasonable efforts to:

(a) obtain all necessary waivers, consents and approvals from other parties to material agreements, leases and other contracts or agreements (including, without limitation, the agreement of any persons as may be required pursuant to any agreement, arrangement or understanding relating to Ranchero's operations);

(b) obtain all necessary consents, approvals and authorizations as are required to be obtained under any federal, provincial or foreign law or regulations;

(c) defend all lawsuits or other legal proceedings challenging this Agreement or the consummation of the transactions contemplated hereby;

(d) cause to be lifted or rescinded any injunction or restraining order or other order adversely affecting the ability of the parties to consummate the transactions contemplated hereby;

(e) effect all necessary registrations and other filings and submissions of information requested by governmental authorities; and

(f) fulfill all conditions and satisfy all provisions of this Agreement and the Offer.

For purposes of the foregoing, the obligation to use "commercially reasonable efforts" to obtain waivers, consents and approvals to loan agreements, leases and other contracts shall not include any obligation to agree to a materially adverse modification of the terms of such documents or to prepay or incur additional material obligations to such other parties.

12.4 Access to Information

Subject to the existing Confidentiality Agreement between Ranchero and Cypress dated July 19, 2000, upon reasonable notice, Ranchero shall afford Cypress' officers, employees, counsel, accountants and other authorized representatives and advisers complete access, during normal business hours and at such other time or times as Cypress may reasonably request from the date hereof and until the expiration of this Agreement, to its properties, books, contracts and records as well as to its management and other personnel, and, during such period, Ranchero shall furnish promptly to Cypress all information concerning its business, properties and personnel as Cypress may reasonably request.

Article 13
Termination, Amendment and Waiver

13.1 Termination

This Agreement may be terminated by written notice given to the other party hereto, at any time prior to completion of the transactions contemplated hereby:

(a) by mutual written consent of Ranchero and Cypress;

(b) by Ranchero if Cypress shall not have taken up and paid for the Minimum Required Shares under the Offer on or before the times required by this Agreement, unless the absence of such occurrence shall be due to the failure of Ranchero seeking to terminate this Agreement to perform material obligations under this Agreement required to be performed by it;

(c) by either Cypress or Ranchero if a court of competent jurisdiction or a governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting any of the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and non-appealable, provided that the party seeking to terminate this Agreement pursuant to this Section 13.1(c) shall have used all commercially reasonable efforts to remove such order, decree, ruling or injunction;

(d) by either Cypress or Ranchero if there has been a material misrepresentation, breach or non-performance by the other party of any material representation, warranty, covenant or obligation contained in this Agreement;

(e) by Cypress if Cypress has the right pursuant to Section 2.1(f) to refuse to make the Offer;

(f) by Ranchero or Cypress (provided that for the purposes of a termination by Ranchero, Ranchero must have first made payment under Section 4.1 hereof, (to the extent applicable) if Ranchero enters into an agreement providing for a Superior Take-Over Proposal; or

(g) by Ranchero if Cypress has not mailed the Offer Documents on or before the date set forth in Section 2.1(a) hereof other than by virtue of a material breach of a material representation, obligation or covenant of Ranchero hereunder; or

(h) by Ranchero if the Take-up Date has not occurred within 40 days following the Initial Expiry Time.

13.2 Effect of Termination

In the event of the termination of this Agreement as provided in Section 13.1, this Agreement shall forthwith have no further force or effect and there shall be no obligation on the part of Cypress or Ranchero hereunder except as set forth in Article 4 (in respect of any Break Fee Event occurring prior to the termination of this Agreement), this Section 13.2 and Section 14.4, which provisions shall survive the termination of this Agreement. Nothing herein shall relieve any party from liability for any breach of this Agreement occurring prior to the termination.

13.3 Amendment

This Agreement may be amended by mutual agreement between the parties hereto. This Agreement may not be amended except by an instrument in writing signed by the appropriate officers on behalf of each of the parties hereto.

13.4 Waiver

Each of Cypress, on the one hand, and Ranchero, on the other hand, may:

(a) extend the time for the performance of any of the obligations or other acts of the other;

(b) waive compliance with any of the other's agreements or the fulfillment of any conditions to its own obligations contained herein; or

(c) waive inaccuracies in any of the other's representations or warranties contained herein or in any document delivered by the other party hereto provided, however, that any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

Article 14
General Provisions

14.1 Notices

All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date delivered or sent if delivered personally or sent by telecopier or sent by prepaid overnight courier to the parties at the following addresses (or at such other addresses as shall be specified by the parties by like notice):

if to Cypress:

Cypress Energy Inc.
2700, 500 - 4th Avenue S.W.
Calgary, Alberta, T2P 2V6
Telecopier No.: (403) 267-7433
Attention: Donald F. Archibald
President and Chief Executive Officer

with a copy to:

Macleod Dixon LLP
3700, 400 - 3rd Avenue S.W.
Calgary, Alberta T2P 4H2
Telecopier No.: (403) 264-5973
Attention: Kent D. Kufeldt

if to Ranchero:

Ranchero Energy Inc.
800, 555 - 4th Avenue S.W.
Calgary, Alberta, T2P 3E7
Telecopier No.: (403) 781-7525
Attention: Joseph Durante
Managing Director and Chief Financial Officer

with a copy to:

Gowling Lafleur Henderson LLP
1400, 700 - 2nd Street S.W.
Calgary, Alberta, T2P 4V5
Telecopier No.: (403) 263-9193
Attention: Gregory G. Turnbull

14.2 Miscellaneous

This Agreement (i) except for the Confidentiality Agreement dated July 19, 2000 between the parties hereto, constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, between the parties, with respect to the subject matter hereof, and (ii) shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns. The parties hereto shall be entitled to rely upon delivery of an executed facsimile copy of the Agreement, and such facsimile copy shall be legally effective to create a valid and binding agreement among the parties hereto. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of Alberta having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

14.3 Assignment

Except as expressly permitted by the terms hereof, neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties. Cypress may assign all or any part of its rights or obligations under this Agreement to one or more of Cypress' subsidiaries or partnerships referred to in Section 2.1(b), provided that any such assignment will have no material adverse tax or other effects to Ranchero or the holders of Ranchero Shares, and provided further that if such assignment takes place, Cypress shall continue to be liable to Ranchero for any default in performance by the assignee.

14.4 Expenses

All fees, costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid in Canadian funds by the party incurring such cost or expense, whether or not the Offer is consummated.

14.5 Severability

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law. Any provision of this Agreement that is invalid or unenforceable in any jurisdiction shall be ineffective to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14.6 Confidentiality Agreement

Cypress is hereby released from the standstill provisions of the Confidentiality Agreement dated July 19, 2000 between Cypress and Ranchero.

14.7 Counterpart Execution

This Agreement may be executed in any number of counterparts and each such counterpart shall be deemed to be an original instrument but all such counterparts together shall constitute one agreement.

Executed and delivered.

CYPRESS ENERGY INC.

Per: ___________________________________

Gary Peddle
Vice President, Land

RANCHERO ENERGY INC.

Per: ___________________________________

Joseph Durante
Managing Director and
Chief Financial Officer

Schedule A
Conditions to the Offer

Capitalized terms used in this Schedule A but which are not defined herein shall have the meanings set forth in the attached Pre-Acquisition Agreement dated February 16, 2001 (the "Agreement") between Cypress and Ranchero.

Notwithstanding any other provision of the Offer, but subject to the provisions of this Agreement, Cypress reserves the right to withdraw or terminate the Offer and not take up and pay for, or to extend the period of time during which the Offer is open and postpone taking up and paying for, any Ranchero Shares deposited under the Offer unless all of the conditions included in the Offer, substantially on the terms described below, are satisfied or waived by Cypress prior to the date the Offer, or any extension thereof of expires:

(a) at the Expiry Time, and at the time Cypress first takes up and pays for Ranchero Shares under the Offer, there shall have been validly deposited under the Offer and not withdrawn at least 66 2/3% of the outstanding Ranchero Shares (calculated on a diluted basis), other than Ranchero Shares held at the date of the Offer by or on behalf of Cypress, or its affiliates or associates (the "Minimum Condition");

(b) all requisite regulatory approvals, orders, rulings, exemptions and consents (including, without limitation, those of any stock exchanges and other Securities Authorities) shall have been obtained on terms and conditions satisfactory to Cypress in its sole discretion, acting reasonably, and all applicable statutory or regulatory waiting periods shall have expired or been terminated and no objection or opposition shall have been filed, initiated or made by any governmental agency or regulatory authority during any applicable statutory or regulatory period;

(c) Cypress shall have determined in its sole judgement, acting reasonably, that: (i) no material right, property, franchise or license of Ranchero taken as a whole has been or may be materially impaired (which impairment has not been cured or waived) or otherwise materially adversely affected, whether as a result of the making of the Offer, the taking up and paying for Ranchero Shares deposited under the Offer or otherwise which might make it inadvisable for Cypress to proceed with the Offer and/or with the taking up and paying for the Ranchero Shares under the Offer (other than those which would not have a Material Adverse Effect on Ranchero); and (ii) no covenant, term or condition of any instrument or agreement of Ranchero exists which might make it inadvisable for Cypress to proceed with the Offer and/or with the taking up and paying for the Ranchero Shares under the Offer and/or completing a compulsory acquisition or Second Stage Transaction (including, without limitation, any default, acceleration or other material adverse event that may ensue as a result of Cypress taking up and paying for the Ranchero Shares under the Offer and/or completing a compulsory acquisition or Second Stage Transaction);

(d) there shall not have occurred any actual or threatened change (including a proposal by the Minister of Finance of Canada to amend the *Income Tax Act* (Canada), or any announcement, governmental or regulatory initiative, condition, event or development involving a change or a prospective change) that, in the sole judgment of Cypress, acting reasonably, directly or indirectly, has or may have a Material Adverse Effect with respect to the current or anticipated business or operations of any of Cypress or Ranchero, or any of their subsidiaries, with respect to the regulatory regime applicable to their respective businesses and operations or with respect to completing a compulsory acquisition or any subsequent acquisition transaction or with respect to any potential integration of Ranchero with Cypress or with any reorganization of Ranchero, or Cypress in connection with any such potential integration;

(e) there shall not have occurred, developed or come into effect or existence any event, action, state, condition or major financial occurrence of national or international consequence or any law, regulation, action, governmental regulation, inquiry or other occurrence of any nature whatsoever which, in the sole judgment of Cypress, acting reasonably, materially adversely affects or involves, or may materially adversely affect or involve, the general economic, financial or securities market conditions in Canada, other than a change in commodity or currency exchange rates or materially adversely affects the financial condition, business, operations, assets, affairs or prospects of Ranchero;

(f) (i) no act, action, suit, proceeding, objection or opposition shall have been threatened or taken before or by any domestic or foreign court or tribunal or governmental agency or other regulatory authority or administrative agency or commission by any elected or appointed public official or by any private person in Canada or elsewhere, whether or not having the force of law, and (ii) no law, regulation or policy (including applicable tax laws and regulations in those jurisdictions in which Ranchero carries on business) shall have been proposed, enacted, promulgated, amended or applied, which in either case in the sole judgement of Cypress, acting reasonably:

(A) has the effect or may have the effect of cease trading the Ranchero Shares, or enjoining, prohibiting or imposing material limitations, damages or conditions on the making of the Offer, or the purchase by, or the sale to, Cypress of the Ranchero Shares or the right of Cypress to own or exercise full rights of ownership of the Ranchero Shares;

(B) has had or, if the Offer was consummated, would result in, a Material Adverse Change or, in the case of (ii) above, would have a Material Adverse Effect on Ranchero or Cypress; or

(C) has a Material Adverse Effect on Cypress' ability to complete any compulsory acquisition or any Second Stage Transaction;

(g) there does not exist any prohibition at law against Cypress making the Offer or taking up and paying for all of the Ranchero Shares under the Offer or completing any compulsory acquisition or Second Stage Transaction in respect of any Ranchero Shares not acquired under the Offer;

(h) Cypress shall have determined in its sole judgment, acting reasonably, that, except as contemplated by the Agreement, Ranchero has not taken or proposed to take any action, or publicly disclosed that it intends to take any action, and Cypress shall not have otherwise learned of any action taken by Ranchero which had not been publicly disclosed prior to the announcement of the Offer, that might make it inadvisable for Cypress to proceed with the Offer or any compulsory acquisition or Second Stage Transaction and/or the taking up and paying for Ranchero Shares under the Offer, or that would be materially adverse to the business of Ranchero including, without limiting the generality of the foregoing, (i) any action with respect to any agreement, proposal, offer or understanding relating to any material sale, disposition or other dealing with any of the assets of Ranchero, (ii) any issue of shares, options or other securities of Ranchero, except as permitted in the this Agreement (iii) any material acquisition of assets or securities by Ranchero, or (iv) any material capital expenditure by Ranchero not in the ordinary course of business;

(i) there shall not have occurred any Material Adverse Change in the business of Ranchero;

(j) at or prior to the Expiry Time, all outstanding Ranchero Options and Ranchero Warrants and any other outstanding rights to acquire Ranchero Shares (other than the Rights) shall have been exercised, cancelled or otherwise terminated in a manner satisfactory to Cypress;

(k) (i) Ranchero shall not have breached, or failed to comply with, in any material respect, any of its material covenants or other material obligations under the Agreement, and (ii) all material representations and warranties of Ranchero contained in the Agreement shall have been true and correct in all material respects as of the date of the Agreement and shall not have ceased to be true and correct in any material respect thereafter except where the failure of such representations and warranties to be true and correct would have a Material Adverse Effect on Ranchero;

(l) the Agreement shall not have been terminated and no material provision of the Agreement shall have been held by a court, securities commission or other regulatory authority to be invalid or unenforceable in accordance with its terms; and

(m) the Fox Creek Share Sale shall have been completed.

Schedule B
Forms of Press Releases

Schedule C
Letter for Recipients of Evaluation Materials

•, 2001

Dear Sirs:

You are hereby formally directed pursuant to the Confidentiality Agreement dated • (the "Confidentiality Agreement") between you and Ranchero Energy Inc. to comply with the terms and conditions of that agreement and to **[describe the obligations in Confidentiality Agreement with respect to return and destruction of confidential information.]**

RANCHERO ENERGY INC.

Per: ______________________________
Name:
Title:

Schedule D
Form of Tender Agreement

CYPRESS ENERGY INC.
2700, 500 – 4th Avenue S.W.
Calgary, Alberta
T2P 2V6

February •, 2001

CONFIDENTIAL

[Insert name and address of director,
officer or shareholder]
c/o 800, 555 – 4th Avenue S.W.
Calgary, AB T2P 3E7

Dear Sir:

Reference is made to the Pre-Acquisition Agreement dated February 16, 2001 (the "Pre-Acquisition Agreement") between Cypress Energy Inc. ("Cypress") and Ranchero Energy Inc. ("Ranchero") pursuant to which Cypress has agreed to make an offer to purchase all of the outstanding Ranchero Shares. All capitalized terms referred to herein and not otherwise defined herein shall have the meanings attributed thereto in the Pre-Acquisition Agreement.

Cypress understands, and by your acceptance of this letter agreement (the "Agreement"), you ("Seller") represent and warrant to Cypress that, all Ranchero Shares that are and will be beneficially owned, directly or indirectly by Seller or over which Seller exercises direction or control (including the Ranchero Shares issuable to Seller pursuant to the exercise of Seller's Ranchero Options but excluding the Seller's Ranchero Options which are surrendered, terminated or otherwise cancelled) are set forth in Seller's acceptance at the end of this Agreement (collectively, the "Seller's Shares").

This Agreement sets out the terms and conditions by which Seller irrevocably agrees to deposit Seller's Shares under the Offer, and sets out the obligations and commitments of Seller and Cypress in connection therewith.

Article 1
Acceptance

1.1 Deposit

Subject to the terms and conditions hereof and subject to the making of the Offer by Cypress pursuant to the terms of the Pre-Acquisition Agreement, Seller hereby irrevocably agrees to deposit

Seller's Shares, other than Ranchero Shares issuable to the Seller pursuant to the exercise of Seller's Ranchero Options, in accordance with the terms and conditions of the Offer not later than two days prior to the Initial Expiry Time.

1.2 Non-Withdrawal

Seller hereby irrevocably agrees not to withdraw or take any action to withdraw any portion of Seller's Shares following their deposit under the Offer, notwithstanding any statutory rights or other rights under the terms of the Offer or otherwise which Seller might have, except pursuant to Section 1.3 hereof or unless this Agreement is terminated in accordance with Section 5.1 prior to the taking up of Seller's Shares under the Offer.

1.3 Superior Take-over Proposal

If the Pre-Acquisition Agreement is terminated pursuant to Section 13.1(f) thereof or a Break Fee Event otherwise occurs under Section 4.1 of the Pre-Acquisition Agreement, then the Seller shall not be required to deposit the Seller's Shares pursuant to the Offer or may withdraw the Seller's Shares deposited pursuant to the Offer, as the case may be. For greater certainty, in any event, the Seller shall not be entitled to withdraw Seller's Shares and shall be bound by Seller's obligations hereunder in the event a Superior Take-over Proposal is made unless Cypress has elected not to amend its offer pursuant to Section 5.3 of the Pre-Acquisition Agreement.

Article 2
Representations and Warranties

2.1 Representations and Warranties of Seller

Seller hereby represents and warrants to and in favour of Cypress that:

(a) the Seller is competent or duly authorized, as the case may be, to execute and deliver this Agreement and this Agreement is a valid and binding agreement enforceable by Cypress against Seller in accordance with its terms, subject to the usual exceptions as to bankruptcy insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and the availability of equitable remedies;

(b) upon the deposit of Seller's Shares under the Offer, Seller will have the exclusive right to dispose of those Seller's Shares as provided in this Agreement;

(c) Seller's Shares to be acquired by Cypress pursuant to the Offer will, at the Effective Time, be acquired with good and marketable title, free and clear of any and all mortgages, liens, charges, encumbrances and adverse claims;

(d) no person, firm or corporation has any agreement or option, or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement or option for the purchase, acquisition or transfer of any of the Seller's Shares or any interest therein or right thereto, except pursuant to this Agreement;

(e) with the exception of the Employee Obligations there does not exist any agreement, understanding or commitment giving rise to any material obligations, financial or otherwise, on the part of Ranchero to Seller or any of his associates (or any associates or insiders thereof) other than have been disclosed by the Seller or Ranchero to Cypress in writing; and

(f) the execution and delivery of this Agreement and the fulfillment of the terms hereof by Seller do not and will not result in a breach of any agreement or instrument to which Seller is a party or by which Seller is contractually bound.

2.2 Covenants of the Seller

The Seller covenants and agrees with Cypress that so long as the Seller is not entitled to withdraw the Ranchero Shares owned by the Seller from the Offer, the Seller will not directly or indirectly, initiate, solicit, cause, facilitate or participate in any offer (confidential or otherwise) or expression of interest to acquire any assets of Ranchero outside of the ordinary course of business of Ranchero or any of its issued or unissued securities, whether directly or indirectly induce, directly or indirectly, or attempt to induce any other person to initiate any shareholder proposal; provide any information concerning securities, assets or the business or operations of Ranchero to any third person; pursue any other material corporate acquisition or disposition, amalgamation, merger, arrangement or purchase or sale of assets or make any other material change to the business, capital or affairs of Ranchero; or conduct any activity otherwise detrimental to the Offer; provided however that, in the event that the undersigned is a member of the board of directors of Ranchero, neither of the foregoing nor any other provisions in this agreement shall restrict or limit in any way the undersigned in his capacity as a member of the board of directors of Ranchero from responding or acting in any manner or from making any disclosure or providing any information, either directly or through the officers, employees, agents or other representatives of Ranchero, to another party who makes an offer to Ranchero to enter into a Take-over Proposal (as that term is defined in Pre-Acquisition Agreement) if a failure to respond or act would, in the opinion of the board of directors of Ranchero (acting reasonably and on the advice of outside counsel), be inconsistent with the performance by the board of directors of Ranchero of their fiduciary duties under applicable law.

2.3 Representations and Warranties of Cypress

Cypress hereby represents and warrants to Seller that:

(a) Cypress is a corporation duly amalgamated and validly existing under the laws of Alberta;

(b) Cypress has sufficient funds on financing available in accordance with Applicable Law to make the Offer on the terms contemplated in the Pre-Acquisition Agreement and to purchase all outstanding Ranchero Shares deposited pursuant to the Offer.

(c) Cypress has the corporate power and capacity and has received all requisite approvals to enter into this Agreement and the consummation by Cypress of the transactions contemplated hereby have been duly authorized by all necessary approvals of Cypress; ; and

(d) this Agreement has been duly executed and delivered by Cypress and constitutes a legal, valid and binding agreement enforceable by Seller against Cypress in accordance with its terms, subject to the usual exceptions as to bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and the availability of equitable remedies.

Article 3
Additional Covenants of Seller

3.1 General

Seller hereby covenants that until Cypress has taken up and paid for the Ranchero Shares under the Offer or abandoned the Offer or the terms of this Agreement have been terminated by Seller pursuant to Section 5.1, Seller will:

(a) not sell, assign, convey or otherwise dispose of any of the Seller's Shares except pursuant to and in accordance with this Agreement;

(b) not exercise any shareholder rights or remedies available at common law or pursuant to the *Business Corporations Act* (Alberta) or applicable Securities Laws to delay, hinder, upset or challenge the Offer;

(c) use Seller's reasonable efforts to assist Cypress to successfully complete the acquisition of the Ranchero Shares;

(d) promptly notify Cypress upon any of Seller's representations or warranties contained in this Agreement becoming untrue or incorrect in any material respect during the period commencing on the date hereof and expiring at the time of expiry of the Offer, and for the purposes of this provision, each representation and warranty shall be deemed to be given at and as of all times during such period (irrespective of any language which suggests that it is only being given as at the date hereof);

(e) if a director of Ranchero, execute and deliver a resignation substantially in the form attached as Schedule A to this Agreement (a completed copy of which in respect of Seller shall be delivered with Seller's acceptance of this Agreement); and

(f) exercise (or if not exercised, surrender for cancellation, pursuant to a purchase or otherwise, as contemplated by the Pre-Acquisition Agreement and irrevocably permit Ranchero to terminate) all Ranchero Options held by Seller prior to the Expiry Time.

Notwithstanding the foregoing, nothing in this Agreement shall require Seller to take any action or to refrain from taking any action as a director or officer of Ranchero or to act otherwise than in accordance with his fiduciary duties as a director or officer of Ranchero.

Article 4
Covenants of Cypress

4.1 Offeror

Subject to the terms and conditions hereof, Cypress hereby covenants to:

(a) make the Offer in accordance with the terms and conditions of the Pre-Acquisition Agreement and comply with all covenants of Cypress contained therein and herein;

(b) subject to the satisfaction or waiver of the conditions set forth in the Offer, take up and pay for all of the Ranchero Shares deposited by the Seller under the Offer, all in accordance with the terms and conditions of the Offer and the provisions of the Pre-Acquisition Agreement;

(c) use its reasonable commercial efforts to successfully complete the Offer, including diligently pursuing all requisite regulatory approvals; and

(d) co-operate with Ranchero in all requisite regulatory filings, and giving evidence in relation thereto, and to provide copies of all written documents and submissions and responses with respect thereto in connection with regulatory proceedings.

Article 5
Termination by Seller

5.1 Termination

Seller, when not in default in performance of Seller's obligations under this Agreement, may, without prejudice to any other rights, terminate Seller's obligations under this Agreement by notice to Cypress if:

(a) the Pre-Acquisition Agreement is terminated pursuant to Article 13 thereof;

(b) Seller withdraws or is not required to deposit Seller's Shares pursuant to Section 1.3; or

(c) at the election of the Seller at any time after the 40th day following the Initial Expiry Time.

In the event of such termination of this Agreement, Seller may withdraw all of Seller's Shares deposited in accordance with the terms and conditions of the Offer, and this Agreement shall forthwith be of no further force and effect and there shall be no liability on the part of either Seller or Cypress, except to the extent that neither such party is in default of its obligations herein contained.

Article 6
General

6.1 Disclosure

Prior to the first public disclosure of the existence and terms and conditions of this Agreement, none of the parties hereto shall disclose the existence of this Agreement, or any details hereof, to any person other than Ranchero, its directors and officers, without the prior written consent of the other party hereto, except to the extent required by law including Securities Laws. The existence and terms and conditions of this Agreement may be disclosed by Cypress and Ranchero in the press release issued in connection with the execution of the Pre-Acquisition Agreement, in the Offer Documents and in the Directors' Circular prepared by Ranchero.

6.2 Assignment

Cypress may assign all or any part of its rights and/or obligations under this Agreement to a wholly-owned subsidiary of Cypress, but, if such assignment takes place, Cypress shall continue to be liable to Seller for any default in performance by the assignee. This Agreement shall not otherwise be assignable by any party without the prior written consent of the other.

6.3 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and of Canada applicable therein (without regard to conflict of laws principles).

6.4 Survival of Representations and Warranties

The representations and warranties made by Cypress and Seller herein shall survive for a period of two years from the date hereof. No investigations made by or on behalf of Cypress or any of its authorized agents at any time shall have the effect of waiving, diminishing the scope of or otherwise affecting any representation, warranty or covenant made by Seller herein or pursuant hereto.

6.5 Amendments

This Agreement may not be amended except by written agreement signed by the parties to this Agreement.

6.6 Specific Performance and other Equitable Rights

Each of the parties recognizes and acknowledges that this Agreement is an integral part of the Offer, that Cypress would not contemplate causing the Offer to be made unless this Agreement was executed, and that a breach by any party of any covenants or other commitments contained in this Agreement will cause the other party to sustain injury for which it would not have an adequate remedy at law for money damages. Therefore, each of the parties agrees that in the event of any such breach, the aggrieved party shall be entitled to the remedy of specific performance of such covenants or commitments and preliminary and permanent injunctive and other equitable relief in addition to any other remedy to which it or they may be entitled, at law or in equity, and the parties further agree to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief.

6.7 Expenses

Offeror and Seller shall each pay its legal, financial advisory and accounting costs and expenses incurred in connection with the preparation, execution and delivery of this Agreement and all documents and instruments executed or prepared pursuant to this Agreement and any other costs and expenses whatsoever and howsoever incurred, but the costs and expenses of Seller shall be borne by Ranchero.

6.8 Counterparts

This Agreement may be executed in one or more counterparts which together shall be deemed to constitute one valid and binding agreement, and delivery of the counterparts may be effected by means of a telecopier transmission.

6.9 Entire Agreement

This Agreement constitutes the entire agreement and understanding between the parties pertaining to the subject matter of this Agreement.

6.10 Time

Time shall be of the essence of this Agreement.

6.11 Notices

Any notice, request, consent, agreement or approval which may or is required to be given pursuant to this Agreement shall be in writing and shall be sufficiently given or made if delivered, or sent by telecopier, in the case of:

(a) Cypress, addressed as follows:

Cypress Energy Inc.
2700, 500 – 4th Avenue S.W.
Calgary, AB T2P 2V6
Attention: Donald F. Archibald
President and Chief Executive Officer

Telecopier No.: (403) 263-7433

(b) Seller, addressed as follows:

c/o Ranchero Energy Inc.
800, 555 - 4th Avenue S.W.
Calgary, AB T2P 3E7
Attention: Joseph Durante
Managing Director and Chief Financial Officer
Telecopy No.: (403) 781-7525

or to such other address as the relevant party may from time to time advise by notice in writing given pursuant to this section 6.11. The date of receipt of any such notice, request, consent, agreement or approval shall be deemed to be the date of delivery or sending thereof.

If the terms and conditions of this Agreement are acceptable to you, please so indicate by executing and returning the enclosed copy hereof and the attached resignation (if applicable) to the undersigned prior to • p.m. (Calgary time) on February •, 2001, failing which this letter shall be null and void.

Yours truly,

CYPRESS ENERGY INC.

By: ________________________________

ACCEPTANCE AND DESCRIPTION OF SELLER'S SHARES

Agreed and accepted this ___ day of February, 2001
Seller's Shares for purposes of the Agreement provided above are:

Options held from Ranchero	________________Shares
Common Shares	________________ Shares

____   ____

[Name]   Witness

SCHEDULE A

RESIGNATION

TO: Ranchero Energy Inc. ("Ranchero")

AND TO: Cypress Energy Inc. ("Cypress")

I hereby resign as a director of Ranchero, such resignation to be effective at such time as Cypress shall request provided that prior to such request Cypress shall have acquired not less than the Minimum Required Shares of the Ranchero Shares. Prior to the effective time of such resignation and after such time as Cypress shall have acquired not less than the Minimum Required Shares of the Ranchero Shares, I agree to nominate and vote in favour of the appointment of any person proposed by Cypress as a director of Ranchero provided that such appointment is made in accordance with the Ranchero Governing Documents and the laws applicable to Ranchero.

Capitalized terms in this Resignation have the same meanings as provided for those terms in the Pre-Acquisition Agreement dated February 16, 2001 between Cypress and Ranchero.

Given on ___________, 2001.

____

[Name, Director]