This document is important and requires your immediate attention. If you are in doubt as to how to respond to the Offer, you should consult with your investment advisor, bank manager, lawyer or other professional advisor. No securities regulatory authority in Canada or the United States has expressed an opinion about any of the securities offered hereunder and it is an offence to claim otherwise. Enquiries concerning the information in this document should be directed to Blue Mountain Energy Ltd. to the attention of Dale T. Joynt, Chief Financial Officer and Corporate Secretary, at (403) 298-3554.

blue mountain energy ltd

Directors' Circular

recommending

ACCEPTANCE

of the Offer dated August 4, 2006 by

DIAMOND TREE ENERGY LTD.

to purchase all of the issued and outstanding shares of

BLUE MOUNTAIN ENERGY LTD.

THE BOARD OF DIRECTORS OF BLUE MOUNTAIN ENERGY LTD. HAVE RESOLVED THAT THE OFFER IS FAIR, FROM A FINANCIAL POINT OF VIEW, TO THE BLUE MOUNTAIN SHAREHOLDERS, IS IN THE BEST INTERESTS OF BLUE MOUNTAIN AND THE BLUE MOUNTAIN SHAREHOLDERS AND UNANIMOUSLY RECOMMENDS THAT BLUE MOUNTAIN SHAREHOLDERS ACCEPT THE OFFER AND TENDER THEIR BLUE MOUNTAIN SHARES TO THE OFFER.

August 4, 2006

TABLE OF CONTENTS

GLOSSARY OF TERMS

In this Directors' Circular, the following terms shall have the meanings set forth below, unless the subject matter or context is inconsistent therewith or such terms are otherwise defined in this Directors' Circular:

"**ABCA**" means the *Business Corporations Act* (Alberta), as in effect on the date hereof;

"**affiliate**" has the meaning contemplated by the ABCA;

"**associate**" has the meaning ascribed thereto in the *Securities Act* (Alberta), as in effect on the date hereof;

"**Blue Mountain**" means Blue Mountain Energy Ltd., a corporation amalgamated under the ABCA;

"**Blue Mountain Acquisition Proposal**" means any inquiry or communication or the making of any proposal or offer to Blue Mountain or its securityholders from any person which constitutes, or may reasonably be expected to lead to (in either case whether in one transaction or a series of transactions): (i) an acquisition from Blue Mountain or its securityholders of any securities of Blue Mountain (other than on exercise of currently outstanding Blue Mountain Options or Blue Mountain Warrants); (ii) any acquisition of a significant amount of assets of Blue Mountain; (iii) an amalgamation, arrangement, merger or consolidation of Blue Mountain; or (iv) any take-over bid, issuer bid, exchange offer, recapitalization, liquidation, dissolution, reorganization into a royalty trust or income fund or similar transaction involving Blue Mountain or any other transaction, the consummation of which would or could reasonably be expected to impede, interfere with, prevent or delay the transactions contemplated by the Pre-Acquisition Agreement or which would or could reasonably be expected to materially reduce the benefits to Diamond Tree under the Pre-Acquisition Agreement;

"**Blue Mountain Options**" means the 2,484,732 outstanding options to acquire Blue Mountain Shares;

"**Blue Mountain Shareholder**" means a holder of Blue Mountain Shares;

"**Blue Mountain Shares**" means all of the issued and outstanding common shares of Blue Mountain;

"**Blue Mountain Warrants**" means the 376,267 outstanding warrants to acquire Blue Mountain Shares;

"**Board of Directors**" means the board of directors of Blue Mountain;

"**Business Day**" means any day, excepting Saturdays, Sundays and statutory holidays observed in Calgary, Alberta;

"**Cancellation Agreements**" means the cancellation of convertible securities agreements entered into among Blue Mountain, Diamond Tree and the holders of outstanding Blue Mountain Options and Blue Mountain Warrants, which agreements provide for holders of Blue Mountain Options and Blue Mountain Warrants to: (i) exercise or surrender their Blue Mountain Options and Blue Mountain Warrants prior to the Expiry Time and tender any Blue Mountain Shares acquired in connection with any such exercise of Blue Mountain Options or Blue Mountain Warrants to the Offer; or (ii) alternatively, surrender all in-the-money Blue Mountain Options and Blue Mountain Warrants in exchange for a number of Blue Mountain Shares determined in accordance with such agreements and surrender all out-of-the-money Blue Mountain Options and Blue Mountain Warrants for cancellation;

"**Deposited Securities**" means the Blue Mountain Shares deposited under Letters of Transmittal which are taken up and paid for under the Offer;

"**Depositing Blue Mountain Shareholder**" means a Blue Mountain Shareholder who tenders Blue Mountain Shares in acceptance of the Offer or whose Blue Mountain Shares are tendered to the Offer on such Blue Mountain Shareholder's behalf;

"**Depository**" means CIBC Mellon Trust Company at the offices specified in the Letter of Transmittal;

"**Diamond Tree**" means Diamond Tree Energy Ltd., a corporation incorporated under the ABCA;

"**Diamond Tree Circular**" or "**Offering Circular**" means the Offer and the accompanying take-over bid circular of Diamond Tree dated August 4, 2006;

"**Diamond Tree Shares**" means common shares in the capital of Diamond Tree;

"**Directors' Circular**" means this directors' circular of Blue Mountain;

"**Effective Time**" means the time that Diamond Tree first takes up Blue Mountain Shares pursuant to the Offer;

"**Expiry Date**" means September 6, 2006 or such other date or dates as may be fixed by Diamond Tree from time to time pursuant to Section 5 of the Offer, "Extension and Variation of the Offer";

"**Expiry Time**" means 4:30 p.m. (Calgary time) on the Expiry Date or such other time or times as may be fixed by Diamond Tree from time to time pursuant to Section 5 of the Offer, "Extension and Variation of the Offer";

"**Fairness Opinion**" means the written fairness opinion of GMP Securities to Blue Mountain in respect of the Offer, a copy of which is attached hereto as Schedule "A";

"**GMP Securities**" means GMP Securities L.P.;

"**Initial Expiry Time**" means September 11, 2006 at 4:30 p.m. (Calgary time);

"**Letter of Transmittal**" means the letter of transmittal in the form accompanying the Offer and the Diamond Tree Circular;

"**Minimum Condition**" has the meaning ascribed thereto in paragraph (a) of Section 4 of the Offer, "Conditions of the Offer";

"**Minimum Required Shares**" means at least that number of outstanding Blue Mountain Shares required to be tendered to the Offer to satisfy the Minimum Condition, unless Diamond Tree waives or reduces the Minimum Condition in accordance with the Pre-Acquisition Agreement, in which case "**Minimum Required Shares**" means that number of the outstanding Blue Mountain Shares that Diamond Tree takes up on the Take-up Date;

"**nearest whole number**" means, with respect to the rounding of fractional shares, that where the fraction is 0.5 or greater such fraction shall be rounded up to the next whole number and where the fraction is less than 0.5 such fraction shall be rounded down to the next whole number;

"**Offer**" means the formal take-over bid by Diamond Tree dated August 4, 2006, as set forth in and forming part of the Diamond Tree Circular, for all of the Blue Mountain Shares on the basis of 0.90 of a Diamond Tree Share for each Blue Mountain Share;

"**Outside Date**" means the date that is 60 days following the date on which the Initial Expiry Time occurs, being November 10, 2006;

"**Pre-Acquisition Agreement**" means the agreement, dated July 16, 2006, between Diamond Tree and Blue Mountain pursuant to which, among other things, Diamond Tree agreed to make the Offer, subject to the provisions thereof;

"**Pre-Tender Agreements**" means agreements between the Tendering Shareholders and Diamond Tree pursuant to which such holders have agreed to tender their Blue Mountain Shares under the Offer;

"**Second Stage Transaction**" means any statutory arrangement, amalgamation, merger, reorganization, consolidation, recapitalization or other type of acquisition transaction or transactions pursuant to which Diamond Tree acquires the balance of outstanding Blue Mountain Shares not tendered to the Offer by Blue Mountain Shareholders;

"**Superior Proposal**" means a written *bona fide* Blue Mountain Acquisition Proposal that the Board of Directors determines in good faith: (i) is funded, in that funds or other consideration necessary for the Blue Mountain Acquisition Proposal are or are likely to be available; and (ii) after consultation with its financial advisor, would, if consummated in accordance with its terms, result in a transaction financially superior for the securityholders of Blue Mountain than the Offer (in its then current form) and can be carried out in a reasonable timeframe, and in respect of which the Board of Directors further determines, after receiving the advice of outside counsel, as reflected in minutes of the Board of Directors, that negotiations with the third party who made the Blue Mountain Acquisition Proposal are necessary for the Board of Directors to discharge its fiduciary duties under applicable laws;

"**Take-over Proposal**" means a proposal or offer (other than by Diamond Tree) to acquire 20% or more of the outstanding Blue Mountain Shares, or any proposal, offer or agreement for a merger, consolidation, amalgamation, arrangement, recapitalization, liquidation, dissolution, reorganization or a similar transaction or other business combination involving Blue Mountain, or a subsidiary of Blue Mountain, or any proposal, offer or agreement to acquire 20% or more in value of the assets of Blue Mountain;

"**Take-up Date**" means the date that Diamond Tree first takes up Blue Mountain Shares pursuant to the Offer;

"**Tendering Shareholders**" means the holders of Blue Mountain Shares who have entered into the Pre-Tender Agreements, being the current officers and directors of Blue Mountain; and

"**TSX**" means the Toronto Stock Exchange.

Words importing the singular include the plural and vice versa and words importing any gender include all genders. Unless otherwise indicated herein, all dollar amounts set forth in this Directors' Circular are in Canadian dollars.

For purposes of this Directors' Circular, Blue Mountain Options and Blue Mountain Warrants are considered to be "**in-the-money**" if they have an exercise price equal to or less than $5.13 per Blue Mountain Share and are considered to be "**out-of-the money**" if they have an exercise price in excess of $5.13 per Blue Mountain Share.

THE OFFER

This Directors' Circular is issued by the Board of Directors, in connection with the Offer made by Diamond Tree to purchase all of the outstanding Blue Mountain Shares, including Blue Mountain Shares that may become outstanding on the exercise of Blue Mountain Options and Blue Mountain Warrants, on the basis of 0.90 of a Diamond Tree Share for each Blue Mountain Share. No fractional Diamond Tree Shares will be issued. Any holder of Blue Mountain Shares that would otherwise be entitled to a fractional Diamond Tree Share will be entitled to receive the nearest whole number of Diamond Tree Shares. In calculating such fractional interest, all Blue Mountain Shares held by a Blue Mountain Shareholder shall be aggregated.

In connection with the Offer, Blue Mountain and Diamond Tree entered into the Pre-Acquisition Agreement pursuant to which, among other things, Diamond Tree agreed to make the Offer and the Board of Directors agreed to unanimously recommend that Blue Mountain Shareholders accept the Offer. For a summary of the material terms of the Pre-Acquisition Agreement see "Pre-Acquisition Agreement" in this Directors' Circular. **For the reasons outlined below in this Directors' Circular, the Board of Directors unanimously recommends that Blue Mountain Shareholders ACCEPT the Offer.**

The Offer is made for Blue Mountain Shares and is not made for Blue Mountain Options or Blue Mountain Warrants. It is a condition of the Offer that all Blue Mountain Options, Blue Mountain Warrants and other rights to acquire Blue Mountain Shares, if any, shall either have been exercised or terminated or otherwise dealt with on a basis acceptable to Diamond Tree prior to the time that Diamond Tree takes-up any Blue Mountain Shares pursuant to the Offer. In that regard, Diamond Tree has entered into the Cancellation Agreements with Blue Mountain and the holders of outstanding Blue Mountain Options and Blue Mountain Warrants (including all of the directors and senior officers of Blue Mountain), pursuant to which such holders have agreed: (i) to exercise or surrender their Blue Mountain Options and Blue Mountain Warrants prior to the Expiry Time and tender any Blue Mountain Shares acquired in connection with any such exercise of Blue Mountain Options or Blue Mountain Warrants to the Offer; or (ii) alternatively, to surrender all in-the-money Blue Mountain Options and Blue Mountain Warrants in exchange for a number of Blue Mountain Shares determined in accordance with such agreements and to surrender all out-of-the-money Blue Mountain Options and Blue Mountain Warrants for cancellation. The holders have further agreed that any Blue Mountain Shares acquired in connection with the surrender of in-the-money Blue Mountain Options or Blue Mountain Warrants in exchange for Blue Mountain Shares will be tendered to the Offer.

Any exercise or exchange of Blue Mountain Options or Blue Mountain Warrants must be effected sufficiently in advance of the Expiry Time to ensure that the holders of such Blue Mountain Options and Blue Mountain Warrants will have share certificate(s) available for deposit before the Expiry Time. Pursuant to the Pre-Acquisition Agreement, Blue Mountain has agreed, and the Board of Directors has determined to cause Blue Mountain, to use commercially reasonable efforts ensure that all outstanding Blue Mountain Options and Blue Mountain Warrants are either exercised, terminated, surrendered or expire prior to the Take-up Date. See "Pre-Acquisition Agreement" in this Directors' Circular.

The Offer, the Offering Circular and this Directors' Circular do not constitute an offer or a solicitation to any person in any jurisdiction in which such Offer or solicitation is unlawful. The Offer is not being made to, nor will deposits be accepted from or on behalf of, any Blue Mountain Shareholder in any jurisdiction in which the making or acceptance of the Offer would not be in compliance with the laws of such jurisdiction. However, Diamond Tree or its agents may, in its or their sole discretion, take such action as it or they may deem necessary to extend the Offer to Blue Mountain Shareholders in any such jurisdiction.

The Offer is subject to certain conditions as set forth under Section 4 of the Offer, "Conditions of the Offer" in the Diamond Tree Circular. If such conditions are met, Diamond Tree will (unless it shall have withdrawn or terminated the Offer pursuant to the terms of the Pre-Acquisition Agreement) become obligated to take up and pay for the Blue Mountain Shares validly deposited under the Offer and not withdrawn in accordance with the terms of the Offer. All of the terms and conditions of the Offer may be waived or modified (except as described under "Pre-Acquisition Agreement – The Offer" in this Directors' Circular and subject to applicable law) by Diamond Tree without prejudice to any other right which Diamond Tree may have, by notice in writing delivered to the Depository at its principal office in Calgary, Alberta.

For a discussion of the purpose of the Offer and Diamond Tree's plans for Blue Mountain, see "Purpose of the Offer and Plans for Blue Mountain" in the Diamond Tree Circular.

Depositing Blue Mountain Shareholders will not be obligated to pay any brokerage fee or commission or, except as otherwise provided in the applicable Letter of Transmittal, stock transfer taxes with respect to the purchase of Blue Mountain Shares by Diamond Tree pursuant to the Offer if they accept the Offer by depositing their Blue Mountain Shares directly with the Depository. If a Depositing Blue Mountain Shareholder owns Blue Mountain Shares through a broker or other nominee and such broker or nominee deposits Blue Mountain Shares on the Blue Mountain Shareholder's behalf, the broker or nominee may charge a fee for performing such service. See "Depository" in the Diamond Tree Circular.

The Offer expires at the Expiry Time unless extended at Diamond Tree's sole discretion or withdrawn by Diamond Tree in accordance with the terms of the Offer as further described in the Diamond Tree Circular. For detailed information concerning conditions of the Offer and the manner of acceptance, refer to the Offer Section 4, "Conditions of the Offer" and Section 3, "Manner of Acceptance". **Reference should be made to the Diamond Tree Circular for complete details of the terms and conditions of the Offer**.

The information concerning Diamond Tree contained in this Directors' Circular has been taken from or is based primarily upon publicly available documents and records of Diamond Tree on file with Canadian securities regulatory authorities, the TSX and other public sources and information provided to Blue Mountain by Diamond Tree. Although Blue Mountain has no knowledge that would indicate that any statements relating to Diamond Tree contained herein, which are based on information contained in such documents and records, are inaccurate or incomplete, neither Blue Mountain nor its directors or officers assumes any responsibility for the accuracy or completeness of such information nor for any failure by Diamond Tree to disclose events which may have occurred or which may affect the significance or accuracy of such information, but which are unknown to Blue Mountain.

To the knowledge of the directors and senior officers of Blue Mountain, no person or company holds more than ten percent of any class of equity securities of Blue Mountain, other than Howson Tattersall Investment Counsel Limited. See "Ownership of Securities of Blue Mountain" in this Directors' Circular. No person is acting jointly or in concert with Blue Mountain in connection with the Offer.

RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors has carefully considered the terms of the Offer, the advice of its legal advisors, the Fairness Opinion, and additional matters and has resolved, at a meeting of the Board of Directors, to make the following recommendation:

THE BOARD OF DIRECTORS OF BLUE MOUNTAIN HAVE RESOLVED THAT THE OFFER IS FAIR, FROM A FINANCIAL POINT OF VIEW, TO THE BLUE MOUNTAIN SHAREHOLDERS, IS IN THE BEST INTERESTS OF BLUE MOUNTAIN AND THE BLUE MOUNTAIN SHAREHOLDERS AND UNANIMOUSLY RECOMMENDS THAT BLUE MOUNTAIN SHAREHOLDERS ACCEPT THE OFFER AND TENDER THEIR BLUE MOUNTAIN SHARES TO THE OFFER.

Blue Mountain Shareholders should consider the Offer carefully and come to their own conclusion as to their acceptance or rejection of the Offer. Blue Mountain Shareholders who are in doubt as to how to respond should consult with their investment advisor, lawyer or other professional advisor. Blue Mountain Shareholders are advised that acceptance of the Offer may have tax consequences and they should consult their professional advisors.

REASONS FOR MAKING THE RECOMMENDATION

In making its recommendation that the Offer be **ACCEPTED** by Blue Mountain Shareholders and in reaching the decision to enter into the Pre-Acquisition Agreement, the Board of Directors extensively analyzed and considered a number of factors, including the following:

1. The advice received by the Board of Directors from GMP Securities in respect of the financial terms of the Offer, including the Fairness Opinion provided by GMP Securities which is attached hereto as Schedule "A". The Board of Directors recommends that Blue Mountain Shareholders read the Fairness Opinion carefully and in its entirety for a description of the procedures followed, matters considered and limitations to the review undertaken. The Fairness Opinion does not constitute a recommendation to Blue Mountain Shareholders as to whether they should tender their Blue Mountain Shares into the Offer. See "Fairness Opinion" in this Directors' Circular.

2. The financial and other terms of the Offer.

3. On July 14, 2006, the last trading day prior to the date of the public announcement of the Offer by Diamond Tree and Blue Mountain, the closing price of the Diamond Tree Shares on the TSX was \$5.70, and the closing price of the Blue Mountain Shares on the TSX was \$4.30. Based on the closing price of the Diamond Tree Shares, the Offer implies a value of \$5.13 per Blue Mountain Share, which represents a 19.3% premium over the closing price of the Blue Mountain Shares on July 14, 2006.

4. An opportunity to participate in a well managed, financially strong company with a more diversified asset and production base.

5. Enhanced exploration and development opportunities and operational efficiencies from the combination of the operations of Blue Mountain and Diamond Tree.

6. Enhanced liquidity as Diamond Tree will have a significantly larger market capitalization than Blue Mountain alone.

7. The terms of the Pre-Acquisition Agreement, which permit the Board of Directors to respond, in accordance with its fiduciary duties and subject to compliance with the terms of the Pre-Acquisition Agreement, to any other *bona fide* Take-over Proposal that the Board of Directors considers to be a Superior Proposal. See "Pre-Acquisition Agreement – No Solicitation" in this Directors' Circular.

8. All of the directors and officers of Blue Mountain, who currently hold an aggregate of 2,073,782 Blue Mountain Shares, 819,105 Blue Mountain Options and 365,368 Blue Mountain Warrants representing (assuming the exercise of such Blue Mountain Options and Blue Mountain Warrants in full) approximately 13.4% of the outstanding Blue Mountain Shares (on a diluted basis) have agreed pursuant to the Pre-Tender Agreements to tender all of their Blue Mountain Shares (together with any Blue Mountain Shares they may acquire upon exercise of Blue Mountain Options and Blue Mountain Warrants) to the Offer. In addition, such persons have also entered into Cancellation Agreements. See "The Offer" and "Pre-Acquisition Agreement – Pre-Tender Agreements" in this Directors' Circular.

9. The advice received by the Board of Directors from its legal advisors that entering into the Pre-Acquisition Agreement was not inconsistent with its fiduciary obligations and does not preclude the Board of Directors from continuing to act in accordance with such fiduciary obligations.

Conclusion and Recommendation – To ACCEPT the Offer

For the reasons outlined above, the Board of Directors believes that the Offer is fair, from a financial point of view, to Blue Mountain Shareholders, is in the best interests of Blue Mountain and the Blue Mountain Shareholders and unanimously recommends that Blue Mountain Shareholders accept the Offer and tender their Blue Mountain Shares to the Offer.

BACKGROUND TO THE OFFER

In February, 2006, senior management of Diamond Tree identified Blue Mountain as an attractive business combination candidate, having regard to the location of a number of Blue Mountain oil and gas properties, which are located in the same areas in which Diamond Tree was (and continues to be) active. Senior management of Diamond Tree approached Blue Mountain in this regard; however, the discussions did not advance beyond the preliminary stage at that time.

On June 30, 2006, Mr. Randy Pawliw, the President and Chief Executive Officer of Blue Mountain, contacted Don Copeland, the Chief Executive Officer of Diamond Tree, to inquire as to the interest of Diamond Tree in considering a business combination transaction with Blue Mountain. At that time, Mr. Pawliw advised Diamond Tree that Blue Mountain would entertain discussions about a possible transaction.

On July 4, 2006, representatives of Diamond Tree's management attended at the offices of Blue Mountain to discuss the possibility of a business combination and to schedule introductory meetings.

On July 5, 2006, Diamond Tree and Blue Mountain signed confidentiality agreements, pursuant to which each agreed to make information available to the other to facilitate further consideration of a business combination between the two organizations and each agreed to customary covenants to preserve the confidentiality and limit the use of the information provided. The confidentiality agreements also contained customary "standstill" provisions for the benefit of each party. On the same day, representatives of Diamond Tree attended a presentation by the management of Blue Mountain concerning the business and affairs of Blue Mountain and its principal oil and gas properties. At that presentation, Blue Mountain provided technical reviews of various exploration and development prospects that were to be pursued by Blue Mountain over the next six months. Blue Mountain also provided Diamond Tree with an independent engineering report and other technical and business related information.

On July 6, 2006, representatives of Diamond Tree provided a presentation to representatives of Blue Mountain concerning the business and affairs of Diamond Tree and its principal oil and gas properties. At that presentation, Diamond Tree provided technical reviews of various exploration and development prospects that were to be pursued by Diamond Tree. Diamond Tree also provided Blue Mountain with an independent engineering report and other technical information.

From July 10 to July 12, 2006, senior management of Diamond Tree continued to negotiate with senior management of Blue Mountain.

On July 13, 2006, senior management of Diamond Tree indicated to senior management of Blue Mountain that the board of directors of Diamond Tree would consider an exchange ratio of 0.90 of a Diamond Tree Share for each Blue Mountain Share if a form of pre-acquisition agreement with terms and conditions acceptable to the Board could be negotiated. Senior management of Blue Mountain then engaged GMP Securities with respect to the Fairness Opinion.

During the morning of Sunday, July 16, 2006, representatives of Diamond Tree attended a due diligence session and responded to inquiries from Blue Mountain and GMP Securities. Subsequent to that due diligence session, representatives of Blue Mountain attended a due diligence session and responded to inquiries from Diamond Tree and Canaccord Capital Corporation.

At a meeting of the Board of Directors held on the afternoon of Sunday, July 16, 2006, senior management of Blue Mountain provided an update to the Board of Directors respecting the results of ongoing due diligence inquiries and the status of discussions with Diamond Tree. Senior management and Blue Mountain's counsel also discussed with the Board of Directors the most recent draft of the Pre-Acquisition Agreement. Also at the July 16, 2006 Board of Directors meeting, the Board of Directors approved the engagement of GMP Securities to provide the Fairness Opinion. GMP Securities provided a report to the Board of Directors respecting the fairness of the proposed business combination, from a financial point of view, to the Blue Mountain Shareholders. Following receipt of GMP Securities' report and an analysis of the salient issues, the Board of Directors approved the entering into of the Pre-Acquisition Agreement.

PRE-ACQUISITION AGREEMENT

The following is a summary only of the material provisions of the Pre-Acquisition Agreement and is qualified in its entirety by the full text of the Pre-Acquisition Agreement, which has been filed by Blue Mountain with the Canadian securities regulatory authorities and is available at www.sedar.com as an attachment to Blue Mountain's Material Change Report dated July 24, 2006.

The Offer

On July 16, 2006, Diamond Tree and Blue Mountain entered into the Pre-Acquisition Agreement pursuant to which Diamond Tree agreed, subject to the satisfaction of certain conditions set out therein, to make the Offer and, upon the satisfaction or waiver of all conditions of the Offer, to take up and pay for all Blue Mountain Shares validly deposited under the Offer and not withdrawn. See Section 1 of the Offer, "The Offer".

The Pre-Acquisition Agreement sets out the conditions to the Offer which are contained in Section 4 of the Offer. Under the Pre-Acquisition Agreement, Diamond Tree is permitted, in its sole discretion, to amend or extend, vary or waive any term or condition of the Offer for its benefit, provided that Diamond Tree may not, without the prior consent of Blue Mountain: (i) waive or reduce the Minimum Required Shares to less than 50% of the issued and outstanding Blue Mountain Shares (calculated on a diluted basis); (ii) impose additional conditions to the Offer; (iii) decrease or change the form of consideration to be paid for each Blue Mountain Share (unless the consideration includes consideration in addition to the consideration required to be offered pursuant to the Pre-Acquisition Agreement); or (iv) make any other change in the Offer that is materially adverse to holders of Blue Mountain Shares (and for which purpose an extension of the Offer or waiver of a condition (other than a reduction of the Minimum Condition to below 50% of the outstanding Blue Mountain Shares) will not be considered adverse). In the event that any required regulatory approval is not obtained prior to the time that the Offer is scheduled to terminate, unless such approval has been denied, Diamond Tree has agreed to extend the Offer for a period of not less than ten days past the Initial Expiry Time pending receipt of such approval.

Approval by the Board of Directors

In the Pre-Acquisition Agreement, Blue Mountain confirmed its consent to the Offer and confirmed that the Board of Directors had unanimously approved the Offer and the Pre-Acquisition Agreement and, based on advice from GMP Securities, determined that the Offer is fair, from a financial point of view, to Blue Mountain Shareholders and is in the best interests of Blue Mountain and the Blue Mountain Shareholders and that the Board of Directors had unanimously resolved to recommend acceptance of the Offer by the Blue Mountain Shareholders.

Pre-Tender Agreements

Diamond Tree has entered into Pre-Tender Agreements with all of the directors and officers of Blue Mountain) who currently hold an aggregate of 2,073,782 Blue Mountain Shares, 819,105 Blue Mountain Options and 365,368 Blue Mountain Warrants representing (assuming the exercise of such Blue Mountain Options and Blue Mountain Warrants in full) approximately 13.4% of the outstanding Blue Mountain Shares (on a diluted basis). Under the terms of the Pre-Tender Agreements, such persons have agreed to tender all of their Blue Mountain Shares (together with any Blue Mountain Shares they may acquire upon exercise of Blue Mountain Options and Blue Mountain Warrants and which they continue to own at the Expiry Time) to the Offer, and not to withdraw such shares from the Offer except in certain circumstances.

Each Pre-Tender Agreement may be terminated, at the option of the applicable Tendering Shareholder, upon written notice to Diamond Tree, in the event that: (i) the Pre-Acquisition Agreement is terminated in accordance with its terms, other than as a result of a breach of the Pre-Tender Agreement by the Tendering Shareholder; or (ii) Diamond Tree decreases the consideration offered pursuant to the Offer or otherwise modifies or amends the Offer in a manner materially adverse to Blue Mountain Shareholders (provided that an extension shall not constitute an adverse modification to the Offer); or (iii) the acquisition of the Blue Mountain Shares by Diamond Tree is not completed on or before the Outside Date.

No Solicitation

In the Pre-Acquisition Agreement, Blue Mountain agreed to immediately cease and cause to be terminated all existing discussions and negotiations with others, that were initiated prior to the execution of the Pre-Acquisition Agreement (including through any of Blue Mountain's officers, directors, employees, advisors, representatives or agents ("**Representatives**")) with respect to any Blue Mountain Acquisition Proposal. Blue Mountain further agreed that it would immediately request the return or destruction of all information provided to any third parties that had entered into a confidentiality agreement with Blue Mountain relating to a Blue Mountain Acquisition Proposal and would use all reasonable commercial efforts to ensure that such requests are honoured.

Blue Mountain also agreed that it would not, and would not authorize or permit any of its Representatives to directly or indirectly: (i) solicit, facilitate, initiate or encourage any inquiry or communication or the making of any proposal or offer to Blue Mountain or the Blue Mountain Shareholders from any person that would constitute, or might reasonably be expected to lead to, a Blue Mountain Acquisition Proposal; (ii) enter into or participate in any negotiations or initiate any discussion regarding a Blue Mountain Acquisition Proposal or furnish any person with any information regarding Blue Mountain's business, properties or operations in connection with a Blue Mountain Acquisition Proposal; (iii) waive or otherwise forbear in the enforcement of any rights or other benefits (including any "standstill provisions") under any confidentiality agreements; or (iv) approve or enter into an agreement to implement a Blue Mountain Acquisition Proposal.

However, the Pre-Acquisition Agreement also provides that Blue Mountain may engage in discussions or negotiations with a third party who, after the date of the Pre-Acquisition Agreement, (and without any solicitation, initiation or encouragement, directly or indirectly, by Blue Mountain or any of its Representatives) seeks to engage in discussions or negotiations with Blue Mountain and who executes and delivers a confidentiality agreement containing terms and provisions substantially similar to the confidentiality agreement between Blue Mountain and Diamond Tree and may furnish such third party information concerning Blue Mountain and its business, properties and assets if, and only to the extent that:

(a) such third party has made a Superior Proposal;

(b) Blue Mountain provides written notice to Diamond Tree of any inquiries, offers or proposals with respect to a Superior Proposal (including the identity of the person making it) within 24 hours of the receipt thereof and keeps Diamond Tree informed of the status of such inquiry, offer or proposal; and

(c) prior to furnishing such information to or entering into discussions or negotiations with such third party, Blue Mountain: (A) provides prompt notice to Diamond Tree to the effect that it is furnishing such information to or entering into discussions or negotiations with such third party in respect of a Superior Proposal; and (B) provides Diamond Tree with a copy of the applicable confidentiality agreement and copies of all information provided to such third party to the extent not previously provided to Diamond Tree.

In addition, the Pre-Acquisition Agreement provides that Blue Mountain may comply with applicable laws relating to the provision of directors' circulars and make appropriate disclosure with respect thereto to Blue Mountain Shareholders.

Right to Match

If Blue Mountain receives a Superior Proposal, Blue Mountain has agreed to give Diamond Tree, orally and in writing, at least 48 hours advance notice of any decision by the Board of Directors to accept, recommend, approve or enter into an agreement to implement a Superior Proposal, and such notice must include a summary of the details of the Superior Proposal, including the identity of the third party making the Superior Proposal. During such 48 hour period, Blue Mountain has agreed to not accept, recommend, approve or enter into any agreement to implement such Superior Proposal and to not release the party making the Superior Proposal from any standstill provisions or withdraw, redefine, modify or change its recommendation in respect of the Offer. In addition, during such 48 hour period, Blue Mountain has agreed to cause its financial and legal advisors to negotiate in good faith with Diamond Tree and Diamond Tree's financial and legal advisors and to make such adjustments to the terms and conditions of the Pre-Acquisition Agreement and the Offer as would enable Blue Mountain to proceed with the Offer as amended rather than the Superior Proposal. The Pre-Acquisition Agreement provides that, if Diamond Tree proposes to amend the Pre-Acquisition Agreement and the Offer to provide that the Blue Mountain Shareholders shall receive a value per Blue Mountain Share equal to or greater than the value per Blue Mountain Share provided in the Superior Proposal and so advises the Board of Directors prior to the expiry of such 48 hour period, the Board of Directors will not: (i) accept, recommend, approve or enter into any agreement to implement such Superior Proposal; (ii) not release the party making the Superior Proposal from any standstill provisions; or (iii) withdraw, redefine, modify or change its recommendation in respect of the Offer.

Discharge of Fiduciary Duties

Blue Mountain may accept and enter into an agreement to implement a Superior Proposal from a third party only if: (i) the Board of Directors has concluded in good faith, after considering all of Diamond Tree's proposals to adjust the terms and conditions of the Pre-Acquisition Agreement and the Offer, and after receiving the advice of outside counsel that the taking of such action is necessary for the Board of Directors to discharge its fiduciary duties under applicable laws; (ii) Blue Mountain has complied with its obligations respecting Diamond Tree's right to match (see "Right to Match" in this Directors' Circular) as set out in the Pre-Acquisition Agreement; (iii) Blue Mountain terminates the Pre-Acquisition Agreement in accordance with its terms; and (iv) Blue Mountain concurrently with such termination pays the Diamond Tree Non-Completion Fee (as hereinafter defined).

Non-Completion Fees

Blue Mountain has agreed to pay to Diamond Tree a non-completion fee (the "**Diamond Tree Non-Completion Fee**") of $5.0 million in the event that (and provided there is no breach or non-performance by Diamond Tree of a material provision of the Pre-Acquisition Agreement):

(a) the Board of Directors: (i) fails to recommend that holders of Blue Mountain Shares accept the Offer, (ii) withdraws, modifies or changes any of its recommendations, approvals, resolutions or determinations in respect of the Offer in a manner adverse to the Offer or to Diamond Tree, or resolves to do so prior to the Effective Date, or (iii) fails to promptly reaffirm any of its recommendations, approvals, resolutions or determinations in respect of the Offer upon request from time to time by Diamond Tree to do so, or upon a Take-over Proposal being publicly announced or proposed, offered or made to Blue Mountain or the holders of Blue Mountain Shares (such affirmation to be made within three Business Days of such request being made or such Take-over Proposal being publicly announced, proposed, offered or made, which ever occurs first);

(b) the Board of Directors recommends that holders of Blue Mountain Shares deposit their Blue Mountain Shares under, or vote in favour of, or otherwise accept a Take-over Proposal;

(c) prior to expiry of the Offer, a *bona fide* Take-over Proposal is publicly announced or made to all or substantially all holders of Blue Mountain Shares and, at the Expiry Time, the Minimum Condition has not been satisfied and such *bona fide* Take-over Proposal (or another Take-over Proposal) is subsequently completed within six months of the Expiry Time;

(d) Blue Mountain accepts, recommends, approves or enters into any agreement with any person to implement a Take-over Proposal prior to the Expiry Time (other than a confidentiality agreement entered into as permitted by the Pre-Acquisition Agreement);

(e) Blue Mountain is in breach of one or more of its covenants made in the Pre-Acquisition Agreement (other than a breach resulting from any action or matter that was not within the control of Blue Mountain and the basis for which was not known by Blue Mountain as of July 16, 2006), which individually or in the aggregate causes or would reasonably be expected to cause a Material

Adverse Change (as defined in the Pre-Acquisition Agreement) in respect of Blue Mountain or to materially impede the completion of the Offer, and Blue Mountain fails to cure such breach within five Business Days after receipt of written notice thereof from Diamond Tree (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date); or

(f) Blue Mountain is in breach of any of its representations or warranties (other than a breach resulting from any action or matter that is not within the control of Blue Mountain and the basis for which was not known by Blue Mountain as of July 16, 2006) made in the Pre-Acquisition Agreement, which breach individually or in the aggregate causes or would reasonably be expected to cause a Material Adverse Change (as defined in the Pre-Acquisition Agreement) in respect of Blue Mountain or to materially impede the completion of the Offer, and Blue Mountain fails to cure such breach within five Business Days after receipt of written notice thereof from Diamond Tree (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date).

Diamond Tree has agreed to pay to Blue Mountain a non-completion fee (the "**Blue Mountain Non-Completion Fee**") of $5.0 million in the event that (and provided there is no breach or non-performance by Blue Mountain of a material provision of the Pre-Acquisition Agreement):

(a) Diamond Tree is in breach of one or more of its covenants made in the Pre-Acquisition Agreement (other than a breach resulting from any action or matter that is not within the control of Diamond Tree and the basis for which was not known by Diamond Tree as of July 16, 2006) which individually or in the aggregate causes or would reasonably be expected to cause a Material Adverse Change (as defined in the Pre-Acquisition Agreement) in respect of Diamond Tree or to materially impede the completion of the Offer, and Diamond Tree fails to cure such breach within five Business Days after receipt of written notice thereof from Blue Mountain (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date); or

(b) Diamond Tree is in breach of any of its representations or warranties (other than a breach resulting from any action or matter that is not within the control of Diamond Tree and the basis for which was not known by Diamond Tree as of July 16, 2006) made in the Pre-Acquisition Agreement, which breach individually or in the aggregate causes or would reasonably be expected to cause a Material Adverse Change (as defined in the Pre-Acquisition Agreement) in respect of Diamond Tree or to materially impede the completion of the Offer, and Diamond Tree fails to cure such breach within five Business Days after receipt of written notice thereof from Blue Mountain (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date).

Blue Mountain Options and Blue Mountain Warrants

The Pre-Acquisition Agreement provides that all persons holding Blue Mountain Options and Blue Mountain Warrants, who may do so under securities laws and in accordance with the terms of the Blue Mountain Options and Blue Mountain Warrants held by them, shall be entitled to exercise all of their Blue Mountain Options and Blue Mountain Warrants and tender the Blue Mountain Shares issued in connection therewith (and which they continue to own as of the Expiry Time) under the Offer upon payment of the applicable exercise price in full. All Blue Mountain Options and Blue Mountain Warrants that are tendered to Blue Mountain for exercise, conditional on Diamond Tree taking up Blue Mountain Shares under the Offer ("**Conditional Option Exercise**"), shall be deemed to have been exercised immediately prior to the take up of Blue Mountain Shares by Diamond Tree. Diamond Tree has agreed to accept as validly tendered under the Offer as of the Take-up Date, all Blue Mountain Shares that are to be issued pursuant to the Conditional Option Exercise, provided that the holders of such Blue Mountain Options and Blue Mountain Warrants indicate that such shares are tendered pursuant to the Offer and provided that such holders agree to surrender any of their remaining unexercised Blue Mountain Options and Blue Mountain Warrants to Blue Mountain for cancellation effective immediately prior to the Take-up Date. Diamond Tree's obligation to take-up and pay for Blue Mountain Shares under the Offer is conditional upon all outstanding Blue Mountain Options and

Blue Mountain Warrants that are not exercised prior to the Take-up Date being either exercised or terminated prior thereto (or otherwise dealt with on a basis acceptable to Diamond Tree).

In the Pre-Acquisition Agreement, Diamond Tree consented to each holder of in-the-money Blue Mountain Options and in-the-money Blue Mountain Warrants surrendering such Blue Mountain Options and Blue Mountain Warrants, as applicable, to Blue Mountain prior to the Expiry Time in exchange for a number of Blue Mountain Shares equal to the result obtained when the exercise price of the applicable Blue Mountain Options or Blue Mountain Warrants, as the case may be, is subtracted from $5.13 and the difference thereby obtained is multiplied by the number of applicable Blue Mountain Options or Blue Mountain Warrants and the product of such calculation is divided by $5.13, provided such holder surrenders to Blue Mountain for cancellation his or her Blue Mountain Options and Blue Mountain Warrants, if any, that are out-of-the-money. Blue Mountain Options and Blue Mountain Warrants having different exercise prices shall be considered separately for each holder for purposes of the foregoing calculation. In that regard, the holders of outstanding Blue Mountain Options and Blue Mountain Warrants have entered into the Cancellation Agreements. See "The Offer" in this Directors' Circular.

Other Matters

The Pre-Acquisition Agreement further provides, among other things:

(a) restrictions and limitations on interim operations that may be conducted by Blue Mountain and Diamond Tree, respectively, until the Expiry Date, without the consent of the other party;

(b) that if Diamond Tree takes up and pays for Blue Mountain Shares pursuant to the terms of the Offer, Blue Mountain will use all commercially reasonable efforts to assist Diamond Tree in acquiring the balance of the Blue Mountain Shares by way of a Second Stage Transaction;

(c) Blue Mountain will assist Diamond Tree to secure the resignations of all directors of Blue Mountain effective at such time as may be required by Diamond Tree and to use its best commercial efforts to cause the election of Diamond Tree nominees to fill the vacancies so created in order to effect the foregoing without the necessity of a Blue Mountain Shareholder meeting;

(d) Upon Diamond Tree taking up and paying for the Minimum Required Shares pursuant to the Offer, the board of directors of Diamond Tree will be reconstituted to add Messrs. Verne G. Johnson and James A. Banister;

(e) subject to the terms and conditions of the Pre-Acquisition Agreement and to fiduciary obligations under applicable laws, each of Diamond Tree and Blue Mountain will use all commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by the Pre-Acquisition Agreement;

(f) Blue Mountain shall be entitled to secure, at a cost to Blue Mountain not to exceed $75,000, directors' and officers' liability insurance for Blue Mountain's present and former directors and officers, covering claims made prior to and within six years after the Take-up Date and on a "trailing" or "run-off" basis, which has scope and coverage substantially equivalent in scope and coverage to that provided by Blue Mountain's current directors' and officers' insurance policy. Alternatively, Diamond Tree may notify Blue Mountain prior to the Take-up Date that such insurance coverage is to be provided under Diamond Tree's officers' and directors' liability insurance; and

(g) that if Diamond Tree acquires the Minimum Required Shares under the Offer, it will not take any action to terminate or materially adversely affect any indemnity agreements or rights to indemnity in favour of past or present officers and directors of Blue Mountain pursuant to the provisions of the articles, by-laws or similar constating documents of Blue Mountain or written indemnity agreements between Blue Mountain and its past and present directors and officers or any indemnity agreements in favour of directors and officers of Blue Mountain that were in place as at July 16, 2006.

Termination

Subject to its terms, the Pre-Acquisition Agreement may be terminated in the following circumstances by written notice given by one party to the other party, at any time prior to the Take-up Date:

(a) by mutual written agreement of Diamond Tree and Blue Mountain; or

(b) by either Diamond Tree or Blue Mountain, if a court of competent jurisdiction or a governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting any of the transactions contemplated by the Pre-Acquisition Agreement and such order, decree, ruling or other action shall have become final; or

(c) by Diamond Tree, if the conditions to making the Offer are not satisfied or waived prior to the time specified, if applicable, or, if not specified, by the time that the Offer is required to be made; or

(d) by Blue Mountain, if Diamond Tree has not taken up and paid for the Blue Mountain Shares deposited under the Offer on or before the Outside Date, unless the failure of Diamond Tree to take up and pay for the Blue Mountain Shares arises as a result of a breach by Blue Mountain of any material covenant or obligation under the Pre-Acquisition Agreement or as the result of any material representation or warranty of Blue Mountain in the Pre-Acquisition Agreement being untrue or incorrect; or

(e) by either Diamond Tree or Blue Mountain, if the Offer terminates or expires at the Expiry Time without Diamond Tree taking up and paying for any of the Blue Mountain Shares as a result of the failure of any condition to the Offer to be satisfied or waived unless the failure of such condition shall be due to the failure of the party seeking to terminate the Pre-Acquisition Agreement to perform the obligations required to be performed by it under the Pre-Acquisition Agreement; or

(f) by Diamond Tree, if the Diamond Tree Non-Completion Fee becomes payable; or

(g) by Blue Mountain, if the Diamond Tree Non-Completion Fee becomes payable and payment thereof is made to Diamond Tree; or

(h) by Blue Mountain, if the Blue Mountain Non-Completion Fee becomes payable; or

(i) by Diamond Tree, if the Blue Mountain Non-Completion Fee becomes payable and payment thereof is made to Blue Mountain; or

(j) by Diamond Tree if a Material Adverse Change (as defined in the Pre-Acquisition Agreement) in respect of Blue Mountain shall have occurred; or

(k) by Blue Mountain if a Material Adverse Change (as defined in the Pre-Acquisition Agreement) in respect of Diamond Tree shall have occurred.

FAIRNESS OPINION

GMP Securities was retained to assess the Offer and to provide to the Board of Directors an opinion as to the fairness of the Offer. GMP Securities delivered the Fairness Opinion addressed to the Board of Directors concluding that, on the basis of the assumptions, limitations and qualifications set forth in the Fairness Opinion, as of the date thereof, the consideration under the Offer was fair, from a financial point of view, to Blue Mountain Shareholders.

The full text of the Fairness Opinion is attached as Schedule "A" to this Directors' Circular. Blue Mountain Shareholders are urged to read the Fairness Opinion carefully and in its entirety for a description of the procedures followed, matters considered and limitations on the review undertaken. The Fairness Opinion addresses only the adequacy of the consideration offered under the Offer from a financial point of view.

OWNERSHIP OF SECURITIES OF BLUE MOUNTAIN

As at August 4, 2006, the issued and outstanding capital of Blue Mountain consisted of 21,487,566 Blue Mountain Shares. In addition, as at August 4, 2006, 2,484,732 Blue Mountain Options and 376,267 Blue Mountain Warrants are issued and outstanding.

The names of the directors and senior officers of Blue Mountain and the designation, percentage of class and number of outstanding securities of Blue Mountain beneficially owned, directly or indirectly, or over which control or direction is exercised, by each director and senior officer of Blue Mountain and, where known after reasonable enquiry, by their respective associates, are as follows:

		Securities of Blue Mountain Beneficially Owned Directly or Indirectly[(1)]		
Name	**Position with Blue Mountain**	**Blue Mountain Shares[(2)]**	**Blue Mountain Options[(2)]**	**Blue Mountain Warrants[(2)]**
Randy W. Pawliw Calgary, Alberta	President, Chief Executive Officer and Director	939,600 (4.4%)	196,000 (7.9%)	149,282 (39.7%)
Verne G. Johnson Calgary, Alberta	Director	268,200 (1.2%)	65,334 (2.6%)	49,978 (13.3%)
Carl Martin-Nagel Bad Vilbel, Germany	Director	334,400 (1.6%)	65,333 (2.6%)	33,114 (8.8%)
James A. Banister Calgary, Alberta	Director	344,438 (1.6%)	43,438 (1.8%)	4,000 (1.1%)
Christina M. Fehr Calgary, Alberta	Director	54,944 (0.3%)	55,000 (2.2%)	Nil (0.0%)
G. Brent Foster Calgary, Alberta	Chief Operating Officer and Vice-President, Engineering	74,000 (0.3%)	246,000 (9.9%)	86,346 (22.9%)
Dale T. Joynt Calgary, Alberta	Chief Financial Officer and Corporate Secretary	58,200 (0.3%)	148,000 (6.0%)	42,648 (11.3%)

Notes:

(1) The information as to securities of Blue Mountain beneficially owned, directly or indirectly, or over which control or direction is exercised, not being within the knowledge of Blue Mountain, has been furnished by the directors and senior officers.

(2) Percentages are based on the issued and outstanding securities of the applicable class on a non-diluted basis.

In an Alternative Monthly Report filed on SEDAR on July 10, 2006 (and effective June 30, 2006), Howson Tattersall Investment Counsel Limited ("**Howson Tattersall**") reported that one or more of its mutual fund, pension fund or other client accounts held, in aggregate, 2,308,000 shares of Blue Mountain at the end of June 2006, representing approximately 10.8% of the total number of the outstanding Blue Mountain Shares. Blue Mountain does not know how the Blue Mountain shares referred to in such Alternative Monthly Report are divided among Howson Tattersall's mutual fund, pension fund and other client accounts.

TRADING IN SECURITIES OF BLUE MOUNTAIN

None of Blue Mountain or any of the directors or senior officers of Blue Mountain, or, to the knowledge of the directors and senior officers of Blue Mountain, after reasonable enquiry, none of such persons' respective associates, or any person or company holding more than ten percent of the Blue Mountain Shares has engaged in any trading in Blue Mountain Shares or other securities of Blue Mountain during the six-month period preceding the date of this Directors' Circular except for: (i) on July 6, 2006, James A. Banister exercised 23,438 Blue Mountain Options; (ii) the trades under the heading entitled "Issuances of Securities of Blue Mountain to its Directors and

Senior Officers" in this Directors' Circular; and (iii) the trades of Howson Tattersall described under the heading "Ownership of Securities of Blue Mountain" in this Directors' Circular.

ISSUANCES OF SECURITIES OF BLUE MOUNTAIN TO ITS DIRECTORS AND SENIOR OFFICERS

No Blue Mountain Shares or securities convertible into Blue Mountain Shares have been issued to the directors and senior officers of Blue Mountain during the two-year period preceding the date of this Directors' Circular other than as set forth below:

Name	Date of Issuance	Description of Issuance	Exercise Price	Expiry Date
Dale T. Joynt	December 9, 2005	50,000 Blue Mountain Options	$5.50	December 9, 2010
G. Brent Foster	December 9, 2005	50,000 Blue Mountain Options	$5.50	December 9, 2010

INTENTIONS OF DIRECTORS AND SENIOR OFFICERS

The Board of Directors has made reasonable enquiries and, to Blue Mountain's knowledge, all of its directors and senior officers or their respective associates have agreed to accept the Offer, pursuant to the terms of their respective Pre-Tender Agreements. Pursuant to the Pre-Tender Agreements the Tendering Shareholders have agreed to tender their Blue Mountain Shares to the Offer and to deal with their Blue Mountain Options and Blue Mountain Warrants as contemplated under "The Offer" in this Directors' Circular. In that regard, all of the Tendering Shareholders have entered into Cancellation Agreements. See also "Pre-Acquisition Agreement – Pre-Tender Agreements" in this Directors' Circular.

ARRANGEMENTS BETWEEN BLUE MOUNTAIN AND ITS DIRECTORS AND SENIOR OFFICERS

Except as described below, there are no arrangements, agreements or understandings made or proposed to be made between Blue Mountain and any of its directors or senior officers pursuant to which a payment or other benefit is to be made or given by way of compensation for loss of office or as to Blue Mountain's directors or senior officers remaining in or retiring from office if the Offer is successful.

Executive Employment Agreements

Mr. Randy W. Pawliw, the President and Chief Executive Officer of Blue Mountain, has an executive employment agreement with Blue Mountain. The agreement provides that, following a change in control of Blue Mountain, if Blue Mountain terminates Mr. Pawliw's employment or if he elects to terminate his employment upon the occurrence of change in control, Mr. Pawliw is entitled to be paid twenty-four months' salary plus benefits. In addition, pursuant to a letter agreement with Blue Mountain, Mr. Pawliw will be entitled to a $329,576.56 payment in the event that his employment is terminated due to disability or death and a change of control occurs after termination of his employment and prior to March 31, 2007. Mr. Pawliw will only be entitled to one of the payments contemplated by the executive employment agreement and the letter agreement.

Mr. G. Brent Foster, the Chief Operating Officer and Vice-President, Engineering of Blue Mountain, and Mr. Dale T. Joynt, the Chief Financial Officer and Corporate Secretary of Blue Mountain, also have executive employment agreements with Blue Mountain which provide that, following a change in control of Blue Mountain, if Blue Mountain terminates either of such Officer's employment or if either of such Officers elects to terminate his employment upon the occurrence of change in control, such Officer is entitled to be paid eighteen months' salary plus benefits.

For purposes of the agreements referred to above, a "change in control" will occur upon the successful completion of the Offer.

Blue Mountain Options and Blue Mountain Warrants

At a meeting held July 16, 2006 and in accordance with Blue Mountain's Stock Option Plan, the Board of Directors resolved that all issued but unvested Blue Mountain Options should be vested to permit them to be exercised so that the Blue Mountain Shares issued on exercise could be tendered to the Offer. In addition, in accordance with Blue Mountain's Stock Option Plan, the Board of Directors resolved to allow the holders of Blue Mountain Options to exchange their Blue Mountain Options for Blue Mountain Shares without making payment of the exercise price, as contemplated by the Cancellation Agreements and as described under "The Offer" in this Directors' Circular. A similar resolution was passed with respect to the Blue Mountain Warrants.

ARRANGEMENTS BETWEEN DIAMOND TREE AND THE DIRECTORS AND SENIOR OFFICERS OF BLUE MOUNTAIN

Except as described below, and other than the Pre-Tender Agreements and the Cancellation Agreements, there are no arrangements or agreements made or proposed to be made, nor any understandings between Diamond Tree and any of Blue Mountain's directors or senior officers, including any arrangements, agreements or understandings pursuant to which a payment or other benefit is to be made or given by way of compensation for loss of office or as to Blue Mountain's directors or senior officers remaining in or retiring from office if the Offer is successful. No directors or senior officers of Blue Mountain are also directors or senior officers of Diamond Tree or its subsidiary. See "The Offer" and "Pre-Acquisition Agreement – Pre-Tender Agreements" in this Directors' Circular.

Appointment of Blue Mountain Directors to the Board of Directors of Diamond Tree

If the Offer is successful, two directors of Blue Mountain; namely, Messrs. Verne G. Johnson and James A. Banister, will join the board of directors of Diamond Tree. See "Pre-Acquisition Agreement – Other Matters" in this Directors' Circular.

OWNERSHIP OF SECURITIES OF DIAMOND TREE

Except as disclosed below, none of Blue Mountain or the directors or senior officers of Blue Mountain, or, to their knowledge after reasonable enquiry, any of their respective associates, owns, directly or indirectly, or exercises control or direction over, any securities of Diamond Tree.

		Securities of Diamond Tree Beneficially Owned Directly or Indirectly(1)
Name	**Position with Blue Mountain**	**Diamond Tree Shares(2)**
James A. Banister	Director	2,000 (0.01%)

Notes:

(1) The information as to securities of Diamond Tree beneficially owned, directly or indirectly, or over which control or direction is exercised, not being within the knowledge of Blue Mountain, has been furnished by the directors and senior officers of Blue Mountain.

(2) Percentages are based on the issued and outstanding securities of the applicable class on a non-diluted basis.

On July 10, 2006, Howson Tattersall filed an Alternative Monthly Report on SEDAR (effective June 30, 2006), reporting that one or more of its mutual fund, pension fund or other client accounts held, in aggregate, 2,897,800 shares of Diamond Tree at the end of June 2006, representing approximately 12.8% of the total number of outstanding Diamond Tree Shares. Diamond Tree does not know how the Diamond Tree Shares referred to in such Alternative Monthly Report are divided among Howson Tattersall's mutual fund, pension fund and other client accounts.

INTERESTS IN MATERIAL CONTRACTS OF DIAMOND TREE

None of Blue Mountain or the directors or senior officers of Blue Mountain or, to their knowledge after reasonable enquiry, any of their respective associates has an interest in any material contract of Diamond Tree.

MATERIAL CHANGES

The directors and senior officers of Blue Mountain are not aware of any other information that indicates any material change in the affairs of Blue Mountain since March 31, 2006, the date of the last published unaudited interim financial statements of Blue Mountain, except as described herein.

OTHER MATTERS

The principal office of Blue Mountain is located at #2030, 300 - 5th Avenue S.W., Calgary, Alberta, T2P 3C4 and the telephone number at such office is (403) 262-4316.

PERSONS RETAINED BY BLUE MOUNTAIN IN CONNECTION WITH THE OFFER

GMP Securities was retained to deliver a Fairness Opinion to the Board of Directors in connection with the analysis and consideration of, and response to, the Offer. See "Fairness Opinion" in this Directors' Circular. Blue Mountain will pay GMP Securities reasonable and customary compensation for its services and will reimburse it for its reasonable out-of-pocket expenses, including fees and disbursements of legal counsel. Blue Mountain has agreed to indemnify GMP Securities against certain liabilities arising out of or in connection with its engagement.

Neither Blue Mountain nor any person acting on its behalf has employed, retained or agreed to compensate any person making solicitations or recommendations to Blue Mountain Shareholders in connection with the Offer.

STATUTORY RIGHTS

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

OTHER INFORMATION

Except as disclosed in this Directors' Circular, no information is known to the directors of Blue Mountain that would reasonably be expected to affect the decision of the holders of Blue Mountain Shares to accept or reject the Offer.

DIRECTORS' APPROVAL

The contents of this Directors' Circular have been approved and the delivery thereof has been authorized by the Board of Directors.

August 4, 2006

CONSENT OF GMP SECURITIES L.P.

We hereby consent to the reference to our Fairness Opinion, dated August 4, 2006, in the circular of the Board of Directors of Blue Mountain, dated August 4, 2006 (the "Circular"), and under the captions, "Recommendation of the Board of Directors", "Reasons for Making the Recommendation", "Background to the Offer", "Fairness Opinion" and "Persons Retained by Blue Mountain In Connection with the Offer" and to the inclusion of the Fairness Opinion in the Circular.

Calgary, Alberta, Canada
August 4, 2006

(Signed) GMP SECURITIES L.P.

CERTIFICATE

DATED: August 4, 2006

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. The foregoing does not contain any misrepresentation likely to affect the value of the market price of the securities subject to the Offer within the meaning of the *Securities Act* (Quebec).

On behalf of the Board of Directors

(Signed) James A. Banister Director	(Signed) Christina M. Fehr Director

SCHEDULE "A"

FAIRNESS OPINION OF GMP SECURITIES L.P.

August 4, 2006

Board of Directors
Blue Mountain Energy Ltd.
2030, 300 – 5th Avenue SW
Calgary, Alberta, T2P 3C4

Dear Sirs:

GMP Securities L.P. ("GMP" or "we") understands that Blue Mountain Energy Ltd. ("Blue Mountain") has entered into an agreement with Diamond Tree Energy Ltd. ("Diamond Tree") pursuant to which Diamond Tree has agreed to make an offer to purchase (the "Offer") all of the issued and outstanding shares of Blue Mountain Energy Ltd. ("Blue Mountain Shares"), including any Blue Mountain Shares which may become outstanding on the exercise of options ("Blue Mountain Options") and warrants ("Blue Mountain Warrants") to acquire Blue Mountain Shares. Pursuant to the Offer, holders of Blue Mountain Shares (the "Blue Mountain Shareholders") will receive 0.90 of a common share of Diamond Tree ("Diamond Tree Share") for each Blue Mountain Share.

The Offer is more fully described in the offer to purchase of Diamond Tree (the "Diamond Tree Circular") dated August 4, 2006 and the directors' circular of Blue Mountain dated August 4, 2006 (the "Directors' Circular") in response thereto, each to be mailed to the holders of Blue Mountain Shares (the "Blue Mountain Shareholders"). The Offer is subject to certain conditions including, among other things, that at least 66 2/3% of the Blue Mountain Shares (calculated on a fully-diluted basis), excluding Blue Mountain Shares that may not be included as part of any minority approval required in respect of a second stage transaction, shall be deposited and not withdrawn under the Offer. The Offer is also subject to a number of conditions which must be satisfied or waived in order for the Offer to become effective, all as more fully described in the Diamond Tree Circular.

We understand that directors and officers of Blue Mountain, who collectively own, directly or indirectly, or exercise control or direction over, approximately 13.4% of the issued and outstanding Blue Mountain Shares (calculated on a fully-diluted basis), have entered into agreements whereby they have agreed to tender their Blue Mountain Shares (including any which may become outstanding on the exercise or exchange of Blue Mountain Options and Blue Mountain Warrants) under the Offer, subject to certain conditions.

To assist the Board of Directors of Blue Mountain (the "Board") in considering the terms of the Offer, and the making of its recommendation in respect thereof, the Board engaged GMP to provide the Board with our opinion (the "Fairness Opinion") as to whether the consideration payable by Diamond Tree pursuant to the Offer is fair, from a financial point of view, to the holders of Blue Mountain Shares.

Engagement of GMP

GMP was engaged pursuant to an agreement made as at July 14, 2006 (the "Engagement Agreement") for the purpose of delivering a written opinion to the board of directors of Blue Mountain in connection with the proposed Offer.

We have not been engaged to prepare (and have not prepared) a formal valuation or appraisal of Blue Mountain or of any of the assets, liabilities or securities of Blue Mountain or Diamond Tree, or to express any opinion with respect to the form of the Offer itself, and this Fairness Opinion should not be construed as such. GMP was similarly not engaged to review any legal, tax or accounting aspects of the Offer. We have assumed, with your agreement, that the Offer is not a “related party transaction” as defined in Ontario Securities Commission Rule 61-501 and similar provincial securities commissions’ policies (collectively, “Rule 61-501”) and accordingly, the Offer is not subject to the valuation requirements under Rule 61-501. However, GMP has performed research, financial analyses and testing of assumptions that it considered to be appropriate and necessary in the circumstances to support the conclusions reached in this Fairness Opinion.

The Engagement Agreement provides for GMP to receive from Blue Mountain, for the services provided, a fee for the delivery of the Fairness Opinion, as well as reimbursement of all reasonable legal and out of pocket expenses. The fees received by GMP in connection with the Engagement Agreement are not material to GMP. Blue Mountain has agreed to indemnify GMP from and against certain liabilities arising out of the performance of professional services rendered to Blue Mountain by GMP and its personnel under the Engagement Agreement.

This Fairness Opinion is provided to the Board in an impartial and objective fashion to assist the Board in discharging its fiduciary duties to Blue Mountain Shareholders and does not constitute a recommendation to Blue Mountain Shareholders. GMP has received no instructions from Blue Mountain in connection with the conclusions reached in this Fairness Opinion.

Qualifications of GMP

GMP is a publicly-traded, Canadian investment banking firm providing advisory and capital market related services to Canadian resource-related and industrial companies and major financial institutions. GMP's services include investment research and the trading of equity securities for major Canadian and foreign financial institutions and corporate advisory services in the areas of mergers, acquisitions, divestments, restructurings, valuations and fairness opinions. GMP and its principals have been involved in a significant number of transactions involving valuations of private and publicly-traded Canadian companies and in providing fairness opinions in respect of such transactions.

The opinion expressed herein is the opinion of GMP as an entity, and the form and content hereof have been approved for release by a group of professionals of GMP, each of whom is experienced in merger, acquisition, divestiture, restructurings, valuation and fairness opinion matters.

Relationship with Interested Parties

Neither GMP nor any of its associates or affiliates is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Alberta)) of Blue Mountain or Diamond Tree, or any of their respective associates or affiliates (collectively, the "Interested Parties"). GMP has acted as a financial advisor, agent or underwriter to Blue Mountain in the past two years. GMP acts as a trader and dealer, both as principal and agent, in major financial markets and, as such, may have and may in the future have positions in the securities of Blue Mountain and Diamond Tree, and, from time to time, may have executed or may execute transactions on behalf of such companies or other clients for which it may have received or may receive compensation. As an investment dealer, GMP conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including matters with respect to the Offer, Blue Mountain, Diamond Tree or other Interested Parties.

Other than as set forth above, there are no understandings, agreements or commitments between GMP and any Interested Party with respect to any future business dealings.

Scope of Review Conducted by GMP

GMP has been engaged to provide a Fairness Opinion to Blue Mountain in respect of the Offer. In the context, and, for the purpose of preparing this Fairness Opinion, we have analyzed publicly-available and confidential financial, operational and other information relating to Blue Mountain and Diamond Tree, including information derived from meetings and discussions with the management of Blue Mountain and Diamond Tree. Except as expressly described herein, GMP has not conducted any independent investigations to verify the accuracy and completeness thereof.

In carrying out this engagement and arriving at our Fairness Opinion, we have reviewed and relied upon, among other things:

As pertaining to Blue Mountain:

i) the Pre-acquisition agreement dated as of July 16, 2006 between Blue Mountain and Diamond Tree;

ii) drafts of the Directors' Circular up to and including the date hereof;

iii) a draft of the Offer to Purchase up to and including the date hereof;

iv) the audited financial statements for Blue Mountain for the years ended December 31, 2005 and December 31, 2004;

v) the annual report to Blue Mountain Shareholders, for the year ended December 31, 2005;

vi) management's discussion and analysis of Blue Mountain for the year ended December 31, 2005;

vii) the information circular of Blue Mountain furnished for use at the annual meeting of Blue Mountain Shareholders on May 23, 2006;

viii) the annual information forms of Blue Mountain for the years ended December 31, 2005 and December 31, 2004, respectively;

ix) the current projected annual budget of Blue Mountain for the year ending December 31, 2006, including management estimates of capital expenditures, production and net operating income;

x) a summary valuation of certain oil and gas reserves and the present worth of future net cash flows of Blue Mountain's properties prepared by McDaniel & Associates Consultants Ltd., effective as at December 31, 2005;

xi) a certificate of representation as to certain factual matters dated the date hereof provided by Blue Mountain and addressed to us;

xii) public information relating to the business, operations, financial performance and stock trading history of Blue Mountain and other selected public companies we considered relevant;

xiii) certain non-public information regarding Blue Mountain, its business and projects; and

xiv) discussions with senior management of Blue Mountain with respect to, among other things, the past and future operations of Blue Mountain, Blue Mountain's competitive position in the market, its prospects, pro-forma cash flows, the information referred to above and other issues deemed relevant.

As pertaining to Diamond Tree:

i) the Pre-acquisition agreement dated as of July 16, 2006 between Blue Mountain and Diamond Tree;

ii) drafts of the Diamond Tree Circular up to and including the date hereof;

iii) the audited consolidated financial statements for Diamond Tree for the years ended December 31, 2005 and December 31, 2004;

iv) the annual report to Diamond Tree Shareholders, for the year ended December 31, 2005;

v) management's discussion and analysis of Diamond Tree for the year ended December 31, 2005;

vi) the management proxy circular of Diamond Tree furnished for use at the annual meeting of Diamond Tree Shareholders on May 17, 2006;

vii) the annual information form of Diamond Tree for the year ended December 31, 2005;

viii) the current projected annual budget of Diamond Tree for the year ending December 31, 2006, including management estimates of capital expenditures, production and net operating income;

ix) a summary valuation of certain oil and gas reserves and the present worth of future net cash flows of Diamond Tree's properties prepared by AJM Petroleum Consultants, effective as at December 31, 2005;

x) a certificate of representation as to certain factual matters dated the date hereof provided by Diamond Tree addressed to us;

xi) public information relating to the business, operations, financial performance and stock trading history of Diamond Tree and other selected public entities we considered relevant;

xii) certain non-public information regarding Diamond Tree, its business and projects; and

xiii) discussions with senior management of Diamond Tree with respect to, among other things, the past and future operations of Diamond Tree, Diamond Tree's competitive position in the market, its prospects, pro-forma cash flows, the information referred to above and other issues deemed relevant.

We also conducted such other analyses, investigations, research and testing of assumptions as were deemed by us to be appropriate or necessary in the circumstances. Blue Mountain and Diamond Tree granted us access to their management groups and consultants and, to our knowledge, we were not denied any information we requested. A significant component of our review consisted of discussions with management of Blue Mountain and Diamond Tree.

Key Assumptions and Limitations

We have assumed and relied upon, but with the Board's acknowledgement, have not independently verified, the accuracy, completeness and fair representation of any of the data, advice, opinions, materials, information, representations, reports and discussions (collectively, the "Information") referred to above and this Fairness Opinion is conditional upon such accuracy, completeness and fair representation. Our assumptions, the procedures we adopted and the conclusions and opinions reached by us are dependent, in part, upon all such facts and Information. With respect to operating and financial forecasts and budgets provided to us and relied upon in our analysis, we have assumed that they have been reasonably prepared on bases reflecting the most reasonable assumptions, estimates and judgments of Blue Mountain and Diamond Tree, as appropriate, having regard to the plans, financial condition and prospects of Blue Mountain and Diamond Tree, as the case may be. We have relied upon the responses given by the Blue Mountain and Diamond Tree officers in the due diligence session held on July 16, 2006 and have assumed that such responses were true and correct in all material respects as at the time such responses were given and remain true and correct as at the date hereof and such responses taken as a whole did not omit any fact or information necessary to make any of the responses not misleading in light of the circumstances in which those responses were given. In addition, senior officers of each of Blue Mountain and Diamond Tree have made representations to us in certificates dated as of the date hereof.

We believe that the analyses and factors considered in arriving at our Fairness Opinion must be considered as a whole and are not necessarily amenable to partial analysis or summary description and that selecting portions of the analyses and the factors considered by us, without considering all factors and analyses together, could create a misleading view of the process underlying the Fairness Opinion employed by us and the conclusions reached in the Fairness Opinion. In arriving at our opinion, in addition to the facts and conclusions contained in the Information, we have assumed, among other things, the validity and efficacy of the procedures being followed to implement the Offer and we express no opinion on such procedures.

We have, with respect to all accounting, legal and tax matters relating to, or tax consequences arising from, the Offer and the implementation thereof, relied on advice of accounting advisors and legal and tax counsel to Blue Mountain and Diamond Tree, as applicable, including information disclosed in the Diamond Tree Circular, and express no opinion thereon. We have assumed that no material adverse tax consequences arise as a result of the Offer. The Offer is subject to a number of conditions outside the control of Blue Mountain and we have assumed all conditions precedent to the completion of the Offer can be satisfied in due course and all consents, permissions, exemptions or orders of relevant regulatory authorities will be obtained, without adverse conditions or qualifications. In rendering this Fairness Opinion, we express no view as to the likelihood that the conditions respecting the Offer will be satisfied or waived or that the Offer will be implemented within the time frame indicated in the Diamond Tree Circular.

In our analysis in connection with the preparation of the Fairness Opinion, we made numerous assumptions which we believe to be reasonable with respect to the industry performance, general business and economic conditions and other matters, many of which are beyond the control of GMP or Blue Mountain.

The Fairness Opinion is rendered as of August 4, 2006 on the basis of securities markets, economic and general business and financial conditions prevailing on that date and the condition and prospects, financial and otherwise, of Blue Mountain and Diamond Tree, as the case may be, as they were reflected in the Information provided to GMP and as they were represented to GMP in its discussions with the senior management of Blue Mountain and Diamond Tree, respectively. Any changes therein may affect the Fairness Opinion and, although GMP reserves the right to change or withdraw the Fairness Opinion in such event, it disclaims any undertaking or obligation to advise any person of any such change that may come to its attention, or to update the Fairness Opinion after the date hereof.

The Fairness Opinion has been provided solely for the use of the Board and for inclusion in the Directors' Circular (together with a summary thereof in a form acceptable to GMP) and may not be used by any other person or relied upon by any other person without the express written consent of GMP. The Fairness Opinion is not intended to be, and does not constitute, a recommendation to purchase Blue Mountain Shares or construed as a recommendation to Blue Mountain Shareholders to tender their Blue Mountain Shares under the Offer. Our conclusion as to the fairness of the consideration to be received under the Offer by Blue Mountain Shareholders is based on our review of the Offer taken as a whole, rather than on any particular element of the Offer, and this Fairness Opinion should be read in its entirety.

While in the opinion of GMP the assumptions used in preparing this Fairness Opinion are appropriate in the circumstances, some or all of these assumptions may prove to be incorrect.

Conclusion and Fairness Opinion

Based upon our analysis and subject to all of the foregoing and such other matters as we have considered relevant, we are of the opinion that the consideration to be received under the Offer, as set forth in the Director's Circular and as summarized above, is fair, from a financial point of view, to the Blue Mountain Shareholders.

This Fairness Opinion may be relied upon by the Board for the purpose of considering the Offer and its recommendation to Blue Mountain Shareholders with respect to the Offer, but may not be published, reproduced, disseminated, quoted from or referred to, in whole or in part, or be used or relied upon by any other person for any other purpose without our express prior written consent. We expressly consent to the duplication and inclusion of this Fairness Opinion in the Directors' Circular.

Yours very truly,

"signed"

GMP Securities L.P.