

# PennWest

## Exploration

### **PENN WEST PETROLEUM LTD. PROVIDES 2011 U.S. INCOME TAX INFORMATION**

The following tax information is provided to assist individual U.S. shareholders of Penn West Petroleum Ltd. ("Penn West") in reporting distributions received from Penn West on their IRS Form 1040 – U.S. Individual Income Tax Return for the 2011 calendar year.

***The information contained herein is of a general nature only and not exhaustive of all possible U.S. tax considerations. It is not intended to constitute legal or tax advice to any holder or potential holder of the Penn West shares. Anything contained in this notice concerning any U.S. federal tax issue is not intended or written to be used, and it cannot be used, for the purpose of avoiding U.S. federal tax penalties under the U.S. Internal Revenue Code. Readers should consult their own legal or tax advisors as to their particular tax consequences of holding shares.***

#### **U.S. Shareholder**

The following summary applies if you were a shareholder who is a citizen or resident of the United States under the Internal Revenue Code (United States) during the 2011 taxation year.

#### **Corporate Conversion**

Effective January 1, 2011, Penn West converted from an income trust into a publically listed corporation. U.S. shareholders of Penn West should not see any change with respect to how distributions are reported for U.S. tax purposes subsequent to the conversion. Penn West expects dividend payments to be treated as "Qualified Dividends" for U.S. tax purposes consistent with distributions while Penn West was a trust. All distributions and dividends received during 2011 should therefore be treated as qualified dividends for U.S. tax purposes.

#### **Shares Held Within a Qualified Retirement Plan**

No amounts are required to be reported on an IRS Form 1040 – U.S. Individual Income Tax Return if shares were held within a qualified retirement plan. The shares are eligible investments for IRAs and dividends are not to be considered Unrelated Business Taxable Income (UBTI).

#### **Shares Held Outside of a Qualified Retirement Plan**

<b>If</b>	<b>Then</b>
You hold shares through a broker or other intermediary...	You will receive all necessary tax form(s) directly from your broker or intermediary, <b>not</b> from Penn West's transfer agent or from Penn West
You were a registered shareholder...	You will receive Forms 1099-DIV and NR-4 directly from Penn West's transfer agent CIBC Mellon Trust Company c/o Canadian Stock Transfer Company Inc.

## Distributions

The following information relates to the distributions of Penn West Energy Trust (“the Trust”) and Penn West during 2011.

The Trust should be treated as a corporation and its units as equity under U.S. tax law. Therefore, a portion of the Trust’s distributions paid during the year should be considered dividends for U.S. federal income tax purposes. **The Trust has determined that 100% of distributions paid during 2011 should be reported as a “qualified dividend” and that no portion of the distributions should be reported as a tax-deferred return of capital.**

In consultation with its U.S. tax advisors, Penn West, as the successor in interest to the Trust and Penn West are of the opinion that the dividend portion of the 2011 distributions should be considered “Qualified Dividends” under Section 1(h)(11) of the Internal Revenue Code. Such Qualified Dividends are eligible for the reduced tax rate applicable to long-term capital gains and should be reported on line 9(b) of the 2011 U.S. Form 1040. There are certain individual circumstances, as provided on page 20 of the IRS 2011 1040 Instruction Booklet, where the dividends may not be Qualified Dividends (such as in situations where the individual unitholder does not meet a holding period test). Where these circumstances apply, they are to be reported as Ordinary Dividends on line 9(a) of US Form 1040 and, if required, on Schedule B – Part II “Ordinary Dividends”.

U.S. individuals who held their Trust units and/or Penn West shares through a broker or other intermediary should receive tax reporting information from their broker or intermediary. We expect the broker or intermediary will issue a 1099-DIV “Dividends and Distributions” or a similar substitute form. We believe that the Trust’s and Penn West’s distributions should appear as “Qualified Dividends” on Line 1(b) of the 1099-DIV forms received for 2011 since the Trust and Penn West have undertaken measures to ensure they have been included as “qualified foreign corporations” on a database established and maintained by several U.S. brokerage firms. Registered unitholders and shareholders will receive form 1099-DIV directly from the Penn West’s transfer agent.

Unitholders and shareholders are strongly encouraged to compare the 1099-DIV form received from their broker to the information provided in this letter, noting in particular that the dividend amount is correctly identified as a “Qualified Dividend”. Investors should consult their brokers and tax advisors to ensure the proper information is accurately reflected on their tax returns.

Unitholders and shareholders are encouraged to utilize the Qualified Dividends and Capital Gain Worksheet to determine the amount of tax that may otherwise be applicable.

Pursuant to the Canada – U.S. Tax Treaty, the Trust’s and Penn West’s distributions paid to residents of the United States are subject to a 15% withholding tax on 100% of the gross distribution.

Based on an opinion we have received from our U.S. tax advisors, for units held in taxable accounts, we believe the full amount of Canadian withholding taxes applied to the Trust’s and Penn West’s distributions should be creditable for U.S. tax purposes in the taxation year in which it is applied. Where units or shares are held in a tax-deferred account (e.g., an IRA account), we believe no portion of the withholding tax is creditable.

Canadian withholding taxes that have been withheld from your distributions are included in box 6 of Form 1099-DIV and should be reported on line 47 of the U.S. Form 1040 and if required, on Form 1116 “Foreign Tax Credit (Individual, Estate or Trust)”. Information regarding the amount of Canadian tax withheld from 2011 distributions should be available through your broker or other intermediary and is not available from the Trust and Penn West.

## Cost Basis of Shares for Capital Gains Purposes

The conversion of the Trust to Penn West on January 1, 2011 was a tax-deferred transaction for U.S. tax purposes. In most cases, a shareholder's existing cost base in Trust units will carryover to form the new cost basis in Penn West common shares.

### 2011 Cash Distribution Schedule

The following schedule summarizes, on a per share basis, the U.S. tax treatment of cash distributions and dividends paid by the Trust and Penn West (prior to Canadian withholding tax) for the 2011 taxation year. The amounts are expressed in \$U.S. converted on the record date.

**Please Note: The table below represents both the final distribution paid from the Trust prior to conversion into Penn West and subsequent dividends paid by Penn West post-conversion to a corporation. We expect these distributions will be reported to shareholders via form 1099-DIV prepared by their brokers or other intermediaries. Shareholders may receive separate 1099-DIV forms for the final Trust distribution and Penn West dividends although the tax treatment is expected to be the same.**

### PENN WEST 2011 DISTRIBUTION INFORMATION FOR U.S. SHAREHOLDERS (\$/SHARE)

Record Date	Payment Date	Cash Distribution (\$Cdn)	Conversion Rate (1)	Cash Distribution (\$ U.S.)	Taxable Qualified Dividend (\$U.S.)	Tax-Deferred Return of Capital (\$U.S.)
31-Dec-10	14-Jan-11	0.09	1.0054	0.0905	0.0905	0
31-Mar-11	15-Apr-11	0.27	1.0290	0.2778	0.2778	0
30-Jun-11	15-Jul-11	0.27	1.0370	0.2800	0.2800	0
30-Sep-11	14-Oct-11	0.27	0.9626	0.2599	0.2599	0
<b>TOTAL</b>		<b>0.90</b>		<b>0.9082</b>	<b>0.9082</b>	<b>0</b>

(1) Bank of Canada noon rate on record date