MATERIAL CHANGE REPORT

1. **Reporting Issuer:**

   KETCH ENERGY LTD.

2. **Date of Material Change:**

   October 10, 2000

3. **News Release**

   A joint press release disclosing the details outlined in this Material Change Report was issued by Ketch Energy Ltd. and Caravan Oil & Gas Ltd. from Calgary, Alberta on October 10, 2000 and disseminated through the facilities of Canadian Corporate News and would have been received by the securities commissions where Ketch Energy Ltd. is a "reporting issuer" and the stock exchanges on which the securities of Ketch Energy Ltd. are listed and posted for trading in the normal course of its dissemination.

4. **Summary of Material Change:**

   On October 10, 2000, Ketch Energy Ltd. ("Ketch") and Caravan Oil & Gas Ltd. ("Caravan") entered into an agreement (the "Acquisition Agreement") attached hereto as Schedule A, providing for the combining of their respective businesses.

5. **Full Description of Material Change:**

   Ketch and Caravan jointly announced that they have entered into an agreement, a copy of which is attached as Schedule A, whereby Ketch will make an offer to purchase all of the issued and outstanding common shares of Caravan on the basis of $2.00 cash or 0.59 of a Ketch share for each Caravan share, at the election of the Caravan shareholders, to a maximum of $17,468,100 in cash and 4,910,400 Ketch shares plus 0.59 of a Ketch share for each Caravan stock option or warrant exercised. The $2.00 cash offer represents a 21% premium over Caravan's closing price of $1.65 on October 6, 2000.

   The board of directors of Caravan unanimously supports the Offer and have agreed to recommend that shareholders of Caravan accept the Offer. Certain shareholders of Caravan representing approximately 57% of the currently outstanding common shares, including all officers and directors of Caravan, have agreed to irrevocably deposit their shares under the Offer. Caravan has also agreed not to solicit or encourage any competing transaction. Caravan has also agreed to pay Ketch a break fee of $1.07 million in certain circumstances, and Ketch has agreed to pay Caravan a break fee of $1.07 million in the event Ketch breaches the agreement or fails to take up and pay for the Caravan shares upon satisfaction of all the conditions of the Offer.

   In conjunction with the transaction, Ketch has entered into arrangements to secure downside commodity protection. This price protection will ensure a minimum net WTI price of US$27.00 for 1,000 bbl/day of crude oil production and a minimum net AECO natural gas price of $5.25 per mcf for 5.0 mmcf/d for calendar 2001.

Ketch anticipates mailing a take-over bid circular to Caravan shareholders shortly. The Offer is subject to all necessary regulatory approvals and to customary conditions, including that a minimum of 66 2/3% of the outstanding Caravan shares, calculated on a fully diluted basis, be tendered.

FirstEnergy Capital Corp. and Newcrest Capital Inc. acted as financial advisors to Ketch in connection with the transaction and Goepel McDermid Inc. acted as financial advisor to Caravan.

6. **Reliance on Confidentiality Provision:**

Not Applicable

7. **Omitted Information:**

Not Applicable

8. **Senior Officer**:

For further information, please contact Grant B. Fagerheim, President and Chief Executive Officer at (403) 266-7232 or J. Paul Charron, Vice President and Chief Financial Officer at (403) 266-7232.

9. **Statement of Officer:**

The foregoing accurately discloses the material change referred to in this report.

DATED effective October 10, 2000 at the City of Calgary, in the Province of Alberta.

(signed) J. Paul Charron
Vice President and Chief Financial Officer

cc: The Toronto Stock Exchange

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Schedule A

October 9, 2000

Confidential

Caravan Oil & Gas Ltd.
1422, 510 - 5th Street S.W.
Calgary, Alberta, T2P 3S2

Attention: **Curtis Hicks**
Chief Executive Officer

Dear Sirs:

This letter sets out the terms and conditions upon which Ketch Energy Ltd. ("Ketch") is prepared to make an offer (the "Offer") for all of the outstanding common shares of Caravan Oil & Gas Ltd. ("Caravan")

1. Offer

Subject to the provisions hereof, Ketch will, as soon as reasonably practicable, but in any event not later than October 30, 2000 (or such other date as may be agreed to by Caravan and Ketch) make an offer by way of take-over bid (as amended, extended or varied from time to time, the "Offer") to all of the holders of common shares of Caravan to purchase all of the outstanding common shares of Caravan on the basis of, at the election of the holder: (a) $2.00 (Canadian) in cash; or (b) 0.59 Ketch Shares; or (c) a combination thereof for each Caravan Share deposited under the Offer (such election to receive cash being sometimes referred to herein, collectively, as the "cash election", and such election to receive Ketch Shares being sometimes referred herein, collectively, as the "share election") provided, however, that: (i) the aggregate number of Ketch Shares which are offered pursuant to the share election is limited to 4,910,400 Ketch Shares plus 0.59 of a Ketch Share for each Caravan stock option or warrant exercised prior to the Expiry Time (subject to adjustment as described below, as so adjusted, the "adjusted number of Ketch Shares"); and (ii) the aggregate amount of cash which is offered pursuant to the cash election is limited to $17,468,100 (subject to adjustment as described below, as so adjusted, the "adjusted amount of cash"). The maximum number of Ketch Shares and cash to be issued and paid, in consideration for Caravan Shares pursuant to the Offer are based upon the assumption that all of the Caravan Shares will be tendered and taken up and paid for under the Offer; accordingly, each such amount shall be reduced according to the percentage of outstanding Caravan Shares actually tendered and taken up by Ketch under the Offer. If the holders of Caravan Shares elect to receive, in the aggregate, more than the adjusted number of Ketch Shares, the number of Ketch Shares issued as consideration to holders of Caravan Shares so electing shall be pro-rated and the Caravan Shares tendered by the holders shall be deemed to have been tendered in exchange for the adjusted number of Ketch Shares and the balance for cash. If the holders of Caravan Shares elect to receive, in the aggregate, more than the adjusted amount of cash, the amount of cash paid as consideration to the holders of Caravan Shares so electing shall be pro-rated and the Caravan Shares tendered by the holders shall be deemed to have been tendered in exchange for the adjusted amount of cash and the balance for Ketch Shares. This process shall be repeated each time Ketch shall take up Caravan Shares under the Offer (as it may be amended or varied) or, if applicable, under a Subsequent Acquisition Transaction or a compulsory acquisition. The Offer shall be made in accordance with all applicable securities laws, rules of applicable stock exchanges and applicable corporation laws (collectively the "Applicable Laws"). Ketch agrees to take-up and pay for Caravan Shares validly deposited (and not withdrawn) under the Offer within three business days of being legally able to do so. Ketch may, in its discretion, make the Offer through a subsidiary which is wholly-owned, directly or indirectly, in which case it shall cause such subsidiary to comply with its obligations hereunder provided that Ketch shall remain liable for all obligations hereunder and under the Offer.

The Offer will be conditional upon not less than 66 **b**% of the outstanding Caravan Shares (on a fully-diluted basis) being tendered under and not withdrawn from the Offer (the "Minimum Condition") and only those other conditions as are set forth in Schedule "A". Ketch may, in its sole discretion, amend, extend, vary or waive any term or condition of the Offer, provided that Ketch shall not, without the consent of Caravan, waive or reduce the Minimum Condition, impose additional conditions to the Offer or decrease the consideration to be paid for each Caravan Share, or decrease the adjusted amount of cash or the adjusted number of Ketch Shares, or make any other change in the Offer which is materially adverse to the holders of the Caravan Shares (and for which purpose an extension of the Offer or waiver of a condition (other than the Minimum Condition) will not be considered materially adverse).

2. Conditions to the Obligation to Make the Offer

The obligation of Ketch to make the Offer is subject to the prior satisfaction of the following conditions:

a. Caravan shall not be in material breach of any material covenant, agreement or representation or warranty contained in this Agreement;

b. the board of directors of Caravan shall have unanimously recommended (and not modified or changed such recommendation) that shareholders of Caravan accept the Offer;

c. no event or occurrence shall have occurred which, in the opinion of Ketch, acting reasonably, makes it impossible or unlikely that any of the conditions set forth in Schedule "A" will be satisfied, other than any event or occurrence caused by Ketch;

d. receipt of all regulatory approvals, waivers and consents to the making of the Offer which in the sole judgment of Ketch, acting reasonably, may be necessary; and

e. the total long term debt including any working capital deficiency of Caravan as at September 30, 2000 shall not exceed $1,600,000.

The foregoing conditions are for the exclusive benefit of Ketch and may be waived by Ketch, in whole or in part, in its sole discretion, at any time and from time to time, without prejudice to any other rights it may have.

3. Support of Transaction

Caravan represents that its board of directors has unanimously endorsed the making of the Offer on the terms set forth herein and that its board of directors has received, or received advice from its financial advisors that it will receive a fairness opinion from its financial advisors that the Offer is fair, from a financial point of view, to holders of Caravan Shares, and has unanimously determined that, upon consideration of such fairness opinion and in consultation with its advisors, the Offer is fair to the holders of Caravan Shares and is in the best interests of Caravan and holders of Caravan Shares and will unanimously recommend acceptance of the Offer by the holders of Caravan Shares. Caravan agrees that it shall mail and file a directors' circular in accordance with Applicable Laws containing its unanimous recommendation to shareholders of Caravan and shall use its reasonable efforts to cause such mailing to occur concurrently with the mailing of the Offer by Ketch. Ketch agrees to provide a draft copy of the takeover bid circular setting forth the Offer to Caravan prior to the mailing thereof and provide Caravan with a reasonable opportunity to review and provide comments thereon. Caravan agrees to provide a draft copy of such directors' circular to Ketch prior to the mailing thereof and provide Ketch with a reasonable opportunity to review and provide comments thereon. Notwithstanding the foregoing provisions of this section, the board of directors of Caravan may withdraw, modify or change any recommendation regarding the Offer if, in the opinion of the board of directors of Caravan, acting reasonably and upon advice of counsel, such withdrawal, modification or change is appropriate in discharge of the fiduciary duties of the board of directors of Caravan.

4. Steps to be Undertaken by Caravan

As soon as practicable following the date hereof and in any event prior to the close of business on October 11, 2000, Caravan shall cause to be delivered to Ketch, a list (in paper and electronic form, if available) made up to a date not more than two business days before the date hereof setting out the matters set forth in paragraphs 21(5)(a) through (c) of the *Business Corporations Act* (Alberta) together with supplemental lists (as contemplated in subsection 21(6) of such Act), and lists of holders of options, warrants or other rights to acquire Caravan Shares, as and when reasonably requested by Ketch, until the expiry of the Offer. Caravan shall permit and request its registrar and transfer agent to assist Ketch and Ketch's depositary under and in connection with the Offer and shall from time to time furnish Ketch with such additional information, including updated or additional lists of shareholders, mailing labels and lists of securities positions, and other assistance as Ketch may reasonably request in order to be able to communicate the Offer to the holders of the Caravan Shares and to such other persons as are entitled to receive the Offer under Applicable Laws.

5. Termination Fees

a. Provided Ketch is not in default of its material obligations under this Agreement, Caravan shall pay to Ketch a fee (the "Caravan Termination Fee"), if any of the following occur:

i. if the board of directors of Caravan fails to recommend that shareholders of Caravan accept the Offer or the board of directors of Caravan withdraws or, in a manner materially adverse to the

Offer, modifies or changes its recommendation to holders of Caravan Shares to accept the Offer, provided that such failure, modification or change is not due to a material misrepresentation made by Ketch or as a result of the occurrence of any matter referred to in Section 12 hereof which would entitle Caravan to terminate this Agreement (in which case this Section 5(a)(i) shall not be applicable) unless the occurrence shall be due to the failure of Caravan to perform its obligations under this Agreement; or

ii. another bona fide Take-Over Proposal is made to all or substantially all holders of Caravan Shares that provides or would provide greater value to holders of the Caravan Shares than under the Offer and, upon expiry of the Offer:

(1) such Take-Over Proposal has not expired or been withdrawn; and

(2) the Minimum Condition shall not have been satisfied.

Such fee shall only be payable pursuant to this clause in the event that a Take-Over Proposal which is made before the expiry of the Offer is consummated within twelve months of the Offer or the termination of the Acquisition Agreement. For this purpose, "Take-Over Proposal" means a bid or offer to acquire 50% or more of the outstanding Caravan Shares or any proposal, offer or agreement for a merger, consolidation, amalgamation, arrangement, recapitalization, liquidation, dissolution, reorganization into a royalty trust or income fund or similar transaction or other business combination involving Caravan or its subsidiaries or any agreement to acquire 25% or more of the assets of Caravan; or

iii. in the sole judgment of Ketch, acting reasonably, a material breach by Caravan of its covenants, agreements, representations and warranties in this Agreement which makes it impossible or unlikely that any of the conditions set forth in Schedule "A" will be satisfied.

The amount of the Caravan Termination Fee shall be $1.07 million if Caravan delivers "hard" lock-up agreements from the holders of not less than 56% of the outstanding Caravan Shares, $1.42 million if Caravan delivers "hard" lock-up agreements from the holders of not less than 46% of the outstanding Caravan Shares or $1.78 million if Caravan delivers "hard" lock-up agreements from the holders of not less than 37% of the outstanding Caravan Shares.

Caravan agrees that the Caravan Termination Fee will be paid within 3 business days of the date of the earliest of such event to occur. On the date of the earliest event described above in this Section 5, Caravan shall be deemed to hold such sum in trust for Ketch. In the event that a Take-Over Proposal is made, as contemplated by Section 5(a)(ii), Caravan agrees, within 3 business days thereof, to use its best efforts to deliver to Ketch an irrevocable letter of credit, in form and substance satisfactory to Ketch, payable by a Canadian chartered bank in the amount of the Caravan Termination Fee and which may be immediately drawn upon by Ketch if the Caravan

Termination Fee is payable or such other form of security as is satisfactory to Ketch acting reasonably.

Pursuant to a letter agreement dated October 6, 2000, entered into between the parties, Ketch, on behalf of Caravan, purchased options to provide downside price protection at a cost of not more than $300,000 (the "Option Costs") and otherwise upon terms satisfactory to Ketch. Ketch acknowledges and agrees that such Option Costs shall be for its own account; provided that if the Caravan Termination Fee is payable hereunder, Ketch shall have no obligation to reimburse Caravan for such Option Costs. In any event the party paying the Option Costs shall have the benefit of the options.

b. Provided Caravan is not in default of its material obligations under this Agreement, Ketch shall pay Caravan a fee (the "Ketch Termination Fee") equal to $1,070,000 if:

i. in the sole judgment of Caravan, acting reasonably, there has been a material breach by Ketch of its covenants, agreements, representations and warranties in this Agreement which makes it impossible or unlikely that any of the conditions set forth in Schedule "A" will be satisfied; or

ii. the conditions of the Offer have been satisfied and Ketch shall not have taken up and paid for Caravan Shares under the Offer on or before the required time period. Ketch agrees that the Ketch Termination Fee will be paid within three business days of the date of the earliest of such event to occur. Payment of the Ketch Termination Fee shall not derogate from any other claim for damages a holder Caravan Shares may have.

Caravan and Ketch each acknowledge that the amounts set out in this Section 5 represent liquidated damages which are a genuine pre-estimate of the damages, including opportunity costs, which they will suffer or incur as a result of the event giving rise to such damages and resultant termination of this Agreement, and are not penalties. Caravan and Ketch irrevocably waive any right it may have to raise a defense that any such liquidated damages are excessive or punitive.

For greater certainty, the parties agree that the compensation or damages to be received pursuant to this Section 5 is their sole remedy in compensation or damages. Nothing herein shall preclude a party from seeking injunctive relief to restrain any breach or threatened breach of the covenants or agreements set forth in this Agreement or the confidentiality agreement between the parties (the "Confidentiality Agreement") or otherwise to obtain specific performance of any such act, covenants or agreements, without the necessity of posting a bond or security in connection therewith.

6. Representations

Each of Caravan and Ketch represents and warrants as is set forth in Schedule "B" hereto.

7. Covenants

Caravan agrees that, from and including the date hereof until the termination of this Agreement, unless Ketch agrees otherwise in writing:

a. except as otherwise permitted in this Agreement, Caravan's business and the business of each of its subsidiaries shall be conducted only in the usual and ordinary course of business consistent with past practices (for greater certainty, where it is an operator of any property, it shall operate and maintain such property in a proper and prudent manner in accordance with good industry practice and the agreements governing the ownership and operation of such property) and Caravan shall consult with Ketch in respect of the ongoing business and affairs of Caravan and shall keep Ketch apprised of all material developments relating thereto;

b. Caravan shall not directly or indirectly do or permit to occur any of the following:

(i) amend its constating documents;

(ii) declare, set aside or pay any dividend or other distribution or payment (whether in cash, shares or property) in respect of its shares owned by any person;

(iii) issue (other than on exercise of currently outstanding stock options, warrants or other rights to acquire securities), grant, sell or pledge or agree to issue, grant, sell or pledge any shares of Caravan or its subsidiaries, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, shares of Caravan or its subsidiaries;

(iv) redeem, purchase or otherwise acquire any of its outstanding shares or other securities, except as permitted hereunder;

(v) split, combine or reclassify any of its shares;

(vi) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization of Caravan; or

(vii) enter into or modify any contract, agreement, commitment or arrangement with respect to any of the foregoing, except with the consent of Ketch or as otherwise permitted herein;

c. Caravan will not, and will not permit any of its subsidiaries to, directly or indirectly do any of the following, without the prior consent of Ketch, other than pursuant to commitments entered into prior to the date of this Agreement:

(i) sell, pledge, dispose of or encumber any assets except for production in the ordinary course of business or for a consideration not in excess of $10,000 individually or $25,000 in the aggregate;

(ii) expend or commit to expend more than $10,000 individually or $25,000 in the aggregate with respect to any capital or operating expense or expenses, other than operating costs incurred in the ordinary course of business;

(iii) reorganize, amalgamate, merge or otherwise continue Caravan with any other person, corporation, partnership or other business organization whatsoever;

(iv) acquire (by merger, amalgamation, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division thereof, or, except for investments in securities made in the ordinary course of business, make any investment either by purchase of shares or securities, contributions of capital (other than to subsidiaries), property transfer, or, except in the ordinary course of business;

(v) incur any indebtedness for borrowed money or any other material liability or obligation or issue any debt securities or assume, guarantee, endorse or otherwise as an accommodation become responsible for, the obligation of any other individual or entity, or make any loans or advances, except in the ordinary course of business;

(vi) pay, discharge or satisfy any material claims, liabilities or obligations other than reflected or reserved against in its financial statements for the year ended December 31, 1999 or the six month period ended June 30, 2000 or incurred in the ordinary course of business consistent with past practice;

(vii) enter into any hedges, swaps or other financial instruments or like transactions;

(viii) enter into any agreements for the sale of production having a term of more than thirty (30) days; or

(ix) authorize or propose any of the foregoing, or enter into or modify any contract, agreement, commitment or arrangement to do any of the foregoing;

d. except as otherwise agreed, Caravan will not, nor will it permit any of its subsidiaries to, grant to any officer or director an increase in compensation in any form, grant any general salary increase, grant to any other employee any increase in compensation in any form, make any loan to any officer, director or any other party not at arm's length, or take any action with respect to the grant of any severance or termination pay with any officer arising from the Offer or a change of control of Caravan or the entering into of any employment agreement with, any senior officer or director, or with respect to any increase of benefits payable under its current severance or termination pay policies;

e. neither Caravan nor any of its subsidiaries shall adopt or amend or make any contribution to any bonus, profit sharing, option, pension, retirement, deferred compensation, insurance incentive compensation, other compensation or other similar plan, agreement, trust, fund or arrangements for the benefit of employees, except as is necessary to comply with the law or with respect to existing provisions of any such plans, programs, arrangements or agreements, provided that Caravan may enter into agreements with the holders of its outstanding stock options, whether vested or not, to terminate such options in consideration of a cash payment for each relevant option in the amount equal to the cash consideration to be paid under the Offer less the exercise price of the relevant option;

f. if Ketch takes up and pays for Caravan Shares pursuant to the Offer, and thereby acquires at least 66**b**% of the outstanding Caravan Shares, Caravan will use its commercially reasonable efforts, at the expense of Ketch, to enable Ketch to acquire the balance of the Caravan Shares as soon as possible by way of arrangement, amalgamation, merger, realization, consolidation, recapitalization or other type of acquisition transaction (provided that nothing herein shall be construed to prevent Ketch from acquiring, directly or indirectly, additional Caravan Shares in the open market, in privately negotiated transactions, in another take-over bid, tender, exchange offer or otherwise in accordance with Applicable Laws (including by way of compulsory acquisition) following completion of the Offer);

g. if Ketch takes up and pays for Caravan Shares pursuant to the Offer, and thereby acquires at least 66**b**% of the outstanding Caravan Shares, Caravan shall be responsible for all advisory fees incurred by Caravan and Ketch in connection with the Offer;

h. promptly upon completion of the Offer, whereby Ketch acquires at least 66**b**% of the outstanding Caravan Shares, Caravan shall use its reasonable best efforts to cause the resignation of such directors and officers of Caravan as Ketch may specify and to fill the resulting vacancies with designees of Ketch and Caravan shall cooperate with Ketch to provide an orderly transition of control and management;

i. Caravan will use its reasonable best efforts to ensure that all outstanding options to purchase Caravan Shares are either exercised, terminated, expired or surrendered prior to expiry of the Offer provided that, except in accordance with Section 7(e), Caravan shall not pay any amount in consideration therefor without the prior approval of Ketch, and to make no amendments to outstanding options without the prior written consent of Ketch, except to cause the cancellation, termination, expiry or surrender of the options;

j. Caravan shall not take any action, or permit any of its subsidiaries to take any action that would render, or may reasonably be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect at any time prior to expiry of the Offer or termination of this Agreement, whichever first occurs;

k. Caravan shall promptly notify Ketch in writing of any material change (actual, anticipated, contemplated or, to the knowledge of Caravan threatened, financial or otherwise) in the business, operations, affairs, assets, capitalization, financial condition, prospects, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, of Caravan or any of its subsidiaries considered on a consolidated basis, or of any change in any representation or warranty provided by Caravan in this Agreement which change is or may be of such a nature to render any representation or warranty misleading or untrue in any material respect and Caravan shall in good faith discuss with Ketch any change in circumstances (actual, anticipated, contemplated, or to the knowledge of Caravan threatened) which is of such a nature that there may be a reasonable question as to whether notice need to be given to Ketch pursuant to this provision;

l. Caravan shall use its reasonable commercial efforts to obtain all of the regulatory approvals, waivers and consents set out in Section 2(d) which Ketch may reasonably request Caravan to obtain; and

m. Caravan shall ensure that it has available funds under its lines of credit or other bank facilities to permit the payment of the Caravan Termination Fee having regard to its other liabilities and obligations, and shall take all such actions as may be necessary to ensure that it maintains such availability to ensure that it is able to pay the Caravan Termination Fee when required. Ketch acknowledges and agrees that such funds need not be available prior to Ketch making the Offer.

Ketch agrees that, from and including the date hereof until the termination of this Agreement, unless Caravan agrees otherwise in writing:

n. Ketch shall not directly or indirectly do or permit to occur any of the following:

(i) amend its constating documents;

(ii) declare, set aside or pay any dividend or other distribution or payment (whether in cash, shares, rights to acquire shares or property) in respect of its shares owned by any person;

(iv) redeem, purchase or otherwise acquire any of its outstanding shares or other securities, except as permitted hereunder;

(v) split, combine or reclassify any of its shares; or

(vi) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, amalgamation, plan of arrangement, consolidation or reorganization of Ketch; or

(vii) enter into or modify any contract, agreement, commitment or arrangement with respect to any of the foregoing, except with the consent of Caravan or as otherwise permitted herein;

o. Ketch shall use its reasonable commercial efforts to consummate the Offer, subject only to the terms and conditions hereof and thereof;

p. subject to the terms and conditions hereof, Ketch shall not withdraw the Offer prior to the time of expiry of the Offer and will take up and pay for the Caravan Shares tendered to the Offer if all of the conditions of the Offer are satisfied or waived;

q. Ketch shall use its reasonable commercial efforts to obtain all of the requisite regulatory approvals, waivers and consents set out in Section 2(d);

r. Ketch shall use its reasonable commercial efforts to continue to be a "reporting issuer" (or similar designation) in each of the provinces of Canada in which it is currently a reporting issuer and in material compliance with all Applicable Laws and Ketch shall use its reasonable best efforts to ensure that the Ketch Shares continue to be listed and posted for trading on The Toronto Stock Exchange;

s. Ketch shall keep Caravan apprised of all material developments relating to Ketch's business and the business of each of its subsidiaries;

t. Ketch shall not take any action, or permit any of its subsidiaries to take any action that would render, or may reasonably be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect at any time prior to expiry of the Offer or termination of this Agreement, whichever first occurs;

u. Ketch shall promptly notify Caravan in writing of any material change (actual, anticipated, contemplated or, to the knowledge of Ketch threatened, financial or otherwise) in the business, operations, affairs, assets, capitalization, financial condition, prospects, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, of Ketch or any of its subsidiaries considered on a consolidated basis, or of any change in any representation or warranty provided by Ketch in this Agreement which change is or may be of such a nature to render any representation or warranty misleading or untrue in any material respect and Ketch shall in good faith discuss with Caravan any change in circumstances (actual, anticipated, contemplated, or to the knowledge of Ketch threatened) which is of such a nature that there may be a reasonable question as to whether notice need to be given to Caravan pursuant to this provision;

v. Ketch shall use its reasonable commercial efforts to honor and comply with the material provisions of all indemnity agreements currently in place between Caravan and any of its directors and officers; and

w. Ketch shall ensure that it has available funds under its lines of credit or other bank facilities to permit the payment of the Ketch Termination Fee having regard to its other liabilities and obligations, and shall take all such actions as may be necessary to ensure that it maintains such availability to ensure that it is able to pay the Ketch Termination Fee when required. Caravan acknowledges and agrees that such funds need not be available prior to Ketch making the Offer.

8. Access to Information

Caravan and Ketch agree to provide each other with all information relating to their business and affairs, including access to officers and employees, and access to field sites which the other may reasonably require in connection with this matter, which information shall remain subject to the confidentiality agreement previously entered into between the parties. Caravan will conduct itself so as to keep Ketch fully informed as to its business and affairs and as to the decisions required with respect to the most advantageous methods of exploring, operating and producing from its assets and shall cooperate with Ketch in respect thereof.

9. Disclosure

Caravan and Ketch agree to consult with each other before making or issuing any press releases relating to the Offer or this Agreement and that any such press releases shall be mutually satisfactory to both parties, subject to an acknowledgment by each of Caravan and Ketch that they may be required to make certain disclosures under applicable law or rules of stock exchanges and shall be permitted to do so.

10. Other Transactions

a. Caravan shall immediately cease and cause to be terminated all existing discussions and negotiations, if any, with any parties conducted before the date of this Agreement with respect to any Caravan Acquisition Proposal (as defined below) and if asked to do so by Ketch, shall immediately request the return or destruction of all information provided to any third parties who have entered into a confidentiality agreement with Caravan relating to a Caravan Acquisition Proposal (as defined below) and shall use all reasonable commercial efforts to ensure that such requests are honoured;

b. Caravan shall not, directly or indirectly, nor allow any of its subsidiaries to, nor authorize or permit any of the officers, directors or employees of Caravan or any of its subsidiaries or any financial advisor, expert or other representative retained by any of them to:

i. solicit, initiate or encourage (including, without limitation, by way of furnishing information) any inquiry or the making of any proposal to Caravan or its shareholders 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): (A) an acquisition from Caravan or its shareholders of any securities of Caravan or its subsidiaries; (B) any acquisition of a substantial amount of assets of any of Caravan or its subsidiaries; (C) an amalgamation, arrangement, merger, or consolidation of any of Caravan or its subsidiaries; or (D) any take-over bid, issuer bid, exchange offer, recapitalization, liquidation, dissolution, reorganization into a royalty trust or income fund or similar transaction involving any of Caravan or its subsidiaries or any other transaction, the consummation of which would or could reasonably be expected to materially impede, interfere with, prevent or delay the transactions contemplated by this Agreement or the Offer or which would or could reasonably be expected to materially reduce the benefits to Ketch under this Agreement or the Offer (any such inquiry or proposal in respect of any of the foregoing being a "Caravan Acquisition Proposal");

ii. enter into or participate in any discussions or negotiations regarding a Caravan Acquisition Proposal, or furnish to any other person any information with respect to the business, properties, operations, prospects or conditions (financial or otherwise) of Caravan or any of its subsidiaries or a Caravan Acquisition Proposal or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt of any other person to do or seek to do any of the foregoing; or

iii. waive, or otherwise forbear (except in respect of non-material matters) in the enforcement of, or enter into or participate in any discussions, negotiations or agreements to waive or otherwise forbear in respect of, any rights or other benefits of Caravan or its subsidiaries under confidential information agreements, including, without limitation, any "standstill provisions" thereunder;

provided, however, that notwithstanding any other provision hereof, Caravan and its officers and directors may:

(A) engage in discussions or negotiations with a third party who (without any solicitation, initiation or encouragement, directly or indirectly, by Caravan, any of its subsidiaries or any of the officers, directors or employees of Caravan or its subsidiaries or any financial advisor, expert or other representative retained by them) seeks to initiate such discussions or negotiations and, subject to execution of a confidentiality agreement substantially similar to that then in effect between Caravan and Ketch, may furnish such third party information concerning Caravan and its business, properties and assets, in each case if, and only to the extent that:

(I) the third party has first made a written bona fide Caravan Acquisition Proposal which the board of directors of Caravan determines in good faith: (x) the funds or other consideration necessary for the Caravan Acquisition Proposal are or are likely to be available; (y) (after consultation with its financial advisor) would, if consummated in accordance with its terms, result in a transaction financially superior for shareholders of Caravan than the transaction contemplated by this Agreement; and (z) after receiving the written advice of outside counsel, that the taking of such action is necessary for the board of directors in discharge of its fiduciary duties under Applicable Law; and

(II) prior to furnishing such information to or entering into discussions or negotiations with such person or entity, Caravan provides prompt notice to Ketch to the effect that it is furnishing information to or entering into discussions or negotiations with such person or entity together with a copy of the confidentiality agreement referenced above and if not previously provided to Ketch, copies of all information provided to such party concurrently with the provision of such information to such party. Caravan shall notify Ketch orally and in writing of any inquiries, offers or proposals with respect to a Caravan Acquisition Proposal (including without limitation, the terms and conditions of any such proposal, the identity of the person making it, if not previously provided to Ketch, copies of all information provided to such party and all other information reasonably requested by Ketch), within 24 hours of the receipt thereof, shall keep Ketch informed of the status and details of any such inquiry, offer or proposal and answer Ketch's questions with respect thereto; or

(B) comply with Section 138 of the *Securities Act* (Alberta) and similar provisions under applicable Canadian securities laws relating to the provision of directors' circulars and make appropriate disclosure with respect thereto to Caravan's shareholders; and

c. Caravan shall give Ketch two business days' advance notice of any agreement (the "Proposed Agreement") to be entered into with any person making a Caravan Acquisition Proposal and Caravan shall give Ketch an opportunity of not less than 48 hours to amend this Agreement to provide at least as favourable or more favourable terms than those to be included in the Proposed Agreement (including that the Caravan shareholders will receive consideration for each Caravan Share equal to or having a greater value than the value per Caravan Share provided in such Caravan Acquisition Proposal). In particular, Caravan covenants to provide Ketch a copy of any Proposed Agreement at least 48 hours prior to its proposed execution by Caravan. In the event Ketch agrees to amend this Agreement as provided above within such 48 hour period, Caravan covenants to not enter into the Proposed Agreement.

Ketch agrees that all information provided to Ketch pursuant to Section 10(A)(II) hereof shall be treated as if it were "Confidential Information", as that term is defined in the confidentiality agreement between Caravan and Ketch and shall not be disclosed except in accordance with the provisions of the confidentiality agreement or in order to enforce its rights under this agreement in legal proceedings.

11. Additional Agreements

Subject to the terms and conditions herein provided and to fiduciary obligations under Applicable Law, each of the parties hereto agrees to use all reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and to cooperate with each other in connection with the foregoing, including using reasonable efforts: (i) to obtain all necessary waivers, consents and approvals from other parties to material agreements, leases and other contracts or agreements (including, without limitation, the agreement of any persons as may be required pursuant to any agreement, arrangement or understanding relating to Caravan's operations); (ii) to obtain all necessary consents, approvals and authorizations as are required to be obtained under any federal, provincial or foreign law or regulations; (iii) to defend all lawsuits or other legal proceedings challenging this Agreement or the consummation of the transactions contemplated hereby; (iv) to cause to be lifted or rescinded any injunction or restraining order or other remedy adversely affecting the ability of the parties to consummate the transactions contemplated hereby; (v) to effect all necessary registrations and other filings and submissions of information requested by governmental authorities; and (vi) to fulfill all conditions and satisfy all provisions of this Agreement and the Offer. For purposes of the foregoing, the obligations of Ketch and Caravan to use "reasonable efforts" to obtain waivers, consents and approvals to loan agreements, leases and other contracts shall not include any obligation to agree to a materially adverse modification of the terms of such documents or to prepay or incur additional material obligations to such other parties.

12. Termination

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

a. by mutual written consent of Ketch and Caravan;

b. by Caravan if the Offer is not mailed on or prior to October 30, 2000 or such later date as Caravan shall have agreed to;

c. by either Ketch or Caravan if the Offer terminates or expires and Ketch shall not have taken up and paid for Caravan Shares under the Offer as a result of the failure of any condition set forth in Schedule "A" which has not been waived, unless the failure of such condition shall be due to the failure of the party seeking to terminate this Agreement to perform the obligations under this Agreement required to be performed by it;

d. by either Ketch or Caravan if a court of competent jurisdiction or a governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting any of the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and non-appealable, provided that the party seeking to terminate this Agreement pursuant to this Section 12(d) shall have cooperated with the other and used all commercially reasonable efforts to remove such order, decree, ruling or injunction;

e. by Caravan if Ketch shall not have taken up and paid for any Caravan Shares pursuant to the Offer on or before December 31, 2000;

f. by Caravan if Caravan shall have paid to Ketch the Caravan Termination Fee pursuant to Section 5(a);

g. by Ketch if Ketch shall have paid to Caravan the Ketch Termination Fee pursuant to Section 5(b);

h. by either Ketch or Caravan if the other party is in material breach of any material covenant, agreement or representation or warranty contained in this Agreement except to the extent any breach does not have a material adverse effect, financial or otherwise, on the business, financial condition, assets, properties, liabilities or operations of such party and the its subsidiaries on a consolidated basis; or

i. by Ketch if any of the conditions set forth in Section 2 hereof are not satisfied prior to making of the Offer.

In the event of the termination of this Agreement as provided in this Section 12, this Agreement shall forthwith have no further force or effect and there shall be no liability on the part of Ketch or Caravan hereunder except as set forth in Sections 5, 15 and 18 (provided that in the case of Section 5, the right of payment, and in the case of Section 5(a)(ii), the making of such Take-Over Proposal, arose prior to termination of this Agreement) and this Section 12, which provisions shall survive the termination of this Agreement. Nothing contained in this Section 12 shall relieve any party from liability for any breach of any provisions of this Agreement.

In the event of termination of this Agreement, each of the parties shall forthwith return to the other all confidential and other information relating to such other party.

13. Amendment

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

14. Waiver

Each of Ketch, on the one hand, and Caravan, on the other hand, may: (i) extend the time for the performance of any of the obligations or other acts of the other; (ii) waive compliance with any of the other's agreements or the fulfillment of any conditions to the other's obligations contained herein; or (iii) waive inaccuracies in any of the other's representations or warranties contained herein or in any document delivered by the other party hereto; provided, however, that any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

15. Confidentiality Agreement

With respect to the Offer, Caravan hereby consents to the Offer and Ketch is hereby released from any of the restrictions set forth in the confidentiality agreement entered into between Ketch and Caravan.

16. Miscellaneous

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

17. Assignment

Except as expressly permitted by the terms hereof, neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either of the parties hereto without the prior written consent of the other party.

18. Expenses

All fees, costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by Caravan if the Offer is consummated or by the party incurring such cost or expense if the Offer is not consummated, except as otherwise provided herein.

19. Currency

Unless otherwise stated, all dollar amounts herein are in Canadian dollars.

20. Severability

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

21. Counterpart Execution

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

22. Governing Law

This letter agreement shall be governed by and construed in accordance with the laws of the Province of Alberta. Each party hereto hereby irrevocably attorns to the jurisdiction of the Courts of Alberta in respect of all matters arising under or in relation to this Agreement.

If you are in agreement with the foregoing, please execute this letter agreement in the space provided. Your execution of this letter agreement shall constitute this document to be a binding agreement (this "Agreement") between us on the terms as aforesaid.

Yours truly,

KETCH ENERGY LTD.

(signed) Grant B. Fagerheim
President and Chief Executive Officer

ACCEPTED AND AGREED TO this 9th day
of October, 2000

CARAVAN OIL & GAS LTD.

(signed) Curtis Hicks
Chief Executive Officer

SCHEDULE A
To the letter dated October 9, 2000 from
Ketch Energy Ltd. to Caravan Oil & Gas Ltd.

Ketch reserves the right to withdraw or terminate the Offer and not take up and pay for, or extend the period of time during which the Offer is open and postpone taking up and paying for, any Caravan Shares deposited under the Offer unless all of the following conditions are satisfied or waived by Ketch:

(a) prior to the expiry time of the Offer (the "Expiry Time") and at the time Ketch first takes up and pays for Caravan Shares under the Offer, there shall have been validly deposited under the Offer and not withdrawn at least 66 **b**% of the outstanding Caravan Shares (calculated on a fully diluted basis) other than those owned at the date of the Offer by Ketch, its associates or affiliates (as defined in the *Business Corporations Act* (Alberta)) or by persons whose Caravan Shares may not be included as part of the minority approval of a subsequent acquisition transaction;

(b) all government and regulatory approvals, orders, rulings, exemptions and consents (including, without limitation, those of any stock exchanges or other securities or regulatory authorities) which, in the sole judgment of Ketch, acting reasonably, are necessary or desirable shall have been obtained on terms and conditions satisfactory to Ketch in its sole judgment, acting reasonably, and shall be in full force and effect, and any and all other applicable waiting periods under any competition, merger control or similar laws, regulation or other governmental authority having jurisdiction over Caravan, Ketch, the Offer or any other transaction contemplated by the Offer with respect to any such matters shall have expired or been terminated in respect of such transactions and no objection or opposition shall have been filed, initiated or made during any applicable statutory or regulatory period;

(c) no act, action, suit or proceeding shall have been threatened or taken before or by any domestic or foreign court or tribunal or governmental agency or other regulatory authority or administrative agency or commission by any elected or appointed public official or by any private person (including, without limitation, any individual, body corporate, partnership, syndicate or other form of unincorporated entity) in Canada or elsewhere, whether or not having the force of law, and no law, regulation or policy shall have been proposed, enacted, promulgated or applied, whether or not having the force of law which, in the sole judgment of Ketch, acting reasonably:

(i) has the effect or may have the effect to cease trade, enjoin, prohibit or impose material limitations, damages or conditions on the purchase by, or the sale to, Ketch of the Caravan Shares or the right of Ketch to own or exercise full rights of ownership of the Caravan Shares or the ability of Ketch to complete a compulsory acquisition or subsequent acquisition transaction; or

(ii) which, if the Offer was consummated, would materially and adversely affect Caravan and its subsidiaries considered on a consolidated basis or Ketch and its subsidiaries considered on a consolidated basis, or Ketch's ability to effect or to complete a compulsory acquisition or a subsequent acquisition transaction;

(d) Ketch shall have determined in its sole judgment, acting reasonably, that there shall not exist any prohibition at law against Ketch making the Offer or taking up and paying for all of the Caravan Shares under the Offer or completing any compulsory acquisition or any subsequent acquisition transaction;

(e) Ketch shall in its sole judgment, acting reasonably, be satisfied that all outstanding stock options of Caravan shall either have been exercised or terminated or may be terminated on a basis acceptable to Ketch in its sole judgment, acting reasonably, prior to expiry of the Offer;

(f) Ketch shall have determined in its sole judgment, acting reasonably, that other than as permitted in the this Agreement, none of Caravan nor its directors or officers has taken or proposed to take any action, or publicly disclosed that it intends to take any action, and Ketch shall not have otherwise learned of any previous action taken by Caravan which had not been publicly disclosed prior to the announcement by Ketch of its intention to make the Offer, that would be materially adverse to the business of Caravan or the value of the Caravan Shares to Ketch or that would make it inadvisable for Ketch to proceed with the Offer and/or with the taking up and paying for Caravan Shares under the Offer or completing any compulsory acquisition or subsequent acquisition transaction including, without limiting the generality of the foregoing, any action with respect to any agreement, proposal, offer or understanding relating to any material sale, disposition or other dealing with any of the assets of Caravan or any of its subsidiaries other than any such sale, disposition or other dealing between Caravan and any wholly-owned subsidiary of Caravan, any issue of shares, options or other securities of Caravan to any person other than a wholly-owned subsidiary of Caravan, or any material acquisition from a third party of assets or securities by Caravan or any of its subsidiaries, or any material capital expenditure by Caravan or any of its subsidiaries not in the ordinary course of business;

(g) there shall not have occurred (and there shall not have been publicly disclosed, and Ketch shall not have otherwise learned of, if previously not publicly disclosed) any change (or any condition, event or development involving a prospective change) not publicly disclosed prior to the announcement of the Offer in the business, operations, assets, capitalization, financial condition, licenses, permits, rights, liabilities, prospects or privileges, whether contractual or otherwise, of Caravan or any of its subsidiaries considered on a consolidated basis which, in the sole judgment of Ketch, acting reasonably, is materially adverse to the business of Caravan or to the value of the Caravan Shares to Ketch;

(h) subsequent to the announcement by Ketch to make the Offer, no change, event, action, state or condition (or any condition, event or development involving a prospective change) shall have occurred or have been threatened in the general economic, financial, currency exchange, securities or commodity market conditions in Canada which, in the sole judgment of Ketch, acting reasonably, is, or may be, materially adverse to the financial markets in Canada, or the financial condition, business, operations, assets, affairs or prospects of Ketch or Caravan on a consolidated basis;

(i) Ketch shall have determined in its sole judgment, acting reasonably, that: (i) no material right, franchise or licence of Caravan or any of its affiliates or subsidiaries has been or may be impaired (which impairment has not been cured or waived) or otherwise adversely affected, whether as a result of the making of the Offer, the taking up and paying for Caravan Shares deposited under the Offer or otherwise which might make it inadvisable for Ketch to proceed with the Offer and/or with the taking up and paying for the Caravan Shares under the Offer, and (ii) no covenant, term or condition of any material instruments or agreements of Caravan or its affiliates or its subsidiaries exists which might make it inadvisable for Ketch to proceed with the Offer and/or with the taking up and paying for the Caravan Shares under the Offer and/or completing a compulsory acquisition or subsequent acquisition transaction (including without limitation, any default, acceleration or other adverse event that may ensue as a result of Ketch taking up and paying for the Caravan Shares under the Offer and/or completing a compulsory acquisition or subsequent acquisition transaction);

(j) there shall not have occurred any actual or threatened change (including any proposal by the Minister of Finance (Canada) to amend the *Income Tax Act* (Canada) or any taxation or regulatory regime or any announcement, governmental or regulatory initiative, condition, event or development involving a change or a prospective change) that, in the sole judgment of Ketch, acting reasonably, directly or indirectly, has or may have material adverse effect with respect to the current or anticipated business or operations of any of Ketch or Caravan and their respective subsidiaries or entities in which either of them has a material interest or with respect to the regulatory regime applicable to their respective businesses and operations or with respect to completing a compulsory acquisition or any subsequent acquisition transaction or with respect to any potential integration of Caravan with Ketch or any subsidiary, associate or affiliate of Ketch or any reorganization of Caravan or Ketch in connection with any such potential integration;

(k) (i) there shall not be a material breach by Caravan of its covenants, agreements, representations or warranties under the agreement dated October 9, 2000 between Caravan and Ketch with respect to the Offer (the "Acquisition Agreement"); and (ii) all representations and warranties of Caravan contained in the Acquisition Agreement shall have been true and correct as of the date of the Acquisition Agreement and shall not cease to be true and correct as of the first date of the take up and payment for Caravan Shares under the Offer; and

(l) the Acquisition Agreement shall not have been terminated pursuant to its terms or Ketch shall have determined in its sole judgment, acting reasonably, that such termination shall not affect its ability to consummate the Offer.

SCHEDULE B
To the letter dated October 9, 2000 from
Ketch Energy Ltd. to Caravan Oil & Gas Ltd.

1. *Caravan Representations*. Caravan represents and warrants to Ketch that:

   (a) Caravan is a corporation duly incorporated and validly subsisting under the laws of Alberta and has the requisite corporate power and authority to carry on its business as it is now being conducted. Caravan is duly registered to do business and is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities make such registration necessary, except where the failure to be so registered or in good standing would not have a material adverse effect on Caravan and its subsidiaries taken as a whole;

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

   (c) neither the execution and delivery of this Agreement by Caravan, the consummation by Caravan of the transactions contemplated hereby nor compliance by Caravan with any of the provisions hereof will: (i) violate, conflict with, or result in breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in a creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of Caravan or any of its subsidiaries under, any of the terms, conditions or provisions of (x) the articles or bylaws of Caravan, or (y) any note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Caravan or any of its subsidiaries is a party or to which any of them, or any of their respective properties or assets, may be subject or by which Caravan or any of its subsidiaries is bound (other than the change of control provisions of Caravan's bank facility); or (ii) subject to compliance with the statutes and regulations referred to in the next succeeding paragraph, violate any judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to Caravan or any of its subsidiaries (except, in the case of each of clauses (i) and (ii) above, for such violations, conflicts, breaches, defaults, terminations which, or any consents, approvals or notices which if not given or received, would not have any material adverse effect on the business, operations or financial condition of Caravan and its subsidiaries taken as a whole or on the ability of Caravan to consummate the transactions contemplated hereby); or (iii) cause a suspension or revocation of any authorization for the consent, approval or license currently in effect which would have a material adverse effect on the business, operations or financial condition of Caravan and its subsidiaries taken as a whole;

(d) other than in connection with or in compliance with the provisions of Applicable Laws, (i) there is no legal impediment to Caravan's consummation of the transactions contemplated by this Agreement and (ii) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is necessary by Caravan in connection with the making or the consummation of the Offer, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals, which, if not received, would not have any material adverse effect on the ability of Caravan to consummate the transactions contemplated hereby;

(e) Caravan had issued and outstanding as at October 9, 2000 no more than 17,056,704 Caravan Shares and stock options entitling the holders thereof to acquire no more than 1,535,000 Caravan Shares at an average exercise price of $0.77 and 1,223,321 warrants at a price of $1.35 and expiring on May 5, 2001, and except as aforesaid, there are no outstanding shares of Caravan or options, warrants, rights or conversion or exchange privileges entitling anyone to acquire any shares of Caravan or any other rights, agreements or commitments of any character whatsoever requiring the issuance, sale or transfer by Caravan of any shares of Caravan (including Caravan Shares) or any securities convertible into, exchangeable or exercisable for, or otherwise evidencing a right to acquire, any shares of Caravan. All outstanding Caravan Shares have been duly authorized and validly issued, and are fully paid and non-assessable and are not subject to, nor issued in violation of, any pre-emptive rights, and all Caravan Shares issuable upon exercise of outstanding stock options or warrants, in accordance with their terms, will be duly authorized and validly issued, fully and non-assessable and will not be subject to any pre-emptive rights;

(f) Caravan has made all material filings required under applicable securities laws with the applicable regulatory authorities, all such filings have been made in a timely manner, and all such filings and information and statements contained therein and any other information or statements disseminated to the public by Caravan, were true, correct and complete and did not contain any misrepresentation, as at the date of such information or statements;

(g) since December 31, 1999 except as has been publicly disclosed: (i) there has been no material adverse change, (or any condition, event or development involving a prospective change that would be materially adverse to Caravan) in the business, affairs, operations, assets, capitalization, financial condition, prospect, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, of Caravan or any of its subsidiaries on a consolidated basis; (ii) Caravan has conducted its business only in the ordinary and normal course; and (iii) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) material to Caravan has been incurred other than the ordinary and normal course of business;

(h) except as disclosed to Ketch, the data and information in respect of Caravan and its assets, reserves, liabilities, business and operations provided by Caravan or its advisors to Ketch or its advisors was and is accurate and correct in all material respects as at the respective dates thereof and did not and does not omit any material data or information necessary to make any data or information provided not misleading as at the respective dates thereof;

(i) except as disclosed to Ketch, to the best of its knowledge, the data or information in respect of Caravan and its crude oil and natural gas reserves provided by Caravan or its advisors to Ketch or its advisors was and is accurate and correct in all material respects as at the respective dates thereof and did not and does not omit any data or information necessary to make any data or information provided not misleading as at the respective dates thereof;

(j) there are no outstanding or threatened claims, suits, actions or proceedings against Caravan which, if determined adversely to Caravan, would have a material and adverse effect on the assets, liabilities, business or operations of Caravan, or on the ability of Caravan and Ketch to consummate the transactions contemplated hereby;

(k) the financial statements of Caravan for the year ended December 31, 1999 and for the six months ended June 30, 2000 fairly present, in accordance with generally accepted accounting principles in Canada, consistently applied, the financial position and condition of Caravan and its subsidiaries on a consolidated basis at the dates thereof and the results of the operations of Caravan and its subsidiaries on a consolidated basis for the periods then ended and reflect all material assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of Caravan and its subsidiaries on a consolidated basis as at the dates thereof;

(l) Caravan has not received notice of any material violation of or investigation relating to any federal, provincial or local environmental or pollution law, regulation or ordinance with respect to the assets, business or operations of Caravan or any of its subsidiaries which notice remains outstanding and unresolved and, all permits, licenses and other authorizations which are required under federal, provincial or local laws with respect to pollution or protection of the environment relating to the assets, business or operations of Caravan. All of the assets of Caravan and its subsidiaries operated and maintained by Caravan or any subsidiary are in compliance with all terms and conditions of such laws, permits, licenses and authorizations in all material respects, and are also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in such laws or contained in any regulation, code, plan, order, decree, judgment, notice or demand letter issued, entered, promulgated or approved thereunder relating to the assets operated by Caravan or any subsidiary in all material respects;

(m) it has disclosed to Ketch in writing the details, in all material respects, of all employment, severance or change of control arrangements with directors, officers or employees of Caravan and its subsidiaries;

(n) other than an employee health insurance plan or as disclosed in writing to Ketch on or prior to the date hereof, Caravan has no defined benefits plans and has no other employee benefit plans and has made no agreements or promises with respect to any such plans;

(o) Caravan has not retained any financial advisor, broker, agent or finder, or paid or agreed to pay any financial advisor, broker, agent or finder on account of this Agreement or the Offer, any transaction contemplated hereby or any transaction presently ongoing or contemplated, except that Goepel McDermid Inc. has been retained as Caravan's financial advisors in connection with certain matters, including the transactions contemplated hereby (a copy of which retainer has been provided to Ketch), and Caravan has retained Burstall Ward as Caravan's legal advisors in connection with certain matters, including the transactions contemplated herein;

(p) the aggregate of amounts payable by Caravan and its subsidiaries under any obligations or liabilities of Caravan and its subsidiaries to pay advisory fees in connection with the Offer and any amount to its officers, directors, employees or consultants, other than for salary and directors' fees in the ordinary course and cash payments to cancel options pursuant to Section 7(a) and, without limiting the generality of the foregoing, including the obligations of Caravan to officers, head office employees, head office consultants, employees or consultants for severance, retention, termination or bonus payments on the change of control of Caravan and pursuant to Caravan's severance policy, will not exceed $1.5 million;

(q) the board of directors of Caravan has unanimously endorsed the making of the Offer and approved this Agreement, has determined that the Offer is fair, from a financial point of view, to holders of the Caravan Shares and has resolved to unanimously recommend acceptance of the Offer by holders of Caravan Shares;

(r) Caravan has not waived the applicability of any "standstill" or other provisions of any confidentiality agreements entered into by Caravan which have not automatically expired by their terms;

(s) the level of ownership by U.S. holders of Caravan Shares is less than 10% of the total of such outstanding class of securities. The term "U.S. holder" means any person whose address appears on the records of Caravan, any voting or other trustee, any depository, any share transfer agent or any person acting in a similar capacity on behalf of Caravan, as being located in the United States;

(t) Caravan is not a party to, and prior to the expiry of the Offer Caravan will not implement, a shareholder rights plan or any other form of plan, agreement, contract or instrument that will trigger any rights to acquire Caravan Shares or other securities of Caravan or rights, entitlements or privileges in favour of any person upon the entering into of this Agreement or the making of the Offer;

(u) to the best of Caravan’s knowledge, Caravan has provided to McDaniel & Associates Consultants Ltd., all material information concerning land descriptions, well data, facilities and infrastructure, ownership and operations, future development plans and historical technical and operating data respecting the principal oil and gas assets of Caravan, in each case as at September 1, 2000 and, in particular, all material information respecting Caravan's interests in its principal oil and gas assets and the royalty burdens and net profits interests burdens thereon;

(v) Caravan has made all material filings required under applicable securities laws with the applicable regulatory authorities, all such filings have been made in a timely manner, and all such filings and information and statements contained therein and any other information or statements disseminated to the public by Caravan, were true, correct and complete and did not contain any misrepresentation, as at the date of such information or statements;

(w) the corporate records and minutes books, books of account and other records of Caravan and its subsidiaries have (whether financial or accounting nature or otherwise) been maintained in accordance with, in all material respects, all applicable statutory requirements and prudent business practice and to the best of its knowledge, are complete and accurate in all material respects;

(x) as at September 30, 2000, Caravan's bank indebtedness and working capital deficiency is not in excess of $1.6 million; and

(y) except as has been disclosed in writing to Ketch prior to the date hereof, to the best of the knowledge of Caravan, there is not any defect or alleged defect in the right, title or interest of Caravan and any of its subsidiaries in their respective properties or rights, whether freehold, leasehold or other.

2. *Ketch Representations*. Ketch represents and warrants to Caravan that:

(a) Ketch is a corporation duly continued and validly subsisting under the laws of Alberta and has the requisite corporate power and authority to carry on its business as it is now being conducted. Ketch is duly registered to do business and is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities make such registration necessary, except where the failure to be so registered or in good standing would not have a material adverse effect on Ketch and its subsidiaries taken as a whole;

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

(c) neither the execution and delivery of this Agreement by Ketch, the consummation by Ketch of the transactions contemplated hereby nor compliance by Ketch with any of the provisions hereof will: (i) violate, conflict with, or result in breach of any provision of, require any consent, approval or notice under, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a right of termination or acceleration under, or result in a creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of Ketch or any of its subsidiaries under, any of the terms, conditions or provisions of (x) the articles or bylaws of Ketch, or (y) any material note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Ketch or any of its subsidiaries is a party or to which any of them, or any of their respective properties or assets, may be subject or by which Ketch or any of its subsidiaries is bound; or (ii) subject to compliance with the statutes and regulations referred to in the next succeeding paragraph, violate any judgment, ruling, order, writ, injunction, determination, award, decree, statute, ordinance, rule or regulation applicable to Ketch or any of its subsidiaries (except, in the case of each of clauses (i) and (ii) above, for such violations, conflicts, breaches, defaults, terminations which, or any consents, approvals or notices which if not given or received, would not have any material adverse effect on the business, operations or financial condition of Ketch and its subsidiaries taken as a whole or on the ability of Ketch to consummate the transactions contemplated hereby); or (iii) cause a suspension or revocation of any authorization for the consent, approval or license currently in effect which would have a material adverse effect on the business, operations or financial condition of Ketch and its subsidiaries taken as a whole;

(d) other than in connection with or in compliance with the provisions of Applicable Laws, (i) there is no legal impediment to Ketch's consummation of the transactions contemplated by this Agreement and (ii) no filing or registration with, or authorization, consent or approval of, any domestic or foreign public body or authority is necessary by Ketch in connection with the making or the consummation of the Offer, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals, which, if not received, would not have any material adverse effect on the ability of Ketch to consummate the transactions contemplated hereby;

(e) Ketch has an unlimited number of authorized Ketch Shares. As at October 6, 2000, Ketch had issued and outstanding not more than 19,480,130 Ketch Shares, and options to purchase, in aggregate, 2,250,336 Ketch Shares. Apart from the foregoing options, no person, firm or corporation has any agreement, option, right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement, option or privilege to acquire any unissued securities of Ketch or any interest therein;

(f) Ketch has made all material filings required under applicable securities laws with the applicable regulatory authorities, all such filings have been made in a timely manner, and all such filings and information and statements contained therein and any other information or statements disseminated to the public by Ketch, were true, correct and complete and did not contain any misrepresentation, as at the date of such information or statements;

(g) Ketch is a "reporting issuer" (or similar designation) in each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec;

(h) since December 31, 1999 except as has been publicly disclosed (i) there has been no material adverse change, (or any condition, event or development involving a prospective change that would be materially adverse to Ketch) in the business, affairs, operations, assets, capitalization, financial condition, prospect, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, of Ketch or any of its subsidiaries considered on a consolidated basis; (ii) Ketch has conducted its business only in the ordinary and normal course; and (iii) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) material to Ketch has been incurred other than the ordinary and normal course of business;

(i) except as disclosed to Caravan, the data and information in respect of Ketch and its assets, reserves, liabilities, business and operations provided by Ketch or its advisors to Caravan or its advisors was and is accurate and correct in all material respects as at the respective dates thereof and did not and does not omit any material data or information necessary to make any data or information provided not misleading as at the respective dates thereof;

(j) there are no outstanding or threatened claims, suits, actions or proceedings against Ketch which, if determined adversely to Ketch, would have a material and adverse effect on the assets, liabilities, business or operations of Ketch, or on the ability of Ketch and Caravan to consummate the transactions contemplated hereby;

(k) the financial statements of Ketch for the year ended December 31, 1999 and the unaudited financial statements of Ketch for the six month period ended June 30, 2000 fairly present, in accordance with generally accepted accounting principles in Canada, consistently applied, the financial position and condition of Ketch and its subsidiaries on a consolidated basis at the dates thereof and the results of the operations of Ketch and its subsidiaries on a consolidated basis for the periods then ended and reflect all material assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of Ketch and its subsidiaries on a consolidated basis as at the dates thereof;

(l) Ketch has not received notice of any material violation of or investigation relating to any federal, provincial or local environmental or pollution law, regulation or ordinance with respect to the assets, business or operations of Ketch which notice remains outstanding and unresolved and, all permits, licenses and other authorizations which are required under federal, provincial or local laws with respect to pollution or protection of the environment relating to the assets, business or operations of Ketch. All of the assets of Ketch operated and maintained by Ketch or any subsidiary are in compliance with all terms and conditions of such laws, permits, licenses and authorizations in all material respects, and are also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in such laws or contained in any regulation, code, plan, order, decree, judgment, notice or demand letter issued, entered, promulgated or approved thereunder relating to the assets operated by Ketch or any subsidiary in all material respects;

(m) no securities commission or similar regulatory authority, or stock exchange in Canada or the United States has issued any order which is currently outstanding preventing or suspending trading in any securities of Ketch, no such proceeding is, to the knowledge of Ketch, pending, contemplated or threatened and Ketch is not in default of any requirement of any securities laws, rules or policies applicable to Ketch or its securities;

(n) the aggregate cash consideration payable pursuant to the Offer is available (or will be available prior to Ketch mailing the Offer to shareholders of Caravan) to Ketch so that Ketch is in a position to pay for all the Caravan Shares tendered pursuant to the Offer in accordance with the terms of the Offer;

(o) neither Ketch, nor any subsidiary of Ketch, owns any Caravan Shares;

(p) no securities commission or similar regulatory authority, or stock exchange in Canada or the United States has issued any order which is currently outstanding preventing or suspending trading in any securities of Ketch, no such proceeding is, to the knowledge of Ketch, pending, contemplated or threatened and Ketch is not in default of any requirement of any securities laws, rules or policies applicable to Ketch or its securities; and

(q) the board of directors of Ketch have reserved and allotted to holders of Caravan Shares that accept the Offer a sufficient number of Ketch Shares and, upon acceptance of the Offer in accordance with the terms thereof such shares will be validly issued as fully paid and non-assessable to previous holders of Caravan Shares that accept the Offer and elect to receive such shares in accordance with the terms thereof.