MATERIAL CHANGE REPORT

Under Section 67(1) of the *Securities Act* (British Columbia), Section 118(1) of the *Securities Act* (Alberta), Section 84(1) of *The Securities Act, 1988* (Saskatchewan) and Section 75(2) of the *Securities Act* (Ontario)

1. **Reporting Issuer**

Newquest Energy Inc.
Suite 1000, 421 - 7th Avenue S.W.
Calgary, Alberta T2P 4K9

2. **Date of Material Change**

August 30, 1999

3. **Publication of Material Change**

A press release was issued on August 30, 1999.

4. **Summary of Material Change**

The corporate restructuring that began in the first quarter of 1999 continued to advance during the second quarter as Newquest Energy Inc. ("Newquest" or the "Company") restructured its executive team, Board of Directors, technical team, banking arrangements, and negotiated important joint venture agreements.

Subsequent to the end of the second quarter, Newquest has entered into a letter of intent with a group of investors pursuant to which such investors will invest $4.5 million for 6,666,666 Class A shares (half of which will be issued on a flow-through basis) at an average price of $0.675 per share and 2,933,333 Class A Share Purchase Warrants, each such warrant entitling the holder thereof to acquire one Class A share at a price of $0.85 within 2 years of the closing date. The private placement is subject to certain conditions including a due diligence review currently underway.

The evaluation of the Seal properties by McDaniel & Associates Consultants Ltd. necessitated a ceiling test writedown which, when combined with depletion, depreciation and site restoration for the six months ended June 30, 1999, amounted to $29.3 million. This resulted in a $28.5 million net loss for the six months ended June 30, 1999. This equates to a loss of $2.59 per share compared to a net income of $166,000 or $0.02 per basic share ($0.02 per fully diluted share) for the same period last year.

5. **Full Description of Material Change**

The corporate restructuring that began in the first quarter of 1999 continued to advance during the second quarter as Newquest restructured its executive team, Board of Directors, technical team, banking arrangements, and negotiated important joint venture agreements.

Executive changes that took place during the second quarter included Mr. Tom Code being appointed President, Chief Executive Officer and Chairman to replace Mr. Taras Shklanka (as press released May 10, 1999). Board of Directors changes that took place during the second quarter included Messrs. Robert Heisler, Joseph Durante and Kelly Ogle joining Newquest's board to replace Messrs. Keith Farries, Taras Shklanka and Neil Runions (as press released June 9, 1999).

The Company's technical team was re-established during the second quarter with the addition of Mr. Tom Feuchtwanger as consulting geologist and Mr. Don Almond as consulting engineer, in order to revitalize the Company's exploration, development and exploitation program.

Newquest's bank debt was restructured during the second quarter to allow additional flexibility to grow and pursue a more balanced and focussed strategy. Bank debt reduced $1.25 million during the quarter from proceeds received from a joint venture agreement relative to the Company's Dawson acreage, and further debt reduction is expected from the sale of non-core assets at Loon, Utikuma, Drumheller, Giroux Lake and the sale of the Company's southern Alberta holdings.

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Production for the three months ended June 30, 1999 averaged 1,068 boepd, of which 90% was natural gas. Production was significantly restricted to an average 619 boepd during June as the Company's natural gas wells at Seal were shut-in for 18 days as Nova undertook a pipeline maintenance program. Newquest also sold two oil wells during early May which wells previously contributed an average 33 bpd of medium-gravity crude oil. Cash flow from operations for the second quarter equated to $0.07 per basic share after expensing $200,000 in severance payments. Excluding the severance payment, cash flow for the second quarter would have totalled $0.09 per basic share.

Production for the six months ended June 30, 1999 averaged 1,169 boepd, of which 88 percent was natural gas. Production decreased 23% from an average 1,526 boepd during the same period in the previous year in part to the reasons addressed above. Petroleum and natural gas revenues totalled $4.6 million for the six months ended June 30, 1999, down 9% from $5.1 million during the first six months of 1998. Cash flow from operations totalled $751,000, down from $2.2 million for the same period the previous year. Cash flow from operations equated to $0.07 per basic share ($0.04 per fully diluted share) for the six months ended June 30, 1999 compared to $0.21 per basic share ($0.19 per fully diluted share) for the same period in 1998.

Natural gas prices increased to $2.33/mcf at the plant gate during the second quarter, bringing the six month average for 1999 to $2.16/mcf compared to $1.84/mcf for the same period in 1998. Crude oil prices increased to $22.77/bbl compared to $17.63/bbl for the same period in 1998. Operating costs during the first two quarters of 1999 averaged $8.11 per boe compared to $5.45 per boe in 1998. The Company is currently re-evaluating its operations in the Seal area and anticipates that reduced compression costs and more efficient operations in the fields should result in an overall reduction in operating costs during the second half of 1999. Royalties, net of Alberta Royalty Tax Credit, decreased to 4.9% of revenues during the six months ended June 30, 1999 compared to 11.6% the previous year, principally the result of a Crown royalty adjustment that reduced the net royalty rate. Netbacks for natural gas averaged $1.24/mcf during the six months compared to $1.11/mcf for the same period last year. Netbacks for oil averaged $13.88/bbl compared to $7.92/bbl for 1998.

Capital expenditures during the second quarter were $450,000 for a six month total of $2.7 million. The Company received $1.25 million during the second quarter from the joint venture agreement at Dawson and $150,000 was received from the sale of two Grand Forks medium crude oil wells, resulting in a net $1.3 million in capital expenditures for the six months. As at June 30, 1999, the Company's combined debt and working capital deficit totalled $17.7 million.

Newquest did not participate in the drilling of any wells during the second quarter. This period was used to re-establish the technical team and exploit farm-out and disposition opportunities. As referenced earlier in this release, and as press released June 8, 1999, a joint-venture agreement was entered into with Symmetry Resources Inc. ("Symmetry") during the second quarter. The agreement provides Symmetry with the right to earn up to a 50 percent working interest in approximately 33,000 net undeveloped acres owned by Newquest at Dawson in North Central Alberta. In return, Newquest received a $1.25 million cash payment and a commitment by Symmetry to drill two wells at no cost to Newquest prior to October 1, 1999 in which Newquest will retain a 50 percent working interest after payout. Newquest and Symmetry will participate on an equal basis on subsequent exploration and development of these lands. Symmetry has significant production and exploration experience in the Dawson area and adds additional technical depth and expertise to develop these highly prospective lands.

To date, Newquest's gas reserves at Seal have been independently evaluated using volumetrics to assess the reserves potential. The Company recently commissioned McDaniel & Associates Consultants Ltd. ("McDaniel") to evaluate the Seal reserves using reservoir pressure data to establish a second assessment of the reserves potential. Based on the McDaniel's pressure data evaluation, the Company's proven (net) reserves at Seal have been reduced from approximately 38 bcf to 8.5 bcf. Given the complex nature of this reservoir and the wide variance in reserve assessments, Newquest has commissioned a detailed independent geotechnical reservoir evaluation which will assist in assessing the potential of the Seal reserves. This study will form the basis for follow up development work in the area.

The evaluation of the Seal properties by McDaniel necessitated a ceiling test writedown which, when combined with depletion, depreciation and site restoration for the six months ended June 30, 1999, amounted to $29.3 million. This resulted in a $28.5 million net loss for the six months ended June 30, 1999. This equates to a loss of $2.59 per share compared to a net income of $166,000 or $0.02 per basic share ($0.02 per fully diluted share) for the same period last year.

The new team and new approach as outlined in the Company's Annual Report and First Quarterly Report to Shareholders has now been fully implemented. The Company's 88% natural gas production weighting forms a platform from which to grow, and the difficult steps already taken during this restructuring phase will provide the Company with the opportunity to restore shareholder value. The Company will now focus on a more balanced strategy of exploration, exploitation, acquisitions and mergers to achieve stable growth. The near term exploration efforts will be achieved through the Symmetry joint venture agreement at Dawson which will see two wells drilled by October 1, 1999 at no cost to Newquest. Newquest's new technical team is developing a low risk exploitation program which will be implemented with the findings of the reservoir study being prepared on the Company's Seal gas reserves. Management also continues to evaluate acquisition and merger opportunities, which may include a potential swap of non-core assets.

Year 2000 update: Newquest has competed the review and testing of its critical in-house information systems, as well as its field level equipment, and has determined that its systems and equipment are either year 2000 compliant or, where required, have been replaced or upgraded. The Company is relying on the representations of critical third parties, including utilities, pipelines, marketers, customers and joint venture partners, however, it is not possible to warrant third party compliance.

Where appropriate, contingency plans have been developed to mitigate the losses caused by a temporary disruption of this critical third party service. The total cost of the year 2000 program is not expected to be material to the financial results of the Company.

Year	***Revenue**	***Cash Flow**	**C.F./Share**	***Profit (Loss)**	**Profit (Loss)/Share**
Second Quarter					
1999	$2.27	$0.75	$0.07	$(27.54)	$(2.50)
1998	$2.71	$1.05	$0.10	$0.05	$0.01
Fiscal Y.T.D.					
1999	$4.59	$0.75	$0.07	$(28.52)	$(2.59)
1998	$5.06	$2.25	$0.21	$0.17	$0.02

*Millions of Dollars

6. **Reliance on Section 67(2) of the *Securities Act* (British Columbia), Section 118(2) of the *Securities Act* (Alberta), Section 84(2) of *The Securities Act, 1988* (Saskatchewan) and Section 75(3) of the *Securities Act* (Ontario)**

Not applicable.

7. **<u>Senior Officers</u>**

Mr. Tom Code, President and Chief Executive Officer of Newquest, is knowledgeable about this material change and can be reached at 403-781-7531.

8. **<u>Statement of Senior Officer</u>**

The foregoing accurately discloses the material change referred to herein.

Dated at the City of Calgary, in the Province of Alberta, this 7th day of September, 1999.

NEWQUEST ENERGY INC.

(signed) *"J. Thomas Code"*

Per: ______________________________

J. Thomas Code
President and Chief Financial Officer