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. ("**Newquest**")
1000, 421 - 7th Avenue S.W.
Calgary, Alberta
T2P 4K9

2. **Date of Material Change**

January 26, 2000.

3. **Publication of Material Change**

Newquest issued a press release on January 27, 2000.

4. **Summary of Material Change**

Newquest has entered into an agreement (the "**Acquisition Agreement**") pursuant to which Newquest will make an offer to purchase: (a) all of the issued and outstanding common shares ("**Ranchero Shares**") of Ranchero Oil & Gas Ltd. ("**Ranchero**") on the basis of 2.86 Class A Shares of Newquest for each Ranchero Share; and (b) all of the outstanding options to acquire Ranchero Shares ("**Ranchero Options**") on the basis of options to acquire 2.86 Class A Shares of Newquest for each Ranchero Option.

The board of directors of Ranchero has agreed to recommend acceptance of the offer. The management, directors and certain major shareholders controlling approximately 51% of the issued and outstanding Ranchero Shares and 100% of the issued and outstanding Ranchero Options have executed agreements whereby they have agreed to tender their common shares and options to the offer and not withdraw such securities except in certain circumstances.

The agreement between Newquest and Ranchero also provides that: (a) Ranchero shall not, directly or indirectly, solicit or initiate any inquiries, discussions or negotiations with any third party with respect to any take-over proposal for Ranchero, except that the board of directors of Ranchero is entitled to respond to an unsolicited bona fide take-over proposal which is superior to the Offer; and (b) Newquest shall not, directly or indirectly, solicit or initiate any inquiries, discussions or negotiations with any third party with respect to any take-over proposal for Newquest, except that the board of directors of Newquest is entitled to respond to an unsolicited bona fide take-over proposal.

Ranchero has agreed to pay Newquest a break fee of $200,000 in certain circumstances and, in the event that the break fee is not paid, an expense fee of up to $200,000 in certain circumstances to reimburse Newquest for the actual costs and expenses incurred by Newquest in making the Offer. Newquest has agreed to pay Ranchero a break fee of $500,000 in certain circumstances and, in the event that the break fee is not paid, an expense fee of up to $50,000 in certain circumstances to reimburse Ranchero for the actual costs and expenses incurred by Ranchero in negotiating, considering and responding to the Offer.

Newquest mailed the Offer to all registered Ranchero shareholders on January 28, 2000. The Offer is conditional upon, among other things, not less than 66⅔% of the issued and outstanding common shares of Ranchero being deposited under the Offer and not withdrawn.

5. **<u>Full Description of Material Change</u>**

On January 26, 2000, Newquest and Ranchero entered into the Acquisition Agreement pursuant to which Newquest agreed to make an offer to purchase all of the outstanding Ranchero Shares and all of the outstanding Ranchero Options. A copy of the Acquisition Agreement is attached hereto as Schedule "A". Capitalized terms used but not defined herein shall have the meaning ascribed thereto in the Acquisition Agreement.

In the Acquisition Agreement, Ranchero represented that its board of directors had unanimously endorsed the execution of the Acquisition Agreement, had unanimously determined that the Offer is fair to holders of Ranchero Securities and is in the best interests of Ranchero and holders of Ranchero Securities and that it would unanimously recommend acceptance of the Offer by the holders of Ranchero Securities.

Ranchero also agreed with Newquest that, among other things, it would: (i) immediately cease and cause to be terminated all existing discussions and negotiations, if any, with any parties conducted before the date of the Acquisition Agreement with respect to any Ranchero Acquisition Proposal; (ii) not solicit, initiate or encourage (including, without limitation, by way of furnishing information) any inquiry or the making of any proposal to Ranchero 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 Ranchero Acquisition Proposal; (iii) not enter into or participate in any discussions or negotiations regarding a Ranchero Acquisition Proposal, furnish to any other person any information with respect to the business, properties, operations, prospects or conditions (financial or otherwise) of Ranchero or its subsidiaries or a Ranchero 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; and (iv) not 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 Ranchero or its subsidiaries under confidential information agreements, including, without limitation, any "standstill provisions" thereunder. The foregoing are subject to certain limited exceptions if certain conditions are met and such action is necessary for the board of directors of Ranchero to act in a manner consistent with its fiduciary duties or is required by law. Newquest has provided similar covenants to Ranchero with respect to a Newquest Acquisition Proposal.

Ranchero agreed that it will promptly advise Newquest of any inquiry or proposal (including the terms and conditions of such proposal) and that it will not enter into any agreement regarding a Superior Take-Over Proposal without providing Newquest with an opportunity to amend the Acquisition Agreement to provide for substantially similar financial terms to those of the Superior Take-Over Proposal.

Newquest is permitted under the Acquisition Agreement, in its sole discretion, to amend, extend, vary or waive any term or condition of the Offer, provided that Newquest shall not, without the consent of Ranchero waive or reduce the Minimum Condition to below 50% of the outstanding Ranchero Shares (on a diluted basis), impose additional conditions to the Offer, decrease the consideration to be paid for the Ranchero Securities or make any other change to the Offer which is materially adverse to the holders of Ranchero Securities (and for which purpose an extension of the Offer or waiver of a condition will not be considered materially adverse).

Termination

The Acquisition Agreement may, subject to its specific terms, be terminated: (i) by mutual written consent of Newquest and Ranchero; (ii) by Ranchero if the Offer is not mailed on or prior to February 7, 2000 (or such later date as Ranchero shall have agreed to) or if the Offer is mailed and then withdrawn by Newquest because of the announcement or making of a Newquest Take-Over Proposal; (iii) by Ranchero if Newquest and its secured lender have not entered into definitive agreements, on terms satisfactory to Ranchero, acting reasonably, on or before 4:30 p.m. (Calgary time) on the last business day prior to the expiry of the Offer; (iv) by either Newquest or Ranchero if Newquest shall not have taken up and paid for the Ranchero Shares under the Offer on or before the time required by the Acquisition Agreement unless the absence of that occurrence shall be due to the failure of the party seeking to terminate the Acquisition Agreement to perform its obligations thereunder; (v) by either Newquest or Ranchero if a court of competent jurisdiction or a governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting any of the transactions contemplated by the Acquisition Agreement and such order, decree, ruling or other action shall have become final and non-appealable, provided that the party seeking to terminate the Acquisition Agreement has used all commercially reasonable efforts to remove such order, decree, ruling or injunction; (vi) by Ranchero if Newquest has not taken up and paid for Ranchero Shares on or before March 20, 2000; (vii) by either Newquest or Ranchero if there has been a material breach by the other party of any material covenant, agreement or representation contained in the Acquisition Agreement; (viii) by Ranchero if Ranchero enters into an agreement providing for a Ranchero Acquisition Proposal and Ranchero has paid to Newquest the Newquest Termination Fee (as defined below); (ix) by Newquest if Newquest enters into an agreement providing for a Newquest Acquisition Proposal and Newquest has paid to Ranchero the Ranchero Termination Fee (as defined below); (x) by Ranchero if there shall occur a material adverse change (which shall not include a drop in trading price of the Newquest Shares in and of itself) in the assets, liabilities, business, operations or affairs of Newquest; or (xi) by Newquest if there shall occur a material adverse change (which shall not include a drop in trading price of the Ranchero Shares in and of itself) in the assets, liabilities, business, operations or affairs of Ranchero.

Termination and Expense Fees

Ranchero has agreed to pay to Newquest a termination fee (the "**Ranchero Termination Fee**") of $200,000 in the event that: (i) the board of directors of Ranchero fails to recommend that holders of Ranchero Securities accept the Offer or the board of directors of Ranchero withdraws or, in a manner adverse to the Offer, modifies or changes its recommendation to holders of Ranchero Securities to accept the Offer (provided that such modification or change is not due to a material misrepresentation made by Newquest); or (ii) another bona fide Ranchero Take-Over Proposal is publicly announced or made to the Shareholders and at the Expiry Time any such Ranchero Take-Over Proposal has not expired or been withdrawn and the Minimum Condition has not been satisfied. Any such payment shall be made by Ranchero to Newquest within three business days of the earliest event giving rise to the payment obligation.

Provided the Ranchero Termination Fee is not paid by Ranchero, Ranchero has agreed to pay an expense fee (the "**Ranchero Expense Fee**") of up to $200,000 representing the actual costs and expenses incurred by Newquest in making the Offer in the event that certain conditions to the taking-up and paying for the Ranchero Shares are not satisfied, such amount to be based on a statement of expenses certified by an officer of Newquest and paid within two business days of the earlier of: (i) delivery of a statement of expenses; (ii) the termination of the Acquisition Agreement; or (iii) the Expiry Time.

Newquest has agreed to pay to Ranchero a termination fee (the "**Newquest Termination Fee**") of $500,000 in the event that: (i) the board of directors of Newquest withdraws or, in a manner adverse to the Shareholders, modifies or changes the Offer; or (ii) a bona fide Newquest Take-Over Proposal is publicly announced or made and at the Expiry Time such Newquest Take-Over Proposal has not expired or been withdrawn and the Minimum Condition shall not have been satisfied. Any such payment shall be made by Newquest to Ranchero within three business days of the earliest event giving use to the payment obligation.

Provided the Newquest Termination Fee is not paid by Newquest, Newquest has agreed to pay an expense fee (the "**Newquest Expense Fee**") of up to $50,000 representing the actual costs and expenses incurred by Ranchero in negotiating, considering and responding to the Offer in the event that the Offer is made and subsequently withdrawn because of a Newquest Take-Over Proposal, such amount to be based on a statement of expenses certified by an officer of Newquest and paid within two business days of the earlier of: (i) delivery of a statement of expenses; (ii) the termination of the Acquisition Agreement; or (iii) the Expiry Time.

Ranchero Options

Ranchero has agreed to use its reasonable efforts to ensure that all outstanding Ranchero Options are either exercised, terminated, expired or surrendered prior to the Expiry Time. Pursuant to the Agreements to Tender, all of the holders of Ranchero Options have agreed to tender their Ranchero Options to Newquest in exchange for Newquest Options.

Agreements to Tender

Pursuant to the Agreements to Tender, the Tendering Shareholders, who hold an aggregate of 4,200,796 Ranchero Shares, have agreed to accept the Offer and deposit such shares in accordance with the terms of the Offer, subject to certain conditions, and not to withdraw such shares except in certain circumstances.

Pursuant to the Agreements to Tender, the Tendering Shareholders, who hold an aggregate of 454,000 Ranchero Options, have agreed to exchange their Ranchero Options for Newquest Options. Each Ranchero Option will be exchanged for 2.86 Newquest Options. Each Newquest Option entitles the holder thereof to acquire one Newquest Share at a price of $0.13 on or before November 17, 2004.

In the Agreements to Tender, the Tendering Shareholders have agreed, subject to certain conditions, to deposit their Ranchero Shares to the Offer not later than five business days prior to the Expiry Time and to not withdraw their Ranchero Shares until the earliest of March 20, 2000 and the date that the Agreement to Tender is terminated in accordance with its terms.

In the event that a Superior Take-Over Proposal is made to purchase Ranchero Shares offering a consideration in excess of that offered under the Offer and Newquest does not increase the consideration offered under the Offer (as hereinafter provided) to a price equal to or greater than such higher consideration offered under the Superior Take-Over Proposal before the earlier of: (i) ten days after the date the Superior Take-Over Proposal is made; and (ii) the date on which the Offer expires or is terminated, then the Tendering Shareholder shall be entitled to withdraw any Ranchero Securities deposited to the Offer in order to deposit such Ranchero Securities to the Superior Take-Over Proposal. In the event the Superior Take-Over Proposal has expired and any Ranchero Securities deposited to the Superior Take-Over Proposal have not been acquired pursuant to the Superior Take-Over Proposal and the Offer has not expired or been terminated, then the Tendering Shareholder shall redeposit such Ranchero Securities in acceptance of the Offer as herein provided.

In the Agreements to Tender, Newquest has agreed, subject to the Minimum Condition being satisfied, to use reasonable commercial efforts to have Charles Berard and Terry Owen, being directors of Ranchero, appointed to the board of directors of Newquest.

In the Agreements to Tender, Newquest has also agreed: (i) to use reasonable commercial efforts to secure directors' and officers' liability insurance coverage for Ranchero's current and former directors and officers on a seven year "trailing" or "run off" basis from and after the date Newquest first takes up and pays for any Ranchero Shares pursuant to the Offer; and (ii) to assume the obligations of Ranchero under the indemnity agreements between Ranchero and the current and former directors and officers of Ranchero provided that such agreements are in substantially the form previously provided to Newquest.

The obligations of the Tendering Shareholder under the Agreement to Tender shall terminate at the option of the Tendering Shareholder upon written notice given by the Tendering Shareholder to Newquest: (i) if Newquest has not, for any reason whatsoever, taken up and paid for the Ranchero Securities deposited to the Offer by March 20, 2000; (ii) if Newquest has breached or failed to perform and satisfy any of its covenants or agreements contained in the Agreement to Tender in a material respect or any of the representations and warranties of Newquest set forth therein are not true and correct in any material respect; (iii) if the Tendering Shareholder withdraws (and is not required to redeposit) their Ranchero Securities as a result of a Superior Take-Over Proposal; or (iv) if the Acquisition Agreement has been terminated.

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. **Omitted Information**

Not applicable.

8. **Senior Officers**

J. Thomas (Tom) Code, President and Chief Executive Officer of Newquest Energy Inc., is knowledgeable about the material change set forth herein and can be reached at (403) 265-1211.

9. **Statement of Senior Officer**

The foregoing accurately discloses the material change referred to herein.

Dated at the City of Calgary, in the Province of Alberta, this 4th day of February, 2000.

NEWQUEST ENERGY INC.

Per: (signed) "J. Thomas Code"
J. Thomas Code
President

Schedule "A"

NEWQUEST
ENERGY INC.

1000, 421 - 7th Avenue S.W., Calgary, AB T2P 4K9 Phone (403) 265-1211 • Fax (403) 781-7525

CONFIDENTIAL

January 26, 2000

Ranchero Oil & Gas Ltd.
Suite 1000, 421 - 7th Avenue S.W.
Calgary, AB T2P 4K9

Attention: Charles W. Berard
Director

Dear Sirs:

Re: Proposed Acquisition

This letter sets out the terms and conditions (the "**Agreement**") upon which Newquest Energy Inc. ("**Newquest**") is prepared to make an offer for all of the outstanding Common Shares ("**Amalco Shares**") and options ("**Amalco Options**") of Ranchero Oil & Gas Ltd. ("**Amalco**").

In this letter all references to Amalco refer to the company formed on or about November 18, 1999 pursuant to the amalgamation of Boom Capital Corporation ("**Boom**") and Ranchero Oil & Gas Ltd. It is understood that the aforementioned amalgamation constituted Boom's "major transaction" within the meaning of Alberta Securities Commission Rule 46-501 and Circular No. 7 of The Alberta Stock Exchange.

1. Offer

Subject to the provisions hereof, Newquest will, as soon as reasonably practicable, but in any event not later than February 7, 2000, make an offer (as amended, extended or varied from time to time, the "**Offer**"): (i) to all of the holders of Amalco Shares to purchase all of the outstanding Amalco Shares on the basis of 2.86 Class A Shares of Newquest (the "**Newquest Shares**") for each Amalco Share; and (ii) to all of the holders of Amalco Options to purchase all of the outstanding Amalco Options on the basis of 2.86 options of Newquest (the "**Newquest Options**") for each Amalco Option, each Newquest Option entitling the holder to purchase one Newquest Share for $0.13 on or before November 17, 2004. The Offer shall be made in accordance with all applicable securities laws, rules of applicable stock exchanges and applicable corporate laws (collectively, the "**Applicable Laws**"). Newquest agrees to take-up and pay for Amalco Shares and Amalco Options (collectively, the "**Amalco Securities**") validly deposited (and not withdrawn) under the Offer within three business days of being legally able to do so. Newquest 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 Newquest shall remain liable for all obligations hereunder.

The Offer will be conditional upon not less than 66 b % of the outstanding Amalco Shares (on a fully-diluted basis) and not less than 100% of the outstanding Amalco Options being tendered under and not withdrawn from the Offer (the "**Minimum Condition**") and only those other conditions as are set forth in **Schedule "A"** attached hereto. Newquest may, in its sole discretion, amend, extend, vary or waive any term or condition of the Offer, provided that Newquest shall not, without the consent of Amalco, waive or reduce the Minimum Condition in respect of the Amalco Shares to below 50% of the outstanding Amalco Shares (on a fully-diluted basis), impose additional conditions to the Offer, decrease the consideration to be paid for the Amalco Securities or make any other change in the Offer which is materially adverse to the holders of the Amalco Securities (and for which purpose an extension of the Offer or waiver of a condition will not be considered materially adverse).

2. Conditions to the Obligation to Make the Offer

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

(a) (i) the holders of not less than 4.2 million Amalco Shares (including all of the directors of Amalco) entering into agreements in the form attached hereto as **Schedule "B"**, concurrent with or before the execution of this letter agreement by Newquest whereby such holders agree to tender their Amalco Shares under the Offer; and (ii) the holders of all of the outstanding Amalco Options entering into agreements in the form attached hereto as **Schedule "B"**, within four business days of the execution of this letter agreement whereby such holders agree to tender their Amalco Options under the Offer;

(b) there shall not have occurred any change (or any condition, event or development involving a prospective change), after the date hereof or prior to the date hereof which has not been previously generally disclosed to the public or disclosed prior to the date hereof to Newquest in writing, in the business, affairs, operations, assets, capitalization, financial condition, prospects, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, of Amalco which, in the sole judgment of Newquest, acting reasonably, is materially adverse to Amalco or the value of the Amalco Securities to Newquest;

(c) Amalco shall not be in breach of any covenant, agreement, representation or warranty contained in this Agreement in any material respect;

(d) no event or occurrence shall have occurred which, in the opinion of Newquest, acting reasonably, makes it impossible or unlikely that any of the conditions set forth in **Schedule "A"** will be satisfied; and

(e) the receipt of all regulatory approvals, waivers and consents to the making of the Offer, which in the sole judgment of Newquest, acting reasonably, may be necessary or desirable including, without limiting the foregoing, the approval of The Toronto Stock Exchange to the issuance of: (i) the Newquest Shares under the Offer; and (ii) the Newquest Options to the holders of the Amalco Options.

3. Support of Transaction

Amalco represents that its board of directors has unanimously endorsed the entering into of this Agreement, has unanimously determined that the Offer is fair to holders of Amalco Securities and is in the best interests of Amalco and holders of Amalco Securities and will unanimously recommend acceptance of the Offer by the holders of Amalco Securities and agrees that it shall mail and file a directors' circular in accordance with Applicable Laws containing its unanimous recommendation to securityholders of Amalco and shall use its best efforts to cause such mailing to occur concurrently with the mailing of the Offer by Newquest and in any event within three business days thereafter. Amalco agrees to provide a draft copy of such directors' circular to Newquest prior to the mailing thereof and to provide Newquest with a reasonable opportunity to review and provide comments thereon. Notwithstanding the foregoing provisions of this section, the board of directors of Amalco may withdraw, modify or change any recommendation regarding the Offer if, in the opinion of the board of directors of Amalco, acting reasonably and upon written advice of counsel, such withdrawal, modification or change is required in discharge of the fiduciary duties of the board of directors of Amalco.

4. Steps to be Undertaken by Amalco

As soon as practicable following the date hereof and in any event prior to the close of business on January 27, 2000, Amalco shall cause to be delivered to Newquest, a list made up to a date not more than two days before the date thereof 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 or other rights to acquire Amalco Shares including, without limitation, the Amalco Options, as and when requested by Newquest, until the expiry of the Offer. Amalco shall permit and request its registrar and transfer agent to assist Newquest and Newquest's depositary under and in connection with the Offer and shall from time to time furnish Newquest with such additional information, including updated or additional lists of securityholders, mailing labels and lists of securities positions, and other assistance as Newquest may reasonably request in order to be able to communicate the Offer to the holders of the Amalco

Securities and to such other persons as are entitled to receive the Offer under Applicable Laws. Amalco hereby agrees to permit its transfer agent to act as Newquest's depositary under the Offer.

5. Termination Fees Payable by Amalco and Newquest

(a) Amalco shall pay to Newquest a fee (the "**Amalco Termination Fee**") equal to $200,000 if any of the following occur:

(i) the board of directors of Amalco fails to recommend that holders of Amalco Securities accept the Offer or the board of directors of Amalco withdraws or, in a manner adverse to the Offer, modifies or changes its recommendation to holders of Amalco Securities to accept the Offer (provided that such modification or change is not due to a material misrepresentation made by Newquest); or

(ii) another bona fide Amalco Take-Over Proposal (as defined below) is publicly announced or made and, upon expiry of the Offer:

(A) such Amalco Take-Over Proposal (as defined below) has not expired or been withdrawn; and

(B) the Minimum Condition shall not have been satisfied;

(For this purpose, "**Amalco Take-Over Proposal**" means a bid or offer for 20% or more of the outstanding Amalco 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 Amalco or its subsidiaries or any proposal, offer or agreement to acquire 25% or more of the assets of Amalco.)

Amalco agrees that the Amalco Termination Fee will be paid within three 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(a), Amalco shall be deemed to hold such sum in trust for Newquest.

(b) Newquest shall pay to Amalco a fee (the "**Newquest Termination Fee**") equal to $500,000 if any of the following occur:

(i) the conditions set forth in Section 2 are satisfied and Newquest fails to make the Offer;

(ii) the board of directors of Newquest withdraws or, in a manner adverse to the holders of Amalco Securities, modifies or changes the Offer; or

(iii) a bona fide Newquest Take-Over Proposal (as defined below) is publicly announced or made and, upon expiry of the Offer:

(A) such Newquest Take-Over Proposal (as defined below) has not expired or been withdrawn; and

(B) the Minimum Condition shall not have been satisfied;

(For this purpose, " **Newquest Take-Over Proposal**" means a bid or offer for 20% or more of the outstanding Newquest 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 Newquest or its subsidiaries or any proposal, offer or agreement to acquire 25% or more of the assets of Newquest.)

Newquest agrees that the Newquest Termination Fee will be paid within three business days of the date of the earliest of such event to occur.

6. Expense Fee

(a) Provided that the Amalco Termination Fee is not paid by Amalco, if the Offer is not made as the conditions to making the Offer set forth in Section 2 (other than the conditions provided in Sections 2 (d) and (e)) are not satisfied or if Newquest does not take-up and pay for any Amalco Shares pursuant to the Offer as a result of the non-fulfilment of the conditions set forth in paragraphs (a), (f), (g), (h), (i), (k) or (l) of Schedule "A" hereto, Amalco shall pay to Newquest an amount up to a maximum of $200,000 to reimburse Newquest for the actual costs and expenses incurred by Newquest in making the Offer (the "**Amalco Expense Fee**"), such amount to be based on a statement of expenses certified by an officer of Newquest and paid within two business days of the earlier of: (i) the delivery of such statement; (ii) the termination of this Agreement as a result of non-satisfaction of the conditions in Section 2 hereof; or (iii) the expiry of the Offer.

(b) Provided that the Newquest Termination Fee is not paid by Newquest, if the Offer is not made because of the announcement or making of a Newquest Take-Over Proposal or, if the Offer is made and withdrawn because of a Newquest Take-Over Proposal, Newquest shall pay to Amalco an amount up to a maximum of $50,000 to reimburse Amalco for the actual costs and expenses incurred by Amalco in negotiating, considering and responding to the Offer (the "**Newquest Expense Fee**"), such amount to be based on a statement of expenses certified by an officer of Amalco and paid within two business days of the earlier of: (i) the delivery of such statement; (ii) termination of this Agreement pursuant to Section 15(b); or (iii) the expiry of the Offer.

7. Representations

Each of Amalco and Newquest represents and warrants as is set forth in **Schedule "C"** attached hereto.

8. Covenants

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

(a) Amalco's business 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 Amalco shall consult with Newquest in respect of the ongoing business and affairs of Amalco and keep Newquest apprised of all material developments relating thereto;

(b) Amalco 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 outstanding stock options), grant, sell or pledge or agree to issue, grant, sell or pledge any shares of Amalco or its subsidiaries, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, shares of Amalco or its subsidiaries; (iv) redeem, purchase or otherwise acquire any of its outstanding shares or other securities; (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 Amalco; or (vii) enter into or modify any contract, agreement, commitment or arrangement with respect to any of the foregoing, except with the consent of Newquest or as otherwise permitted herein;

(c) Amalco will not, and will not permit any of its subsidiaries to, directly or indirectly do any of the following other than pursuant to commitments entered into prior to the date of this Agreement: (i) sell, pledge, dispose of or encumber any assets except in the ordinary course of business or for a consideration not in excess of

$250,000 individually or $500,000 in the aggregate; (ii) expend or commit to expend more than $350,000 individually or $1.4 million in the aggregate with respect to any capital or operating expense or expenses other than for drilling, equipping and completion costs for exploration and development projects previously committed to and previously disclosed in writing to Newquest; (iii) 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, purchase of any property or assets of any other individual or entity, in each case having a value in excess of $250,000 (iv) 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 (except for a proposed loan in an amount not to exceed $70,000 to a consultant of Amalco) and, in any event, Amalco shall not incur any obligation of any kind, in excess of $100,000 individually or $250,000 in the aggregate; (v) pay, discharge or satisfy any material claims, liabilities or obligations other than reflected or reserved against in its financial statements or incurred in the ordinary course of business consistent with past practice; (vi) enter into any hedges, swaps or other financial instruments or like transactions; or (vii) 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) Amalco 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 or director, 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 Amalco 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) other than the acceleration of vesting and expiry of outstanding Amalco Options, neither Amalco 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;

(f) if Newquest takes up and pays for Amalco Shares pursuant to the Offer, and thereby acquires at least 50% of the outstanding Amalco Shares, Amalco will use its best efforts to enable Newquest to acquire the balance of the Amalco 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 Newquest from acquiring, directly or indirectly, additional Amalco 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) promptly upon completion of the Offer, whereby Newquest acquires at least 50% of the outstanding Amalco Shares, Amalco shall, if requested by Newquest, use its best efforts to cause the resignation of such directors and officers of Amalco as Newquest may specify and to fill the resulting vacancies with designees of Newquest and Amalco shall cooperate with Newquest to provide an orderly transition of control and management;

(h) Amalco will use its reasonable best efforts to cause each of the directors and senior officers of Amalco to tender, and not withdraw, their Amalco Securities pursuant to the Offer;

(i) Amalco will use its reasonable best efforts to ensure that all outstanding rights (other than Amalco Options) to purchase Amalco Shares are either exercised, terminated, expired or surrendered (which termination or surrender will be secured for consideration satisfactory to Newquest in its sole discretion) on or within one business day following Newquest first taking up and paying for any Amalco Securities pursuant to the Offer and to make no amendments to outstanding Amalco Options without the prior written consent of Newquest, except to cause the cancellation, termination, expiry or surrender of such rights;

(j) Amalco 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; and

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

9. Access to Information

Amalco and Newquest agree to provide each other with all information relating to their business and affairs, including access to officers and employees and to field sites, which the other may reasonably require in connection with this matter, which information shall remain subject to the confidentiality agreement dated October 19, 1999, as amended by a letter agreement dated October 28, 1999 and a letter of intent dated December 9, 1999 (the "**Confidentiality Agreement**") previously entered into between the parties.

With respect to the Offer, Amalco hereby consents to the Offer and Newquest is hereby released from any of the restrictions set forth in Section 5 of the Confidentiality Agreement. This provision shall terminate on the later of: (i) the termination of this Agreement; (ii) the expiry of the Offer; or (iii) the expiry of an Amalco Take-Over Proposal that is outstanding at the expiry of the Offer.

Amalco will conduct itself so as to keep Newquest 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 Newquest in respect thereof.

10. Disclosure

Prior to 7:00 a.m. (Calgary time) on January 27, 2000, Amalco and Newquest shall jointly announce the entering into of this Agreement and the making of the Offer, by way of a mutually agreed to press release in the form of **Schedule "D"** attached hereto. Amalco and Newquest agree to consult with each other before making or issuing any other press releases relating to the Offer or this Agreement and any such press releases shall be mutually satisfactory to both parties, subject to and acknowledged by each of Amalco and Newquest that they may be required to make certain disclosures under Applicable Laws and shall be permitted to do so.

11. Waiver of Security Covenant

Newquest covenants to Amalco that it has reviewed the Offer with its secured creditor and has been advised that the secured lender has provided an irrevocable covenant that its security shall not attach to the shares or assets of Amalco following its acquisition by Newquest.

12. Other Transactions Involving Amalco

(a) Amalco 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 Amalco Acquisition Proposal (as defined below);

(b) Amalco shall not, nor allow its subsidiaries to, nor authorize or permit any of the officers, directors or employees of Amalco or its subsidiaries or any financial advisor, expert or other representative retained by them to:

(i) solicit, initiate or encourage (including, without limitation, by way of furnishing information) any inquiry or the making of any proposal to Amalco 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 Amalco or its securityholders of any securities of Amalco or its subsidiaries; (B) any acquisition of a substantial amount of assets of any of Amalco or its subsidiaries; (C) an amalgamation, merger or consolidation of any of Amalco 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 Amalco or its subsidiaries or any other transaction, the consummation of which would, or could reasonably be expected to, impede, interfere with, prevent or delay the transactions contemplated by this Agreement or the Offer or which would or could reasonably be expected to materially reduce the benefits to Newquest under this Agreement or the Offer (any such inquiry or proposal in respect of any of the foregoing being an "**Amalco Acquisition Proposal**");

(ii) enter into or participate in any discussions or negotiations regarding an Amalco Acquisition Proposal, furnish to any other person any information with respect to the business, properties, operations, prospects or conditions (financial or otherwise) of Amalco or its subsidiaries or an Amalco 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 Amalco or its subsidiaries under confidential information agreements, including, without limitation, any "standstill provisions" thereunder;

provided that nothing in this paragraph shall be construed as limiting the power of the board of directors of Amalco from responding or acting in any manner if, in the opinion of the board of directors of Amalco, acting reasonably and upon written advice of counsel, such response or action is required in discharge of the fiduciary duties of the board of directors of Amalco or is required by law; and

(c) Amalco shall promptly provide notice to Newquest of any inquiry or proposal (including without limitation the terms and conditions of any such proposal, the identity of the person making it and all other information reasonably requested by Newquest) that Amalco receives or becomes aware of that is, or could become, an Amalco Acquisition Proposal and to promptly provide to Newquest a copy of any written Amalco Acquisition Proposal received by it within 24 hours of the receipt thereof. Amalco shall keep Newquest informed of the status and details of any such inquiry, offer or proposal and answer Newquest's questions with respect thereto, and shall give Newquest two business days' advance notice of any agreement to be entered into with, or any information to be supplied to, any person making such inquiry, offer or proposal.

13. Other Transactions Involving Newquest

(a) Newquest 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 Newquest Acquisition Proposal (as defined below);

(b) Newquest shall not, nor allow its subsidiaries to, nor authorize or permit any of the officers, directors or employees of Newquest or its subsidiaries or any financial advisor, expert or other representative retained by them to:

(i) solicit, initiate or encourage (including, without limitation, by way of furnishing information) any inquiry or the making of any proposal to Newquest 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 Newquest or its securityholders of any securities of Newquest or its subsidiaries; (B) any acquisition of a substantial amount of assets of any of Newquest or its subsidiaries; (C) an amalgamation, merger or consolidation of any of Newquest 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 Newquest or its subsidiaries or any other transaction, the consummation of which would, or could reasonably be expected to, impede, interfere with, prevent or delay the transactions contemplated by this Agreement or the Offer or which would or could reasonably be expected to materially reduce the benefits to Amalco under this Agreement or the Offer (any such inquiry or proposal in respect of any of the foregoing being a "**Newquest Acquisition Proposal**");

(ii) enter into or participate in any discussions or negotiations regarding a Newquest Acquisition Proposal, furnish to any other person any information with respect to the business, properties, operations, prospects or conditions (financial or otherwise) of Newquest or its subsidiaries or a Newquest 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 Newquest or its subsidiaries under confidential information agreements, including, without limitation, any "standstill provisions" thereunder;

provided that nothing in this paragraph shall be construed as limiting the power of the board of directors of Newquest from responding or acting in any manner if, in the opinion of the board of directors of Newquest, acting reasonably and upon written advice of counsel, such response or action is required in discharge of the fiduciary duties of the board of directors of Newquest or is required by law; and

(c) Newquest shall promptly provide notice to Amalco of any inquiry or proposal that Newquest receives or becomes aware of that is, or could become, a Newquest Acquisition Proposal and to promptly provide to Amalco a copy of any written Newquest Acquisition Proposal received by it.

14. Additional Agreements

Subject to the terms and conditions herein provided and to fiduciary obligations under Applicable Laws, each of the parties hereto agrees to use all reasonable best 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 best 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 Amalco's operations); (ii) to obtain all necessary consents, approvals and authorizations as are required to be obtained under any federal, provincial or foreign laws or regulations and all bylaws, rules and policies of The Toronto Stock Exchange and The Canadian Venture Exchange; (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 fulfil all conditions and satisfy all provisions of this Agreement and the Offer. For purposes of the foregoing, the obligations of Newquest and Amalco to use "**reasonable best 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.

15. 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 Newquest and Amalco;

(b) by Amalco if the Offer is not mailed on or prior to February 7, 2000 (or such later date as Amalco shall have agreed to) or if the Offer is mailed and then withdrawn by Newquest because of the announcement or making of a Newquest Take-Over Proposal;

(c) by Amalco if Newquest and its secured lender have not entered into definitive agreements, on terms satisfactory to Amalco, acting reasonably, on or before 4:30 p.m. (Calgary time) on the last business day prior to the expiry of the Offer;

(d) by either Newquest or Amalco if Newquest shall not have taken up and paid for Amalco Securities tendered to the Offer on or before the required time period following the expiry time (as it may be extended) of the Offer, unless the absence of such occurrence 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;

(e) by either Newquest or Amalco 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 15(d) shall have used all commercially reasonable efforts to remove such order, decree, ruling, or injunction;

(f) by Amalco if Newquest shall not have taken up and paid for any Amalco Shares tendered to the Offer on or before the 51st day following the date of the Offer;

(g) by either Newquest or Amalco if the other party is in material breach of any covenant, agreement, representation or warranty contained in this Agreement;

(h) by Newquest if any of the conditions set forth in Section 2 hereof are not satisfied prior to the date specified therein, or the date of the Offer;

(i) by Amalco if Amalco enters into an agreement providing for an Amalco Acquisition Proposal and Amalco has paid to Newquest the Amalco Termination Fee;

(j) by Newquest if Newquest enters into an agreement providing for a Newquest Acquisition Proposal and Newquest has paid to Amalco the Newquest Termination Fee;

(k) by Amalco if there occurs a material adverse change (other than a drop in the trading price of the Newquest Shares) in the assets, liabilities, business, operations or affairs of Newquest; or

(l) by Newquest if there occurs a material adverse change (other than a drop in the trading price of the Amalco Shares) in the assets, liabilities, business, operations or affairs of Amalco.

In the event of the termination of this Agreement as provided in this Section 15, this Agreement shall forthwith have no further force or effect and there shall be no liability on the part of Newquest or Amalco hereunder except as set forth in Sections 5, 6, 18 and 21 (provided that in the case of Section 5, the right of payment (in the case of Sections 5(a)(ii) and 5(b)(ii), being the public announcement or making of such Amalco Take-Over Proposal or Newquest Take-Over Proposal, as the case may be) arose prior to termination of this Agreement) and this Section 15, which provisions shall survive the termination of this Agreement. Nothing contained in this Section 15 shall relieve any party from liability for any breach of any provision 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.

16. Amendment

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

17. Waiver

Each of Newquest, on the one hand, and Amalco, 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 fulfilment of any conditions to its own 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.

18. Confidentiality Agreement

With respect to the Offer, Amalco hereby consents to the Offer and Newquest is hereby released from any of the restrictions set forth in section 5 of the Confidentiality Agreement. This Section shall terminate on the later of: (i) the termination of this Agreement; (ii) the expiry of the Offer; or (iii) the expiry of an Amalco Take-Over Proposal that is outstanding at the expiry of the Offer.

19. 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 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.

20. 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.

21. Expenses

Other than as provided in Sections 5 and 6 hereof, all fees, costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such cost or expense, whether or not the Offer is consummated.

22. Currency

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

23. Severability

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under Applicable Laws. 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.

24. 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. 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.

25. Alternative Structure

Amalco and Newquest acknowledge and agree that, based upon tax, corporate, securities and other considerations, Newquest may determine that it is more advantageous or appropriate to carry out the proposed acquisition contemplated by this agreement by way of plan of arrangement, amalgamation or other procedure. In the event that Newquest determines to carry out the proposed acquisition pursuant to such alternative procedure, the terms and conditions hereof shall apply, mutatis mutandis, to the alternate arrangement with such changes and modifications thereto as are necessary or desirable to implement such alternate procedure and give effect to the intentions of the parties as expressed herein.

26. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and each of Newquest and Amalco irrevocably attorns to the jurisdiction of the courts of the Province of Alberta.

If you are in agreement with the foregoing, please execute this letter agreement in the space provided and return one fully-executed copy to the undersigned. Your execution of this Agreement shall constitute this document to be a binding agreement between us on the terms as aforesaid.

Yours very truly,

NEWQUEST ENERGY INC.

Per: (Signed) *"Raymond Wilkinson"*
Raymond Wilkinson
Chairman of the Special Committee

ACKNOWLEDGED AND ACCEPTED this 26th day of January, 2000

RANCHERO OIL & GAS LTD.

Per: (Signed) *"Charles W. Berard"*
Charles W. Berard
Chairman of the Special Committee

SCHEDULE "A"
To letter dated January 26, 2000 from
Newquest Energy Inc. to Ranchero Oil & Gas Ltd.

Newquest 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 Amalco Shares deposited under the Offer unless all of the following conditions are satisfied or waived by Newquest:

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

(b) all necessary regulatory approvals in connection with the Offer and the acquisition of the Amalco Shares pursuant to the Offer shall have been obtained on terms and conditions satisfactory to Newquest in its sole judgment, acting reasonably;

(c) all other material 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 Newquest, acting reasonably, are reasonably necessary or desirable shall have been obtained on terms and conditions satisfactory to Newquest in its sole judgment, acting reasonably, and shall be in full force and effect, and any and all other material applicable waiting periods under any competition, merger control or similar laws, regulation or other governmental authority having jurisdiction over Amalco, Newquest, the Offer or any other transaction contemplated by the Offer 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;

(d) (i) Newquest shall have determined in its sole judgment that no act, action, suit, proceeding, objection or opposition shall have been threatened or taken before or by any domestic or foreign court or tribunal or governmental agency or other regulatory authority or administrative agency or commission by any elected or appointed public official or by any private person (including, without limitation, any individual, body corporate, partnership, syndicate, firm, group, trust, trustee, personal representative or other form of unincorporated entity) in Canada or elsewhere, whether or not having the force of law; and

(ii) Newquest shall have determined in its sole judgment that no law, regulation, policy, judgment, decision, order, ruling or directive (including applicable tax laws and regulations in those jurisdictions in which Amalco or any of its subsidiaries carries on business) shall have been proposed, enacted, promulgated, amended or applied, whether or not having the force of law, which in the case of either (i) or (ii):

(A) 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 Newquest of the Amalco Shares or the right of Newquest to own or exercise full rights of ownership of the Amalco Shares or the ability of Newquest to issue securities of Newquest under any compulsory acquisition or Subsequent Acquisition Transaction; or

(B) has had, or may have, a material adverse effect on the business, operations or financial condition of Amalco and its subsidiaries considered on a consolidated basis or Newquest and its subsidiaries considered on a consolidated basis or the value of the Amalco Shares to Newquest; or

(C) has a material adverse effect on Newquest's ability to effect a compulsory acquisition or a Subsequent Acquisition Transaction;

(e) Newquest shall have determined in its sole judgment, acting reasonably, that there shall not exist any prohibition at law against Newquest making the Offer or taking up and paying for all of the Amalco Shares under the Offer or completing any compulsory acquisition or any Subsequent Acquisition Transaction;

(f) Newquest shall in its sole judgment, acting reasonably, be satisfied that all outstanding stock options of Amalco shall either have been exercised or terminated or may be terminated on a basis acceptable to Newquest in its sole judgment, acting reasonably, prior to the Expiry Time or will be exchanged for options on Newquest Shares on a basis acceptable to Newquest, acting reasonably, including terms adjusting the exercise price and number of Newquest Shares to be acquired by the optionee on a basis proportionate to the terms of the Offer;

(g) Newquest shall have determined in its sole judgment, acting reasonably, that neither Amalco nor its directors or officers has taken or proposed to take any action, or publicly disclosed that it intends to take any action, and Newquest shall not have otherwise learned of any previous action taken by Amalco which had not been publicly disclosed prior to the announcement by Newquest of its intention to make the Offer, that would be materially adverse to the business of Amalco or the value of the Amalco Shares to Newquest or that would make it inadvisable for Newquest to proceed with the Offer and/or with the taking up and paying for Amalco 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 Amalco or any of its subsidiaries other than any such sale, disposition or other dealing between Amalco and any wholly-owned subsidiary of Amalco, any issue of shares, options or other securities of Amalco to any person or any material acquisition from a third party of assets or securities by Amalco or any of its subsidiaries, or any material capital expenditure by Amalco or any of its subsidiaries not in the ordinary course of business;

(h) there shall not have occurred (and there shall not have been publicly disclosed, and Newquest 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 Amalco or any of its subsidiaries which, in the sole judgment of Newquest, acting reasonably, is materially adverse to the business of Amalco or to the value of the Amalco Shares to Newquest;

(i) Newquest shall have determined in its sole judgment, acting reasonably, that: (i) no material right, franchise or licence of Amalco 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 Amalco Shares deposited under the Offer or otherwise which might make it inadvisable for Newquest to proceed with the Offer and/or with the taking up and paying for the Amalco Shares under the Offer, and (ii) no covenant, term or condition of any instruments or agreements of Amalco or its affiliates or its subsidiaries exists which might make it inadvisable for Newquest to proceed with the Offer and/or with the taking up and paying for the Amalco 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 Newquest taking up and paying for the Amalco 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 announcement, governmental or regulatory initiative, condition, event or development involving a change or a prospective change) that, in the sole judgment of Newquest, 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 Newquest or Amalco 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 Amalco with Newquest or any subsidiary, associate or affiliate of Newquest or any reorganization of Amalco or Newquest in connection with any such potential integration;

(k) Amalco shall not be in default, in any material respect, of any of its obligations under this Agreement with respect to the Offer, the representations and warranties made by Amalco in this Agreement shall be true and correct in all material respects as of the first date of the take up and payment for Amalco Shares under the Offer and this Agreement shall not have been otherwise terminated; and

(l) the shareholders of Amalco who have entered into agreements to tender their Amalco Shares and Amalco Options to the Offer (the "**Tendering Shareholders**") shall not be in default, in any material respect, of any of their obligations under the agreements to tender, the representations and warranties made by the Tendering Shareholders in the agreements to tender shall be true in all material respects as of the first date of the take up and payment for Amalco Shares under the Offer and the agreements to tender shall not have been otherwise terminated.

Any determination by Newquest concerning the events described in this Schedule "A" will be final and binding upon all parties.

For the purpose of this Schedule "A", a "Subsequent Acquisition Transaction" means an amalgamation, statutory arrangement or other transaction involving Newquest or a wholly-owned subsidiary of Newquest in order to acquire all of the Amalco Shares not deposited under the Offer.

SCHEDULE "B"
To letter dated January 26, 2000 from
Newquest Energy Inc. to Ranchero Oil & Gas Ltd.

NEWQUEST ENERGY INC.
1000, 421 - 7th Avenue S.W.
Calgary, AB T2P 4K9

Private & Confidential January 26, 2000

____
Name

____
Address

____
City, Province, Postal Code

____
Telecopier

(hereinafter referred to as the "**Tendering Shareholder**")

Dear Sirs:

<u>Re: Ranchero Oil & Gas Ltd. - Agreement to Tender</u>

Newquest Energy Inc. ("**Newquest**") understands that the Tendering Shareholder is the beneficial owner of an aggregate of ____________ common shares and ___________ options to purchase common shares (collectively, the "**Tendered Securities**") in the capital of Ranchero Oil & Gas Ltd. ("**Amalco**").

1. **The Offer**

1.1 Subject to the terms and conditions of this agreement, Newquest is prepared to make, not later than February 7, 2000, a take-over bid (the "**Offer**") for all of the issued and outstanding Common Shares ("**Amalco Shares**") and options ("**Amalco Options**") to purchase Amalco Shares in the capital of Amalco.

1.2 The Offer shall consist of an offer to purchase all of the issued and outstanding Amalco Shares on the basis of 2.86 Class A Shares of Newquest (the "**Newquest Shares**") for each Amalco Share and an offer to purchase all of the issued and outstanding Amalco Options on the basis of 2.86 options of Newquest (the "**Newquest Options**") for each Amalco Option, each Newquest Option entitling the holder to purchase one Newquest Share for $0.13 on or before November 17, 2004. The Offer shall be made by way of a take-over bid offer and circular prepared in accordance with the requirements of all applicable securities laws. The obligation of Newquest to make the Offer and the obligations of Newquest under the Offer to take up and pay for any Amalco Securities thereunder shall be subject to the conditions set forth in the letter agreement dated January 26, 2000 between Amalco and Newquest (the "**Letter Agreement**"). Subject to the Letter Agreement, Newquest shall have the right to vary the Offer in such manner as Newquest considers necessary or desirable and is not inconsistent with any of the provisions of this agreement.

1.3 Newquest agrees with and represents to the Tendering Shareholder that the board of directors of Newquest (the "**Newquest Board**") has determined that if Newquest takes up and pays for 66 **b** % of the outstanding Amalco Shares (on a fully diluted basis), Newquest and management of Newquest (including the Newquest Board) shall use reasonable commercial efforts to have Charles Berard and Terry Owen, being nominees of Amalco, appointed as directors of Newquest.

1.4 Newquest agrees to use reasonable commercial efforts to secure directors' and officers' liability insurance coverage for Amalco's current and former directors and officers on a seven year "trailing" or "run off" basis from and after the date Newquest first takes up and pays for any Amalco Shares pursuant to the Offer. Newquest also agrees to assume the obligations of Amalco under the indemnity agreements between Amalco and the Tendering Shareholders provided that such agreements are in substantially the form previously provided to Newquest.

2. **Agreement to Tender**

2.1 Subject to the terms and conditions hereof, the Tendering Shareholder hereby irrevocably agrees to deposit the Tendered Securities under the Offer not later than five (5) business days prior to the expiry of the Offer and, notwithstanding the rights granted to the Tendering Shareholder by applicable securities legislation or the terms of the Offer, further irrevocably agrees that thereafter the Tendering Shareholder will not withdraw any of the Amalco Shares deposited by the Tendering Shareholder under the Offer until the earliest of:

(a) the 51st day following the date of the Offer;

(b) the date on which the Offer expires or is terminated without Newquest taking up and paying for the Tendered Securities deposited under the Offer; and

(c) the date on which this agreement is terminated pursuant to Article 6 hereof,

provided that there shall not have occurred any changes (or any condition, event or development involving a prospective change), after the date hereof or prior to the date hereof which has not been previously generally disclosed to the public or disclosed prior to the date hereof to the Tendering Shareholder in writing, in the business, affairs, operations, assets, capitalization, financial condition, prospects, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, of Newquest which, in the sole judgment of the Tendering Shareholder, acting reasonably, is materially adverse to Newquest or the value of the Newquest Shares to the Tendering Shareholder.

3. **Obligation to Purchase the Tendered Securities**

3.1 Upon the terms and subject to the conditions of the Offer, Newquest will accept for payment, and will take up and pay for, all Amalco Securities deposited and not withdrawn under the Offer promptly after the expiry thereof, and in any event within the time period prescribed by applicable securities laws.

4. **Representations, Warranties and Covenants of the Tendering Shareholder**

4.1 The Tendering Shareholder represents and warrants to Newquest, and acknowledges that Newquest is relying upon such representations and warranties in entering into this agreement that:

(a) the Tendering Shareholder has good and sufficient power, authority and right to enter into this agreement and to complete the transactions contemplated hereby;

(b) assuming the due execution and delivery of this agreement by Newquest, upon the execution and delivery hereof by the Tendering Shareholder, this agreement shall be a legal, valid and binding obligation of the Tendering Shareholder enforceable by Newquest against the Tendering Shareholder in accordance with its terms (subject to the usual exceptions as to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and the availability of equitable remedies) and the consummation by the Tendering Shareholder of the transactions contemplated hereby will not constitute a violation of or a default under, or conflict with, any material contract, commitment, agreement, arrangement, understanding or restriction of any kind to which the Tendering Shareholder is a party or by which the Tendering Shareholder is bound;

(c) the Tendering Shareholder is the beneficial owner of the Tendered Securities (and the Tendered Securities represent all of the Amalco Shares beneficially owned or over which control or direction is exercised by the Tendering Shareholder) free and clear of all liens, charges, encumbrances, security interests and other rights of others whatsoever and has good and sufficient power, authority and right to transfer or cause to be transferred the legal and beneficial title to such Amalco Shares to Newquest with good and marketable title thereto;

(d) if an officer or director of Amalco, there has been no material adverse change (as such term is defined in the *Securities Act* (Alberta)) in the business, results of operations, assets, liabilities, condition (financial or otherwise) or affairs of Amalco and its subsidiaries considered as a whole since September 30, 1999 that has not been generally disclosed and reported in accordance with law to the applicable securities regulatory authorities, nor does the Tendering Shareholder have any knowledge of any other undisclosed material adverse information in regard to the current and prospective operations of Amalco and its subsidiaries considered as a whole other than changes attributable to or caused by general economic conditions, including changes in interest rates and fluctuations in the prices of petroleum substances; and

(e) the foregoing representations and warranties will be true, correct and complete on the date on which the Offer is made and on the date on which Newquest purchases the Tendered Securities.

4.2 The Tendering Shareholder covenants and agrees with Newquest that so long as the Tendering Shareholder is not entitled to withdraw the Amalco Shares owned by the Tendering Shareholder from the Offer, the Tendering Shareholder will not, and will use its best efforts to cause its representatives and advisors not to, directly or indirectly:

(a) solicit, initiate, invite, encourage or continue any inquiries or proposals from, or negotiations with, any person, company or other entity other than Newquest or any of its affiliates relating to the purchase of Amalco Shares, any amalgamation, merger or other form of business combination involving Amalco or any of its subsidiaries, any sale, lease, exchange or transfer of all or a substantial portion of the assets of Amalco or any of its subsidiaries, or any take-over bid, reorganization, recapitalization, liquidation or winding-up of or other business combination or other transaction involving Amalco or any of its subsidiaries with any person other than Newquest or any of its affiliates (a "**Proposed Transaction**");

(b) enter into any agreement, discussions or negotiations with any person, company or other entity other than Newquest or any of its affiliates with respect to a Proposed Transaction or a potential Proposed Transaction;

(c) furnish or cause to be furnished any non-public information concerning the business, results of operations, assets, liabilities, prospects, financial condition or affairs of Amalco or any of its subsidiaries to any person, company or other entity other than Newquest and its representatives, other than as disclosed prior to the date hereof; or

(d) take any action that might reasonably be expected to reduce the likelihood of success of the Offer, subject to the fiduciary duties of a Tendering Shareholder who is also a director or officer of Amalco.

The Tendering Shareholder will notify Newquest promptly if any such discussions or negotiations are sought or if any proposal in respect of a Proposed Transaction is received, being considered or indicated to be forthcoming.

4.3 The Tendering Shareholder covenants and agrees with Newquest, so long as the Tendering Shareholder is not entitled to withdraw the Amalco Shares owned by the Tendering Shareholder from the Offer, that:

(a) it shall not sell, assign, convey or otherwise dispose of any of the Tendered Securities;

(b) it shall not exercise any shareholder rights or remedies available at common law or pursuant to applicable securities or corporate laws to delay, hinder, upset or challenge the Offer;

(c) if a director or officer of Amalco, it shall use all reasonable efforts to allow Newquest reasonable access to information concerning Amalco and its subsidiaries to enable Newquest to conduct and complete its due diligence review of Amalco and its subsidiaries and their respective business, operations, assets, liabilities, prospects, condition (financial and otherwise), capital and affairs and, upon completion of such review, to enable Newquest to monitor the business and affairs of Amalco and its subsidiaries;

(d) it shall exercise all voting rights attached to the Amalco Shares owned by the Tendering Shareholder to vote against any resolution to be considered by the shareholders of Amalco that, if approved, could reasonably be considered to reduce the likelihood of success of the Offer;

(e) it shall exercise all voting rights attached to the Amalco Shares beneficially owned by the Tendering Shareholder and use its reasonable endeavours to cause Amalco and its subsidiaries to carry on their respective businesses in the regular and ordinary course consistent with past practice;

(f) if requested by Newquest, the Tendering Shareholder, if a director of Amalco, hereby agrees to deliver to Newquest, on the date Newquest takes up and pays for the Amalco Shares under the Offer, his resignation as a director of Amalco, in such a manner so that nominees of Newquest may be substituted therefor;

(g) with respect to information furnished by the Tendering Shareholder with respect to such Tendering Shareholder in connection with any application, statement or filing relating to the Offer, such information, at the time such information is furnished shall be correct in all material respects and shall not omit any material fact required to be stated therein or necessary to make the statements therein not misleading; and

(h) if the Tendering Shareholder is either Charles Berard or Terry Owen, the Tendering Shareholder agrees to act in the capacity set out and referred to in Section 1.3 above.

5. **Representations, Warranties and Covenants of Newquest**

5.1 Newquest represents and warrants to the Tendering Shareholder, and acknowledges that the Tendering Shareholder is relying upon such representations and warranties in entering into this agreement, that:

(a) it has good and sufficient power, authority and right to enter into this agreement and to complete the transactions contemplated hereby;

(b) assuming the due execution and delivery of this agreement by the Tendering Shareholder, upon the execution and delivery hereof by Newquest, this agreement shall be a legal, valid and binding obligation of Newquest enforceable by the Tendering Shareholder against Newquest in accordance with its terms, (subject to the usual exceptions as to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and the availability of equitable remedies) and the consummation by it of the transactions contemplated hereby will not constitute a violation of or a default under, or conflict with, any material contract, commitment, agreement, arrangement, understanding or restriction of any kind to which it is a party or by which it is bound; and

(c) the foregoing representations and warranties will be true, correct and complete on the date on which the Offer is made and on the date on which Newquest purchases the Tendered Securities.

6. **Termination**

6.1 The obligations hereunder of the Tendering Shareholder shall terminate at the option of the Tendering Shareholder upon written notice given by the Tendering Shareholder to Newquest:

(a) if Newquest has not made the Offer by midnight (Calgary time) on February 7, 2000;

(b) if, the Offer having been made by the time referred to in subsection (a), Newquest has not, for any reason whatsoever, taken up and paid for the Tendered Securities under the Offer by the 50th day following the date thereof;

(c) if Newquest has breached or failed to perform and satisfy any of its covenants or agreements herein contained in a material respect or any of the representations and warranties of Newquest set forth herein are not true and correct in any material respect;

(d) if the Tendering Shareholder withdraws (and is not required to redeposit) the Tendered Securities pursuant to Section 8.1; or

(e) if the Letter Agreement has terminated.

6.2 The obligations hereunder of Newquest shall terminate at the option of Newquest upon written notice given by Newquest to the Tendering Shareholder:

(a) if the Tendering Shareholder has breached or failed to perform and satisfy any of its covenants or agreements herein contained in a material respect or any of the representations and warranties of the Tendering Shareholder set forth herein are not true and correct in any material respect; or

(b) if the Letter Agreement has terminated.

6.3 In the event of the termination of this agreement as provided in sections 6.1 and 6.2 above, this agreement shall forthwith become void and of no further force or effect and there shall be no liability on the part of any party hereto, provided that the foregoing shall not relieve any party from any liability for any breach of this agreement.

7. **Regulatory Approvals**

7.1 The Tendering Shareholder covenants that, so long as the Tendering Shareholder is not entitled to withdraw any of the Tendered Securities from the Offer, the Tendering Shareholder shall co-operate with Newquest in obtaining all governmental and regulatory approvals required to permit Newquest to make the Offer in accordance with its terms and to acquire Amalco Securities thereunder.

8. **Ability to Tender to a Competing Offer**

8.1 In the event that a Competing Offer (as defined below) is made to purchase Amalco Shares offering a consideration in excess of that offered under the Offer and Newquest does not increase the consideration offered under the Offer (as hereinafter provided) to a price equal to or greater than such higher consideration offered under the Competing Offer before the earlier of:

(a) 10 days after the date the Competing Offer is made; and

(b) the date on which the Offer expires or is terminated,

then the Tendering Shareholder shall be entitled to withdraw any Tendered Securities deposited to the Offer in order to deposit such Tendered Securities to the Competing Offer. In the event the Competing Offer has expired and any Tendered Securities deposited to the Competing Offer have not been acquired pursuant to the Competing Offer and the Offer has not expired or been terminated, then the Tendering Shareholder shall redeposit such Tendered Securities in acceptance of the Offer as herein provided.

For the purposes of this agreement, "**Competing Offer**" shall mean a bona fide offer made by circular bid to purchase all of the outstanding Amalco Shares for cash, shares or a combination of cash and shares at a price in excess of the consideration offered by Newquest under the Offer. The value of the Offer and of any shares offered as consideration in a Competing Offer will be the Market Value. "**Market Value**" of shares shall mean the weighted average trading price of such shares on its principal stock exchange during the 20 consecutive trading days ending on the trading day prior to the date on which the applicable take-over bid offer is announced or the take-over bid circular is mailed, whichever is earlier.

9. **General**

9.1 No disclosure of the subject matter of this agreement shall be made by the Tendering Shareholder or by Newquest except to their respective counsel or to any other professional advisor engaged by them or as may be required by applicable law or regulatory authorities; provided, however, that the foregoing shall not prevent Newquest from disclosing the terms of this agreement in the Offer in such manner as Newquest or its counsel, acting reasonably, considers appropriate after consultation with counsel to Amalco. Subject to compliance with any disclosure obligation imposed by law, the parties shall co-ordinate the making and dissemination of any public announcement relating to the subject matter of this agreement.

9.2 This agreement shall not be assignable by any party hereto. Subject to the foregoing, this agreement shall be binding upon and shall enure to the benefit of and be enforceable by the Tendering Shareholder and Newquest and their respective successors and permitted assigns.

9.3 The representations, warranties and covenants of the Tendering Shareholder and of Newquest herein shall survive the consummation of the Offer and the purchase of Amalco Shares by Newquest thereunder and shall continue in full force and effect for a period of two years from the date hereof.

9.4 Time shall be of the essence of this agreement.

9.5 Any notice or other communication required or permitted to be given hereunder shall be sufficiently given if delivered:

(a) in the case of the Tendering Shareholder, to the address appearing on the first page of this letter; and

(b) in the case of Newquest, to the address appearing on the first page of this letter, Attention: President
Telecopy: (403) 781-7525

or at such other address as the party to which such notice or other communication is to be given has last notified the party giving the same in the manner provided in this paragraph.

9.6 All references to Amalco Shares herein shall include any shares into which the Amalco Shares may be reclassified, subdivided, redivided, consolidated or converted by amendment to the articles of Amalco and the prices per share referred to herein shall be amended accordingly.

9.7 Words signifying the singular number shall include, whenever appropriate, the plural and vice versa; and words signifying the masculine gender shall include, whenever appropriate, the feminine or neuter gender.

9.8 This agreement and the rights and obligations of the parties hereto shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein and Newquest and the Tendering Shareholder each irrevocably attorn to the jurisdiction of the courts of the Province of Alberta.

9.9 Newquest and the Tendering Shareholder agree to pay their own respective expenses incurred in connection with this agreement.

10. **Alternative Structure**

10.1 The Tendering Shareholder and Newquest acknowledge and agree that, based upon tax, corporate, securities and other considerations, Newquest may determine that it is more advantageous or appropriate to carry out the proposed acquisition contemplated by this agreement by way of plan of arrangement, amalgamation or other procedure. In the event that Newquest determines to carry out the proposed acquisition pursuant to such alternative procedure, the terms and conditions hereof shall apply, mutatis mutandis, to the alternate arrangement with such changes and modifications thereto as are necessary or desirable to implement such alternate procedure and give effect to the intentions of the parties contained herein.

11. **Acceptance**

11.1 If you are in agreement with the foregoing, kindly signify your acceptance by signing he second copy of this letter and delivering it to Newquest in the manner provided below prior to 5:00 p.m. (Calgary time), on January 26, 2000 failing which the offer constituted by this letter shall terminate and be of no further effect. This letter may be signed in two or more counterparts that together shall be deemed to constitute one valid and binding agreement and delivery of counterparts may be effected by means of facsimile transmission.

Yours very truly,

NEWQUEST ENERGY INC.

Per: ________________________________

In consideration of your agreement to make the Offer as described above and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Tendering Shareholder hereby irrevocably accepts the foregoing as of this _____ day of January, 2000.

____
Authorized Signature

If the signatory is not the Tendering Shareholder, please complete the following:

____
Print name of signatory

____
Print official capacity of signatory

GGT_P/588102.3/C73#03!.WPD

SCHEDULE "C"
To letter dated January 26, 2000 from
Newquest Energy Inc. to Ranchero Oil & Gas Ltd.

---

1. ***Amalco Representations***. Amalco represents and warrants to Newquest that:

1.1 Amalco 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. Amalco 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 Amalco and its subsidiaries taken as a whole;

1.2 Amalco 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 Amalco of the transactions contemplated hereby have been duly authorized by Amalco's board of directors and no other corporate proceedings on the part of Amalco are or will be necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Amalco and constitutes the legal, valid and binding obligation of Amalco enforceable against Amalco 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;

1.3 neither the execution and delivery of this Agreement by Amalco, the consummation by Amalco of the transactions contemplated hereby nor compliance by Amalco 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 Amalco or any of its subsidiaries under, any of the terms, conditions or provisions of (x) the charter or bylaws of Amalco, or (y) any material note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Amalco 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 Amalco 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 Amalco 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 Amalco and its subsidiaries taken as a whole or on the ability of Amalco to consummate the transactions contemplated hereby);

1.4 other than in connection with or in compliance with the provisions of Applicable Laws, (i) there is no legal impediment to Amalco'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 Amalco 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 Amalco to consummate the transactions contemplated hereby;

1.5 the authorized capital of Amalco consists of an unlimited number of common shares, an unlimited number of Class A Preferred Shares and an unlimited number of Class B Preferred Shares, of which there are 8,263,624 common shares and no Class A Preferred Shares or Class B Preferred Shares issued and outstanding, all of which shares are, or will be at the date of issue, validly issued, fully paid and non-assessable;

1.6 no person holds any securities convertible or exchangeable into shares of Amalco or has any agreement, warrant, option, right or privilege being or capable of becoming an agreement, warrant, option or right for the purchase or other acquisition of any unissued securities of Amalco except for stock options entitling the holders thereof to acquire an additional 454,000 Amalco Shares at a price of $0.375 per share;

1.7 Amalco is a "reporting issuer" (as defined in Applicable Laws) in the Province of Alberta;

1.8 Amalco has made all filings required under Applicable 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 Amalco, were true, correct and complete and did not contain any misrepresentation, as at the date of such information or statements;

1.9 except as disclosed to Newquest in writing, since November 18, 1999 there has been no material adverse change (or any condition, event or development involving a prospective change that would be materially adverse to Amalco) in the business, affairs, operations, assets, capitalization, financial condition, prospect, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, of Amalco or any of its subsidiaries;

1.10 except as disclosed to Newquest in writing, the data and information in respect of Amalco and its assets, reserves, liabilities, business and operations 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. Amalco made available to Ryder Scott, prior to the issuance of its report as of July 1, 1999 (the "**Ryder Scott Report**"), all information requested by Ryder Scott for the purposes of preparing the Ryder Scott Report. All information delivered to Ryder Scott for the purposes of preparing the Ryder Scott Report, does not, at the date hereof, contain any material misrepresentation. Amalco has no knowledge of any material adverse change in any reserves information provided to Ryder Scott since the date that such information was so provided. Amalco believes that the Ryder Scott Report reasonably presents the quantity and pre-tax present worth values of oil and gas reserves of Amalco as at July 1, 1999 based upon information available at the time the Ryder Scott Report was prepared and the assumptions as to commodity prices and costs contained therein;

1.11 except as disclosed to Newquest in writing, there are no outstanding or threatened claims, suits, actions or proceedings against Amalco;

1.12 each of the pro forma balance sheet of Amalco as at August 6, 1999 and the financial statements of Boom as at and for the nine month period ended September 30, 1999 fairly presents, in accordance with generally accepted accounting principles in Canada, consistently applied, the financial position and condition of Amalco and Boom and their respective subsidiaries, as the case may be, on a consolidated basis at the date thereof and reflects all material assets, liabilities or obligations (absolute, accrued, contingent or otherwise) of Amalco and Boom and their respective subsidiaries on a consolidated basis as at the dates thereof;

1.13 except as disclosed to Newquest in writing, Amalco 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 Amalco and Amalco has all material 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 Amalco. All of the assets of Amalco operated and maintained by Amalco 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 Amalco or any subsidiary in all material respects;

1.14 Amalco has no employees;

1.15 Amalco 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 Amalco has retained Macleod Dixon as its legal advisors in connection with certain matters, including the transactions contemplated herein;

1.16 the board of directors of Amalco 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 Amalco Shares and has resolved to unanimously recommend acceptance of the Offer by holders of Amalco Shares;

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

1.18 Amalco has, pursuant to agreements disclosed to Newquest, obligations to renounce expenditures pursuant to flow-through share agreements accepted on June 30, 1999 and November 18, 1999 between certain subscribers and Amalco in an amount not exceeding $270,000 and $350,000, respectively, on or prior to December 31, 1999;

1.19 the corporate records and minute books of Amalco have been maintained in accordance with all applicable statutory requirements and are complete and accurate in all material respects, other than minutes of meetings since January 1, 2000;

1.20 except as has been disclosed to Newquest in writing, neither Amalco nor any of its subsidiaries is aware of, or has received:

(a) any order or directive which relates to environmental matters and which requires any material work, repairs, construction, or capital expenditures; or

(b) any demand or notice with respect to the material breach of any environmental, health or safety law applicable to Amalco or any of its subsidiaries or any of their business undertakings, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of environmental contaminants; and

1.21 for purposes of this Agreement, the following definitions shall apply:

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

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

1.22 all Returns required to be filed by or on behalf of Amalco or any subsidiaries have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. Except as disclosed in writing by Amalco to Newquest prior to the date hereof, all Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are payable by Amalco or any subsidiaries with respect to items or periods covered by such Returns;

1.23 Amalco has paid or provided adequate accruals in its financial statements for the year ended December 31, 1998 for Taxes, including income taxes and related deferred taxes, in conformity with generally accepted accounting principles applicable in Canada;

1.24 for all periods Amalco has agreed to provide Newquest with true and complete copies of: (i) relevant portions of income tax audit reports, statements of deficiencies, closing or other agreements received by Amalco or any subsidiary or on behalf of Amalco or any subsidiary relating to Taxes; and (ii) all *pro-forma* separate federal and provincial income or franchise tax returns for Amalco or any subsidiaries; and

1.25 except as disclosed to Newquest in writing, no deficiencies exist or have been asserted with respect to Taxes of Amalco or any subsidiary. Except as disclosed in writing to Newquest prior to the date hereof, neither Amalco nor any subsidiary is a party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against Amalco or any subsidiary or any of their respective assets. No waiver or extension of any statute of limitations is in effect with respect to Taxes or Returns of Amalco or any subsidiary. Except as has been disclosed in writing to Newquest, the Returns of Amalco and any subsidiary have never been audited by a government or taxing authority, nor is any such audit in process, pending or threatened.

2. ***Newquest Representations***. Newquest represents and warrants to Amalco that:

2.1 Each of Newquest and its subsidiaries (including 857278 Alberta Ltd. ("**Numberco**")) is a corporation duly incorporated and validly subsisting under the laws of the Province of Alberta and each has the requisite corporate power and authority to carry on its business as it is now being conducted. Each of Newquest and its subsidiaries is duly registered to do business and each 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 Newquest and its subsidiaries taken as a whole;

2.2 as of the date upon which Newquest takes up Amalco Shares pursuant to the Offer: (i) the Newquest Energy Limited Partnership (the "**Partnership**") will be a limited partnership duly formed and registered under the laws of the Province of Alberta and will have the requisite power and authority to carry on the oil and gas business previously conducted directly by Newquest; (ii) the Partnership will be duly registered to do business and will be 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 the Partnership; and (iii) the only partners of the Partnership will be Numberco, as general partner, and Newquest, as limited partner;

2.3 Newquest 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 Newquest of the transactions contemplated hereby have been duly authorized by Newquest's board of directors and no other corporate proceedings on the part of Newquest are or will be necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Newquest and constitutes the legal, valid and binding obligation of Newquest enforceable against Newquest 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;

2.4 neither the execution and delivery of this Agreement by Newquest, the consummation by Newquest of the transactions contemplated hereby nor compliance by Newquest 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 Newquest or any of its subsidiaries or the Partnership under any of the terms, conditions or provisions of (x) the charter or bylaws of Newquest, or (y) any material note, bond, mortgage, indenture, loan agreement, deed of trust, agreement, lien, contract or other instrument or obligation to which Newquest or any of its subsidiaries or the Partnership is a party or to which any of them, or any of their respective properties or assets, may be subject or by which Newquest or any of its subsidiaries or the Partnership 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 Newquest or any of its subsidiaries or the Partnership (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 Newquest and its subsidiaries taken as a whole or on the ability of Newquest to consummate the transactions contemplated hereby);

2.5 other than in connection with or in compliance with the provisions of Applicable Laws, (i) there is no legal impediment to Newquest'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 Newquest 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 Newquest to consummate the transactions contemplated hereby;

2.6 the authorized capital of Newquest consists of an unlimited number of Class A Shares and an unlimited number of Class B Shares, of which there are 23,686,522 Class A Shares and no Class B Shares issued and outstanding, all of which shares are validly issued, fully paid and non-assessable;

2.7 the authorized capital of Numberco consists of an unlimited number of Common Shares, of which there are 100 Common Shares issued and outstanding, all of which are validly issued, fully paid and non-assessable, and all of which are held, beneficially and of record by Newquest;

2.8 no person holds any securities convertible or exchangeable into shares of Newquest or has any agreement, warrant, option, right or privilege being or capable of becoming an agreement, warrant, option or right for the purchase or other acquisition of any unissued securities of Newquest except pursuant to the Offer and except for stock options entitling the holders thereof to acquire an additional 1,018,000 Newquest Shares;

2.9 Newquest has made all filings required under Applicable 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 Newquest, were true, correct and complete and did not contain any misrepresentation, as at the date of such information or statements;

2.10 except as has been publicly disclosed, since December 31, 1998 there has been no material adverse change, (or any condition, event or development involving a prospective change that would be materially adverse to Newquest) in the business, affairs, operations, assets, capitalization, financial condition, prospect, licenses, permits, rights, privileges or liabilities, whether contractual or otherwise, of Newquest or any of its subsidiaries considered on a consolidated basis;

2.11 the financial statements of Newquest for the year ended December 31, 1998 and each of the quarters ended March 31, 1999, June 30, 1999 and September 30, 1999 fairly present, in accordance with generally accepted accounting principles in Canada, consistently applied, the financial position and condition of Newquest and its subsidiaries on a consolidated basis at the date thereof and the results of the operations of Newquest 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 Newquest and its subsidiaries on a consolidated basis as at the dates thereof;

2.12 except as has been publicly disclosed, there are no outstanding or threatened claims, suits, actions or proceedings against Newquest which, if determined adversely to Newquest would have a material adverse effect on the assets, liabilities, business or operations of Newquest;

2.13 except as has been publicly disclosed, the data or information in respect of Newquest and its assets, reserves, liabilities, business and operations provided by Newquest or its advisors to Amalco 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;

2.14 except as has been publicly disclosed, Newquest 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 Newquest or any of its subsidiaries and Newquest has 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 Newquest or any of its subsidiaries. All of the assets of Newquest operated and maintained by Newquest 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 Newquest or any subsidiary in all material respects;

2.15 the board of directors of Newquest has reserved and allotted to holders of Amalco Shares that accept the Offer a sufficient number of Newquest 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 Amalco Shares that accept the Offer and who receive such shares in accordance with the terms thereof; and

2.16 the board of directors of Newquest has reserved and allotted to holders of Amalco Options that accept the Offer a sufficient number of options of Newquest on the appropriate number of Newquest Shares at the appropriate exercise price and, upon acceptance of the Offer in accordance with the terms thereof, such options will be validly issued to the previous holders of Amalco Options that accept the Offer and who receive such options in accordance with the terms thereof.

SCHEDULE "D"
To letter dated January 26, 2000 from
Newquest Energy Inc. to Ranchero Oil & Gas Ltd.

NOT FOR DISTRIBUTION TO U.S. NEWS WIRE SERVICES OR FOR DISSEMINATION IN THE UNITED STATES

JOINT PRESS RELEASE
NEWQUEST ENERGY INC.
ANNOUNCES TAKE-OVER BID FOR
RANCHERO OIL & GAS LTD.

Calgary, Alberta January 27, 2000

Newquest Energy Inc. (NQE.A - TSE) and Ranchero Oil & Gas Ltd. (ROG - CDNX) announce that they have entered into an agreement pursuant to which Newquest will make an offer to purchase all of the issued and outstanding common shares of Ranchero on the basis of 2.86 Class A Shares of Newquest for each common share of Ranchero and all of the options to acquire common shares of Ranchero on the basis of 2.86 Class A Shares of Newquest for each Ranchero option (the "**Offer**"). Jennings Capital Inc. has acted as financial advisor to Newquest in connection with the Offer.

The board of directors of Ranchero has agreed to recommend acceptance of the Offer. The management, directors and certain major shareholders controlling approximately 51% of the issued and outstanding common shares of Ranchero and 100% of the issued and outstanding Ranchero options have executed agreements whereby they have agreed to tender their common shares and options to the Offer and not withdraw such securities except in certain circumstances.

The agreement between Newquest and Ranchero also provides that: (a) Ranchero shall not, directly or indirectly, solicit or initiate any inquiries, discussions or negotiations with any third party with respect to any take-over proposal for Ranchero, except that the board of directors of Ranchero is entitled to respond to an unsolicited bona fide take-over proposal which is superior to the Offer; and (b) Newquest shall not, directly or indirectly, solicit or initiate any inquiries, discussions or negotiations with any third party with respect to any take-over proposal for Newquest, except that the board of directors of Newquest is entitled to respond to an unsolicited bona fide take-over proposal.

Ranchero has agreed to pay Newquest a break fee of $200,000 in certain circumstances and, in the event that the break fee is not paid, an expense fee of up to $200,000 in certain circumstances to reimburse Newquest for the actual costs and expenses incurred by Newquest in making the Offer. Newquest has agreed to pay Ranchero a break fee of $500,000 in certain circumstances and, in the event that the break fee is not paid, an expense fee of up to $50,000 in certain circumstances to reimburse Ranchero for the actual costs and expenses incurred by Ranchero in negotiating, considering and responding to the Offer.

Upon the successful completion of the Offer, two current members of the board of directors of Ranchero will be appointed to the board of directors of Newquest.

The acquisition of Ranchero has led to a revised agreement with Newquest's lender, which allows for new equity to be directed towards growth opportunities rather than debt repayment. This Limited Recourse Agreement provides for Ranchero's assets and ongoing successful efforts to be outside the Bank's security coverage. The term of this agreement is to June 30, 2000 and is subject to review at that time. Newquest will also enjoy the benefit of Ranchero's management team, which will bring solid technical and financial support to ongoing operations. Ranchero currently produces approximately 200 barrels per day of heavy oil from east central Alberta and west central Saskatchewan.

Newquest anticipates mailing the Offer to all registered Ranchero shareholders on or before February 7, 2000. The Offer will be open for acceptance for a minimum of 22 days after mailing and is conditional upon, among other things, not less than 66 2/3% of the issued and outstanding common shares of Ranchero being deposited under the Offer and not withdrawn.

For further information please contact Tom Code, President of Newquest Energy Inc., at (403) 265-1211 or Joseph Durante, Managing Director of Ranchero Oil & Gas Ltd., at (403) 781-1277.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy the securities in any jurisdiction. The securities offered have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirement.

The Canadian Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.

GGT_P/588102.3/C73#03!.WPD