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FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 03/31/99 for the Period Ending 12/31/98

Address	20 N BROADWAY STE 1500
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Telephone	4052353611
CIK	0000837330
SIC Code	1311 - Crude Petroleum and Natural Gas
Fiscal Year	12/31

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Filed 3/31/1999 For Period Ending 12/31/1998

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 1998 OR TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-10067

DEVON ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Oklahoma	73-1474008
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
20 North Broadway, Suite 1500 Oklahoma City, Oklahoma	73102-8260
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (405) 235-3611

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.10 per share	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 22, 1999, was $977,270,467. At such date 42,789,808 shares of common stock and 5,690,651 exchangeable shares of Devon's wholly-owned subsidiary, Northstar Energy Corporation, were outstanding. Each exchangeable share is exchangeable for one share of Devon common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy statement for the 1999 annual meeting of stockholders - Part III

TABLE OF CONTENTS

DEFINITIONS

As used in this document:

"Mcf" means thousand cubic feet

"MMcf" means million cubic feet

"Bcf" means billion cubic feet

"MMBtu" means million British thermal units, a measure of heating value

"Bbl" means barrel

"MBbls" means thousand barrels

"MMBbls" means million barrels

"Boe" means equivalent barrels of oil

"MBoe" means thousand equivalent barrels of oil

"MMBoe" means million equivalent barrels of oil

"Oil" includes crude oil and condensate

"NGLs" means natural gas liquids

THIS REPORT INCLUDES "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS REPORT, INCLUDING, WITHOUT LIMITATION, STATEMENTS REGARDING THE COMPANY'S FUTURE FINANCIAL POSITION, BUSINESS STRATEGY, BUDGETS, PROJECTED COSTS AND PLANS AND OBJECTIVES OF MANAGMENT FOR FUTURE OPERATIONS, ARE FORWARD-LOOKING STATEMENTS. IN ADDITION, FORWARD- LOOKING STATEMENTS GENERALLY CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY", "WILL", "EXPECT", "INTEND", "PROJECT", "ESTIMATE", "ANTICIPATE", "BELIEVE", OR "CONTINUE" OR THE NEGATIVE THEREOF OR VARIATIONS THEREON OR SIMILAR TERMINOLOGY. ALTHOUGH THE COMPANY BELIEVES THAT THE EXPECTATIONS REFLECTED IN SUCH FORWARD-LOOKING STATEMENTS ARE REASONABLE, IT CAN GIVE NO ASSURANCE THAT SUCH EXPECTATIONS WILL PROVE TO HAVE BEEN CORRECT. IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE COMPANY'S EXPECTATIONS ("CAUTIONARY STATEMENTS") ARE DISCLOSED UNDER "ITEM
7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-1998 ESTIMATES", ITEM 2. "PROPERTIES - PROVED RESERVES AND ESTIMATED FUTURE NET REVENUES" AND ELSEWHERE IN THIS REPORT. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE COMPANY, OR PERSONS ACTING ON ITS BEHALF, ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS. THE COMPANY ASSUMES NO DUTY TO UPDATE OR REVISE ITS FORWARD-LOOKING STATEMENTS BASED ON CHANGES IN INTERNAL ESTIMATES OR EXPECTATIONS OR OTHERWISE.

PART I

ITEM 1. BUSINESS

General

Devon Energy Corporation, including its subsidiaries, ("Devon" or the "Company") is an independent energy company engaged primarily in oil and gas exploration, development and production, and in the acquisition of producing properties. Through its predecessors, Devon began operations in 1971 as a privately-held company. In 1988 the Company's common stock began trading publicly on the American Stock Exchange under the symbol DVN. In addition, commencing on December 15, 1998, a new class of Devon exchangeable shares began trading on The Toronto Stock Exchange under the symbol NSX. These shares are essentially equivalent to Devon common stock. However, because they are issued by Devon's wholly-owned subsidiary, Northstar Energy Corporation ("Northstar"), they qualify as a domestic Canadian investment for Canadian institutional shareholders. They are exchangeable at any time, on a one-for-one basis, for common shares of Devon.

The principal and administrative offices of Devon are located at 20 North Broadway, Suite 1500, Oklahoma City, OK 73102-8260 (telephone 405/235-3611).

Devon currently owns oil and gas properties concentrated in six operating areas: the Permian Basin in southeastern New Mexico and western Texas; the Rocky Mountain region primarily in Wyoming; the San Juan Basin region in northwest New Mexico, the Northern Alberta region in northern Alberta and a portion of northeastern British Columbia, the Southern Alberta region in central and southeastern Alberta and southwestern Saskatchewan, and the Foothills region in southwestern Alberta and northeastern British Columbia. (A detailed description of the significant properties can be found under "Item 2. Properties - Significant Properties" beginning on page 15 hereof.)

At December 31, 1998, Devon's estimated proved reserves were
299.4 MMBoe, of which 67% were natural gas reserves and 33% were oil reserves. The present value of pre-tax future net revenues discounted at 10% per annum assuming essentially unescalated prices ("10% Present Value") of such reserves was $1.0 billion. Devon is one of the top 15 public independent oil and gas companies in both the United States and Canada, as measured by oil and gas reserves.

Strategy

Devon's primary objectives are to build production, cash flow and earnings per share by (a) acquiring oil and gas properties, (b) exploring for new oil and gas reserves and (c) optimizing production from existing oil and gas properties. Devon's management seeks to achieve these objectives by (a) keeping debt levels low, (b) concentrating its properties in core areas to achieve economies of scale, (c) acquiring and developing high profit margin properties, (d) continually disposing of marginal and non-strategic properties and (e) balancing reserves between oil and gas.

During 1988, Devon expanded its capital base with its first issuance of common stock to the public. This transaction began a substantial expansion program that has continued through the subsequent years. Devon has used a two-pronged strategy of acquiring producing properties and engaging in drilling activities to achieve this expansion. Approximately two-thirds of total capital spent during this period was for property acquisitions and one-third was for drilling. Total proved reserves increased from 8.1 MMBoe at year-end 1987 to 299.4 MMBoe at year-end 1998.

Devon's objective, however, is to increase value per share, not simply to increase total assets. Reserves have grown from
1.31 Boe per share at year-end 1987 to 5.61 Boe per diluted share at year-end 1998. At the same time, net debt (long-term debt less working capital) has remained relatively low. At year-end 1998, Devon's net debt was $1.25 per Boe.

Recent Developments

On December 10, 1998, Devon completed a merger with Canadian- based Northstar. Northstar's properties are located primarily in the Western Canada Sedimentary Basin in the province of Alberta. The combination of Northstar with Devon (the "Northstar Combination") expanded Devon's reserves by approximately 115.0 MMBoe, or 62%, and nearly tripled the Company's undeveloped leasehold inventory. In addition, Devon retained the experienced Northstar management team to continue to direct the Company's Canadian operations. The total consideration to Northstar was 16.1 million common equivalent shares and the assumption of $307 million Northstar debt. At year-end 1998, Devon's unused borrowing capacity was in excess of $200 million.

The Northstar Combination places Devon in a unique position to take advantage of growth opportunities both in the U.S. and in Canada. The Company's properties are now relatively balanced, with 52% of its proved reserves in the U.S. and 48% in Canada. This provides Devon with considerable exposure to growing North American natural gas markets, while retaining Devon's historical exposure to substantial oil reserves, particularly in the Permian Basin of the U.S. In addition, the Company owns a large inventory of acreage and the financial flexibility to pursue the opportunities for drilling on this acreage.

The Northstar Combination was accounted for under the "pooling-of-interests" method of accounting. Therefore, all of Devon's operational and financial information was restated to include the Northstar results as if Devon and Northstar had always been combined. As a result, unless otherwise indicated, all of the operational data included hereafter includes results for both Devon and Northstar combined.

Drilling Activities

Devon is engaged in numerous drilling activities on properties presently owned and intends to drill or develop other properties acquired in the future. For 1999, Devon's drilling activities will be focused in the Rocky Mountain and Permian Basin regions in the U.S. and the Foothills and Northern Alberta regions of Canada.

The following tables set forth Devon's drilling results (including Northstar's historical activities) for the past five years.

United States Properties

	Development Wells						Exploratory Wells					
	Gross (1)			Net (2)			Gross (1)			Net (2)		
	Productive	Dry	Total	Productive	Dry	Total	Productive	Dry	Total	Productive	Dry	Total
1994	77	1	78	44.40	0.28	44.68	2	3	5	0.52	2.37	2.89
1995	184	3	187	143.87	0.29	144.16	9	3	12	2.53	1.18	3.71
1996	188	3	191	137.05	0.95	138.00	2	1	3	1.50	0.08	1.58
1997	244	9	253	109.00	4.90	113.90	14	2	16	5.00	1.50	6.50
1998	328	0	328	128.69	0.00	128.69	14	4	18	7.36	1.44	8.80
TTL	1,021	16	1,037	563.01	6.42	569.43	41	13	54	16.91	6.57	23.48

Canadian Properties

	Development Wells						Exploratory Wells					
	Gross (1)			Net (2)			Gross (1)			Net (2)		
	Productive	Dry	Total	Productive	Dry	Total	Productive	Dry	Total	Productive	Dry	Total
1994	142	19	161	62.50	7.80	70.30	29	12	41	22.50	9.00	31.50
1995	44	8	52	25.20	5.20	30.40	48	13	61	35.70	10.00	45.70
1996	63	11	74	29.70	5.10	34.80	35	18	53	24.70	15.10	39.80
1997	126	29	155	88.20	23.20	111.40	55	48	103	43.50	42.20	85.70
1998	112	15	127	74.88	11.04	85.92	45	37	82	32.99	30.50	63.49
TTL	487	82	569	280.48	52.34	332.82	212	128	340	159.39	106.80	266.19

Total Properties

	Development Wells						Exploratory Wells					
	Gross (1)			Net (2)			Gross (1)			Net (2)		
	Productive	Dry	Total	Productive	Dry	Total	Productive	Dry	Total	Productive	Dry	Total
1994	219	20	239	106.90	8.08	114.98	31	15	46	23.02	11.37	34.39
1995	228	11	239	169.07	5.49	174.56	57	16	73	38.23	11.18	49.41
1996	251	14	265	166.75	6.05	172.80	37	19	56	26.20	15.18	41.38
1997	370	38	408	197.20	28.10	225.30	69	50	119	48.50	43.70	92.20
1998	440	15	455	203.57	11.04	214.61	59	41	100	40.35	31.94	72.29
TTL	1,508	98	1,606	843.49	58.76	902.25	253	141	394	176.30	113.37	289.67

(1) Gross wells are the sum of all wells in which Devon owns an interest.
(2) Net wells are the sum of Devon's working interests in gross wells.

As of December 31, 1998, Devon was participating in the drilling of 33 gross (11.38 net) wells in the U.S. and 9 gross (5.37 net) wells in Canada which are not included in the table above. Through March 22, 1999, 3 gross (0.99 net) wells in the U.S. and 3 gross (2.17 net) wells in Canada had been completed as productive. An additional 1 gross (0.45 net) well in the U.S. and 4 gross (2.2 net) wells in Canada were dry holes. The remaining wells were still in process.

Customers

Devon sells its gas production to a variety of customers including pipelines, utilities, gas marketing firms, industrial users and local distribution companies. Existing gathering systems and interstate and intrastate pipelines are used to consummate gas sales and deliveries.

The principal customers for Devon's crude oil production are refiners, remarketers and other companies, some of which have pipeline facilities near the producing properties. In the event pipeline facilities are not conveniently available, crude oil is trucked or barged to storage, refining or pipeline facilities.

For the years ended December 31, 1998 and December 31, 1997, one significant purchaser, Aquila Energy Marketing Corporation ("Aquila"), accounted for 19% and 15%, respectively, of Devon's total revenue. For the year ended December 31, 1996, two significant purchasers, Aquila and EOTT Energy Operating Limited Partnership ("Enron"), accounted for 12% and 15%, respectively, of Devon's total revenue. Aquila and Enron purchase production from numerous Devon properties, at variable and market-sensitive prices. Devon does not consider itself dependent upon either of these purchasers, since other purchasers are willing to purchase this same production production at competitive prices.

Oil and Natural Gas Marketing

Oil Marketing. Devon's oil production is sold under both long- and short-term agreements at prices negotiated between the parties. Devon periodically enters into hedging activities with a portion of its oil production which are intended to support its oil price at targeted levels and to manage the Company's exposure to oil price fluctuations. (See "Item 7A. Quantitative and Qualitative Disclosures about Market Risk.")

Natural Gas Marketing. Devon's gas production is also sold under both long- and short-term agreements at negotiated prices. Although exact percentages vary daily, as of March, 1999 approximately 31% of Devon's natural gas production was sold under short-term contracts at variable or market-sensitive prices. These market-sensitive sales are referred to as "spot market" sales. Another 36% was committed under various long-term contracts (one year or more) which dedicate the natural gas to a purchaser for an extended period of time. Devon's remaining gas production was dedicated under long-term contracts at fixed prices.

Under both long-term and short-term contracts, typically either the entire contract (in the case of short-term contracts) or the price provisions of the contract (in the case of long-term contracts) are renegotiated from daily intervals up to one-year intervals. The spot market has become progressively more competitive in recent years. As a result, prices on the spot market have been volatile.

The spot market is subject to volatility as supply and demand factors in various regions of North America fluctuate. In addition to long-term fixed price contracts, Devon periodically enters into hedging arrangements or firm delivery commitments with a portion of its gas production. These activities are intended to support targeted gas price levels and to manage the Company's exposure to gas price fluctuations. (See "Item 7A. Quantitative and Qualitative Disclosures about Market Risk.")

Competition

The oil and gas business is highly competitive. Devon encounters competition by major integrated and independent oil and gas companies in acquiring drilling prospects and properties, contracting for drilling equipment and securing trained personnel. Intense competition occurs with respect to marketing, particularly of natural gas. Certain competitors have resources that substantially exceed those of Devon.

Seasonal Nature of Business

Generally, but not always, the demand for natural gas decreases during the summer months and increases during the winter months. Seasonal anomalies such as mild winters sometimes lessen this fluctuation. In addition, pipelines, utilities, local distribution companies and industrial users utilize natural gas storage facilities and purchase some of their anticipated winter requirements during the summer. This can also lessen seasonal demand fluctuations.

Government Regulation

Devon's operations are subject to various levels of government controls and regulations in the United States and Canada.

United States Regulation

In the United States, legislation affecting the oil and gas industry has been pervasive and is under constant review for amendment or expansion. Pursuant to such legislation, numerous federal, state and local departments and agencies have issued extensive rules and regulations binding on the oil and gas industry and its individual members, some of which carry substantial penalties for the failure to comply. Such laws and regulations have a significant impact on oil and gas drilling and production activities, increase the cost of doing business and, consequently, affect profitability. Inasmuch as new legislation affecting the oil and gas industry is commonplace and existing laws and regulations are frequently amended or reinterpreted, Devon is unable to predict the future cost or impact of complying with such laws and regulations.

Exploration and Production. Devon's United States operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes requiring permits for the drilling of wells; maintaining bonding requirements in order to drill or operate wells; submitting and implementing spill prevention plans; submitting notification relating to the presence, use and release of certain contaminants incidental to oil and gas operations; and regulating the location of wells, the method of drilling and casing wells, the use, transportation, storage and disposal of fluids and materials used in connection with drilling and production activities, surface usage and the restoration of properties upon which wells have been drilled, the plugging and abandoning of wells and the transporting of production. Devon's operations are also

subject to various conservation matters, including the regulation of the size of drilling and spacing units or proration units, the number of wells which may be drilled in a unit, and the unitization or pooling of oil and gas properties. In this regard, some states allow the forced pooling or integration of tracts to facilitate exploration while other states rely on voluntary pooling of lands and leases, which may make it more difficult to develop oil and gas properties. In addition, state conservation laws establish maximum rates of production from oil and gas wells, generally prohibit the venting or flaring of gas, and impose certain requirements regarding the ratable purchase of production. The effect of these regulations is to limit the amounts of oil and gas Devon can produce from its wells and to limit the number of wells or the locations at which Devon can drill.

Certain of Devon's oil and gas leases, including most of its leases in the San Juan Basin and many of the Company's leases in southeast New Mexico and Wyoming, are granted by the federal government and administered by various federal agencies. Such leases require compliance with detailed federal regulations and orders which regulate, among other matters, drilling and operations on lands covered by these leases, and calculation and disbursement of royalty payments to the federal government.

Environmental and Occupational Regulations. Various federal, state and local laws and regulations concerning the discharge of contaminants into the environment, the generation, storage, transportation and disposal of contaminants or otherwise relating to the protection of public health, natural resources, wildlife and the environment, affect Devon's exploration, development and production operations and the costs attendant thereto. These laws and regulations increase Devon's overall operating expenses. Devon maintains levels of insurance customary in the industry to limit its financial exposure in the event of a substantial environmental claim resulting from sudden and accidental discharges of oil, salt water or other harmful substances. However, 100% coverage is not maintained concerning any environmental claim, and no coverage is maintained with respect to any award of punitive damages against Devon or any penalty or fine required to be paid by Devon because of its violation of any federal, state or local law. Devon is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the environment. Devon's unreimbursed expenditures in 1998 concerning such matters were immaterial, but Devon cannot predict with any reasonable degree of certainty its future exposure concerning such matters.

Devon is also subject to laws and regulations concerning occupational safety and health. Due to the continued changes in these laws and regulations, and the judicial construction of same, Devon is unable to predict with any reasonable degree of certainty its future costs of complying with these laws and regulations.

In 1992 Devon retained the services of an independent environmental engineering firm to provide a comprehensive evaluation of Devon's significant properties and to otherwise advise Devon concerning its compliance with various environmental laws. In 1993 Devon established its own internal Environmental Industrial Hygiene and Safety Department to perform these functions. This department is responsible for instituting and maintaining an environmental and safety compliance program for Devon. The program includes field inspections of properties and internal audits of Devon's compliance procedures.

Canadian Regulation

The oil and gas industry in Canada is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect Devon's Canadian operations in a manner materially different than they would affect other oil and gas companies of similar size. The following are the most important areas of control and regulation.

The North American Free Trade Agreement. The North American Free Trade Agreement ("NAFTA") which became effective on January 1, 1994, carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the U.S. or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy exported relative to the supply of the energy resource;
(ii) impose an export price higher than the domestic price; or
(iii) disrupt normal channels of supply. All parties to NAFTA are also prohibited from imposing minimum export or import price requirements.

Royalties and Incentives. Each province and the federal government of Canada have legislation and regulations governing land tenure, royalties, production rates and taxes, environmental protection and other matters under their respective jurisdictions. The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the parties. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production with the royalty rate dependent in part upon prescribed reference prices, well productivity, geographical location, field discovery date and the type and quality of the petroleum product produced. From time to time, the governments of Canada, Alberta and British Columbia have also established incentive programs such as royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced recovery projects. These incentives generally have the effect of increasing the cash flow to the producer.

Pricing and Marketing. The price of oil and natural gas sold is determined by negotiation between buyers and sellers. An order from the National Energy Board ("NEB") is required for oil exports from Canada. Any oil export to be made pursuant to an export contract of longer than one year, in the case of light crude, and two years, in the case of heavy crude, duration (up to 25 years) requires an exporter to obtain an export license from the NEB. The issue of such a license requires the approval of the Governor in Council. Natural gas exported from Canada is also subject to similar regulation by the NEB. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts in excess of two years must continue to meet certain criteria prescribed by the NEB. The governments of Alberta and British Columbia also regulate the volume of natural gas which may be removed from those provinces for consumption elsewhere based on such

factors as reserve availability, transportation arrangements and market considerations.

Environmental Regulation. The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with certain oil and gas industry operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in the imposition of fines and penalties. Devon is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the environment. Devon's unreimbursed expenditures in 1998 concerning such matters were immaterial, but Devon cannot predict with any reasonable degree of certainty its future exposure concerning such matters.

Investment Canada Act. The Investment Canada Act requires Government of Canada approval, in certain cases, of the acquisition of control of a Canadian business by an entity that is not controlled by Canadians. In certain circumstances, the acquisition of natural resource properties may be considered to be a transaction requiring such approval.

Employees

As of December 31, 1998, Devon's staff consisted of 764 full- time employees, including 72 professionals in engineering, 57 in geology, 44 in the land department, 16 in oil and gas marketing, 98 in accounting and data processing, and 34 in administration and other support positions. The Company also engages independent consulting petroleum engineers, environmental professionals, geologists, geophysicists, landmen and attorneys on a fee basis.

ITEM 2. PROPERTIES

Substantially all of Devon's properties consist of interests in developed and undeveloped oil and gas leases and mineral acreage located in New Mexico, Wyoming, Texas, Oklahoma and Alberta, Canada. These interests entitle Devon to drill for and produce oil, natural gas and NGLs from specific areas. Devon's interests are mostly in the form of working interests and volumetric production payments, and, to a lesser extent, overriding royalty, royalty, mineral and net profits interests and other forms of direct and indirect ownership in oil and gas properties.

Proved Reserves and Estimated Future Net Revenue

"Proved reserves" are those quantities of oil, natural gas and NGLs, which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions. Estimates of proved reserves are strictly technical judgments and are not knowingly influenced by attitudes of conservatism or optimism. The following table sets forth Devon's estimated proved reserves, the estimated future net revenues therefrom and the 10% Present Value thereof as of December 31, 1998. Approximately 93% of Devon's U.S. proved reserves were estimated by LaRoche Petroleum Consultants, Ltd., independent petroleum engineers. Devon's internal staff of engineers estimated the remainder of the U.S. reserves. AMH Group Ltd. and Paddock Lindstrom & Associates Ltd. calculated all of the Canadian proved reserves. All reserve estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry and in accordance with SEC guidelines (as described in the notes below). These estimates correspond with the method used in presenting the supplemental information on oil and gas operations in note 16 to Devon's consolidated financial statements included herein, except that federal income taxes attributable to such future net revenues have been disregarded in the presentation below.

	Total Proved Reserves	Proved Developed Reserves (1)	Proved Undeveloped Reserves (2)
TOTAL RESERVES			
Oil (MBbls)	83,457	73,846	9,611
Gas (MMcf)	1,198,894	1,052,647	146,247
NGLs (MBbl)	16,079	15,081	998
MBoe (3)	299,352	264,368	34,984
Pre-tax Future Net Revenue ($ thousands) (4)	1,657,020	1,513,064	43,956l
Pre-tax 10% Present Value ($ thousands) (4)	1,009,039	941,701	67,338
U.S. RESERVES			
Oil (MBbls)	44,451	40,631	3,820
Gas (MMcf)	596,987	469,064	127,923
NGLs (MBbl)	11,494	10,577	917
MBoe (3)	155,443	129,385	26,058
Pre-tax Future Net Revenue ($ thousands) (4)	899,983	780,548	119,435
Pre-tax 10% Present Value ($ thousands) (4)	546,118	490,559	55,559
CANADIAN RESERVES			
Oil (MBbls)	39,006	33,215	5,791
Gas (MMcf)	601,907	583,583	18,324

NGLs (MBbl)	4,585	4,504	81
MBoe (3)	143,909	134,983	8,926
Pre-tax Future Net Revenue ($ thousands) (4)	757,037	732,516	24,521
Pre-tax 10% Present Value ($ thousands) (4)	462,921	451,142	11,779

(1)Proved developed reserves are proved reserves that are expected to be recovered from existing wells with existing equipment and operating methods.

(2)Proved undeveloped reserves are proved reserves to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompleting or deepening a well or for new fluid injection facilities.

(3)Gas reserves are converted to MBoe at the rate of six MMcf per MBbl of oil, based upon the approximate relative energy content of natural gas to oil, which rate is not necessarily indicative of the relationship of gas to oil prices. The respective prices of gas and oil are affected by market conditions and other factors in addition to relative energy content.

(4)Estimated future net revenue represents estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and development costs. The amounts shown do not give effect to non-property related expenses such as general and administrative expenses, debt service and future income tax expense or to depreciation, depletion and amortization.

These amounts were calculated using prices and costs in effect as of December 31, 1998. These prices were not changed except where different prices were fixed and determinable from applicable contracts. These assumptions yield average prices over the life of Devon's properties of $9.89 per Bbl of oil, $1.70 per Mcf of natural gas and $7.25 per Bbl of NGLs. These prices compare to December 31, 1998, benchmark posted prices of $9.50 per Bbl for West Texas Intermediate crude oil and a composite of $2.02 per MMBtu for Texas Gulf Coast spot gas for gas delivered to various Texas Gulf Coast pipelines.

No estimates of Devon's proved reserves have been filed with or included in reports to any federal or foreign governmental authority or agency since the beginning of the last fiscal year except (i) in filings with the SEC and (ii) in filings with the Department of Energy ("DOE"). Reserve estimates filed by Devon with the SEC correspond with the estimates of Devon reserves contained herein. Reserve estimates filed with the DOE are based upon the same underlying technical and economic assumptions as the estimates of Devon's reserves included herein. However, the DOE requires reports to include the interests of all owners in wells that Devon operates and to exclude all interests in wells that Devon does not operate.

The prices used in calculating the estimated future net revenues attributable to proved reserves do not necessarily reflect market prices for oil, gas and NGL production subsequent to December 31, 1998. There can be no assurance that all of the proved reserves will be produced and sold within the periods indicated, that the assumed prices will be realized or that existing contracts will be honored or judicially enforced.

The process of estimating oil, gas and NGL reserves is complex, requiring significant subjective decisions in the evaluation of available geological, engineering and economic data for each reservoir. The data for a given reservoir may change substantially over time as a result of, among other things, additional development activity, production history and viability of production under varying economic conditions. Consequently, material revisions to existing reserve estimates may occur in the future.

Production, Revenue and Price History

Certain information concerning oil and natural gas production, prices, revenues (net of all royalties, overriding royalties and other third party interests) and operating expenses for the three years ended December 31, 1998, is set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Well Statistics

The following table sets forth Devon's producing wells as of December 31, 1998:

	Oil Wells		Gas Wells		Total Wells	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)

U.S.	8,319	1,230	3,188	831	11,507	2,061
Canada	1,765	554	1,505	628	3,270	1,182
Total	10,084	1,784	4,693	1,459	14,777	3,243

(1) Gross wells are the total number of wells in which Devon owns a working interest.
(2) Net refers to gross wells multiplied by Devon's fractional working interests therein.

Devon also held numerous overriding royalty interests in oil and gas wells, a portion of which are convertible to working interests after recovery of certain costs by third parties. After converting to working interests, these overriding royalty interests will be included in Devon's gross and net well count.

Undeveloped Acreage

The following table sets forth Devon's developed and undeveloped oil and gas lease and mineral acreage as of December 31, 1998.

	Developed		Undeveloped	
	Gross (1)	Net (2)	Gross (1)	Net (2)
United States				
Alabama	-	-	4,866	2,450
Arkansas	5,909	589	14,699	3,770
Colorado	1,919	452	23,962	10,237
Kansas	20,498	8,372	6,839	1,055
Louisiana	5,369	712	778	484
Mississippi	3,784	828	16,331	6,626
Montana	1,234	113	12,371	2,019
Nebraska	-	-	6,517	1,377
New Mexico	161,369	60,544	232,495	74,972
North Dakota	7,467	2,455	13,573	3,778
Oklahoma	198,855	70,330	290,758	70,506
South Dakota	3,633	89	162	78
Texas	736,245	208,576	657,189	206,230
Utah	4,066	820	3,397	2,179
Wyoming	174,323	88,552	304,490	222,681
Total U.S.	1,324,671	442,432	1,588,427	608,442

	Developed		Undeveloped	
	Gross (1)	Net (2)	Gross (1)	Net (2)
Canada				
Alberta	1,103,813	577,327	2,607,601	1,907,675
British Columbia	9,872	4,048	296,277	216,856
Manitoba	-	-	399	399
Saskatchewan	6,346	2,618	58,928	43,192
Northwest Territories	-	-	31,768	6,599
Total Canada	1,120,031	583,993	2,994,982	2,174,721
Grand Total	2,444,702	1,026,425	4,583,409	2,783,163

(1) Gross acres are the total number of acres in which Devon owns a working interest.
(2) Net refers to gross acres multiplied by Devon's fractional working interests therein.

Operation of Properties

The day-to-day operations of oil and gas properties are the responsibility of an operator designated under pooling or operating agreements. The operator supervises production, maintains production records, employs field personnel and performs other functions. The charges under operating agreements customarily vary with the depth and location of the well being operated.

Devon is the operator of 3,429 of its wells. These operated wells account for approximately 80% of Devon's total proved reserves. As operator, Devon receives reimbursement for direct expenses incurred in the performance of its duties as well as monthly per-well producing and drilling overhead reimbursement at rates customarily charged in the area to or by unaffiliated third parties. In presenting its financial data, Devon records the monthly overhead reimbursements as a reduction of general and administrative expense, which is a common industry practice.

Significant Properties

The following table sets forth proved reserve information on the most significant geographic areas in which Devon's properties are located as of December 31, 1998.

	Oil(MBbls)	Gas(MMcf)	NGLs(MBbl)	MBoe(1)	MBoe% (2)	10% Present Value (3) ($000)	10% Present Value% (4)
United States							
Permian Basin:							
West Texas and Southeast New Mexico							
Grayburg-Jackson Field	11,617	3,306	900	13,068	4.4%	$ 5,728	0.6%
Ozona Field	235	53,080	3,104	12,185	4.1%	41,359	4.1%
Other	14,145	66,086	2,962	28,122	9.4%	88,823	8.8%
Total	25,997	122,472	6,966	53,375	17.9%	135,910	13.5%
Rocky Mountains:							
Colorado and Wyoming							
House Creek Area	11,601	154	41	11,668	3.9%	29,532	2.9%
Powder River Coalbed Methane Project	-	69,269	-	11,545	3.9%	38,094	3.8%
Other	5,399	73,914	2,511	20,228	6.8%	87,403	8.7%
Total	17,000	143,337	2,552	43,441	14.6%	155,029	15.4%
San Juan Basin:							
Northwest New Mexico							
Northeast Blanco Unit	314	1,491	99	23,685	7.9%	104,821(5)	10.4%
32-9 Unit	-	70,234	5	11,710	3.9%	47,336(6)	4.7%
Other	8	629	25	137	- %	426	-%
Total	112	12,354	129	35,532	11.8%	152,583	15.1%
Other U.S. Properties	1,443	118,824	1,847	23,095	7.7%	102,596	10.2%
Canada							
Northern Alberta:							
Northern Alberta and Northern British Columbia							
Smoky Bear Area	-	113,920	8	18,995	6.3%	82,070	8.1%
Other	12,284	186,078	936	44,233	14.8%	153,788	15.2%
Total	12,284	299,998	944	63,228	21.1%	235,858(7)	23.3%
Southern Alberta:							
Central and Southern Alberta	26,722	170,502	3,641	58,780	19.6%	175,878(7)	17.4%
Foothills:							
Southwestern Alberta and Eastern British Columbia							
Coleman Field	-	91,259	-	15,210	5.1%	41,466	4.1%
Other	-	40,148	-	6,690	2.2%	9,719	1.0%
Total	-	131,407	-	21,900	7.3%	51,185(7)	5.1%
Grand Total	83,457	1,198,894	16,079	299,351	100.0%	$1,009,039	100.0%

(1) Gas reserves are converted to MBoe at the rate of six MMcf of gas per MBbl of oil, based upon the approximate relative energy content of natural gas to oil, which rate is not necessarily indicative of the relationship of gas to oil prices. The respective prices of gas and oil are affected by market and other factors in addition to relative energy content.
(2) Percentage which MBoe for the basin or region bears to total MBoe for all Proved Reserves.
(3) Determined in accordance with SEC guidelines, except that no effect is given to future income taxes.
(4) Percentage which present value for the basin or region bears to total present value for all Proved Reserves.
(5) Includes $15.8 million of additional value attributable to the San Juan Basin Transaction through the year 2002.
(6) Includes $10.3 million of additional value attributable to the San Juan Basin Transaction through the year 2002.
(7) Canadian dollars converted to U.S. dollars at the rate of $1 Canadian: $0.6535 U.S.

United States Properties

Permian Basin Properties. The Permian Basin is a prolific oil and gas-producing region located in western Texas and southeastern New Mexico. The area encompasses approximately 66,000 square miles and contains more than 500 major oil and gas fields. Oil and gas leases

within the Permian Basin are difficult to obtain as much of the most prospective acreage is "held by production" from existing wells or tied to large producing units. Since 1987, Devon has made four significant acquisitions of properties in the Permian Basin. These acquisitions have enabled Devon to obtain prospective acreage in areas in which leasehold positions could not otherwise be established. This large and well-situated leasehold position continues to provide Devon with numerous exploration and development opportunities. Devon has also initiated enhanced oil recovery projects to further expand reserves. Devon's activity in the Permian Basin was limited in 1998 and will continue to be limited in 1999 due to low oil prices.

Grayburg-Jackson Field. Devon acquired the Grayburg-Jackson Field in 1994. The property consists of approximately 8,600 acres located in the southeastern New Mexico portion of the Permian Basin. The field produces from an 800-foot thick interval of the Grayburg and San Andres formations at depths between 3,000 and 4,000 feet. The Grayburg-Jackson Field contains approximately 14% of Devon's proved oil reserves and is the Company's largest oil property.

Production in this field was first established in the 1930's. However, most of the current producing wells were drilled since 1970. When Devon acquired this property in 1994, drilling by previous owners had developed the property on an average spacing of over 40 acres per well. Additional oil reserves were recovered from similar properties in the immediate vicinity by infill drilling to 20 acres per well spacing and subsequent waterflooding. Based upon analogy to these properties, Devon initiated a $75 million capital development project in 1994 that included drilling approximately 184 infill wells, converting selected producing wells to water injection wells and optimizing the existing waterflood. Devon substantially completed the infill drilling phase of the project in 1996. The majority of the field was in the initial phases of water injection by mid-1997. Completion of the waterflood facilities over the remainder of the field will require the additional conversion of about 39 producing wells to injection wells.

At year-end 1998, gross production averaged approximately 2,600 Boe per day. Devon anticipates that continued water injection will further improve oil and gas recoveries.

Ozona Field. The Ozona Field encompasses more than 200,000 acres in Crockett County, Texas, situated 120 miles southeast of Midland, Texas. The field produces gas primarily from the Canyon and Strawn formations at depths ranging from approximately 6,000 to 10,000 feet. The field has been developed on 80-acre spacing, with portions now being infill drilled to 40-acre spacing.

San Juan Basin. Devon's single largest natural gas reserve position relates to its interests in two federal units in the northwest New Mexico portion of the San Juan Basin: the 33,000 acre Northeast Blanco Unit ("NEBU"), in Rio Arriba and San Juan Counties, and the 22,400 acre 32-9 Unit in San Juan County. The San Juan Basin is a densely drilled area covering 3,700 square miles in central and northwestern New Mexico. It has been historically considered the second largest gas producing basin in the United States. Prior to 1990, the Basin's gas production primarily came from conventional sandstone formations at a depth of about 5,500 feet. However, in the early 1980's, development of the shallower Fruitland coal formation began. Coal seam gas production has increased total production so significantly that the San Juan Basin could be considered the largest gas producing basin in the U.S. Production from the coal seams constitutes almost all of Devon's reserves in these two units.

Substantially all of Devon's interests in both of these units are a part of a transaction into which the Company entered effective January 1, 1995. See " - San Juan Basin Transaction" below.

Northeast Blanco Unit. Approximately 96%, or 135 Bcf, of Devon's proved reserves attributable to NEBU are associated with the Fruitland Coal formation. The potential for gas production from coal seams varies depending upon the thickness of the coal formation, the type of coal in place, the depth at which it is found and other factors. NEBU is located in the central part of the San Juan Basin where each of the factors is at or near its optimum. NEBU is operated by Devon. The Company initially began developing its coal seam interest during 1988, eventually drilling 102 wells -- the maximum permitted under existing 320-acre spacing on NEBU's 33,000 acres.

In the near term, Devon is implementing various projects that have already increased and may continue to increase production and recoverable reserves. The first of these projects, called "line looping," involves laying additional gathering lines to decrease operating pressures. This project was begun in 1996 and was substantially completed in October 1997. Another project involves the installation of additional compressors at various points in the gathering system and at central delivery points associated with NEBU. This project was begun in 1997 and will continue in 1999. Additional projects to improve production through work on individual wells are currently underway. Longer term, Devon believes that additional wells may be drilled which could improve production.

Initial results from the line looping and compression projects that have been completed through March 1999, appear favorable. Total daily production from NEBU has increased from an average of 187 MMcf of gas per day in June 1996 to an average of 243 MMcf of gas per day in March 1999. Devon anticipates that the installation of additional compression and individual well workovers could increase production from NEBU another 10 MMcf to 15 MMcf of gas per day.

As part of the San Juan Basin Transaction (discussed in more detail below), a third party will pay 100% of Devon's share of the capital necessary to increase production from the existing NEBU wells. Devon is entitled to retain 75% of any reserves in excess of those estimated to be in place at the time of the transaction which are developed as a result of such capital expenditures. See " - San Juan Basin Transaction" below.

32-9 Unit. The 32-9 Unit is located approximately eight miles northwest of NEBU. Geologically and operationally this property is very similar to NEBU; the coal seams at the 32-9 Unit are about the same thickness as at NEBU, the type of coal and the depth at which it is found are

similar and the gas content of the coal is estimated to be approximately the same. However, the 32-9 Unit is located in an area where the coal does not appear to be as permeable as it is at NEBU. Thus, the 32-9 Unit wells tend to produce at lower rates but should produce for a longer period of time than the NEBU wells. Longer term, Devon believes that additional wells may be drilled which could improve production. This unit is also being evaluated for possible mechanical improvements similar to those being implemented at NEBU.

San Juan Basin Transaction. Effective January 1, 1995, Devon and an unrelated company entered into a transaction covering substantially all of Devon's San Juan Basin coal seam properties. The effect of the transaction is that the price Devon receives for its coal seam gas production ranges between $0.40 and $0.60 per Mcf (subject to adjustment for inflation) higher than the price the Company would otherwise receive during the period from 1995 through the year 2002. For a detailed discussion of this transaction, see note 3 to Devon's consolidated financial statements included elsewhere herein.

Rocky Mountain Properties. The Rocky Mountain region includes oil and gas producing basins that are grouped together because of their geographic location rather than their geological characteristics. The area generally encompasses all or portions of the states of Colorado, Montana, New Mexico, North Dakota, Utah and Wyoming. Devon's properties are primarily located in the Big Horn and Powder River Basins in Wyoming.

House Creek Area. The House Creek area is located in Campbell County, Wyoming within the prolific Powder River Basin. Devon acquired its original interest in the area at year-end 1996. In 1997, the Company purchased additional interests. The area, which produces oil from the Sussex Sandstone reservoir at depths of 8,200 feet, covers an area thirty miles long and two miles wide. The Area is divided into two production units. Devon operates the southern two-thirds of the area, designated as the House Creek Sussex Unit, with a 46% working interest. An infill drilling program was initiated late in 1997 which resulted in the addition of 75 producing and injector wells. These new locations have effectively reduced well spacing from 160 to 80 acres per well in most of the area. A third party operates the northern one-third of the area, designated as the House Creek North Sussex Unit. Devon has a 26% working interest in the North Unit. Additional infill drilling is also underway in the North Unit. Both portions of the area are currently under waterflood. Total daily gross production from House Creek has increased from an average of 4,600 Boe per day at year-end 1997 to an average of 5,700 Boe per day in January 1999.

Powder River Coalbed Methane Project. Devon has had a small interest in the Powder River Basin in Campbell County, Wyoming since the early 1980's. The Company added to its position in 1992 with the acquisition of a small group of producing properties and undeveloped leasehold. An acquisition in 1996 added significantly to reserves and undeveloped lease inventory. Virtually all of the production and reserves from these acquisitions was oil. However, a significant portion of the acreage included relatively shallow (approximately 600 to 1,000 feet deep) coal seams containing methane. This gas had not been developed due to relatively small gas reserves per well, the lack of low-pressure gas pipelines to collect the gas and insufficient pipeline capacity out of the region to deliver the gas to market.

However, since the mid-1990's industry participants have attained commercial production from coal wells by using inexpensive drilling techniques. Based on this information, Devon began to formulate a plan to develop the coal seam gas potential. The plan included significantly increasing the Company's acreage position, drilling a large number of coalbed methane wells to attain "critical mass" and constructing a gas gathering system and related carbon dioxide removal facilities to deliver the gas to any of several interstate pipelines.

During 1998 Devon began to implement this plan by acquiring significant interests in both producing coalbed methane wells and undeveloped acreage. In addition, Devon drilled 86 new coalbed methane wells. By year-end 1998, the Company had an interest in 216,000 net acres and 202 coalbed methane wells. In addition, Devon has, together with a joint-venture partner, begun construction of a 126-mile gas gathering system. The gas gathering system is expected to begin initial operations by the fourth quarter of 1999. When it is fully developed, in 2001, this system will have an estimated capacity of 450 MMcf of gas per day and access to multiple interstate pipelines. It will provide adequate capacity to transport not only Devon's natural gas production, but also third party gas.

Devon's total capital investment to the project is expected to be approximately $50 million for drilling 750 net wells over the next ten years and $50 to $150 million over the next three years for the development of the gathering system and facilities.

Canadian Properties

All of Devon's Canadian properties are located within the Western Canada Sedimentary Basin. The Western Canada Sedimentary Basin is a large geologic feature encompassing portions of British Columbia, Alberta, Saskatchewan and Manitoba. This basin feature forms a wedge-shaped depression that tapers from a maximum thickness of 17,000 feet on the western and southern margins to a zero edge along the northeast.

Northern Alberta Properties. This area covers northern Alberta and a portion of northeastern British Columbia. The Northern Alberta properties are primarily gas producing properties, although both gas and oil is present in multiple formations at varying depths. A large portion of this region is thick bog that can be accessed by heavy equipment only when the ground is frozen ("winter-only access"). Therefore drilling and workover activity must be carefully planned to occur within the winter months, typically from mid-December through mid-March.

Smoky Bear Area. Devon acquired an approximate 70% interest in 196 producing wells and nearly 1.1 million net undeveloped acres in this area of north-central Alberta through the Northstar Combination. The Smoky Bear Area consists of 16 separate fields that produce gas from various shallow formations ranging from 1,000 to 2,500 feet. In addition, the Company owns an interest in several gas processing facilities. This was an active area for drilling in 1998, during which Northstar drilled 101 gas wells, including 72 completed wells. After the Northstar Combination, the Company completed an acquisition in late 1998 which added new gas reserves and more than 400 additional gas wells. Devon expects to drill an additional 80 to 90 gas wells during 1999. Due to Devon's large acreage position in this area, Smoky Bear is expected

to be the source for development and low-risk exploratory drilling for several years.

Southern Alberta Properties. This area covers central and southern Alberta and a small portion of Saskatchewan. The Company's position consists of an average 40% interest in 112 producing properties and 500,000 net undeveloped acres. Existing production is primarily from oil-producing formations ranging from 2,300 to 13,200 feet. Activity in this area was limited in 1998 and will continue to be limited in 1999 due to low oil prices. However, the undeveloped acreage offers the Company a variety of oil and gas exploration and development opportunities to pursue in the future. This area is accessible year round.

Foothills Properties. This area spans the western edge of the Western Canada Sedimentary Basin from southeast British Columbia/southwest Alberta to northeast British Columbia along the eastern slope of the Rocky Mountains. It contains Devon's largest Canadian producing property as well as a large undeveloped acreage position. Exploration in the Foothills is typically oriented toward long-life natural gas reserves. Although the risks and capital expenditures for this type of exploration projects are high, the potential prospect sizes ranges from 100 to 1,000 Bcf.

Coleman Field. The Coleman Field, located in the southern portion of the Foothills, is Devon's largest Canadian property, producing gas from multiple formations between 9,500 and 11,500 feet. Northstar originally acquired an interest in the Coleman sour gas processing plant and pipeline in 1993. Through a merger in 1997 this ownership increased to 100%. Northstar then built a reserve base consisting of 6 producing wells through acquisitions and exploratory and development drilling. During 1998 Northstar drilled three exploratory wells in the Coleman Field, two of which were productive. During 1999 the Company will drill one additional exploratory well and connect the two 1998 discoveries to pipeline.

Title to Properties

Title to properties is subject to contractual arrangements customary in the oil and gas industry, liens for current taxes not yet due and, in some instances, other encumbrances. Devon believes that such burdens do not materially detract from the value of such properties or from the respective interests therein or materially interfere with their use in the operation of the business.

As is customary in the industry in the case of undeveloped properties, little investigation of record title is made at the time of acquisition (other than a preliminary review of local records). Investigations, generally including a title opinion of outside counsel, are made prior to the consummation of an acquisition of producing properties and before commencement of drilling operations on undeveloped properties.

ITEM 3. LEGAL PROCEEDINGS

Devon is involved in various routine legal proceedings incidental to its business. However, to Devon's knowledge as of March 22, 1999, there were no material pending legal proceedings to which Devon is a party or to which any of its property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A special meeting of Devon's shareholders was held on December 9, 1998. The purpose of the meeting was to consider and vote upon three issues: (i) approval of the Combination Agreement dated as of June 29, 1998 between the Company and Northstar ("Proposal One"); (ii) approval of an amendment to Devon's Certificate of Incorporation to authorize a class of Special Voting Stock consisting of one share ("Proposal Two"); and (iii) approve an amendment to Devon's 1997 Stock Option Plan to increase the number of shares available for grant under the plan from two million to three million shares ("Proposal Three").

Out of a total of 32,319,894 shares of common stock outstanding and entitled to vote, 29,383,878 shares, or 93%, were represented at the meeting in person or by proxy. Each of the proposals being voted upon was approved. The voting results were as follows:

	Proposal One	Proposal Two	Proposal Three
FOR:	27,711,778	27,690,644	28,236,615
AGAINST:	14,090	34,974	1,131,002
ABSTAIN:	45,420	45,670	16,261
WITHHELD:	1,612,590	1,612,590	na

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Price

Devon's common stock has been traded on the American Stock Exchange (the "AMEX") since September 29, 1988. Prior to September 29, 1988, Devon's common stock was privately held. Commencing on December 15, 1998, a new class of Devon exchangeable shares began trading on the Toronto Stock Exchange ("TSE") under the symbol NSX. These shares are essentially equivalent to Devon common stock. However, because they are issued by Devon's wholly owned subsidiary, Northstar, they qualify as a domestic Canadian investment for

Canadian institutional shareholders. They are exchangeable at any time, on a one-for-one basis, for common shares of Devon at the holder's option.

The following table sets forth the high and low sales prices for Devon common stock and exchangeable shares as reported by the AMEX and TSE for the periods indicated.

	American Stock Exchange			Toronto Stock Exchange		
	High (US$)	Low (US$)	Daily Volume	High (CN$)	Low (CN$)	Daily Volume
1997:						
Quarter Ended March 31, 1997	38-7/8	29-1/2	64,500			
Quarter Ended June 30, 1997	38-1/2	27-3/8	76,600			
Quarter Ended September 30, 1997	45-1/4	36-1/8	54,200			
Quarter Ended December 31, 1997	49-1/8	35	63,100			
1998:						
Quarter Ended March 31, 1998	41-1/8	32-7/8	90,867			
Quarter Ended June 30, 1998	40-1/2	32-5/8	97,527			
Quarter Ended September 30, 1998	36-5/8	26-1/8	158,909			
Quarter Ended December 31, 1998*	36-11/16	27-3/4	140,888	45.45	42.75	13,961
1999:						
Quarter Ended March 31, 1999	31-3/4	20-1/8	152,341	48.00	30.40	4,208
(through March 22, 1999)						

* Trading of the exchangeable shares on the TSE commenced on December 15, 1998.

Dividends

Devon commenced the payment of regular quarterly cash dividends on its common stock on June 30, 1993, in the amount of $0.03 per share. Effective December 31, 1996, Devon increased its quarterly dividend payment to $0.05 per share. Devon anticipates continuing to pay regular quarterly dividends in the foreseeable future. Dividends are also paid on the exchangeable shares at the same rate and on the same dates as dividends paid on the common stock.

On March 24, 1999, there were 840 holders of record of Devon common stock and 34 holders of record for the exchangeable shares.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial information (not covered by the independent auditors' reports) should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements and the notes thereto included in "Item 8. Financial Statements and Supplementary Data." Prior year amounts have been restated to combine Devon and Northstar pursuant to the pooling-of-interests method of accounting for business combinations. Note 2 to the consolidated financial statements included in Item 8 of this report contains information on the 1998 combination of Devon and Northstar as well as unaudited pro forma financial data for the years 1998, 1997 and 1996 pertaining to certain acquisitions during such periods.

	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(Thousands, Except Per Share Data and Ratios)				
OPERATING RESULTS					
Oil sales	$143,624	207,725	136,023	115,606	92,352
Gas sales	209,344	219,459	101,443	71,194	74,048
NGLs sales	16,692	24,920	19,299	9,091	7,195
Other revenue	17,848	47,555	34,570	14,252	13,953
Total revenues	387,508	499,659	291,335	210,143	187,548
Lease operating expenses	113,484	100,897	58,734	51,724	43,647
Production taxes	13,916	19,227	10,880	7,052	7,217
Depreciation, depletion and amortization	123,844	169,108	70,307	73,440	67,392
General and administrative expenses	23,554	24,381	15,111	14,906	13,908
Northstar Combination expenses	13,149	-	-	-	-
Interest expense	22,632	18,788	12,662	10,885	6,384
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	16,104	5,860	199	307	-
Distributions on preferred securities of subsidiary trust	9,717	9,717	4,753	-	-
Reduction of carrying value of oil and gas properties	126,900	625,514	-	97,061	21,679
Total costs and expenses	463,300	973,492	172,646	255,375	160,227
Earnings (loss) before income taxes	(75,792)	(473,833)	118,689	(45,232)	27,321

Income tax expense (benefit):					
Current	7,687	26,857	7,834	5,292	956
Deferred	(23,194)	(200,699)	43,252	(24,631)	9,440
Total	(15,507)	(173,842)	51,086	(19,339)	10,396
Net earnings (loss)	$(60,285)	(299,991)	67,603	(25,893)	16,925
Net earnings (loss) per share:					
Basic	$ (1.25)	(6.38)	2.06	(0.80)	0.54
Diluted	$ (1.25)	(6.38)	1.99	(0.80)	0.54
Cash dividends per common share1	$ 0.15	0.14	0.15	0.14	0.13
Weighted average common shares outstanding - basic	48,376	47,040	32,812	32,473	31,114
Ratio of earnings to fixed charges2	N/A	N/A	7.59	N/A	5.09

	December 31,				
	1998	1997	1996	1995	1994
	(Thousands)				
BALANCE SHEET DATA					
Total assets	$1,226,356	1,248,986	1,183,290	715,510	631,953
Long-term debt	$ 405,271	305,337	83,000	220,137	106,764
Convertible preferred securities of subsidiary trust	$ 149,500	149,500	149,500	-	-
Stockholders' equity	$ 522,963	596,546	678,772	394,647	410,916

	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(Thousands, Except Per Unit Data)				
CASH FLOW DATA					
Net cash provided by operating activities	$ 191,571	253,056	144,248	122,136	118,719
Net cash used by investing activities	$ (271,960)	(147,583)	(243,451)	(251,571)	(188,066)
Net cash provided (used) by financing activities	$ 57,618	(77,141)	96,420	125,312	70,378
Modified EBITDA 3,5	$ 223,405	355,154	206,610	136,461	255,682
Cash margin 4,5	$ 183,369	299,792	181,361	120,284	115,436
PRODUCTION, PRICE AND OTHER DATA					
Production:					
Oil (MBbls)	11,903	11,783	6,780	7,130	6,501
Gas (MMcf)	133,065	121,810	62,186	58,234	51,409
NGLs (MBbls)	1,939	1,891	1,255	831	720
MBoe 6	36,020	33,976	18,399	17,666	15,789
Average prices:					
Oil (Per Bbl)	$ 12.07	17.63	20.06	16.21	14.21
Gas (Per Mcf)	$ 1.57	1.80	1.63	1.22	1.44
NGLs (Per Bbl)	$ 8.61	13.18	15.38	10.94	9.99
Per Boe 6	$ 10.26	13.31	13.96	11.09	10.99
Costs per Boe:					
Operating costs	$ 3.54	3.54	3.78	3.33	3.22
Depreciation, depletion and amortization of oil and gas properties	$ 3.32	4.86	3.69	4.04	4.13
General and administrative expenses	$ 0.65	0.72	0.82	0.84	0.88

1 Cash dividends per share are presented based on the combined amount of dividends paid by both Devon and Northstar in each year. The dividends per share are also based on the number of shares outstanding in each year assuming the Northstar Combination had been consummated as of the beginning of the earliest year presented. Northstar did not pay any dividends in 1997, or in 1998 prior to the closing of the Northstar Combination. Also, Northstar's dividends paid in 1996, 1995 and 1994 were at rates per share that were different from the rates paid by Devon in those years. Because of these facts, the cash dividends per share presented are not representative of the actual amounts paid by Devon on an historical basis. For the years 1998, 1997, 1996, 1995 and 1994, Devon's historical cash dividends per share were $0.20, $0.20, $0.14, $0.12 and $0.12, respectively.

2 For purposes of calculating the ratio of earnings to fixed charges, (i) earnings consist of earnings before income taxes, plus fixed charges; and (ii) fixed charges consist of interest expense, deferred effect of changes in foreign currency exchange rate on long-term debt, distributions on preferred securities of subsidiary trust, amortization of costs relating to indebtedness and the preferred securities of subsidiary trust, and one-third of the portion of rental expense estimated to be attributable to interest. For the years 1998, 1997 and 1995, earnings were insufficient to cover fixed charges by $75.8 million, $473.8 million and $45.2 million, respectively.

3 Modified EBITDA represents earnings before interest (including

deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt, and distributions on preferred securities of subsidiary trust), taxes, depreciation, depletion and amortization and reduction of carrying value of oil and gas properties.

4 "Cash margin" equals total revenues less cash expenses. Cash expenses are all expenses other than the non-cash expenses of depreciation, depletion and amortization, deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt, reduction of carrying value of oil and gas properties and deferred income tax expense. Cash margin measures the net cash which is generated by a company's operations during a given period, without regard to the period such cash is actually physically received or spent by the company. This margin ignores the non-operational effect on a company's "net cash provided by operating activities", as measured by generally accepted accounting principles, from a company's activities as an operator of oil and gas wells. Such activities produce net increases or decreases in temporary cash funds held by the operator which have no effect on net earnings of the company.

5 Modified EBITDA is presented because it is commonly accepted in the oil and gas industry as a financial indicator of a company's ability to service or incur debt and because it is a component of Devon's and Northstar's debt covenants. Cash margin is presented because it is commonly accepted in the oil and gas industry as a financial indicator of a company's ability to fund capital expenditures or service debt. Modified EBITDA and cash margin are also presented because investors routinely request such information. Management interprets the trends of modified EBITDA and cash margin in a similar manner as trends in net earnings.

Modified EBITDA and cash margin should be used as supplements to, and not as substitutes for, net earnings and net cash provided by operating activities determined in accordance with generally accepted accounting principles as measures of Devon's profitability or liquidity. There may be operational or financial demands and requirements that reduce management's discretion over the use of modified EBITDA and cash margin. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Modified EBITDA and cash margin may not be comparable to similarly titled measures used by other companies.

6 Gas volumes are converted to Boe or MBoe at the rate of six Mcf of gas per barrel of oil, based upon the approximate relative energy content of natural gas and oil, which rate is not necessarily indicative of the relationship of oil and gas prices. The respective prices of oil, gas and NGLs are affected by market and other factors in addition to relative energy content.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis addresses changes in Devon's financial condition and results of operations during the three year period of 1996 through 1998. Reference is made to "Item 6. Selected Financial Data" and "Item 8. Financial Statements and Supplementary Data."

Overview

On June 29, 1998, Devon and Northstar Energy Corporation ("Northstar") announced their intent to merge. The combination of the two companies (the "Northstar Combination") was closed on December 10, 1998. As a result of this transaction, Devon issued the equivalent of 16.1 million common shares and assumed $307 million of long-term debt. The Northstar Combination increased Devon's proved oil and gas reserves by 115 million Boe, or 62%, and its undeveloped acreage by 1.8 million acres, or 193%.

The merger with Northstar was the largest transaction in Devon's history. All of Northstar's operations are located in Canada, principally in the province of Alberta. The Northstar Combination established critical mass for Devon in Canada. Devon believes that it now has the sufficient size to enjoy a fuller range of opportunities of doing business in Canada.

The Northstar Combination significantly expanded Devon's operations. However, another significant contributing factor to Devon's growth over the last three years was Devon's December 31, 1996, acquisition of all of Kerr-McGee Corporations's North American onshore oil and gas exploration and production business and properties (the "KMG-NAOS Properties"). Devon acquired the KMG-NAOS Properties in exchange for approximately 10 million shares of Devon common stock. At that time, this transaction increased Devon's proved reserves by 62 million Boe, or 50%.

Devon's drilling and development efforts have also helped fuel Devon's growth over the last three years. Excluding Northstar, Devon has spent approximately $309 million in its exploration and development efforts from 1996 through 1998. These costs included drilling 851 wells, of which 828 were completed as producers.

The Northstar Combination was accounted for under the pooling-of-interests method of accounting for business combinations. Accordingly, Devon's prior years' results have been restated to combine such results with those of Northstar for all years presented. Thus, the three-year comparisons of various production, revenue and expense items presented later in this section are shown as if Devon and Northstar had been combined for all such periods. Although this is consistent with the financial presentation of the Northstar Combination, it disguises the substantial changes in Devon's operations that have occurred as a result of the Northstar Combination.

To present the effects that the Northstar Combination, the KMG-NAOS Properties acquisition and drilling and development efforts have had on Devon's operations during the last three years, the following statistics have been developed. This data assumes that the Northstar Combination was closed at the beginning of 1998, but that prior year results were not restated. Thus, it compares Devon's 1998 results, including Northstar, to those of 1996 for Devon only, without Northstar. Such comparison yields the following fluctuations:

Combined oil, gas and NGLs production increased 25.3 million Boe, or 236%.
Despite a 32% decrease in the combined average price of oil, gas and NGLs, total revenues increased $223.5 million, or 136%.
Net cash provided by operating activities increased $104.8 million, or 121%. Cash margin increased $87.4 million, or 91%.
Net earnings dropped from $34.8 million in 1996 to a net loss of $60.3 million in 1998. However, 1998's net loss included approximately $108.5 million of after-tax charges from a full cost ceiling writedown, non-cash foreign currency charges and merger costs. Excluding these charges, 1998's net earnings as compared to 1996 would have increased $13.4 million, or 39%. Operating expenses per Boe of production decreased $0.40 per Boe, or 10%.
Depreciation, depletion and amortization of oil and gas properties per Boe decreased $0.56 per Boe, or 14%. General and administrative expenses per Boe decreased $0.20 per Boe, or 24%.

During 1998, Devon marked its tenth anniversary as a public company. While Devon has consistently increased production over this ten-year period, volatility in oil and gas prices has resulted in considerable variability in earnings and cash flows. Prices for oil, natural gas and NGLs are determined primarily by market conditions. Market conditions for these products have been, and will continue to be, influenced by regional and world- wide economic growth, weather and other factors that are beyond Devon's control. Devon's future earnings and cash flows will continue to depend on market conditions.

Like all oil and gas production companies, Devon faces the challenge of natural production decline. As virgin pressures are depleted, oil and gas production from a given well naturally decrease. Thus, an oil and gas production company depletes part of its asset base with each unit of oil and gas it produces. Historically, Devon has been able to overcome this natural decline by adding more reserves through drilling and acquisitions than it produces. However, Devon's future growth, if any, will depend on its ability to continue to add reserves in excess of production.

Because oil and gas prices are influenced by many factors which are outside of its control, Devon's management has focused its efforts on

increasing oil and gas reserves and production and on controlling expenses. Over its ten year history as a public company, Devon has been able to significantly reduce its operating costs per unit of production. While Devon's per-unit operating costs had been increasing since 1994, the Northstar Combination reduced 1998's per-unit operating costs on a consolidated basis by approximately $0.65 per Boe. Devon's future earnings and cash flows are dependent on its ability to continue to contain operating costs at levels that allow for profitable production of its oil and gas reserves. This is especially important considering the current depressed market for oil and gas prices.

Results of Operations

Devon's total revenues have risen from $291.3 million in 1996 to $499.7 million in 1997 and $387.5 million in 1998. In each of these years, oil, gas and NGLs sales accounted for over 88% of total revenues.

Changes in oil, gas and NGLs production, prices and revenues from 1996 to 1998 are shown in the table below. (Unless otherwise stated, all references in this discussion to dollar amounts regarding Devon's Canadian operations are expressed in U.S. dollars.)

	Total				
	Year Ended December 31,				
	1998		1997		
	1998	vs 1997	1997	vs 1996	1996
	(Absolute Amounts in Thousands)				
Production					
Oil (MBbls)	11,903	+1%	11,783	+74%	6,780
Gas (MMcf)	133,065	+9%	121,810	+96%	62,186
NGLs (MBbls)	1,939	+3%	1,891	+51%	1,255
Oil, Gas and NGLs (MBoe)	36,020	+6%	33,976	+85%	18,399
Revenues					
Per Unit of Production:					
Oil (per Bbl)	$ 12.07	-32%	17.63	-12%	20.06
Gas (per Mcf)	$ 1.57	-13%	1.80	+10%	1.63
NGLs (per Bbl)	$ 8.61	-35%	13.18	-14%	15.38
Oil, Gas and NGLs (per Boe)	$ 10.26	-23%	13.31	-5%	13.96
Absolute:					
Oil	$ 143,624	-31%	207,725	+53%	136,023
Gas	$ 209,344	-5%	219,459	+116%	101,443
NGLs	$ 16,692	-33%	24,920	+29%	19,299
Oil, Gas and NGLs	$ 369,660	-18%	452,104	+76%	256,765

	Domestic				
	Year Ended December 31,				
	1998		1997		
	1998	vs 1997	1997	vs 1996	1996
	(Absolute Amounts in Thousands)				
Production					
Oil (MBbls)	5,646	-7%	6,055	+59%	3,816
Gas (MMcf)	65,907	+8%	61,015	+71%	35,714
NGLs (MBbls)	1,373	-6%	1,468	+54%	952
Oil, Gas and NGLs (MBoe)	18,004	+2%	17,692	+65%	10,720
Revenues					
Per Unit of Production:					
Oil (per Bbl)	$ 12.45	-35%	19.08	-9%	21.00
Gas (per Mcf)	$ 1.92	-16%	2.28	+19%	1.91
NGLs (per Bbl)	$ 8.79	-33%	13.18	-13%	15.09
Oil, Gas and NGLs (per Boe)	$ 11.59	-25%	15.48	+2%	15.16
Absolute:					
Oil	$ 70,286	-39%	115,504	+44%	80,142
Gas	$ 126,273	-9%	139,018	+104%	68,049
NGLs	$ 12,071	-38%	19,338	+35%	14,367
Oil, Gas and NGLs	$ 208,630	-24%	273,860	+68%	162,558

	Canada				
	Year Ended December 31,				
	1998		1997		
	1998	vs 1997	1997	vs 1996	1996
	(Absolute Amounts in Thousands)				
Production					
Oil (MBbls)	6,257	+9%	5,728	+93%	2,964
Gas (MMcf)	67,158	+10%	60,795	+130%	26,472
NGLs (MBbls)	566	+34%	423	+40%	303
Oil, Gas and NGLs (MBoe)	18,016	+11%	16,284	+112%	7,679
Revenues					
Per Unit of Production:					
Oil (per Bbl)	$ 11.72	-27%	16.10	-15%	18.85
Gas (per Mcf)	$ 1.24	-6%	1.32	+5%	1.26

NGLs (per Bbl)	$ 8.16	-38%	13.20	-19%	16.28
Oil, Gas and NGLs (per Boe)	$ 8.94	-18%	10.95	-11%	12.27
Absolute:					
Oil	$ 73,338	-20%	92,221	+65%	55,881
Gas	$ 83,071	+3%	80,441	+141%	33,394
NGLs	$ 4,621	-17%	5,582	+13%	4,932
Oil, Gas and NGLs	$ 161,030	-10%	178,244	+89%	94,207

Oil Revenues 1998 vs. 1997 Oil revenues decreased $64.1 million in 1998. An average price decline of $5.56 per barrel reduced revenues by $66.2 million. This was slightly offset by $2.1 million of revenues added by production gains of 120,000 barrels.

1997 vs. 1996 Oil revenues increased $71.7 million in 1997. Production gains of 5.0 million barrels added $100.4 million of oil revenues in 1997. This increase was partially offset by a $28.7 million reduction in oil revenues due to price declines in 1997. The average oil price decreased $2.43 per barrel in 1997.

In March 1997, Northstar acquired all the outstanding common shares of Morrison Petroleums Ltd., an independent oil and gas producer also located in Alberta, Canada. Northstar acquired the Morrison Petroleums Ltd. shares by issuing additional shares of Northstar (the "Morrison Transaction"). The March 1997 Morrison Transaction and the KMG-NAOS Properties acquired at the end of 1996 were the primary contributors to the increased oil production in 1997. The KMG-NAOS Properties added 3.1 million barrels of 1997 production. The Morrison Transaction added 2.7 million barrels during the last nine months of 1997.

Gas Revenues 1998 vs. 1997 Gas revenues decreased $10.1 million in 1998. An average price decline of $0.23 per Mcf reduced revenues by $30.4 million. This was partially offset by higher production in 1998. A production increase of 11.3 Bcf in 1998 added gas revenues of $20.3 million.

The coal seam gas properties produced 19.9 Bcf in 1998 compared to 17.6 Bcf in 1997. During the last two years, Devon has conducted a program of mechanical improvements at the Northeast Blanco Unit coal seam gas property. The majority of the production gains realized in 1998 were the result of such improvements.

The coal seam properties averaged $1.72 per Mcf in 1998 compared to $2.13 per Mcf in 1997. In 1995, Devon entered into a transaction covering substantially all of its San Juan Basin coal seam gas properties (the "San Juan Basin Transaction"). This transaction is described in detail in Note 3 to the consolidated financial statements uncluded in "Item 8. Financial Statements and Supplementary Data". The San Juan Basin Transaction added $8.4 million to coal seam gas revenues in both 1998 and 1997. The San Juan Basin Transaction's effect on the coal seam gas properties' average price was an increase of $0.42 per Mcf in 1998 and $0.48 per Mcf in 1997.

1997 vs. 1996 Gas revenues increased $118.0 million in 1997. A 59.6 Bcf increase in production added $97.3 million to 1997's gas revenues. A $0.17 per Mcf increase in 1997's average gas price added the remaining $20.7 million of increased revenues.

The KMG-NAOS Properties and the Morrison Transaction were responsible for the majority of the increased gas production in 1997. The KMG-NAOS Properties produced 29.8 Bcf in 1997. The Morrison Transaction added 26.4 Bcf in the last nine months of the year. Coal seam gas properties produced 17.6 Bcf in 1997 compared to 17.4 Bcf in 1996.

The coal seam properties averaged $2.13 per Mcf in 1997 compared to $1.72 per Mcf in 1996. The San Juan Basin Transaction added $8.4 million to coal seam gas revenues in 1997 compared to $10.3 million in 1996. The San Juan Basin Transaction increased the average coal seam gas price by $0.48 per Mcf in 1997 and $0.59 per Mcf in 1996.

NGLs Revenues 1998 vs. 1997 NGLs revenues decreased $8.2 million in 1998. An average price decline of $4.57 per barrel caused revenues to drop by $8.9 million. This decline was only slightly offset by production increases of 48,000 barrels. Such production gains added $0.7 million of revenues in 1998.

1997 vs. 1996 NGLs revenues increased $5.6 million in 1997. A production increase of 636,000 barrels added $9.8 million to 1997's revenues. This was partially offset by a $4.2 million reduction in revenues caused by lower prices in 1997. The average NGLs price dropped $2.20 per barrel in 1997.

The majority of the increased production in 1997 was attributable to the KMG-NAOS Properties and the Morrison Transaction. The KMG-NAOS Properties added 339,000 barrels to 1997's production. The Morrison Transaction added 161,000 barrels during the last nine months of 1997.

Other Revenues 1998 vs. 1997 Other revenues decreased $29.7 million in 1998. This decrease was primarily due to Northstar's $29.4 million of gains from asset sales in 1997 which did not recur in 1998.

1997 vs. 1996 Other revenues increased $13.0 million in 1997. Northstar's gains from sales of assets increased $18.8 million in 1997. Northstar's pipeline revenues decreased $3.5 million and its equity earnings from unconsolidated subsidiaries decreased $3.2 million in 1997.

Expenses The details of the changes in pre-tax expenses between 1996 and 1998 are shown in the table below.

	Year Ended December 31,				
	1998	1998 vs 1997	1997	1997 vs 1996	1996
	(Absolute Amounts in Thousands)				
Absolute:					
Production and operating expenses:					
Lease operating expenses	$ 113,484	+12%	100,897	+72%	58,734
Production taxes	13,916	-28%	19,227	+77%	10,880
Depreciation, depletion and amortization of oil and gas properties	119,719	-27%	164,977	+143%	67,832
Subtotal	247,119	-13%	285,101	+107%	137,446
Depreciation and amortization of non-oil and gas properties	4,125	-	4,131	+67%	2,475
General and administrative expenses	23,554	-3%	24,381	+61%	15,111
Northstar Combination expenses	13,149	N/A	-	N/A	-
Interest expense	22,632	+20%	18,788	+48%	12,662
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	16,104	+175%	5,860	N/A	199
Distributions on preferred securities of subsidiary trust	9,717	-	9,717	+104%	4,753
Reduction of carrying value of oil and gas properties	126,900	-80%	625,514	N/A	-
Total	$ 463,300	-52%	973,492	+464%	172,646
Per Boe Produced:					
Production and operating expenses:					
Lease operating expenses	$ 3.15	+6%	2.97	-7%	3.19
Production taxes	0.39	-32%	0.57	-3%	0.59
Depreciation, depletion and amortization of oil and gas properties	3.32	-32%	4.86	+32%	3.69
Subtotal	6.86	-18%	8.40	+12%	7.47
Depreciation and amortization of non-oil and gas properties (1)	0.12	-	0.12	-8%	0.13
General and administrative expenses (1)	0.65	-10%	0.72	-12%	0.82
Northstar Combination expenses (1)	0.36	N/A	-	N/A	-
Interest expense (1)	0.63	+15%	0.55	-20%	0.69
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt (1)	0.45	+165%	0.17	N/A	0.01
Distributions on preferred securities of subsidiary trust (1)	0.27	-4%	0.28	+8%	0.26
Reduction of carrying value of oil and gas properties (1)	3.52	-81%	18.41	N/A	-
Total	$ 12.86	-55%	28.65	+205%	9.38

(1) Though per Boe amounts for these expense items may be helpful for profitability trend analysis, these expenses are not directly attributable to production volumes.

Production and Operating Expenses The details of the changes in production and operating expenses between 1996 and 1998 are shown in the table below.

	Total Year Ended December 31,				
	1998	1998 vs 1997	1997	1997 vs 1996	1996
	(Absolute Amounts in Thousands)				
Absolute:					
Recurring lease operating expenses	$ 107,554	+11%	96,738	+79%	54,171
Well workover expenses	5,930	+43%	4,159	-9%	4,563
Production taxes	13,916	-28%	19,227	+77%	10,880
Total production and operating expenses	$ 127,400	+6%	120,124	+73%	69,614
Per Boe:					
Recurring lease operating expenses	$ 2.99	+5%	2.85	-3%	2.94
Well workover expenses	0.16	+33%	0.12	-52%	0.25
Production taxes	0.39	-32%	0.57	-3%	0.59
Total production and operating expenses	$ 3.54	-	3.54	-6%	3.78

	Domestic				
	Year Ended December 31,				
	1998	1998 vs 1997	1997	1997 vs 1996	1996
	(Absolute Amounts in Thousands)				
Absolute:					
Recurring lease operating expenses	$ 60,920	+11%	54,969	+94%	28,270
Well workover expenses	4,654	+48%	3,143	-5%	3,298
Production taxes	12,255	-31%	17,646	+66%	10,658
Total production and operating expenses	$ 77,829	+3%	75,758	+79%	42,226
Per Boe:					
Recurring lease operating expenses	$ 3.38	+9%	3.10	+17%	2.64
Well workover expenses	0.26	+44%	0.18	-42%	0.31
Production taxes	0.68	-32%	1.00	+1%	0.99
Total production and operating expenses	$ 4.32	+1%	4.28	+9%	3.94

	Canada				
	Year Ended December 31,				
	1998	1998 vs 1997	1997	1997 vs 1996	1996
	(Absolute Amounts in Thousands)				
Absolute:					
Recurring lease operating expenses	$ 46,634	+12%	41,769	+61%	25,901
Well workover expenses	1,276	+26%	1,016	-20%	1,265
Production taxes	1,661	+5%	1,581	+612%	222
Total production and operating expenses	$ 49,571	+12%	44,366	+62%	27,388
Per Boe:					
Recurring lease operating expenses	$ 2.59	+1%	2.56	-24%	3.37
Well workover expenses	0.07	+17%	0.06	-65%	0.17
Production taxes	0.09	-10%	0.10	+233%	0.03
Total production and operating expenses	$ 2.75	+1%	2.72	-24%	3.57

1998 vs. 1997 Recurring lease operating expenses increased $10.8 million, or 11%, in 1998. The primary cause of this increase was the addition of wells drilled or acquired during the year, plus the effect of having a full year of operations from the Morrison Transaction properties in 1998 compared to only nine months in 1997.

The recurring expenses per Boe increased $0.14 per Boe, or 5%, in 1998. This increase was predominantly caused by the 9% increase in the domestic properties' costs per Boe. The operating expenses of the additional domestic wells drilled during the year raised the overall average costs per Boe in the U.S.

The majority of Devon's production taxes are assessed on its domestic properties. In the U.S., most of the production taxes paid are based on a fixed percentage of revenues. Therefore, the 24% drop in domestic oil, gas and NGLs revenues was the primary cause of the 31% decrease in domestic production taxes.

1997 vs. 1996 Recurring lease operating expenses increased $42.6 million, or 79%, in 1997. The KMG-NAOS Properties accounted for $26.0 million of the increased expenses. The Morrison Transaction added $16.5 million during the last nine months of 1997.

Recurring expenses per Boe were down $0.09 per Boe, or 3%, in 1997. The addition of the properties acquired in the Morrison Transaction accounted for the majority of this decrease in per unit costs. Such properties' costs per Boe for the last nine months of 1997 were $2.28 per Boe. This compares to $3.00 per Boe for all other properties during the year 1997.

Domestic production taxes increased 66% in 1997. This increase was mostly due to the 68% increase in the U.S. combined oil, gas and NGLs revenues.

Depreciation, Depletion and Amortization ("DD&A") Devon's largest recurring non-cash expense is DD&A. DD&A of oil and gas properties is calculated as the percentage of total proved reserve volumes produced during the year, multiplied by the net capitalized investment in those reserves including estimated future development costs (the "depletable base"). Generally, if reserve volumes are revised up or down, then the DD&A rate per unit of production will change inversely. However, if capitalized costs change, then the DD&A rate moves in the same direction. The per unit DD&A rate is not affected by production volumes. Absolute or total DD&A, as opposed to the rate per unit of production, generally moves in the same direction as production volumes. Oil and gas property DD&A is calculated separately for the domestic and Canadian properties.

1998 vs. 1997 Oil and gas property related DD&A decreased $45.3 million, or 27%, in 1998. A 32% drop in the consolidated DD&A rate per Boe from $4.86 in 1997 to $3.32 in 1998 reduced 1998's DD&A expense by $55.2 million. This decrease was partially offset by $9.9 million of

increased expense caused by the 6% increase in combined oil, gas and NGLs production in 1998. The domestic DD&A rate per Boe increased from $4.13 in 1997 to $4.24 in 1998. However, the Canadian DD&A rate per Boe decreased from $5.64 in 1997 to $2.41 in 1998. The $625.5 million reduction in the carrying value of Canadian oil and gas properties recorded at the end of 1997 caused the drop in the Canadian DD&A rate in 1998.

1997 vs. 1996 Oil and gas property related DD&A increased $97.1 million, or 143%, in 1997. Approximately $57.4 million of the increase was caused by the 85% increase in combined oil, gas and NGLs production in 1997. The remaining $39.7 million was caused by a 32% increase in the combined domestic and Canadian DD&A rate. The combined rate increased from $3.69 per Boe in 1996 to $4.86 per Boe in 1997. The domestic rate increased from $3.88 per Boe in 1996 to $4.13 per Boe in 1997. The Canadian rate increased from $3.42 per Boe in 1996 to $5.64 per Boe in 1997. The increase in 1997's Canadian rate was caused by the cost per Boe of the properties acquired in the Morrison Transaction.

General and Administrative Expenses ("G&A") 1998 vs. 1997 G&A decreased $0.8 million, or 3%, in 1998. Employee salaries and related overhead costs, including insurance and pension expense, increased $3.0 million in 1998 due to a combination of compensation increases and an increase in the number of personnel employed.

The higher salary and overhead costs were partially offset by an increase in the amount of such costs that were capitalized pursuant to the full cost method of accounting. Approximately $9.6 million of costs were capitalized in 1998, compared to $7.6 million in 1997.

The higher salary and overhead costs were also partially offset by an increase in Devon's overhead reimbursements. As the operator of a property, Devon receives these reimbursements from the property's working interest owners. Devon records the reimbursements as reductions to G&A. These reimbursements increased $1.9 million in 1998.

1997 vs. 1996 G&A increased $9.3 million, or 61% in 1997. Employee salaries and related overhead costs, including insurance and pension expense, increased $11.7 million. This increase was primarily related to the additional permanent and temporary personnel added at Devon's Oklahoma City and Calgary offices as a result of the acquisition of the KMG-NAOS Properties and the Morrison Transaction. The personnel expansion also caused office- related costs such as rent, dues, travel, supplies, telephone, etc., to increase $3.3 million in 1997.

The higher salary, overhead and office costs were partially offset by an increase in the amount of such costs that were capitalized pursuant to the full cost method of accounting. Approximately $7.6 million of costs were capitalized in 1997, compared to $4.9 million capitalized in 1996.

The higher salary, overhead and office costs were also partially offset by an increase in Devon's overhead reimbursements. Due largely to the acquisition of the KMG-NAOS Properties and the Morrison Transaction, overhead reimbursements increased $4.4 million in 1997.

Northstar Combination Expenses Approximately $13.1 million of expenses were incurred in 1998 in connection with the Northstar Combination. These expenses consisted primarily of investment bankers' fees, legal fees and costs of printing and distributing the proxy statement to shareholders. The pooling-of- interests method of accounting for business combinations requires such costs to be expensed as opposed to capitalized as costs of the transaction.

Interest Expense 1998 vs. 1997 Interest expense increased $3.8 million, or 20%, in 1998. The average interest rate increased from 5.4% in 1997 to 6.7% in 1998. The increase in the average rate was primarily due to the fact that Northstar replaced a large portion of its floating rate debt with longer term, fixed rate debt early in 1998. The increase in 1998's average rate caused a $4.4 million increase in interest expense. The average debt balance increased from $267.0 million in 1997 to $324.7 million in 1998. This increase in the debt outstanding caused interest expense to increase $3.1 million. The increases caused by higher rates and higher balances outstanding were partially offset by the fact that 1997's interest expense included a $3.3 million "make-whole" payment related to the early retirement of debt. Other items included in interest expense that are not related to the balance of debt outstanding, such as facility and agency fees, amortization of costs and other miscellaneous items were $0.4 million lower in 1998 compared to 1997.

1997 vs. 1996 Interest expense increased $6.1 million, or 48%, in 1997. The average long-term debt balance increased from $183.8 million in 1996 to $267.0 million in 1997. This increase in the average balance caused interest expense to increase $5.1 million. The average interest rate decreased from 6.1% in 1996 to 5.4% in 1997. This decrease reduced interest expense $2.0 million in 1997. Interest expense in 1997 also included the $3.3 million make-whole payment discussed in the above paragraph. Other items included in interest expense that are not related to the balance of debt outstanding were $0.3 million lower in 1997 compared to 1996.

Devon's average domestic long-term debt balance was almost eliminated in 1997, as it dropped from an average of $77.0 million in 1996 to only $0.7 million in 1997. Devon issued $149.5 million of 6.5% Trust Convertible Preferred Securities ("TCP Securities") in July, 1996. The proceeds from this issuance, along with cash flow from operations, were used to retire all domestic long-term debt by the end of the first quarter of 1997. (The TCP Securities are discussed further in this section.)

However, the drop in Devon's average domestic debt balance was more than offset by an increase in the Canadian average balance in 1997. Following the Morrison Transaction, Northstar repurchased $217 million of common shares which was financed with long-term debt. As a result, the Canadian average long-term debt balance increased from $106.8 million in 1996 to $266.3 million in 1997.

Deferred Effect of Changes in Foreign Currency Exchange Rate on Subsidiary's Long-term Debt Northstar has certain fixed rate senior notes

which are denominated in U.S. dollars. Changes in the exchange rate between the U.S. dollar and the Canadian dollar from the dates the notes were issued to the dates of repayment will increase or decrease the expected amount of Canadian dollars eventually required to repay the notes. Such changes in the Canadian dollar equivalent balance of the debt are required to be included in determining net earnings for the period in which the exchange rate changes.

1998 vs. 1997 The principal balance of Northstar's U.S. dollar denominated notes increased from $135 million at the end of 1997 to $225 million at the end of 1998. The rate of converting Canadian dollars to U.S. dollars decreased from $0.6997 at the end of 1997 to $0.6535 at the end of 1998. The combination of these factors caused $16.1 million to be recorded as an expense in 1998.

1997 vs. 1996 The principal balance of Northstar's U.S. dollar denominated notes increased from $75 million at the end of 1996 to $135 million at the end of 1997. The rate of converting Canadian dollars to U.S. dollars decreased from $0.7301 at the end of 1996 to $0.6997 at the end of 1997. The combination of these factors caused $5.9 million to be recorded as an expense in 1997.

Distributions on Preferred Securities of Subsidiary Trust 1998 vs. 1997 As mentioned earlier in this discussion, and as discussed in Note 9 to the consolidated financial statements included elsewhere herein, Devon, through its affiliate Devon Financing Trust, completed the issuance of $149.5 million of 6.5% TCP Securities in a private placement in July, 1996. The distributions accrue and are paid at the rate of 1.625% per quarter.

1997 vs. 1996 The TCP Securities distributions in 1997 were $9.7 million compared to $4.8 million in 1996. The 1996 distribution total represented slightly less than two quarters' distributions due to the issuance date occurring in July of that year.

Reduction of Carrying Value of Oil and Gas Properties Under the full cost method of accounting, the net book value of oil and gas properties, less related deferred income taxes, may not exceed a calculated "ceiling." The ceiling limitation is the discounted estimated after-tax future net revenues from proved oil and gas properties. The ceiling is imposed separately by country. In calculating future net revenues, current prices and costs are generally held constant indefinitely. The net book value, less deferred tax liabilities, is compared to the ceiling on a quarterly and annual basis. Any excess of the net book value, less deferred taxes, is written off as an expense.

1998 Reduction. As of September 30, 1998, the carrying value of Devon's domestic properties, less deferred income taxes, exceeded the full cost ceiling by $88 million. Accordingly, a $126.9 million pre-tax reduction of the carrying value of such properties was recorded in the third quarter of 1998. This reduction was partially offset by a related $38.9 million deferred income tax benefit, resulting in an after-tax charge of $88 million.

1997 Reduction. As of December 31, 1997, the carrying value of Northstar's oil and gas properties, less deferred income taxes, exceeded the full cost ceiling by $397.9 million. Accordingly, a $625.5 million pre-tax reduction of the carrying value of such properties was recorded in the fourth quarter of 1997. This reduction was partially offset by a related $227.6 million deferred income tax benefit, resulting in an after-tax charge of $397.9 million.

Income Taxes 1998 vs. 1997 Devon's effective financial income tax benefit rate in 1998 was 20% compared to a benefit rate in 1997 of 37%. The benefit rate in 1998 was lower than in 1997 due to a combination of a smaller pre-tax loss in 1998 and certain 1998 financial expenses that are not deductible for income tax purposes. Approximately $27.2 million of the $126.9 million reduction of carrying value of oil and gas properties related to costs which are not deductible for income taxes. Also, approximately $5.6 million of the Northstar Combination expenses and $4.0 million of the deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt are not deductible for income tax purposes.

1997 vs. 1996 Devon's effective financial income tax (benefit) rate in 1997 was (37%) compared to 43% in 1996. The benefit rate in 1997, as an absolute percentage, was lower than 1996's tax rate due to the financial deduction of costs in 1997 that were not deductible for income tax purposes. As previously discussed, Northstar recorded in 1997 a $625.5 million reduction of carrying value of oil and gas properties. Approximately $115.3 million of the reduction related to costs which are not deductible for income tax purposes. These non-deductible costs were the primary cause of the low benefit rate in 1997. Capital Expenditures, Capital Resources and Liquidity

The following discussion of capital expenditures, capital resources and liquidity should be read in conjunction with the consolidated statements of cash flows included in "Item 8. Financial Statements and Supplementary Data."

Capital Expenditures Approximately $375.5 million was spent in 1998 for capital expenditures, of which $371.3 million was related to the acquisition, drilling or development of oil and gas properties. These amounts compare to 1997 total expenditures of $288.0 million ($279.9 million of which was related to oil and gas properties) and 1996 total expenditures of $268.7 million ($254.5 million of which was related to oil and gas properties.)

Other Cash Uses Devon's common stock dividends were $7.3 million, $6.4 million and $5.0 million in 1998, 1997 and 1996, respectively.

Capital Resources and Liquidity Net cash provided by operating activities ("operating cash flow") has historically been the primary source of Devon's capital and short-term liquidity. Operating cash flow was $191.6 million, $253.1 million and $144.2 million in 1998, 1997 and 1996, respectively. The trends in operating cash flow during these periods have generally followed those of the various revenue and expense items previously discussed in this section.

In addition to operating cash flow, Devon's credit lines and the private placement of long-term debt have been an important source of capital and liquidity. During the years 1998 and 1997, long-term debt borrowings, net of repayments, totaled $55.3 million and $127.2 million, respectively. In 1996, due to the application of the TCP Securities' proceeds against outstanding debt, repayments of debt exceeded borrowings by $47.9 million.

Following the closing of the Northstar combination in December 1998, Devon entered into new unsecured long-term credit facilities aggregating $400 million (the "Credit Facilities"). The Credit Facilities include a U.S. facility of $205 million (the "U.S. Facility") and a Canadian facility of $195 million (the "Canadian Facility"). The Credit Facilities replaced Devon's and Northstar's separate credit facilities that were in place prior to the Northstar Combination. Of the $180.3 million borrowed against the Credit Facilities at December 31, 1998, $35 million was borrowed under the U.S. Facility and $145.3 million was borrowed under the Canadian Facility. Amounts borrowed under the Credit Facilities bear interest at various fixed rate options that Devon may elect for periods up to six months. Such rates are generally less than the prime rate. Devon may also elect to borrow at the prime rate. The average interest rate on the $180.3 million of debt outstanding at December 31, 1998, was 5.9%. The Credit Facilities also provide for an annual facility fee of $0.4 million that is payable quarterly.

The $205 million U.S. Facility consists of a Tranche A facility of $130 million and a Tranche B facility of $75 million. The Tranche A facility matures on December 10, 2003. Devon may borrow funds under the Tranche B facility until December 10, 1999 (the "Tranche B Revolving Period"). Devon may request that the Tranche B Revolving Period be extended an additional 364 days by notifying the agent bank of such request not more than 60 days prior to the end of the Tranche B Revolving Period. Debt borrowed under the Tranche B facility matures two years following the end of the Tranche B Revolving Period. All $35 million of debt outstanding under the U.S. Facility at December 31, 1998, was borrowed under the Tranche A facility.

Devon may borrow funds under the $195 million Canadian Facility until December 10, 1999 (the "Canadian Facility Revolving Period"). Devon may request that the Canadian Facility Revolving Period be extended an additional 364 days by notifying the agent bank of such request not more than 90 days prior to the end of the Canadian Facility Revolving Period. Debt borrowed under the Canadian Facility matures five years and one day following the end of the Canadian Facility Revolving Period.

Year 2000 Status Devon's company-wide Year 2000 Project ("the Project") is proceeding on schedule. The Project is addressing the Year 2000 issue caused by computer programs being written utilizing two digits rather than four to define an applicable year. As a result, Devon's computer equipment, software (all of which is externally developed), and devices with embedded technology that are time sensitive may misinterpret the actual date beginning on January 1, 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, but not limited to, a temporary inability to process transactions.

Devon has undertaken various initiatives intended to ensure that its computer equipment and software will function properly with respect to dates in the Year 2000 and thereafter. In planning and developing the Project, Devon has considered both its information technology ("IT") and its non-IT systems. The term "computer equipment and software" includes systems that are commonly thought of as IT systems, including accounting, data processing, telephone systems, scanning equipment, and other miscellaneous systems. Those items not to be considered as IT technology include alarm systems, fax machines, monitors for field operations, or other miscellaneous systems. Both IT and non-IT systems may contain embedded technology, which complicates Devon's Year 2000 identification, assessment, remediation, and testing efforts. Based upon its identification and assessment efforts to date, Devon is in the process of replacing the computer equipment and software it currently uses to become Year 2000 compliant. In addition, in the ordinary course of replacing computer equipment and software, Devon plans to obtain replacements that are in compliance with year 2000.

Devon has also mailed letters to its significant vendors and service providers and has verbally communicated with many strategic customers to determine the extent to which interfaces with such entities are vulnerable to Year 2000 issues and whether the products and services purchased from or by such entities are year 2000 compliant. Devon has received an overall favorable response from such third parties and it is anticipated that their significant Year 2000 issues will be addressed on a timely basis.

With regard to IT and non-IT systems and communications with third parties, Devon anticipates that the Project will be completed by September 30, 1999.

As noted above, Devon is in the process of replacing certain computer equipment and software because of the Year 2000 issue. Devon estimates that the total cost of such replacements will approximate $0.5 million. Substantially all of the personnel being used on the Project are existing Devon employees. Devon does not separately track the time that its own employees spend on the Project. Therefore, the internal costs incurred on the Project are not known. Such costs would consist almost entirely of the payroll costs associated with the time spent on the Project. Third party consulting costs of Devon's Year 2000 identification, assessment, remediation and testing efforts, as well as currently anticipated costs to be incurred with respect to Year 2000 issues of third parties, are expected to be approximately $0.2 million.

Devon has not yet begun a comprehensive analysis of the operational problems and costs that would be reasonably likely to result from the failure by Devon and significant third parties to complete efforts necessary to achieve Year 2000 compliance on a timely basis. A contingency plan has not been developed for dealing with the most reasonably likely worst case scenario, and such scenario has not yet been clearly identified. Devon plans to complete such analysis and contingency planning by December 31, 1999.

Devon presently does not expect to incur significant operational problems due to the Year 2000 issue. However, if all Year 2000 issues are not properly and timely identified, assessed, remediated and tested, there can be no assurances that the Year 2000 issue will not materially impact Devon's results of operations or adversely affect its relationships with customers, vendors, or others. Additionally, there can be no assurance

that the Year 2000 issues of other entities will not have a material impact on Devon's systems or results of operations.

1999 Estimates

The forward-looking statements provided in this discussion are based on management's examination of historical operating trends, the December 31, 1998 reserve reports of independent petroleum engineers and other data in Devon's possession or available from third parties. Devon cautions that its future oil, gas and NGLs production, revenues and expenses are subject to all of the risks and uncertainties normally incident to the exploration for and development and production and sale of oil and gas. These risks include, but are not limited to, price volatility, inflation or lack of availability of goods and services, environmental risks, drilling risks, regulatory changes, the uncertainty inherent in estimating future oil and gas production or reserves, and other risks as outlined below. Also, the financial results of Devon's Canadian operations are subject to currency exchange rate risks. Additional risks are discussed below in the context of line items most affected by such risks.

Specific Assumptions and Risks Related to Price and Production Estimates Prices for oil, natural gas and NGLs are determined primarily by prevailing market conditions. Market conditions for these products are influenced by regional and world-wide economic growth, weather and other substantially variable factors. These factors are beyond Devon's control and are difficult to predict. In addition to volatility in general, Devon's oil, gas and NGLs prices may vary considerably due to differences between regional markets, transportation availability and demand for different grades of oil, gas and NGLs. Over 90% of Devon's revenues are attributable to sales of these three commodities. Consequently, Devon's financial results and resources are highly influenced by this price volatility.

Estimates for Devon's future production of oil, natural gas and NGLs are based on the assumption that market demand and prices for oil and gas will continue at levels that allow for profitable production of these products. There can be no assurance of such stability.

Certain of Devon's individual oil and gas properties are sufficiently significant as to have a material impact on the overall financial results. With respect to oil production, these properties include the West Red Lake Field and the Grayburg- Jackson Unit, both in southeast New Mexico, and the Gilby and Halkirk areas in Alberta. Devon's interest in NEBU and the 32-9 Unit, both in the San Juan Basin, and the Coleman and Hamburg areas in Alberta can have a significant effect on overall gas production.

The production, transportation and marketing of oil, natural gas and NGLs are complex processes which are subject to disruption due to transportation and processing availability, mechanical failure, human error, meteorological events and numerous other factors. The following forward-looking statements were prepared assuming demand, curtailment, producibility and general market conditions for Devon's oil, natural gas and NGLs for 1999 will be substantially similar to those of 1998, unless otherwise noted. Given the general limitations expressed herein, Devon's forward-looking statements for 1999 are set forth below. Unless otherwise noted, all of the following dollar amounts are expressed in U.S. dollars. Those amounts related to Canadian operations have been converted to U.S. dollars using the year-end 1998 exchange rate of $0.6535 U.S. dollar to $1.00 Canadian dollar. The actual 1999 exchange rate may vary materially from the year-end 1998 rate used. Such variations could have a material effect on the following Canadian estimates.

Oil Production Devon expects its oil production in 1999 to total between 8.8 million barrels and 10.3 million barrels. Domestic production is expected to be between 4.6 million barrels and 5.4 million barrels, and Canadian production is expected to be between 4.2 million barrels and 4.9 million barrels.

Oil Prices Devon expects its 1999 net oil prices per barrel will average between $0.25 to $0.55 above West Texas Intermediate ("WTI") posted prices for its domestic production. Approximately 180,000 barrels of Canadian oil production in the first quarter have been fixed at a price of approximately $17.80 per barrel. For the remainder of 1999's Canadian oil production, Devon expects to receive a price between $1.75 and $2.25 below WTI posted prices.

The above expected range of the Canadian differentials from WTI prices, as well as the $17.80 per barrel fixed price for 180,000 barrels of first quarter production, include an estimated $1.25 per barrel decrease resulting from foreign currency hedges. These hedges, in which Devon will sell $60 million in 1999 at an average Canadian-to-U.S. exchange rate of $0.726 and buy the same amount of dollars at the floating exchange rate, offset a portion of the exposure to currency fluctuations on those Canadian oil sales that are based on U.S. prices. The $1.25 per barrel decrease is based on the assumption that the year-end 1998 Canadian-to-U.S. conversion rate of $0.6535 remains constant during 1999.

Gas Production Devon expects its 1999 gas production to total between 122 Bcf and 143 Bcf. It is expected that San Juan Basin coal seam gas production will be between 19 Bcf and 23 Bcf, and all other domestic production will be between 41 Bcf and 47 Bcf. Canadian production is expected to be between 62 Bcf and 73 Bcf.

Gas Prices - Fixed Through various fixed price contracts or hedging instruments, Devon has fixed the price it will receive in 1999 on a portion of its natural gas production. The table below includes the 1999 volumes and the respective prices that have been fixed.

Area	Volumes (MMcf)	Price Per Mcf
San Juan Basin	13,100	$1.82
Rocky Mountains	7,600	$1.93
Other U.S.	1,500	$2.05

Total U.S.	22,200	$1.87
Canada	41,600	$1.33

The above price for the San Juan Basin gas includes approximately $0.41 per Mcf from the San Juan Basin Transaction. Also, the above San Juan Basin price is net of approximately $0.63 per Mcf for transportation costs and quality adjustments.

Gas Prices - Floating For the gas production for which prices have not been fixed, Devon expects its 1999 San Juan Basin coal seam average price will be between $0.25 and $0.55 per Mcf less than Texas Gulf Coast spot averages ("TGC"). This includes the additional $0.41 per Mcf from the San Juan Basin Transaction and the $0.63 per Mcf reduction for transportation and quality adjustments, both referred to in the previous paragraph. Devon's other domestic production is expected to average $0.05 to $0.20 less than TGC, and the Canadian production is expected to average $0.80 to $0.95 less than the New York Mercantile Exchange price ("NYMEX").

NGLs Production Devon expects its production of 1999 NGLs to total between 1.7 million barrels and 2.0 million barrels. Between 1.3 million barrels and 1.5 million barrels are expected to be produced domestically, and between 0.4 million barrels and 0.5 million barrels are expected to be produced in Canada.

Other Revenues Devon's other revenues in 1999 are expected to be between $6.0 million and $7.5 million. Domestic other revenues are expected to be $2.0 million to $2.5 million and Canadian other revenues are expected to be $4.0 million to $5.0 million. The majority of these other revenues are expected to be produced from third party gas processing activities.

Production and Operating Expenses Devon's production and operating expenses vary in response to several factors. Among the most significant of these factors are additions or deletions to Devon's property base, changes in production taxes, general changes in the prices of services and materials that are used in the operation of the properties and the amount of repair and workover activity required.

Oil, gas and NGLs prices will have a direct effect on production taxes to be incurred in 1999. Future prices could also have an effect on whether proposed workover projects are economically feasible. These factors, coupled with the uncertainty of future oil, gas and NGLs prices, increase the uncertainty inherent in estimating future production and operating costs. Given these uncertainties, Devon estimates that 1999's total production and operating costs will be between $116 million and $135 million. The U.S. portion of such estimate is between $73 million and $84 million, while the Canadian costs are expected to total between $43 million and $51 million.

Depreciation, Depletion and Amortization The 1999 DD&A rate will depend on various factors. Most notable among such factors are the amount of proved reserves that could be added from drilling or acquisition efforts in 1999 compared to the costs incurred for such efforts, and the revisions to Devon's year-end 1998 reserve estimates that will be made during 1999.

Devon expects that its consolidated DD&A expense in 1999 will be between $122 million and $151 million. The DD&A rates as of the beginning of 1999 were $3.92 per Boe for domestic properties and $3.19 per Boe for Canadian properties. Assuming a 1999 domestic rate of between $4.15 per Boe and $4.40 per Boe, 1999 oil and gas property related DD&A expense is expected to be between $66 million and $81 million for the U.S. properties. Assuming a 1999 Canadian rate of between $3.40 per Boe and $3.65 per Boe, 1999 oil and gas property related DD&A expense is expected to be between $51 million and $64 million for the Canadian properties.

Additionally, Devon expects its 1999 non-oil and gas property related DD&A to total between $3.9 million and $4.5 million in the U.S. and between $1.0 million and $1.3 million in Canada.

General and Administrative Expenses Devon's G&A includes the costs of many different goods and services used in support of its business. These goods and services are subject to general price level increases or decreases. In addition, Devon's G&A varies with its level of activity and the related staffing needs as well as with the amount of professional services required during any given period. Should Devon's needs or the prices of the required goods and services differ significantly from current expectations, actual G&A could vary materially from the estimate. Given these limitations, consolidated G&A in 1999 is expected to be between $22.5 million and $26.0 million. Domestic G&A is expected to be between $10.5 million and $12.0 million, and Canadian G&A is expected to be between $12.0 million and $14.0 million.

Interest Expense Future interest rates and oil, natural gas and NGLs prices have a significant effect on Devon's interest expense. The fixed-rate provisions on $225 million of existing long-term debt removes the uncertainty of future interest rates from some, but not all, of Devon's long-term debt. Also, Devon can only marginally influence the prices it will receive in 1999 from sales of oil, gas and NGLs. These factors increase the margin of error inherent in estimating future interest expense. Other factors which affect interest expense, such as the amount and timing of capital expenditures, are within Devon's control. Given the uncertainty of future interest rates and commodity prices, Devon estimates that the consolidated interest expense in 1999 will be between $28 million and $32 million. Domestic interest expense is expected to be between $4 million and $5 million, and Canadian interest expense is expected to be between $24 million and $27 million.

Deferred Effect of Changes in Foreign Currency Exchange Rate on Subsidiary's Long-term Debt Assuming that there are no changes during 1999 in the existing principal balance of Northstar's $225 million of long-term debt which is denominated in U.S. dollars, the only factor influencing the potential 1999 deferred effect is the foreign currency rate between the U.S. dollar and the Canadian dollar. For every $0.01 change in the exchange rate from the year-end 1998 rate of $0.6535, Northstar will record a deferred effect (either revenue or expense) of approximately $5 million Canadian dollars. The resulting revenue or expense in U.S. dollars from such fluctuations would depend on the

currency rate during the applicable period.

Distributions on TCP Securities The TCP Securities are convertible into common shares of Devon at the option of the holder. Beginning in June 1999, Devon can redeem the TCP Securities for cash at 104.55% of face value if the redemption occurs in 1999, and thereafter at premiums that decline ratably to 100% in 2006. If Devon were to offer to redeem the TCP Securities, the holders could decide instead to convert the TCP Securities into Devon common stock. Assuming all $149.5 million of TCP Securities are outstanding for the entire year, Devon will make $9.7 million of distributions in 1999.

Reduction of Carrying Value of Oil and Gas Properties As of December 31, 1998, the full cost ceiling exceeded Devon's carrying value of oil and gas properties, less deferred income taxes. This full cost "cushion" was approximately $15 million for the domestic properties and $43 million for the Canadian properties. However, these cushion amounts could easily be eliminated by declines in oil and/or gas prices between year-end 1998 and the end of any quarter during 1999. The result would be a 1999 reduction of the carrying value of oil and gas properties.

Income Taxes Devon expects its consolidated financial income tax rate in 1999 to be between 35% and 45%. These rates are the combined current and deferred tax rates. There are certain items, both in the U.S. and Canada, that will have a fixed impact on 1999's income tax expense regardless of the level of pre-tax earnings that are produced. These items include
Section 29 tax credits in the U.S., which reduce income taxes based on production levels of certain properties and are not necessarily affected by pre-tax financial earnings. The amount of Section 29 tax credits expected to be used to offset financial income tax expense in 1999 is approximately $4 million. Also, Devon's Canadian subsidiaries are subject to Canada's "large corporation tax" of approximately $2 million which is based on total capitalization levels, not pre-tax earnings. The Canadian financial income tax in 1999 will also be increased by approximately $1 million due to the financial amortization of certain costs that are not deductible for income tax purposes. Significant changes in estimated production levels of oil, gas and NGLs, the prices of such products, or any of the various expense items could materially alter the effect of the aforementioned items on 1999's financial income tax rates.

Based on its current expectations of 1999 taxable income, Devon anticipates its current portion of 1999 income taxes will be $3 million to $8 million in the U.S. and $2 million to $3 million in Canada. However, unanticipated revenue and/or expense fluctuations could easily make these tax estimates inaccurate.

Capital Expenditures Devon's capital expenditures budget is based on an expected range of future oil, natural gas and NGLs prices as well as the expected costs of the capital additions. Should Devon's price expectations for its future production change significantly, some projects may be accelerated or deferred and, consequently, may increase or decrease total 1999 capital expenditures. In addition, if the actual costs of the budgeted items vary significantly from the anticipated amounts, actual capital expenditures could vary materially from Devon's estimates.

Though Devon has completed several major property transactions in recent years, these transactions are opportunity driven. Thus, Devon does not "budget", nor can it reasonably predict, the timing or size of such possible acquisitions, if any.

Given these limitations, Devon expects its 1999 capital expenditures for drilling and development efforts to total between $145 million and $175 million. These amounts include between $75 million and $90 million in the U.S. and between $70 million and $85 million in Canada. Devon expects to spend $20 million to $25 million in the U.S. and $15 million to $20 million in Canada for drilling and facilities costs related to reserves classified as proved as of year-end 1998. Devon also plans to spend another $35 million to $45 million in the U.S. and $40 million to $50 million in Canada on new, higher risk/reward projects.

In addition to the above expenditures for drilling and development, Devon expects to participate in the construction of an extensive gas gathering system and related CO2 removal facilities, and a gas processing project, all located in the Powder River Basin of Wyoming. The extent to which outside parties will participate in the project has not yet been determined. Depending on the final level of participation of those parties, Devon expects to spend between $60 million to $80 million as its share of the project in 1999.

Other Cash Uses Devon's management expects the policy of paying a quarterly dividend to continue. With the current $0.05 per share quarterly dividend rate and 48.4 million shares of common stock outstanding, 1999 dividends are expected to approximate $10 million.

Capital Resources and Liquidity The estimated future drilling and development activities are expected to be funded primarily through a combination of working capital and operating cash flow, with the remainder funded with borrowings from Devon's credit facilities. As of December 31, 1998, Devon had $219.7 million available under its $400 million credit facilities. The amount of operating cash flow to be generated during 1999 is uncertain due to the factors affecting revenues and expenses as previously cited. However, Devon expects its combined capital resources to be more than adequate to fund its anticipated capital expenditures for 1999. If significant acquisitions or other unplanned capital requirements arise during the year, Devon could utilize its existing credit facilities and/or seek to establish and utilize other sources of financing.

Impact of Recently Issued Accounting Standards Not Yet Adopted In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and measurement of those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in the fair value of a derivative (that is gains and losses) depends on the intended use of the derivative and whether it qualifies as a hedge. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Devon plans to adopt the

provision of SFAS 133 in the first quarter of the year ending December 31, 2000, and is currently evaluating the effects of this pronouncement.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about Devon's potential exposure to market risks. The term "market risk" refers to the risk of loss arising from adverse changes in oil and gas prices, interest rates and foreign currency exchange rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. This forward-looking information provides indicators of how Devon views and manages its ongoing market risk exposures. All of Devon's market risk sensitive instruments were entered into for purposes other than trading.

Commodity Price Risk. Devon's major market risk exposure is in the pricing applicable to its oil and gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot market prices applicable to its U.S. and Canadian natural gas production. Pricing for oil and gas production has been volatile and unpredictable for several years.

Devon periodically enters into financial hedging activities with respect to a portion of its projected oil and natural gas production through financial price swaps whereby Devon will receive a fixed price for its production and pay a variable market price to the contract counterparty. These financial hedging activities are intended to support oil and natural gas prices at targeted levels and to manage Devon's exposure to oil and gas price fluctuations. Realized gains or losses from the settlement of these financial hedging instruments are recognized in oil and gas sales when the associated production occurs. The gains and losses realized as a result of these hedging activities are substantially offset in the cash market when the hedged commodity is delivered. Devon does not hold or issue derivative instruments for trading purposes.

As of year-end 1998, Devon had financial oil and gas price hedging instruments in place which represented approximately 180,000 barrels of oil production in the first quarter of 1999, and approximately 29 Bcf, 12 Bcf, 10 Bcf and 2 Bcf of gas production in the years 1999, 2000, 2001 and 2002, respectively. The 1999 hedged oil and gas volumes represent approximately 2% and 20%, respectively, of expected 1999 total production. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - 1999 Estimates."

Devon uses a sensitivity analysis technique to evaluate the hypothetical effect that changes in the market value of oil and gas may have on the fair value of its commodity hedging instruments. At December 31, 1998, a 10% increase in the underlying commodities' prices would have reduced the fair value of Devon's commodity hedging instruments by $7.3 million.

In addition to the commodity hedging instruments described above, Devon also manages its exposure to gas price risks by periodically entering into fixed-price gas contracts. The majority of these fixed price contracts relate to Devon's Canadian gas production. For each of the years of 1999 through 2003, Devon's fixed-price gas contracts cover approximately 35 Bcf, 17 Bcf, 12 Bcf, 10 Bcf and 6 Bcf of production, respectively. Devon also has Canadian gas volumes subject to fixed-price contracts in the years from 2004 through 2016, but the yearly volumes are less than 6 Bcf. The amount of 1999's production covered by fixed-price contracts represents approximately 25% of expected 1999 total production. See "Item
7. Management's Discussion and Analysis of Financial Condition and Results of Operations - 1999 Estimates."

Interest Rate Risk. At December 31, 1998, Devon had long- term debt outstanding of $405.3 million. Of this amount, $225 million, or 55%, bears interest at fixed rates averaging 6.8%. The remaining $180.3 million of debt outstanding at the end of 1998 bears interest at floating rates which averaged 5.9% at the end of 1998. The terms of the credit facilities in place allow interest rates to be fixed at Devon's option for periods of between 30 to 180 days. A 10% increase in short-term interest rates on the floating-rate debt outstanding at the end of 1998 would equal approximately 59 basis points. Such an increase in interest rates would increase Devon's 1999 interest expense by approximately $1 million assuming borrowed amounts remain outstanding.

The above sensitivity analysis for interest rate risk excludes accounts receivable, accounts payable and accrued liabilities because of the short-term maturity of such instruments.

Foreign Currency Risk. Devon's net assets, net earnings and cash flows from its Canadian subsidiaries are based on the U.S. dollar equivalent of such amounts measured in the Canadian dollar. Assets and liabilities of the Canadian subsidiaries are translated to U.S. dollars using the applicable exchange rate as of the end of a reporting period. Revenues, expenses and cash flow are translated using the average exchange rate during the reporting period.

Northstar, one of Devon's Canadian subsidiaries, has $225 million of fixed-rate long-term debt that is denominated in U.S. dollars. Changes in the currency conversion rate of the Canadian and U.S. dollars between the beginning and end of a reporting period increase or decrease the expected amount of Canadian dollars required to repay the notes. The amount of such increase or decrease is required to be included in determining net earnings for the period in which the exchange rate changes. The first principal payments on these notes are not due until 2001. Until then, the gains or losses caused by the exchange rate fluctuations have no effect on cash flow. In 1999, a $0.03 decrease in the Canadian-to-U.S. dollar exchange rate would cause Devon to record a charge of approximately $11 million.

Substantially all of Devon's Canadian oil sales are paid in Canadian dollars, but at amounts based on the U.S. dollar price of oil. Therefore, currency fluctuations between the Canadian and U.S. dollars impact the amount of Canadian dollars received by Devon's Canadian subsidiaries for their oil production. To mitigate the effect of volatility in the Canadian-to-U.S. dollar exchange rate on Canadian oil revenues, Devon has existing foreign currency exchange rate swaps. Under such swap agreements, in 1999 Devon will sell $60 million at an average Canadian-to-U.S. exchange rate of $0.726 and buy the same amount of dollars at the floating exchange rate. The amount of gains or losses realized from such swaps are included as increases or decreases to realized oil sales. At the year-end 1998 exchange rate, these swaps would result in decreases to 1999's annual oil sales of approximately $6 million. A further $0.03 decrease in the Canadian-to-U.S. dollar exchange rate in 1999

would result in an additional decrease in oil sales of approximately $3 million.

For purposes of the sensitivity analysis described above for changes in the foreign currency exchange rate, a change in the rate of $0.03 was used as opposed to a 10% change in the rate. During the last six years, the Canadian-to-U.S. dollar exchange rate has fluctuated an average of approximately 4% per year, and no year's fluctuation was greater than 7%. The $0.03 change used in the above analysis represents an approximate 4% change in the year-end 1998 rate.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements and Consolidated

Financial Statement Schedules

All financial statement schedules are omitted as they are inapplicable or the required information is immaterial.

Independent Auditors' Report

The Board of Directors and Stockholders
Devon Energy Corporation:

We have audited the accompanying consolidated balance sheets of Devon Energy Corporation and subsidiaries as of December 31, 1998, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Northstar Energy Corporation, a wholly-owned subsidiary, which statements reflect total assets constituting 31%, 32% and 37% and total revenues constituting 38%, 37%, and 44% in 1998, 1997 and 1996, respectively, of the related consolidated totals. The financial statements of Northstar Energy Corporation were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Northstar Energy Corporation, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Devon Energy Corporation and subsidiaries as of December 31, 1998, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG LLP

Oklahoma City, Oklahoma
January 26, 1999

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Northstar Energy Corporation (a wholly owned subsidiary of Devon Energy Corporation) as at December 31, 1998 and 1997 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for the years then ended (not separately included herein). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards, which are substantially similar to generally accepted auditing standards in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997, and the results of its operations and the changes in its cash flow for the years then ended in accordance with generally accepted accounting principles in the United States.

(SIGNED) DELOITTE & TOUCHE LLP
Deloitte & Touche LLP Chartered Accountants

Calgary, Alberta
Canada
January 20, 1999

Report of Independent Accountants

To the Board of Directors of
Northstar Energy Corporation

We have audited the consolidated balance sheet of Northstar Energy Corporation and its subsidiaries (the "Company") at December 31, 1996 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for the year then ended (not separately included herein). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and the results of its operations and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States.

COOPERS & LYBRAND
Chartered Accountants

Calgary, Alberta, Canada
February 5, 1997

DEVON ENERGY CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(In Thousands, Except Share Data)

	December 31, 1998	1997	1996
Assets			
Current assets:			
Cash and cash equivalents	$ 19,154	42,065	13,417
Accounts receivable (Note 5)	83,858	96,828	63,942
Inventories	2,750	4,012	4,310
Prepaid expenses	2,351	3,142	2,311
Assets held for sale	-	43,548	100,836
Property disposition receivable	-	-	47,091
Deferred income taxes (Note 8)	605	434	1,600
Investments and other assets	1,930	23,228	136
Total current assets	110,648	213,257	233,643
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties (Note 6)	2,610,511	2,320,735	1,488,336
Less accumulated depreciation, depletion and amortization	1,509,583	1,325,452	568,789
	1,100,928	995,283	919,547
Other assets	14,780	40,446	30,100
Total assets	$1,226,356	1,248,986	1,183,290
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable:			
Trade	40,177	46,003	33,796
Revenues and royalties due to others	12,508	13,898	11,492
Income taxes payable	-	5,029	5,016
Current portion of long-term debt	-	48,979	88,835
Accrued expenses	27,971	22,405	7,668
Total current liabilities	80,656	136,314	146,807
Other liabilities (Notes 3 and 12)	34,747	29,464	18,208
Long-term debt (Note 7)	405,271	305,337	83,000
Deferred income taxes (Note 8)	33,219	31,825	107,003
Company-obligated mandatorily redeemable convertible preferred securities of subsidiary trust holding solely 6.5% convertible junior subordinated debentures of Devon Energy Corporation (Note 9)	149,500	149,500	149,500
Stockholders' equity (Note 10):			
Preferred stock of $1.00 par value. Authorized 3,000,000 shares; none issued	-	-	-
Common stock of $.10 par value. Authorized 400,000,000 shares; issued 48,425,000 in 1998, 48,290,000 in 1997, and 42,878,000 in 1996	4,842	4,829	4,288
Additional paid-in capital	796,992	794,176	556,049
Retained earnings (accumulated deficit)	(242,909)	(175,346)	131,090
Accumulated other comprehensive loss	(35,962)	(27,113)	(12,655)
Total stockholders' equity	522,963	596,546	678,772
Commitments and contingencies (Notes 12 and 13)			
Total liabilities and stockholders' equity	$1,226,356	1,248,986	1,183,290

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(In Thousands, Except Per Share Amounts)

	Year Ended December 31, 1998	1997	1996
Revenues			
Oil sales	$143,624	207,725	136,023
Gas sales	209,344	219,459	101,443
Natural gas liquids sales	16,692	24,920	19,299
Other	17,848	47,555	34,570
Total revenues	387,508	499,659	291,335
Costs and expenses			
Lease operating expenses	113,484	100,897	58,734
Production taxes	13,916	19,227	10,880
Depreciation, depletion and amortization (Note 6)	123,844	169,108	70,307
General and administrative expenses	23,554	24,381	15,111
Northstar Combination expenses	13,149	-	-
Interest expense (Note 7)	22,632	18,788	12,662
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt (Note 7)	16,104	5,860	199
Distributions on preferred securities of subsidiary trust (Note 9)	9,717	9,717	4,753
Reduction of carrying value of oil and gas properties (Note 14)	126,900	625,514	-
Total costs and expenses	463,300	973,492	172,646
Earnings (loss) before income tax expense (benefit)	(75,792)	(473,833)	118,689
Income tax expense (benefit) (Note 8)			
Current	7,687	26,857	7,834
Deferred	(23,194)	(200,699)	43,252
Total income tax expense (benefit)	(15,507)	(173,842)	51,086
Net earnings (loss)	$(60,285)	(299,991)	67,603
Net earnings (loss) per average common share outstanding (Note 1):			
Basic	$(1.25)	(6.38)	2.06
Diluted	$(1.25)	(6.38)	1.99
Weighted average common shares outstanding - basic (Note 1)	48,376	47,040	32,812

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Compre-hensive Loss	Total Stockholders' Equity
Balance as of December 31, 1995	$3,258	334,749	68,482	(11,842)	394,647
Comprehensive earnings:					
Net earnings	-	-	67,603	-	67,603
Other comprehensive loss - foreign currency translation adjustments	-	-	-	(813)	(813)
Comprehensive earnings	-	-	-	-	66,790
Common stock issued	1,030	221,300	-	-	222,330
Dividends	-	-	(4,995)	-	(4,995)
Balance as of December 31, 1996	4,288	556,049	131,090	(12,655)	678,772
Comprehensive loss:					
Net loss	-	-	(299,991)	-	(299,991)
Other comprehensive loss - foreign currency translation adjustments	-	-	-	(14,458)	(14,458)
Comprehensive loss	-	-	-	-	(314,449)
Common stock issued	1,027	453,441	-	-	454,468
Common stock repurchased	(486)	(216,514)	-	-	(217,000)
Tax benefit related to employee stock options	-	1,200	-	-	1,200
Dividends	-	-	(6,445)	-	(6,445)
Balance as of December 31, 1997	4,829	794,176	(175,346)	(27,113)	596,546
Comprehensive loss:					
Net loss	-	-	(60,285)	-	(60,285)
Other comprehensive loss, net of tax:					
Foreign currency translation adjustments	-	-	-	(8,130)	(8,130)
Minimum pension liability adjustment	-	-	-	(719)	(719)
Other comprehensive loss	-	-	-	-	(8,849)
Comprehensive loss	-	-	-	-	(69,134)
Common stock issued	13	2,816	-	-	2,829
Dividends	-	-	(7,278)	-	(7,278)
Balance as of December 31, 1998	4,842	796,992	(242,909)	(35,962)	522,963

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31,		
	1998	1997	1996
Cash flows from operating activities			
Net earnings (loss)	$ (60,285)	(299,991)	67,603
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, depletion and amortization	123,844	169,108	70,307
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	16,104	5,860	199
Reduction of carrying value of oil and gas properties	126,900	625,514	-
(Gain) loss on sale of assets	(164)	(29,573)	(10,598)
Deferred income taxes (benefit)	(23,194)	(200,699)	43,252
Other	901	2,964	(3,559)
Changes in assets and liabilities net of effects of acquisitions of businesses (Note 2):			
(Increase) decrease in:			
Accounts receivable	10,160	(17,404)	(24,507)
Inventories	1,173	198	(404)
Prepaid expenses	449	(930)	(2,096)
Other assets	130	(874)	(1,033)
Increase (decrease) in:			
Accounts payable	(3,439)	300	4,110
Income taxes payable	(5,126)	269	3,501
Accrued expenses	7,000	132	1,522
Long-term other liabilities	(2,882)	(1,818)	(4,049)
Net cash provided by operating activities	191,571	253,056	144,248
Cash flows from investing activities			
Proceeds from sale of property and equipment	62,997	180,296	15,059
Proceeds from sale of investments	42,584	-	16,951
Capital expenditures	(375,512)	(287,991)	(268,677)
Increase in equity investment	-	(32,428)	-
Increase in other assets	(2,029)	(7,460)	(6,784)
Net cash used in investing activities	(271,960)	(147,583)	(243,451)
Cash flows from financing activities			
Proceeds from borrowings on revolving lines of credit	1,292,020	817,785	401,623
Principal payments on revolving lines of credit	(1,236,713)	(690,627)	(449,528)
Issuance of common stock, net of issuance costs	2,829	12,878	3,278
Issuance of preferred securities of subsidiary trust, net of issuance costs	-	-	144,665
Repurchase of common stock	-	(217,000)	-
Dividends paid on common stock	(7,278)	(6,445)	(4,995)
Increase in long-term other liabilities (Note 3)	6,760	6,268	1,377
Net cash provided (used) by financing activities	57,618	(77,141)	96,420
Effect of exchange rate changes on cash	(140)	316	62
Net increase (decrease) in cash and cash equivalents	(22,911)	28,648	(2,721)
Cash and cash equivalents at beginning of year	42,065	13,417	16,138
Cash and cash equivalents at end of year	$ 19,154	42,065	13,417

See accompanying notes to consolidated financial statements.

December 31, 1998, 1997 and 1996

1. Summary of Significant Accounting Policies

Accounting policies used by Devon Energy Corporation and subsidiaries ("Devon") reflect industry practices and conform to generally accepted accounting principles. The more significant of such policies are briefly discussed below.

Basis of Presentation and Principles of Consolidation

Devon is engaged primarily in oil and gas exploration, development and production, and the acquisition of producing properties. Such activities domestically are primarily in the states of New Mexico, Texas, Oklahoma and Wyoming. Devon's Canadian activities are primarily in the province of Alberta. Devon's share of the assets, liabilities, revenues and expenses of affiliated partnerships and the accounts of its wholly-owned subsidiaries are included in the accompanying consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

Information concerning common stock and per share data assumes the exchange of all Exchangeable Shares issued in connection with the Northstar Combination described in Note 2.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Inventories

Inventories, which consist primarily of injected gas and tubular goods, parts and supplies, are stated at cost, determined principally by the average cost method, which is not in excess of net realizable value.

Property and Equipment

Devon follows the full cost method of accounting for its oil and gas properties. Accordingly, all costs incidental to the acquisition, exploration and development of oil and gas properties, including costs of undeveloped leasehold, dry holes and leasehold equipment, are capitalized. Net capitalized costs are limited to the estimated future net revenues, discounted at 10% per annum, from proved oil, natural gas and natural gas liquids reserves. Such limitations are imposed separately for Devon's oil and gas properties in the United States and Canada. Capitalized costs are depleted by an equivalent unit-of-production method, converting gas to oil at the ratio of one barrel ("Bbl") of oil to six thousand cubic feet ("Mcf") of natural gas. No gain or loss is recognized upon disposal of oil and gas properties unless such disposal significantly alters the relationship between capitalized costs and proved reserves.

Devon adopted the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," on January 1, 1996. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Due to Devon's use of the full cost method of accounting for its oil and gas properties, SFAS No. 121 does not apply to Devon's oil and gas property assets which comprise substantially all of Devon's net property and equipment. Accordingly, the adoption of SFAS No. 121 did not have an impact on Devon's financial position or results of operations in 1996.

Depreciation and amortization of other property and equipment, including leasehold improvements, are provided using the straight-line method based on estimated useful lives from 3 to 39 years.

Gas Balancing

During the course of normal operations, Devon and other joint interest owners of natural gas reservoirs will take more or less than their respective ownership share of the natural gas volumes produced. These volumetric imbalances are monitored over the lives of the wells' production capability. If an imbalance exists at the time the wells' reserves are depleted, cash settlements are made among the joint interest owners under a variety of arrangements.

Devon follows the sales method of accounting for gas imbalances. A liability is recorded only if Devon's excess takes of natural gas volumes exceed its estimated remaining recoverable reserves. No receivables are recorded for those wells where Devon has taken less than its ownership share of gas production.

Hedging Activities

Devon has periodically entered into oil and gas price swaps and foreign exchange rate swaps to manage its exposure to oil and gas price volatility. The foreign exchange rate swaps mitgate the effect of volatility in the Canadian-to-U.S. dollar exchange rate on Canadian oil revenues that are predominantly based on U.S. prices. The hedging instruments are usually placed with counter- parties that Devon believes are minimal credit risks. The oil and gas reference prices upon which the price hedging instruments are based reflect various market indices that have a high degree of historical correlation with actual prices received by Devon.

Devon accounts for its hedging instruments using the deferral method of accounting. Under this method, realized gains and losses from Devon's price risk management activities are recognized in oil and gas revenues when the associated production occurs and the resulting cash flows are reported as cash flows from operating activities. Gains and losses on hedging contracts that are closed before the hedged production occurs are deferred until the production month originally hedged. In the event of a loss of correlation between changes in oil and gas reference prices under a hedging instrument and actual oil and gas prices, a gain or loss is recognized currently to the extent the hedging instrument has not offset changes in actual oil and gas prices.

Stock Options

On January 1, 1996, Devon adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize over the vesting period the fair value of all stock- based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply provisions of APB No. 25, "Accounting for Stock Issued to Employees," whereby compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. Companies which continue to apply the provisions of APB No. 25 are required by SFAS No. 123 to disclose pro forma net earnings and net earnings per share for employee stock option grants made in 1995 and subsequent years as if the fair-value- based method defined in SFAS No. 123 had been applied. Devon has elected to continue to apply the provisions of APB No. 25, and has provided the pro forma disclosures required by SFAS No. 123 in Note 10.

Major Purchasers

During each of the last three years, Aquila Energy Marketing Corporation ("Aquila") accounted for more than 10% of Devon's combined oil, gas and natural gas liquids sales. Aquila accounted for 19%, 15% and 12% of such sales in 1998, 1997 and 1996, respectively. Also, EOTT Energy Operating Limited Partnership accounted for 15% of combined oil, gas and natural gas liquids sales in 1996.

Income Taxes

Devon accounts for income taxes using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, as well as the future tax consequences attributable to the future utilization of existing tax net operating loss and other types of carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. U.S. deferred income taxes have not been provided on Canadian earnings which are being permanently reinvested.

General and Administrative Expenses

General and administrative expenses are reported net of amounts allocated to working interest owners of the oil and gas properties operated by Devon, net of amounts charged to affiliated partnerships for administrative and overhead costs, and net of amounts capitalized pursuant to the full cost method of accounting.

Net Earnings Per Common Share

In February, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share." SFAS No. 128 revised the previous calculation methods and presentations of earnings per share. The statement required that all prior-period earnings per share data be restated. Devon adopted SFAS No. 128 in the fourth quarter of 1997 as permitted by the statement. The effect of adopting SFAS No. 128 was not material to Devon's prior period earnings per share data.

Under the provisions of SFAS No. 128, basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if Devon's dilutive outstanding stock options were exercised (calculated using the treasury stock method) or if Devon's Trust Convertible Preferred Securities were converted to common stock.

The following table reconciles the net earnings and common shares outstanding used in the calculations of basic and diluted net earnings per share for the year 1996. The diluted loss per share calculations for 1998 and 1997 produce results that are anti-dilutive. (The diluted calculation for 1998 reduced the net loss by $6.0 million and increased the common shares outstanding by 5.5 million shares. The 1997 diluted calculation reduced the net loss by $6.0 million and increased the common shares outstanding by 5.6 million shares.) Therefore, the diluted loss per share amounts for 1998 and 1997 reported in the accompanying consolidated statements of operations are the same as the basic loss per share

amounts.

	Net Earnings	Weighted Average Common Shares Outstanding (In Thousands)	Net Earnings Per Share
Year ended December 31, 1996:			
Basic earnings per share	$67,603	32,812	2.06
Dilutive effect of:			
Potential common shares issuable upon the conversion of Trust Convertible Preferred securities (the increase in net earnings is net of income tax expense of $1,837,000)	2,998	2,384	
Potential common shares issuable upon the exercise of employee stock options	-	271	
Diluted earnings per share	$70,601	35,467	1.99

Comprehensive Earnings (Loss)

Devon adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," on January 1, 1998. SFAS No. 130 was effective for fiscal years beginning after December 15, 1997. SFAS No. 130 established standards for reporting and display of "comprehensive income" and its components in a set of financial statements. It requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Devon's comprehensive income information is included in the accompanying consolidated statements of stockholders' equity. As of December 31, 1998, the accumulated other comprehensive loss of $36.0 million included in stockholders' equity consisted of $35.3 million of foreign currency translation adjustments and $0.7 million of minimum pension liability adjustments. As of December 31, 1997 and 1996, the balance of accumulated other comprehensive loss consisted solely of foreign currency translation adjustments. The $0.7 million of minimum pension liability adjustments included in 1998's comprehensive loss was net of a $0.5 million deferred tax benefit. There are no tax benefits related to the foreign currency translation adjustments.

Foreign Currency Translation Adjustments

Devon's only operations outside the United States are in Canada. For purposes of foreign currency translation, the Canadian dollar is the functional currency for Devon's Canadian operations. Translation adjustments resulting from translating the Canadian subsidiaries' foreign currency financial statements into U.S. dollar equivalents are included in accumulated other comprehensive loss.

Dividends

Dividends on Devon's common stock were paid in the first three quarters of 1996 at a per share rate of $0.03 per quarter. The dividend rate was increased to $0.05 per share for the fourth quarter of 1996 and all four quarters of 1997 and 1998. As adjusted for the Northstar Combination's pooling-of-interests method of accounting, annual dividends per share for 1998, 1997 and 1996 were $0.15, $0.14 and $0.15, respectively.

Statements of Cash Flows

For purposes of the consolidated statements of cash flows, Devon considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

In October, 1996, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities." SOP 96-1 was adopted by Devon on January 1, 1997. It requires, among other things, that environmental remediation liabilities be accrued when the criteria of SFAS No. 5, "Accounting for Contingencies," have been met. SOP 96-1 also provides guidance with respect to the measurement of the remediation liabilities. Such accounting is consistent with Devon's method of accounting for environmental remediation costs. Therefore, adoption of SOP 96-1 did not have a material impact on Devon's financial position or results of operations.

2. Business Combinations and Pro Forma Information

On June 29, 1998, Devon and Northstar Energy Corporation ("Northstar") announced they had entered into a definitive combination agreement subject to shareholder approval and certain other conditions. The combination of the two companies (the "Northstar Combination") was closed

on December 10, 1998. At that date, Northstar became a wholly-owned subsidiary of Devon. Pursuant to the Northstar Combination, Northstar's common shareholders received approximately 16.1 million exchangeable shares (the "Exchangeable Shares") based on an exchange ratio of
0.235 Exchangeable Shares for each Northstar common share outstanding. The Exchangeable Shares were issued by Northstar, but are exchangeable at any time into Devon's common shares on a one-for-one basis. Prior to such exchange, the Exchangeable Shares have rights identical to those of Devon's common shares, including dividend, voting and liquidation rights. Between December 10, 1998 and December 31, 1998, approximately 6.5 million of the originally issued 16.1 million Exchangeable Shares had been exchanged for shares of Devon common stock.

The Northstar Combination was accounted for under the pooling-of-interests method of accounting for business combinations. All operational and financial information contained herein includes the combined amounts for Devon and Northstar for all periods presented.

During the fourth quarter of 1998, Devon recorded a pre-tax charge of $13.1 million ($9.7 million after tax) for direct costs related to the Northstar Combination. Approximately $7.9 million of such accrued unpaid costs remained on the consolidated balance sheet as of December 31, 1998.

The separate results of operations of Devon and Northstar for the first nine months of 1998 and the years 1997 and 1996 are as follows.

	Nine Months Ended September 30, 1998 (Unaudited)	Year Ended December 31, 1997	1996
	(In Thousands)		
Revenues:			
Devon	$184,506	313,140	164,017
Northstar	113,576	186,519	127,318
Combined	$298,082	499,659	291,335
Net earnings (loss):			
Devon	(65,329)	75,292	34,801
Northstar	8,532	(375,283)	32,802
Combined	$(56,797)	(299,991)	67,603

On December 23, 1998, Devon acquired certain natural gas properties located in northeastern Alberta, Canada, from Wascana Oil and Gas Partnership, a subsidiary of Canadian Occidental Petroleums Ltd. (the "Wascana Properties"). Devon acquired the properties for approximately $57.5 million, which was funded with bank debt under Devon's existing credit facilities.

Estimated proved reserves of the Wascana Properties as of December 31, 1998, were 71.5 billion cubic feet of natural gas. Approximately $52.2 million of the purchase price was allocated to the proved reserves. The remaining $5.3 million of the purchase price was allocated to approximately 190,000 net undeveloped acres and exclusive rights to associated seismic data. (The quantities of proved reserves stated in this paragraph are unaudited.)

In March 1997, Northstar acquired all the outstanding common shares of Morrison Petroleums Ltd. ("Morrison"), an independent oil and gas producer also located in Alberta, Canada. Northstar acquired the Morrison common shares by issuing common shares of Northstar (the "Morrison Transaction"). The Northstar common shares received by the Morrison shareholders represented approximately 53% of the combined company's outstanding shares. Therefore, this transaction was accounted for as a reverse acquisition under U.S. generally accepted accounting principles. Accordingly, Northstar's results through March 31, 1997, which are combined with Devon's results in the accompanying consolidated financial statements, represent the historical results of Morrison, the "accounting acquirer." Because Northstar was the "legal acquirer," the financial results and other information for periods through March 31, 1997, are referred to as "Northstar's" results and information, even though they represent the historical results of Morrison. For periods subsequent to March 31, 1997, Northstar's results that are combined with Devon's results represent the historical results of Morrison, combined with Northstar's results after valuing Northstar's March 31, 1997, assets and liabilities at fair value, rather than historical book value.

The estimated proved reserves added in the Morrison Transaction were 18.3 million barrels of oil, 213.5 billion cubic feet of natural gas and 2.9 million barrels of natural gas liquids. Also added in the Morrison Transaction were approximately 563,000 net acres of undeveloped leasehold. (The quantities of proved reserves stated in this paragraph are unaudited.)

After giving effect to the Northstar Combination exchange ratio of 0.235, approximately 9.8 million Exchangeable Shares are deemed to have been issued in the Morrison Transaction with a total value of approximately $441.6 million. Also, approximately $111.3 million of liabilities were assumed and $128.5 million of additional deferred tax liabilities were recorded due to the tax-free nature of the Morrison Transaction to the Morrison shareholders. Excluding the $128.5 million of additional deferred tax liabilities, the total purchase price was allocated $435.2 million to proved oil and gas reserves, $37.3 million to undeveloped leasehold and $80.4 million to other assets acquired. Including the $128.5 million of deferred tax liabilities, the allocation was $527.9 million for proved oil and gas reserves, $43.5 million for undeveloped leasehold and $110 million for other assets.

On December 31, 1996, Devon acquired all of Kerr-McGee Corporation's ("Kerr-McGee") North American onshore oil and gas exploration and production business and properties (the "KMG-NAOS Properties"). As consideration, Devon issued 9,954,000 shares of its common stock to Kerr-McGee. The acquisition was made pursuant to an October 17, 1996, agreement and plan of merger among Devon, Kerr-McGee and certain of their subsidiaries.

Devon recorded the KMG-NAOS Properties at approximately $221.6 million. Such value was based on the value of the shares of Devon common stock issued as determined pursuant to generally accepted accounting principles. An additional $30.3 million was allocated to the KMG-NAOS Properties for the deferred income tax liability created as a result of the substantially tax-free nature of the transaction to Kerr-McGee. Excluding the additional deferred tax liability, the amount recorded for the KMG-NAOS Properties includes approximately $195.1 million allocated to proved oil and gas reserves, $29.0 million allocated to undeveloped leasehold acquired, $0.6 million allocated to inventories and other assets acquired and $3.1 million allocated to certain assumed liabilities. Including the additional $30.3 million of deferred tax liability, $220.0 million was allocated to proved reserves and $34.4 million to undeveloped leasehold.

Estimated proved reserves associated with the KMG-NAOS Properties as of December 31, 1996, were 47 million barrels of oil equivalent ("MMBoe") in the United States and 15 MMBoe in Canada. These reserves were approximately 36% oil and natural gas liquids and 64% natural gas. Included in the acquired reserves were certain proved undeveloped reserves, for which Devon expected to incur approximately $6 million of future capital costs. The United States assets acquired are located predominantly in the Rocky Mountain, Permian Basin and Mid-Continent areas of the country. All of these areas were already core areas of Devon's operations. (The quantities of proved reserves and the estimated development costs stated in this paragraph are unaudited.)

Pro Forma Information (Unaudited)

The acquisition of the Wascana Properties, the Morrison Transaction and the acquisition of the KMG-NAOS Properties as described above were accounted for by the purchase method of accounting for business combinations. Accordingly, the accompanying 1998, 1997 and 1996 consolidated statements of operations do not include any revenues or expenses of the Wascana Properties, the 1997 consolidated statement of operations includes only nine months of revenues and expenses from the Morrison Transaction, and the 1996 consolidated statement of operations does not include any revenues or expenses associated with the KMG-NAOS Properties or the Morrison Transaction. Following are Devon's pro forma results for 1998, 1997 and 1996 assuming the acquisition of the Wascana Properties, the Morrison Transaction and the acquisition of the KMG-NAOS Properties occurred on January 1, 1996:

	1998		
	Devon Historical	Pro Forma Effect of Wascana Properties	Devon Pro Forma
	(In Thousands, Except Per Share Amounts)		
Total revenues	$ 387,508	17,570	405,078
Net earnings (loss)	$ (60,285)	2,835	(57,450)
Net loss per share - basic and diluted	$(1.25)		(1.19)

	1997			
	Devon Historical	Pro Forma Effect of Wascana Properties	Morrison Transaction	Devon Pro Forma
	(In Thousands, Except Per Share Amounts)			
Total revenues	$ 499,659	21,695	27,959	549,313
Net earnings (loss)	$(299,991)	4,325	793	(294,873)
Net loss per share - basic and diluted	$(6.38)			(5.95)

	1996				
	Devon Historical	Pro Forma Effect of Wascana Properties	Morrison Transaction	KMG-NAOS Properties	Devon Pro Forma
	(In Thousands, Except Per Share Amounts)				
Total revenues	$291,335	20,203	113,721	133,167	558,426
Net earnings	67,603	3,053	16,796	34,647	122,099
Net earnings per share:					
Basic	$2.06				2.33
Diluted	$1.99				2.27

3. San Juan Basin Transaction

Effective January 1, 1995, Devon and an unrelated company entered into a transaction covering substantially all of Devon's San Juan Basin coal seam gas properties (the "San Juan Basin Transaction"). In addition to the cash flow and earnings impact normally associated with oil and gas production, these properties also qualify as a "nonconventional fuel source" under the Internal Revenue Code of 1986. Consequently, gas produced from these properties through the year 2002 qualifies for Section 29 tax credits, which as of year-end 1998 were equal to approximately $1.06 per million Btu ("MMBtu").

The San Juan Basin Transaction involves approximately 186.2 Bcf, or 93%, of Devon's year-end 1994 coal seam gas reserves, and has four major parts associated with it. First, Devon conveyed to the unrelated party 179 Bcf of the properties' reserves. However, for financial reporting purposes, Devon retained all of such reserves and their future production and cash flow through a volumetric production payment and a repurchase option. Second, Devon conveyed outright to the unrelated party 7.2 Bcf of reserves for a sales price of $5.2 million. The reserves and future cash flow associated with this conveyance were not retained by Devon. Third, and the source of the most significant impact of the transaction, Devon receives payments equal to 75% of the Section 29 tax credits generated by the properties. And fourth, Devon retained a 75% reversionary interest in any reserves in excess of the 186.2 Bcf estimated to exist as of December 31, 1994. Each of these parts of the San Juan Basin Transaction, and their effects on Devon's operations, are described in more detail in the following paragraphs.

The production payment retained by Devon is equal to 94.05% of the first 143.4 Bcf of gas produced from the properties, or 134.9 Bcf. As such, Devon continues to record gas sales and associated production and operating expenses and reserves associated with the production payment. Production from the retained production payment is currently estimated to occur over a period of nine years.

The conveyance of the properties which are not subject to the retained production payment or the repurchase option was accounted for as a sale of oil and gas properties. Accordingly, 7.2 Bcf of gas reserves were removed from total proved reserves, and the $5.2 million of proceeds reduced the book value of oil and gas properties. The conveyance to the third party is limited exclusively to the existing wells drilled as of January 1, 1995. Wells to be drilled in the future, if any, are not included in this transaction.

In addition to receiving 94.05% of the properties' net cash flow through the retained production payment, Devon receives quarterly payments from the third party equal to 75% of the value of the Section 29 tax credits which are generated by production from such properties until the earlier of December 31, 2002, or until the option to repurchase is exercised. For the years ended December 31, 1998, 1997 and 1996, Devon received $10.4 million, $11.4 million and $11.5 million, respectively, related to the credits. Of these amounts, $8.4 million, $8.5 million and $10.3 million were recorded as additional gas sales in 1998, 1997 and 1996, respectively, and $2.0 million, $2.9 million and $1.2 million were recorded as an addition to liabilities in 1998, 1997 and 1996, respectively, as discussed in the following paragraph. Based on the reserves estimated at December 31, 1998, and an assumed annual inflation factor of 2%, Devon estimates it will receive total tax credit payments of approximately $39.9 million from 1999 through 2002.

Devon has an option to repurchase the properties at any time. The purchase price of such option is equal to the fair market value of the properties at the time the option is exercised, as defined in the transaction agreement, less the production payment balance. At closing, Devon received $5.6 million associated with reserves to be produced subsequent to the term of the production payment. Such amount is included in long- term "other liabilities" on the accompanying balance sheet. Since Devon expects to exercise its option to repurchase the properties, the liability is being increased over time to reflect the expected option purchase price. As the purchase price increases, a portion of the tax credit payments received by Devon is added to the liability. As stated above, for the years ended December 31, 1998, 1997 and 1996, $2.0 million, $2.9 million and $1.2 million, respectively, of the total amount received for tax credit payments were added to the liability. On December 31, 1997, Devon exercised its option to reacquire approximately 20% of the properties for approximately $1.9 million. The other party to the production payment paid Devon $5.3 million in 1997 and $4.8 million in January 1998 in return for Devon agreeing not to exercise its option on the remaining 80% of the properties through June 30, 1998. (This agreement does not limit Devon's right to exercise its option in 1999 or beyond.) The $5.3 million that Devon received in 1997, net of the $1.9 million paid for the partial repurchase, and the $4.8 million received in 1998 were added to the repurchase liability. The repurchase liability totaled $21.0 million at the end of 1998.

Devon has retained a 75% reversionary interest in the properties' reserves in excess, if any, of the 186.2 Bcf of reserves estimated to exist at December 31, 1994. The terms of the transaction provide that the third party will pay 100% of the capital necessary to develop any such incremental reserves for its 25% interest in such reserves. Devon's repurchase option also includes the right to purchase this incremental 25%. However, the $21.0 million of other liabilities recorded as of year-end 1998, does not include any amount related to such reserves.

4. Supplemental Cash Flow Information

Cash payments for interest in 1998, 1997 and 1996 were approximately $24.5 million, $16.7 million and $12.4 million, respectively. Cash payments for federal, state and foreign income taxes in 1998, 1997 and 1996 were approximately $14.2 million, $26.9 million and $5.3 million, respectively.

The 1997 Morrison Transaction and the 1996 acquisition of the KMG-NAOS Properties involved non-cash consideration as presented below:

	1997	1996
	(In Thousands)	

Value of common stock issued	$441,590	221,576
Liabilities assumed	111,345	3,099
Deferred tax liability created	128,497	30,308
Fair value of assets acquired	$681,432	254,983

5. Accounts Receivable

The components of accounts receivable included the following:

	December 31,		
	1998	1997	1996
	(In Thousands)		
Oil, gas and natural gas liquids revenue accruals	$46,360	52,974	39,096
Joint interest billings	23,636	25,283	19,042
Other	14,262	19,398	6,642
	84,258	97,655	64,780
Allowance for doubtful accounts	(400)	(827)	(838)
Net accounts receivable	$83,858	96,828	63,942

6. Property and Equipment

Property and equipment included the following:

	December 31,		
	1998	1997	1996
	(In Thousands)		
Oil and gas properties:			
Subject to amortization	$ 2,413,376	2,157,104	1,368,208
Not subject to amortization:			
Acquired in 1998	46,302	-	-
Acquired in 1997	51,961	60,399	-
Acquired in 1996	33,941	36,942	46,879
Acquired in 1995	12,491	14,495	21,689
Acquired in 1994	5,182	7,028	10,638
Acquired in 1993	4,027	4,069	5,293
Acquired in 1992	7,773	7,814	8,245
Accumulated depreciation, depletion and amortization	(1,498,075)	(1,316,343)	(561,935)
Net oil and gas properties	1,076,978	971,508	899,017
Other property and equipment	35,458	32,884	27,384
Accumulated depreciation and amortization	(11,508)	(9,109)	(6,854)
Net other property and equipment	23,950	23,775	20,530
Property and equipment, net of accumulated depreciation, depletion and amortization	$ 1,100,928	995,283	919,547

Depreciation, depletion and amortization expense consisted of the following components:

	Year Ended December 31,		
	1998	1997	1996
	(In Thousands)		
Depreciation, depletion and amortization of oil and gas properties	$119,719	164,977	67,832
Depreciation and amortization of other property and equipment	3,964	3,566	1,989
Amortization of other assets	161	565	486
Total expense	$123,844	169,108	70,307

7. Long-term Debt and Related Expenses

A summary of Devon's long-term debt is as follows:

	December 31,		
	1998	1997	1996
	(In Thousands)		
Notes payable to banks	$180,271	219,316	96,835
6.76% senior notes due July 19, 2005	75,000	75,000	75,000
6.79% senior notes due March 2, 2009	150,000	-	-
7.03% senior notes due November 7, 2005	-	60,000	-
	405,271	354,316	171,835
Less amount classified as current	-	48,979	88,835
Net long-term debt	$405,271	305,337	83,000

Maturities of long-term debt as of December 31, 1998, are as follows (in thousands):

1999	$ -
2000	7,264
2001	22,264
2002	22,264
2003	57,264
2004 and thereafter	296,215
Total	$405,271

On December 11, 1998, Devon entered into new unsecured long- term credit facilities aggregating $400 million (the "Credit Facilities"). The Credit Facilities include a U.S. facility of $205 million (the "U.S. Facility") and a Canadian facility of $195 million (the "Canadian Facility"). The Credit Facilities replaced Devon's and Northstar's separate credit facilities that were in place prior to the Northstar Combination. Of the $180.3 million borrowed against the Credit Facilities at December 31, 1998, $35 million was borrowed under the U.S. Facility and $145.3 million was borrowed under the Canadian Facility. Amounts borrowed under the Credit Facilities bear interest at various fixed rate options that Devon may elect for periods up to six months. Such rates are generally less than the prime rate. Devon may also elect to borrow at the prime rate. The average interest rate on the $180.3 million of debt outstanding at December 31, 1998, was 5.9%. The Credit Facilities also provide for an annual facility fee of $0.4 million that is payable quarterly. The average interest rate on bank debt outstanding under the previous facilities at December 31, 1997 and 1996 was 4.8% and 3.8%, respectively.

The $205 million U.S. Facility consists of a Tranche A facility of $130 million and a Tranche B facility of $75 million. The Tranche A facility matures on December 10, 2003. Devon may borrow funds under the Tranche B facility until December 10, 1999 (the "Tranche B Revolving Period"). Devon may request that the Tranche B Revolving Period be extended an additional 364 days by notifying the agent bank of such request not more than 60 days prior to the end of the Tranche B Revolving Period. Debt borrowed under the Tranche B facility matures two years following the end of the Tranche B Revolving Period. All $35 million of debt outstanding under the U.S. Facility at December 31, 1998, was borrowed under the Tranche A facility.

Devon may borrow funds under the $195 million Canadian Facility until December 10, 1999 (the "Canadian Facility Revolving Period"). Devon may request that the Canadian Facility Revolving Period be extended an additional 364 days by notifying the agent bank of such request not more than 90 days prior to the end of the Canadian Facility Revolving Period. Debt outstanding as of the end of the Canadian Facility Revolving Period is payable in semi-annual installments of 2.5% each for the following four years, with the remaining balance due five years and one day following the end of the Canadian Facility Revolving Period. The yearly maturity schedule shown earlier in this note assumes that the Canadian Facility Revolving Period is not extended past December 10, 1999.

Northstar issued the 6.76% notes in a private placement in 1995. The notes are unsecured and are payable in five annual installments of $15 million each beginning in 2001.

Northstar issued the 6.79% notes in a private placement in 1998. The notes are unsecured and are payable in three annual installments of $50 million each beginning in 2007. Proceeds from these notes were partially used to retire the $60 million of 7.03% notes referred to in the preceding table of long-term debt.

The agreements governing the Credit Facilities and the senior notes contain certain covenants and restrictions, including maintenance of certain debt-to-capitalization and debt- to-EBITDA ratios and restrictions on additional borrowings. At December 31, 1998, Devon and Northstar were in compliance with such covenants and restrictions.

See Note 9 for a description of certain convertible debentures issued in 1996 to a Devon affiliate.

Interest Expense

Following are the components of interest expense for the years 1998, 1997 and 1996:

	1998	1997	1996

			(In Thousands)
Interest based on debt outstanding	$21,814	14,345	11,234
Facility and agency fees	632	598	681
Amortization of capitalized loan costs	156	118	42
Penalty on early retirement of debt	-	3,323	-
Hedging gains	(188)	(410)	(205)
Other	218	814	910
Total interest expense	$22,632	18,788	12,662

The above amounts classified as "other" in 1997 and 1996 were primarily related to adjustments of certain oil and gas property acquisitions.

Deferred Effect of Changes in Foreign Currency Exchange Rate on Long-term Debt

The fixed rate senior notes referred to in the first table of this note are debt payable by Northstar. However, the notes are denominated in U.S. dollars. Changes in the exchange rate between the U.S. dollar and the Canadian dollar from the dates the notes were issued to the dates of repayment will increase or decrease the expected amount of Canadian dollars eventually required to repay the notes. Such changes in the Canadian dollar equivalent of the debt are required to be included in determining net earnings for the period in which the exchange rate changes. The rate of conversion of Canadian dollars to U.S. dollars declined in each of the years 1998, 1997 and 1996. Therefore, $16.1 million, $5.9 million and $0.2 million, respectively, were charged to expense in each of these years.

8. Income Taxes

At December 31, 1998, Devon had the following carryforwards available to reduce future income taxes:

Types of Carryforward	Years of Expiration	Carryforward Amounts (In Thousands)
Net operating loss - U.S. federal	2007 - 2008	$ 5,501
Net operating loss - various states	1999 - 2011	$12,948
Net operating loss - Canada	2000 - 2005	$53,170

All of the carryforward amounts shown above have been utilized for financial purposes to reduce deferred taxes.

The earnings (loss) before income taxes and the components of income tax expense (benefit) for the years 1998, 1997 and 1996 were as follows:

	Year Ended December 31, 1998	1997	1996
		(In Thousands)	
Earnings (loss) before income taxes:			
U.S.	$(95,184)	106,665	59,299
Canada	19,392	(580,498)	59,390
Total	$(75,792)	(473,833)	118,689
Current income tax expense:			
U.S. federal	4,801	18,659	6,147
Various states	911	2,521	562
Canada	1,975	5,677	1,125
Total current tax expense	7,687	26,857	7,834
Deferred income tax expense (benefit):			
U.S. federal	(29,524)	17,025	14,185
Various states	(4,836)	1,578	3,604
Canada	11,166	(219,302)	25,463
Total deferred tax expense (benefit)	(23,194)	(200,699)	43,252
Total income tax expense (benefit)	$(15,507)	(173,842)	51,086

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate to earnings (loss) before income taxes as a result of the following:

	Year Ended December 31, 1998	1997	1996
U.S. statutory tax (benefit) rate	(35)%	(35)%	35%

Non-deductible expenses	15	-	-
Nonconventional fuel source credits	(4)	-	-
State income taxes	(3)	-	2
Taxation on foreign operations	8	(2)	5
Effect of San Juan Basin Transaction	(1)	-	1
Effective income tax (benefit) rate	(20)%	(37)%	43%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities at December 31, 1998, 1997 and 1996 are presented below:

	December 31,		
	1998	1997	1996
	(In Thousands)		
Deferred tax assets:			
Net operating loss carryforwards	$ 21,818	21,076	11,581
Statutory depletion carryforwards	-	-	412
Investment tax credit carryforwards	-	19	42
Minimum tax credit carryforwards	-	-	5,624
Production payments	19,105	18,504	19,685
Other	3,188	7,154	3,323
Total gross deferred tax assets	44,111	46,753	40,667
Less valuation allowance	100	100	100
Net deferred tax assets	44,011	46,653	40,567
Deferred tax liabilities:			
Property and equipment, principally due to differences in depreciation, and the expensing of intangible drilling costs for tax purposes	(76,156)	(76,523)	(145,970)
Other	(469)	(1,521)	-
Total deferred tax liabilities	(76,625)	(78,044)	(145,970)
Net deferred tax liability	$(32,614)	(31,391)	(105,403)

As shown in the above schedule, Devon has recognized $44.0 million of net deferred tax assets as of December 31, 1998. Such amount consists primarily of $21.8 million of various carryforwards available to offset future income taxes, and $19.1 million of net tax basis in production payments. The carryforwards include federal net operating loss carryforwards, the majority of which do not begin to expire until 2008, state net operating loss carryforwards which expire primarily between 1999 and 2011 and Canadian carryforwards which expire primarily between 2000 and 2005. The tax benefits of carryforwards are recorded as an asset to the extent that management assesses the utilization of such carryforwards to be "more likely than not." When the future utilization of some portion of the carryforwards is determined not to be "more likely than not", a valuation allowance is provided to reduce the recorded tax benefits from such assets.

Devon expects the tax benefits from the net operating loss carryforwards to be utilized between 1999 and 2002. Such expectation is based upon current estimates of taxable income during this period, considering limitations on the annual utilization of these benefits as set forth by federal tax regulations. Significant changes in such estimates caused by variables such as future oil and gas prices or capital expenditures could alter the timing of the eventual utilization of such carryforwards. There can be no assurance that Devon will generate any specific level of continuing taxable earnings. However, management believes that Devon's future taxable income will more likely than not be sufficient to utilize substantially all its tax carryforwards prior to their expiration. A $0.1 million valuation allowance has been recorded at December 31, 1998, related to depletion carryforwards acquired in a 1994 merger.

The $19.1 million of deferred tax assets related to production payments is offset by a portion of the deferred tax liability related to the excess financial basis of property and equipment. The income tax accounting for the San Juan Basin Transaction described in Note 3 differs from the financial accounting treatment which is described in such note. For income tax purposes, a gain from the conveyance of the properties was realized, and the present value of the production payments to be received was recorded as a note receivable. For presentation purposes, the $19.1 million represents the tax effect of the difference in accounting for the production payment, less the effect of the taxable gain from the transaction which is being deferred and recognized on the installment basis for income tax purposes.

9. Trust Convertible Preferred Securities

On July 10, 1996, Devon, through its newly-formed affiliate Devon Financing Trust, completed the issuance of $149.5 million of 6.5% trust convertible preferred securities (the "TCP Securities") in a private placement. Devon Financing Trust issued 2,990,000 shares of the TCP Securities at $50 per share. Each TCP Security is convertible at the holder's option into 1.6393 shares of Devon common stock, which equates to a conversion price of $30.50 per share of Devon common stock.

Devon Financing Trust invested the $149.5 million of proceeds in 6.5% convertible junior subordinated debentures issued by Devon (the "Convertible Debentures"). In turn, Devon used the net proceeds from the issuance of the Convertible Debentures to retire debt outstanding under its credit lines.

The sole assets of Devon Financing Trust are the Convertible Debentures. The Convertible Debentures and the related TCP Securities mature on June 15, 2026. However, Devon and Devon Financing Trust may redeem the Convertible Debentures and the TCP Securities, respectively, in whole or in part, on or after June 18, 1999. For the first twelve months thereafter, redemptions may be made at 104.55% of the principal amount. This premium declines proportionally every twelve months until June 15, 2006, when the redemption price becomes fixed at 100% of the principal amount. If Devon redeems any Convertible Debentures prior to the scheduled maturity date, Devon Financing Trust must redeem TCP Securities having an aggregate liquidation amount equal to the aggregate principal amount of Convertible Debentures so redeemed.

Devon has guaranteed the payments of distributions and other payments on the TCP Securities only if and to the extent that Devon Financing Trust has funds available therefor. Such guarantee, when taken together with Devon's obligations under the Convertible Debentures and related indenture and declaration of trust, provide a full and unconditional guarantee of amounts due on the TCP Securities.

Devon owns all the common securities of Devon Financing Trust. As such, the accounts of Devon Financing Trust are included in Devon's consolidated financial statements after appropriate eliminations of intercompany balances and transactions. The distributions on the TCP Securities are recorded as a charge to pre-tax earnings on Devon's consolidated statements of operations, and such distributions are deductible by Devon for income tax purposes.

10. Stockholders' Equity

The authorized capital stock of Devon consists of 400 million shares of common stock, par value $.10 per share (the "Common Stock"), and three million shares of preferred stock, par value $1.00 per share (the "Preferred Stock"). The Preferred Stock may be issued in one or more series, and the terms and rights of such stock will be determined by the Board of Directors.

As discussed in Note 2, there were 16.1 million Exchangeable Shares issued on December 10, 1998, in connection with the Northstar Combination. As of year-end 1998, 6.5 million of the Exchangeable shares had been exchanged for shares of Devon's common stock. The Exchangeable Shares have rights identical to those of Devon's common stock and are exchangeable at any time into Devon's common stock on a one-for-one basis.

Devon's Board of Directors has designated 150,000 shares of the Preferred Stock as Series A Junior Participating Preferred Stock (the "Series A Preferred Stock") in connection with the adoption of the share rights plan described later in this note. At December 31, 1998, there were no shares of Series A Preferred Stock issued or outstanding. The Series A Preferred Stock is entitled to receive cumulative quarterly dividends per share equal to the greater of $10 or 100 times the aggregate per share amount of all dividends (other than stock dividends) declared on Common Stock since the immediately preceding quarterly dividend payment date or, with respect to the first payment date, since the first issuance of Series A Preferred Stock. Holders of the Series A Preferred Stock are entitled to 100 votes per share (subject to adjustment to prevent dilution) on all matters submitted to a vote of the stockholders. The Series A Preferred Stock is neither redeemable nor convertible. The Series A Preferred Stock ranks prior to the Common Stock but junior to all other classes of Preferred Stock.

Stock Option Plans

Devon has outstanding stock options issued to key management and professional employees under three stock option plans adopted in 1988, 1993 and 1997 ("the 1988 Plan", "the 1993 Plan" and "the 1997 Plan"). Options granted under the 1988 Plan and 1993 Plan remain exercisable by the employees owning such options, but no new options will be granted under these plans. At December 31, 1998, 12 participants held the 251,100 options outstanding under the 1988 Plan, and 23 participants held the 805,300 options outstanding under the 1993 Plan.

On May 21, 1997, Devon's stockholders adopted the 1997 Plan and reserved two million shares of Common Stock for issuance thereunder. On December 9, 1998, Devon's stockholders voted to increase the reserved shares to three million. Approximately 150 employees and nine members of the board of directors were eligible to participate in the 1997 Plan at year-end 1998.

The exercise price of stock options granted under the 1997 Plan may not be less than the estimated fair market value of the stock at the date of grant, plus 10% if the grantee owns or controls more than 10% of the total voting stock of Devon prior to the grant. Options granted are exercisable during a period established for each grant, which period may not exceed 10 years from the date of grant. Under the 1997 Plan, the grantee must pay the exercise price in cash or in Common Stock, or a combination thereof, at the time that the option is exercised. The 1997 Plan is administered by a committee comprised of non-management members of the Board of Directors. The 1997 Plan expires on April 25, 2007. As of December 31, 1998, approximately 150 participants held the 1,126,450 options outstanding under the 1997 Plan. There were 1,873,550 options available for future grants as of December 31, 1998.

In addition to the stock options outstanding under the 1988 Plan, 1993 Plan and 1997 Plan, there were 1,272,842 stock options outstanding at the end of 1998 that were assumed as part of the Northstar Combination. Northstar had granted these options prior to the Northstar Combination. As part of the Northstar Combination, the options were assumed by Devon and converted to Devon options at the exchange rate of 0.235 Devon options for each Northstar option. The 1,272,842 options were held by 134 employees.

A summary of the status of Devon's stock option plans as of December 31, 1996, 1997 and 1998, and changes during each of the years then ended, is presented below. The following table includes the Northstar options converted to the equivalent number of Devon options.

	Options Outstanding	Options Exercisable

	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Balance at December 31, 1995	1,740,798	$25.253	933,936	$22.727
Options granted	518,691	$33.411		
Options exercised	(142,886)	$17.889		
Options forfeited	(90,820)	$36.640		
Balance at December 31, 1996	2,025,783	$27.305	1,112,049	$24.556
Options assumed in the Morrison Transaction	732,041	$36.260		
Options granted	691,767	$32.515		
Options exercised	(486,918)	$26.444		
Options forfeited	(332,183)	$37.540		
Balance at December 31, 1997	2,630,490	$29.276	1,415,909	$26.483
Options granted	1,260,397	$31.230		
Options exercised	(134,295)	$21.087		
Options forfeited	(300,900)	$32.730		
Balance at December 31, 1998	3,455,692	$28.995	2,635,727	$28.793

The weighted average fair values of options granted during 1998, 1997 and 1996 were $10.72, $10.12 and $11.88, respectively. The fair value of each option grant was estimated for disclosure purposes on the date of grant using the Black-Scholes Option Pricing Model with the following assumptions for 1998, 1997 and 1996, respectively: risk-free interest rates of 4.9%, 6.0% and 6.5%; dividend yields of 0.5%, 0.1% and 0.3%; expected lives of 4, 4 and 5 years; and volatility of the price of the underlying common stock of 33.9%, 30.7% and 36.8%.

The following table summarizes information about Devon's stock options which were outstanding, and those which were exercisable, as of December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$8.375-$25.440	1,192,391	3.9 years	$22.408	1,173,591	$22.382
$25.698-$29.850	960,724	8.3 years	$28.905	355,074	$28.529
$30.996-$33.606	520,863	5.3 years	$32.094	325,348	$32.275
$35.286-$42.896	781,714	4.6 years	$37.087	781,714	$37.087
	3,455,692	5.5 years	$28.995	2,635,727	$28.793

Had Devon elected the fair value provisions of SFAS No. 123 and recognized compensation expense over the vesting period based on the fair value of the stock options granted as of their grant date, Devon's 1998, 1997 and 1996 pro forma net earnings (loss) and pro forma net earnings (loss) per share would have differed from the amounts actually reported as shown in the following table. The pro forma amounts shown below do not include the effects of stock options granted prior to January 1, 1995.

	Year Ended December 31,		
	1998	1997	1996
	(In Thousands, Except Per Share Amounts)		
Net earnings (loss):			
As reported	$(60,285)	(299,991)	67,603
Pro forma	$(72,770)	(306,992)	62,619
Net earnings (loss) per share:			
As reported:			
Basic	$(1.25)	(6.38)	2.06
Diluted	$(1.25)	(6.38)	1.99
Pro forma:			
Basic	$(1.50)	(6.52)	1.91
Diluted	$(1.50)	(6.52)	1.85

Share Rights Plan

Under Devon's share rights plan, stockholders have one right for each share of Common Stock held. The rights become exercisable and separately transferable ten business days after
a) an announcement that a person has acquired, or obtained the right to acquire, 15% or more of the voting shares outstanding, or b) commencement of a tender or exchange offer that could result in a person owning 15% or more of the voting shares outstanding.

Each right entitles its holder (except a holder who is the acquiring person) to purchase either a) 1/100 of a share of Series A Preferred Stock for $75.00, subject to adjustment or b) Devon Common Stock with a value equal to twice the exercise price of the right, subject to adjustment to prevent dilution. In the event of certain merger or asset sale transactions with another party or transactions which would increase the equity ownership of a shareholder who then owned 15% or more of Devon, each Devon right will entitle its holder to purchase securities of the merging or acquiring party with a value equal to twice the exercise price of the right.

The rights, which have no voting power, expire on April 16, 2005. The rights may be redeemed by Devon for $.01 per right until the rights become exercisable.

11. Financial Instruments

The following table presents the carrying amounts and estimated fair values of Devon's financial instruments at December 31, 1998, 1997 and 1996.

	1998		1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)					
Investments	$ 1,930	1,930	2,409	5,125	3,972	5,150
Oil and gas price hedge agreements	$ -	1,988	-	3,569	-	(4,453)
Foreign exchange hedge agreements	$ -	(9,310)	-	(5,038)	-	1,825
Long-term debt (including current portion)	$(405,271)	(421,675)	(354,316)	(360,294)	(171,835)	(170,615)
TCP Securities	$(149,500)	(171,400)	(149,500)	(218,800)	(149,500)	(196,600)

The following methods and assumptions were used to estimate the fair values of the financial instruments in the above table. None of Devon's financial instruments are held for trading purposes. The carrying values of cash and cash equivalents, accounts receivable and accounts payable (including income taxes payable and accrued expenses) included in the accompanying consolidated balance sheets approximated market value at December 31, 1998, 1997 and 1996.

Investments - The fair values of investments are primarily based on quoted market prices.

Oil and Gas Price Hedge Agreements - The fair values of the oil and gas price hedges are based on either (a) quotes obtained from the counterparty to the hedge agreement or (b) quotes provided by brokers.

Foreign Exchange Hedge Agreements - The fair values of the foreign exchange agreements are based on quotes obtained from brokers.

Long-term Debt - The fair values of the fixed-rate long-term debt have been estimated by discounting the principal and interest payments at rates available for debt of similar terms and maturity. The fair values of the floating-rate long-term debt are estimated to approximate the carrying amounts due to the fact that the interest rates paid on such debt are generally set for periods of three months or less.

TCP Securities - The fair values of the TCP Securities are based on quoted market prices provided by brokers.

As of December 31, 1998, Devon had one open oil price hedging instrument covering 2,000 barrels per day of Canadian production for the first three months of 1999. The price to be received for this production is $20.01 per barrel, while Devon will pay the counterparty the floating NYMEX price.

In additional to the open oil hedge described in the above paragraph, Devon also had open foreign currency hedging instruments at the end of 1998. These hedging instruments offset a portion of the exposure to currency fluctuations on Devon's Canadian oil sales that are based on U.S. prices. Gains and losses recognized on these foreign currency hedging instruments are included as increases or decreases to realized oil sales. As of December 31, 1998, Devon had open foreign currency hedging instruments in which it will sell $60 million in 1999 and $30 million in 2000 at average Canadian-to-U.S. dollar exchange rates of $0.726 and $0.727, respectively. A portion of these hedging instruments can be extended an additional year at the option of the counterparty. If such options are exercised, Devon will sell an aditional $10 million in each of the years 2000 and 2001 at average Canadian-to-U.S. dollar exchange rates of $0.713 and $0.710, respectively. Under these agreements, Devon will buy the same amount of dollars in each year at the floating exchange rate.

The following table covers Devon's notional volumes and pricing on open natural gas hedging instruments as of December 31, 1998:

	Year of Production			
	1999	2000	2001	2002
Volumes (billion British thermal units)	27,400	12,336	9,650	1,580
Average price to be received	$1.79	1.77	1.89	1.80

The floating reference prices which Devon will pay the counterparties to the above gas price hedging instruments include several index prices

based upon the area of the gas production that is hedged. For the hedged Canadian gas production, these reference prices are primarily based on index prices published by the Alberta Energy Company ("AECO"). For the hedged U.S. production, the reference prices are primarily based on index prices published by "Inside FERC" for the Rocky Mountains, San Juan Basin and Permian Basin.

Devon's 1998, 1997 and 1996 consolidated balance sheets include deferred revenues of $1.0 million, $3.8 million and $6.0 million, respectively, for gains realized on the early termination of commodity and foreign currency hedging instruments in prior years. These deferred gains as of the end of 1998 will be recognized as oil and gas sales over periods ranging from ten months to two years as the hedged oil and gas production occurs.

12. Retirement Plans

Devon has a defined benefit retirement plan (the "Basic Plan") which is non-contributory and includes U.S. employees meeting certain age and service requirements. The benefits are based on the employee's years of service and compensation. Devon's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Rights to amend or terminate the Basic Plan are retained by Devon.

Devon also has separate defined benefit retirement plans (the "Supplementary Plans") which are non-contributory and include only certain employees whose benefits under the Basic Plan are limited by income tax regulations. The Supplementary Plans' benefits are based on the employee's years of service and compensation. Devon's funding policy for the Supplementary Plans is to fund the benefits as they become payable. Rights to amend or terminate the Supplementary Plans are retained by Devon.

The following table sets forth the aggregate funded status of Devon's Basic Plan and Supplementary Plans and related amounts recognized in Devon's balance sheets:

	December 31,		
	1998	1997	1996
	(In Thousands)		
Change in benefit obligation:			
Benefit obligation at beginning of year	$11,659	8,029	7,027
Service cost	985	706	557
Interest cost	935	747	569
Amendments	293	-	-
Actuarial gain	1,773	1,463	(6)
Benefits paid	(504)	(349)	(118)
Establishment of new plan	-	1,063	-
Benefit obligation at end of year	15,141	11,659	8,029
Change in plan assets:			
Fair value of plan assets at beginning of year	6,036	5,022	4,227
Actual return on plan assets	(87)	366	453
Employer contributions	886	997	460
Benefits paid	(504)	(349)	(118)
Fair value of plan assets at end of year	6,331	6,036	5,022
Benefit obligation in excess of plan assets	(8,810)	(5,623)	(3,007)
Unrecognized net actuarial loss	4,730	2,448	965
Unrecognized prior service cost	1,822	1,973	1,104
Net amount recognized	$(2,258)	(1,202)	(938)

	December 31,		
	1998	1997	1996
	(In Thousands)		
The net amounts recognized in the consolidated balance sheets consist of:			
Accrued benefit cost	(2,258)	(1,202)	(938)
Additional minimum liability	(2,987)	(2,557)	(1,013)
Intangible asset	1,808	2,557	1,013
Accumulated other comprehensive loss	1,179	-	-
Net amount recognized	$(2,258)	(1,202)	(938)

Net pension expense for Devon's defined benefit plans included the following components:

	Year Ended December 31,		
	1998	1997	1996
	(In Thousands)		
Service cost	$ 985	706	557
Interest cost	935	747	569

Expected return on plan assets	(532)	(445)	(382)
Amortization of prior service cost	256	194	96
Recognized net actuarial loss	111	59	64
Net periodic pension expense	$1,755	1,261	904

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation in 1998, 1997 and 1996 was 6.5%, 7.0% and 7.5%, respectively. The rate of increase in future compensation levels was 5% for all three years. The expected long-term rate of return on assets was 8.5% for all three years.

Devon has a 401(k) Incentive Savings Plan which covers all domestic employees. At its discretion, Devon may match a certain percentage of the employees' contributions to the plan. The matching percentage is determined annually by the Board of Directors. Devon's matching contributions to the plan were $1.0 million, $0.5 million and $0.2 million for the years ended December 31, 1998, 1997 and 1996, respectively.

Devon has defined contribution plans for its Canadian employees. Devon contributes between 6% and 10% of the employee's base compensation, depending upon the employee's classification. Such contributions are subject to maximum amounts allowed under the Income Tax Act (Canada).

Devon also has a savings plan for its Canadian employees. Under the savings plan, Devon contributes an amount equal to 2% of the base salary of each employee. The employees may elect to contribute up to 4% of their salary. If such employee contributions are made, they are matched by additional Devon contributions.

During the years 1998, 1997 and 1996, Devon's combined contributions to the Canadian defined contribution plan and the Canadian savings plan were $1.8 million, $1.2 million and $0.4 million, respectively.

13. Commitments and Contingencies

Devon is party to various legal actions arising in the normal course of business. Matters that are probable of unfavorable outcome to Devon and which can be reasonably estimated are accrued. Such accruals are based on information known about the matters, Devon's estimates of the outcomes of such matters and its experience in contesting, litigating and settling similar matters. None of the actions are believed by management to involve future amounts that would be material after consideration of recorded accruals.

The State of New Mexico on December 29, 1995, assessed Devon and other producers of gas from the San Juan Basin a "natural gas processors tax." Devon's tax assessment for the years 1990 through 1995 was approximately $0.6 million, and the state also assessed another $0.3 million of penalties and interest. All of the assessment relates to nonconventional gas. Devon paid these assessments in January 1996, as well as an additional $0.2 million each year for 1998, 1997 and 1996 taxes which were paid monthly throughout such years, so that it could begin the necessary procedures of applying for a refund. This tax historically was paid by the owners of natural gas processing plants, not the gas producers, and was assessed for the privilege of processing natural gas. While Devon's nonconventional gas is purified through a plant prior to the actual sales point, such purification is only for the purpose of removing CO2. Also, Devon does not own an interest in such plant. For these and other reasons, Devon does not believe the assessment of the additional tax and the related penalties and interest is valid. The State of New Mexico in 1997 denied Devon's initial refund application made through the normal administrative processes. Subsequently, in late 1997, Devon filed a suit asking that the assessments be reversed. At this time, it is not possible to determine the eventual outcome of this matter. Devon has not expensed in its financial statements the taxes, penalties and interest paid, but rather has recorded the $1.5 million total as a receivable.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1998:

Year ending December 31,	(In Thousands)
1999	$2,744
2000	2,631
2001	1,266
2002	505
2003	230
Thereafter	102
Total minimum lease payments required	$ 7,478

Total rental expense for all operating leases is as follows for the years ended December 31:

	(In Thousands)
1998	$3,119
1997	$2,619
1996	$1,735

14. Reduction of Carrying Value of Oil and Gas Properties

Under the full cost method of accounting, the net book value of oil and gas properties, less related deferred income taxes, may not exceed a calculated "ceiling." The ceiling limitation is the discounted estimated after-tax future net revenues from proved oil and gas properties. The ceiling is imposed separately by country. In calculating future net revenues, current prices and costs are generally held constant indefinitely. The net book value, less deferred tax liabilities, is compared to the ceiling on a quarterly and annual basis. Any excess of the net book value, less deferred taxes, is written off as an expense. An expense recorded in one period may not be reversed in a subsequent period even though higher oil and gas prices may have increased the ceiling applicable to the subsequent period.

As of September 30, 1998, the carrying value of Devon's domestic properties, less deferred income taxes, exceeded the full cost ceiling by $88 million. Accordingly, a $126.9 million pre-tax reduction of the carrying value of such properties was recorded in the third quarter of 1998. This reduction was partially offset by a related $38.9 million deferred income tax benefit, resulting in an after-tax charge of $88 million.

As of December 31, 1997, the carrying value of Northstar's Canadian oil and gas properties, less deferred income taxes, exceeded the full cost ceiling by $397.9 million. Accordingly, a $625.5 million pre-tax reduction of the carrying value of such properties was recorded in the fourth quarter of 1997. This reduction was partially offset by a related $227.6 million deferred income tax benefit, resulting in an after-tax charge of $397.9 million.

15. Oil and Gas Operations

Costs Incurred

The following tables reflect the costs incurred in oil and gas property acquisition, exploration, and development activities:

	Total		
	Year Ended December 31,		
	1998	1997	1996
	(In Thousands)		
Property acquisition costs:			
Proved, excluding deferred income taxes	$135,167	510,331	201,276
Deferred income taxes	21,382	94,822	22,557
Total proved, including deferred income taxes	$156,549	605,153	223,833
Unproved, excluding deferred income taxes	42,305	50,336	40,202
Deferred income taxes	661	6,082	5,472
Total unproved, including deferred income taxes	$ 42,966	56,418	45,674
Exploration costs	$ 85,614	54,640	27,940
Development costs	$152,105	162,244	118,876

	Domestic		
	Year Ended December 31,		
	1998	1997	1996
	(In Thousands)		
Property acquisition costs:			
Proved, excluding deferred income taxes	$27,349	10,891	150,546
Deferred income taxes	-	2,084	15,257
Total proved, including deferred income taxes	$27,349	12,975	165,803
Unproved, excluding deferred income taxes	26,764	7,582	26,073
Deferred income taxes	-	(100)	5,472
Total unproved, including deferred income taxes	$26,764	7,482	31,545
Exploration costs	$35,686	18,326	2,708
Development costs	$76,986	79,943	73,468

	Canada		
	Year Ended December 31,		
	1998	1997	1996
	(In Thousands)		
Property acquisition costs:			
Proved, excluding deferred income taxes	$107,818	499,440	50,730
Deferred income taxes	21,382	92,738	7,300
Total proved, including deferred income taxes	$129,200	592,178	58,030
Unproved, excluding deferred income taxes	15,541	42,754	14,129
Deferred income taxes	661	6,182	-
Total unproved, including deferred income taxes	$ 16,202	48,936	14,129
Exploration costs	$ 49,928	36,314	25,232
Development costs	$ 75,119	82,301	45,408

Pursuant to the full cost method of accounting, Devon capitalizes certain of its general and administrative expenses which are related to property acquisition, exploration and development activities. Such capitalized expenses, which are included in the costs shown in the preceding tables, were $9.6 million, $7.5 million and $4.9 million in the years 1998, 1997 and 1996, respectively.

Due to the substantially tax-free nature of the acquisition of the KMG-NAOS properties to Kerr-McGee, Devon recorded additional deferred tax liabilities of $28.0 million in 1996. As shown in the preceding 1996 tables, the deferred tax liabilities caused an additional $22.5 million to be allocated to proved oil and gas reserves and an additional $5.5 million to be allocated to unproved properties.

During 1997, various uncertainties that existed at year-end 1996 regarding the tax basis and liabilities assumed in the KMG- NAOS transaction were resolved. This resulted in an additional $5.5 million being allocated in 1997 to the proved properties acquired in the 1996 KMG-NAOS transaction. Of this amount, $3.1 million was for liabilities assumed and $2.4 million was for additional deferred tax liabilities created. This additional $5.5 million is included in the preceding table of costs incurred in 1997. The resolution of the uncertainties also resulted in a reduction of $0.1 million in 1997 to the deferred tax liabilities originally allocated in 1996 to the KMG-NAOS unproved properties.

Due to the tax-free nature of the Morrison Transaction, additional deferred tax liabilities of $128.5 million were recorded in 1997. Of this amount, $92.7 million was allocated to proved oil and gas properties and $6.2 million was allocated to unproved properties. The remaining amount of $29.6 million was allocated to non-oil and gas properties.

Results of Operations for Oil and Gas Producing Activities

The following tables include revenues and expenses associated directly with Devon's oil and gas producing activities. They do not include any allocation of Devon's interest costs or general corporate overhead and, therefore, are not necessarily indicative of the contribution to net earnings of Devon's oil and gas operations. Income tax expense has been calculated by applying statutory income tax rates to oil and gas sales after deducting costs, including depreciation, depletion and amortization and after giving effect to permanent differences.

	Total		
	Year Ended December 31,		
	1998	1997	1996
	(In Thousands, Except Per Equivalent Barrel Amounts)		
Oil, gas and natural gas liquids sales	$ 369,660	452,104	256,765
Production and operating expenses	(127,400)	(120,124)	(69,614)
Depreciation, depletion and amortization	(119,719)	(164,977)	(67,832)
Reduction of carrying value of oil and gas properties	(126,900)	(625,514)	-
Income tax (expense) benefit	(19,385)	159,511	(45,870)
Results of operations for oil and gas producing activities	$ (23,744)	(299,000)	73,449
Depreciation, depletion and amortization per equivalent barrel of production	$3.32	4.86	3.69

	Domestic		
	Year Ended December 31,		
	1998	1997	1996
	(In Thousands, Except Per Equivalent Barrel Amounts)		
Oil, gas and natural gas liquids sales	$ 208,629	273,860	162,558
Production and operating expenses	(77,829)	(75,758)	(42,226)
Depreciation, depletion and amortization	(76,327)	(73,091)	(41,538)
Reduction of carrying value of oil and gas properties	(126,900)	-	-
Income tax (expense) benefit	18,230	(44,648)	(27,796)
Results of operations for oil and gas producing activities	$ (54,197)	80,363	50,998
Depreciation, depletion and amortization per equivalent barrel of production	$4.24	4.13	3.88

	Canada		
	Year Ended December 31,		
	1998	1997	1996
	(In Thousands, Except Per Equivalent Barrel Amounts)		
Oil, gas and natural gas liquids sales	$ 161,031	178,244	94,207
Production and operating expenses	(49,571)	(44,366)	(27,388)
Depreciation, depletion and amortization	(43,392)	(91,886)	(26,294)
Reduction of carrying value of oil and gas properties	-	(625,514)	-
Income tax (expense) benefit	(37,615)	204,159	(18,074)
Results of operations for oil and gas producing activities	$ 30,453	(379,363)	22,451

Depreciation, depletion and amortization per equivalent barrel of production	$2.41	5.64	3.42

16. Supplemental Information on Oil and Gas Operations
(Unaudited)

The following supplemental unaudited information regarding the oil and gas activities of Devon is presented pursuant to the disclosure requirements promulgated by the Securities and Exchange Commission and Statement of Financial Accounting Standards No. 69, "Disclosures About Oil and Gas Producing Activities".

Quantities of Oil and Gas Reserves

Set forth below is a summary of the changes in the net quantities of crude oil, natural gas and natural gas liquids reserves for each of the three years ended December 31, 1998. Approximately 93%, 92% and 94%, of the respective year-end 1998, 1997 and 1996 domestic proved reserves were calculated by the independent petroleum consultants of LaRoche Petroleum Consultants, Ltd. The remaining percentages of domestic reserves are based on Devon's own estimates. All of the Canadian proved reserves were calculated by the independent petroleum consultants of Paddock Lindstrom & Associates and AMH Group Ltd. in 1998, 1997 and 1996, as well as John P. Hunter & Associates, Ltd., in 1997.

	Total		
	Oil (MBbls)	Gas (MMcf)	Natural Gas Liquids (MBbls)
Proved reserves as of December 31, 1995	58,999	649,746	11,550
Revisions of estimates	4,982	(31,569)	1,022
Extensions and discoveries	4,433	149,049	1,154
Purchase of reserves	21,189	252,122	2,130
Production	(6,780)	(62,186)	(1,255)
Sale of reserves	(2,668)	(58,843)	(411)
Proved reserves as of December 31, 1996	80,155	898,319	14,190
Revisions of estimates	42	(46,390)	1,544
Extensions and discoveries	9,387	145,508	424
Purchase of reserves	19,396	275,592	2,914
Production	(11,783)	(121,810)	(1,891)
Sale of reserves	(156)	(615)	(3)
Proved reserves as of December 31, 1997	97,041	1,150,604	17,178
Revisions of estimates	(6,277)	(68,895)	176
Extensions and discoveries	1,897	116,227	452
Purchase of reserves	8,683	145,629	518
Production	(11,903)	(133,065)	(1,939)
Sale of reserves	(5,984)	(11,606)	(306)
Proved reserves as of December 31, 1998	83,457	1,198,894	16,079
Proved developed reserves as of:			
December 31, 1995	43,236	597,564	8,230
December 31, 1996	72,330	810,465	12,563
December 31, 1997	88,258	984,374	16,332
December 31, 1998	73,846	1,052,647	15,081

	Domestic		
	Oil (MBbls)	Gas (MMcf)	Natural Gas Liquids (MBbls)
Proved reserves as of December 31, 1995	44,466	363,846	9,469
Revisions of estimates	2,365	4,359	1,096
Extensions and discoveries	3,680	14,849	852
Purchase of reserves	13,659	209,064	1,246
Production	(3,816)	(35,714)	(952)
Sale of reserves	(403)	(1,743)	(16)
Proved reserves as of December 31, 1996	59,951	554,661	11,695
Revisions of estimates	(1,358)	(21,124)	1,531
Extensions and discoveries	7,394	94,925	301
Purchase of reserves	1,126	992	16
Production	(6,055)	(61,015)	(1,468)
Sale of reserves	(156)	(615)	(3)
Proved reserves as of December 31, 1997	60,902	567,824	12,072
Revisions of estimates	(12,560)	1,507	424
Extensions and discoveries	1,242	53,708	371
Purchase of reserves	513	39,855	-
Production	(5,646)	(65,907)	(1,373)
Sale of reserves	-	-	-

Proved reserves as of December 31, 1998	44,451	596,987	11,494
Proved developed reserves as of:			
December 31, 1995	28,703	311,664	6,149
December 31, 1996	52,672	529,407	10,328
December 31, 1997	53,059	462,082	11,289
December 31, 1998	40,631	469,064	10,577

	Canada		
	Oil (MBbls)	Gas (MMcf)	Natural Gas Liquids (MBbls)
Proved reserves as of December 31, 1995	14,533	285,900	2,081
Revisions of estimates	2,617	(35,928)	(74)
Extensions and discoveries	753	134,200	302
Purchase of reserves	7,530	43,058	884
Production	(2,964)	(26,472)	(303)
Sale of reserves	(2,265)	(57,100)	(395)
Proved reserves as of December 31, 1996	20,204	343,658	2,495
Revisions of estimates	1,400	(25,266)	13
Extensions and discoveries	1,993	50,583	123
Purchase of reserves	18,270	274,600	2,898
Production	(5,728)	(60,795)	(423)
Sale of reserves	-	-	-
Proved reserves as of December 31, 1997	36,139	582,780	5,106
Revisions of estimates	6,283	(70,402)	(248)
Extensions and discoveries	655	62,519	81
Purchase of reserves	8,170	105,774	518
Production	(6,257)	(67,158)	(566)
Sale of reserves	(5,984)	(11,606)	(306)
Proved reserves as of December 31, 1998	39,006	601,907	4,585
Proved developed reserves as of			
December 31, 1995	14,533	285,900	2,081
December 31, 1996	19,658	281,058	2,235
December 31, 1997	35,199	522,292	5,043
December 31, 1998	33,215	583,583	4,504

Standardized Measure of Discounted Future Net Cash Flows

The accompanying tables reflect the standardized measure of discounted future net cash flows relating to Devon's interest in proved reserves:

		Total December 31,	
	1998	1997	1996
		(In Thousands)	
Future cash inflows	$ 2,984,585	3,728,815	4,972,804
Future costs:			
Development	(113,139)	(120,277)	(90,638)
Production	(1,214,426)	(1,386,943)	(1,377,410)
Future income tax expense	(125,975)	(399,972)	(953,748)
Future net cash flows	1,531,045	1,821,623	2,551,008
10% discount to reflect timing of cash flows	(599,457)	(720,947)	(1,096,034)
Standardized measure of discounted future net cash flows	$ 931,588	1,100,676	1,454,974

		Domestic December 31,	
	1998	1996	1995
		(In Thousands)	
Future cash inflows	$ 1,650,930	2,304,602	3,712,956
Future costs:			
Development	(72,215)	(83,350)	(54,064)
Production	(678,732)	(806,130)	(1,013,750)
Future income tax expense	(86,412)	(269,880)	(713,182)
Future net cash flows	813,571	1,145,242	1,931,960
10% discount to reflect timing of cash flows	(319,889)	(481,263)	(846,174)
Standardized measure of discounted future net cash flows	$ 493,682	663,979	1,085,786

	Canada		
	December 31,		
	1998	1997	1996
	(In Thousands)		
Future cash inflows	$ 1,333,655	1,424,213	1,259,848
Future costs:			
Development	(40,924)	(36,927)	(36,574)
Production	(535,694)	(580,813)	(363,660)
Future income tax expense	(39,563)	(130,092)	(240,566)
Future net cash flows	717,474	676,381	619,048
10% discount to reflect timing of cash flows	(279,568)	(239,684)	(249,860)
Standardized measure of discounted future net cash flows	$ 437,906	436,697	369,188

Future cash inflows are computed by applying year-end prices (averaging $9.89 per barrel of oil, adjusted for transportation and other charges, $1.68 per Mcf of gas and $7.25 per barrel of natural gas liquids at December 31, 1998) to the year-end quantities of proved reserves, except in those instances where fixed and determinable price changes are provided by contractual arrangements in existence at year-end. In addition to the future gas revenues calculated at $1.68 per Mcf, Devon's total future gas revenues also include the future tax credit payments to be received and recorded as gas revenues pursuant to the San Juan Basin Transaction described in Note 3. Devon's future total and domestic cash inflows shown in the tables above include $31 million related to these tax credit payments from 1999 through 2002. This amount has been calculated using the assumption that the year-end 1998 tax credit rate of $1.06 per MMBtu remains constant.

Future development and production costs are computed by estimating the expenditures to be incurred in developing and producing proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions.

Future income tax expenses are computed by applying the appropriate statutory tax rates to the future pre-tax net cash flows relating to proved reserves, net of the tax basis of the properties involved. The future income tax expenses give effect to permanent differences and tax credits, but do not reflect the impact of future operations.

Changes Relating to the Standardized Measure of Discounted Future Net Cash Flows

Principal changes in the standardized measure of discounted future net cash flows attributable to Devon's proved reserves are as follows:

	Year Ended December 31,		
	1998	1997	1996
	(In Thousands)		
Beginning balance	$1,100,676	1,454,974	642,405
Sales of oil, gas and natural gas liquids, net of production costs	(242,260)	(331,980)	(187,151)
Net changes in prices and production costs	(304,593)	(890,534)	763,909
Extensions, discoveries, and improved recovery, net of future development costs	64,614	75,698	145,310
Purchase of reserves, net of future development costs	113,655	246,173	578,099
Development costs incurred during the period which reduced future development costs	45,699	62,868	63,123
Revisions of quantity estimates	(58,314)	(12,251)	35,852
Sales of reserves in place	(28,365)	(1,395)	(81,452)
Accretion of discount	134,065	198,401	73,000
Net change in income taxes	162,517	300,684	(456,426)
Other, primarily changes in timing	(56,106)	(1,962)	(121,695)
Ending balance	$ 931,588	1,100,676	1,454,974

17. Segment Information

Devon manages its business by country. As such, Devon identifies its segments based on geographic areas. Devon has two reportable segments: its operations in the U.S. and its operations in Canada. Substantially all of both segments' operations involve oil and gas producing activities. Certain information regarding such activities for each segment is included in Notes 15 and 16.

Following is certain financial information regarding Devon's segments for 1998, 1997 and 1996. The revenues reported are all from external customers.

	U.S.	Canada	Total
		(In Thousands)	
As of December 31, 1998:			
Current assets	$ 57,098	53,550	110,648
Property and equipment, net of accumulated depreciation, depletion and amortization	635,440	465,488	1,100,928
Other assets	13,326	1,454	14,780
Total assets	$705,864	520,492	1,226,356
Current liabilities	25,032	55,624	80,656
Long-term debt	35,000	370,271	405,271
Deferred tax liabilities (assets)	57,393	(24,174)	33,219
Other liabilities	28,987	5,760	34,747
TCP Securities	149,500	-	149,500
Stockholders' equity	409,952	113,011	522,963
Total liabilities and stockholders' equity	$705,864	520,492	1,226,356
Year ended December 31, 1998:			
Revenues			
Oil sales	$ 70,285	73,339	143,624
Gas sales	126,273	83,071	209,344
Natural gas liquids sales	12,071	4,621	16,692
Other	4,095	13,753	17,848
Total revenues	212,724	174,784	387,508
Costs and expenses			
Lease operating expenses	65,574	47,910	113,484
Production taxes	12,255	1,661	13,916
Depreciation, depletion and amortization	79,254	44,590	123,844
General and administrative expenses	11,052	12,502	23,554
Northstar Combination expenses	3,064	10,085	13,149
Interest expense	658	21,974	22,632
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	-	16,104	16,104
Distributions on preferred securities of subsidiary trust	9,717	-	9,717
Reduction of carrying value of oil and gas properties	126,900	-	126,900
Total costs and expenses	308,474	154,826	463,300
Earnings (loss) before income tax expense (benefit)	(95,750)	19,958	(75,792)
Income tax expense (benefit)			
Current	5,712	1,975	7,687
Deferred	(34,360)	11,166	(23,194)
Total income tax expense (benefit)	(28,648)	13,141	(15,507)
Net earnings (loss)	$(67,102)	6,817	(60,285)
Capital expenditures	$170,334	205,178	375,512

	U.S.	Canada	Total
		(In Thousands)	
As of December 31, 1997:			
Current assets	$ 81,517	131,740	213,257
Property and equipment, net of accumulated depreciation, depletion and amortization	679,677	315,606	995,283
Other assets	14,940	25,506	40,446
Total assets	$776,134	472,852	1,248,986
Current liabilities	29,016	107,298	136,314
Long-term debt	-	305,337	305,337
Deferred tax liabilities (assets)	92,042	(60,217)	31,825
Other liabilities	21,040	8,424	29,464
TCP Securities	149,500	-	149,500
Stockholders' equity	484,536	112,010	596,546
Total liabilities and stockholders' equity	$776,134	472,852	1,248,986
Year ended December 31, 1997:			
Revenues			
Oil sales	$115,504	92,221	207,725
Gas sales	139,018	80,441	219,459
Natural gas liquids sales	19,338	5,582	24,920
Other	4,974	42,581	47,555

Total revenues	278,834	220,825	499,659
Costs and expenses			
Lease operating expenses	58,112	42,785	100,897
Production taxes	17,646	1,581	19,227
Depreciation, depletion and amortization	75,944	93,164	169,108
General and administrative expenses	10,481	13,900	24,381
Interest expense	269	18,519	18,788
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	-	5,860	5,860
Distributions on preferred securities of subsidiary trust	9,717	-	9,717
Reduction of carrying value of oil and gas properties	-	625,514	625,514
Total costs and expenses	172,169	801,323	973,492
Earnings (loss) before income tax expense (benefit)	106,665	(580,498)	(473,833)
Income tax expense (benefit)			
Current	21,180	5,677	26,857
Deferred	18,603	(219,302)	(200,699)
Total income tax expense (benefit)	39,783	(213,625)	(173,842)
Net earnings (loss)	$ 66,882	(366,873)	(299,991)
Capital expenditures	$120,689	167,302	287,991

	U.S.	Canada	Total
		(In Thousands)	
As of December 31, 1996:			
Current assets	$ 42,677	190,966	233,643
Property and equipment, net of accumulated depreciation, depletion and amortization	632,839	286,708	919,547
Other assets	10,031	20,069	30,100
Total assets	$685,547	497,743	1,183,290
Current liabilities	23,389	123,418	146,807
Long-term debt	8,000	75,000	83,000
Deferred tax liabilities	73,821	33,182	107,003
Other liabilities	11,585	6,623	18,208
TCP Securities	149,500	-	149,500
Stockholders' equity	419,252	259,520	678,772
Total liabilities and stockholders' equity	$685,547	497,743	1,183,290
Year ended December 31, 1996:			
Revenues			
Oil sales	$ 80,142	55,881	136,023
Gas sales	68,049	33,394	101,443
Natural gas liquids sales	14,367	4,932	19,299
Other	1,459	33,111	34,570
Total revenues	164,017	127,318	291,335
Costs and expenses			
Lease operating expenses	31,568	27,166	58,734
Production taxes	10,658	222	10,880
Depreciation, depletion and amortization	43,361	26,946	70,307
General and administrative expenses	9,101	6,010	15,111
Interest expense	5,277	7,385	12,662
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	-	199	199
Distributions on preferred securities of subsidiary trust	4,753	-	4,753
Total costs and expenses	104,718	67,928	172,646
Earnings before income tax expense	59,299	59,390	118,689
Income tax expense			
Current	6,709	1,125	7,834
Deferred	17,789	25,463	43,252
Total income tax expense	24,498	26,588	51,086
Net earnings	$ 34,801	32,802	67,603
Capital expenditures	$ 98,855	169,822	268,677

18. Supplemental Quarterly Financial Information (Unaudited)

Following is a summary of the unaudited interim results of operations for the years ended December 31, 1998 and 1997. The following amounts have been restated to reflect the Northstar Combination, and are therefore different from the results previously reported.

	1998				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(In Thousands, Except Per Share Amounts)				
Oil, gas and natural gas liquids sales	$ 98,308	93,507	90,469	87,376	369,660
Total revenues	$100,437	104,775	92,870	89,426	387,508
Net earnings (loss)	$ 14,225	12,173	(83,195)	(3,488)	(60,285)
Net earnings (loss) per share:					
Basic	$0.29	0.25	(1.72)	(0.07)	(1.25)
Diluted	$0.29	0.25	(1.72)	(0.07)	(1.25)

	1997				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(In Thousands, Except Per Share Amounts)				
Oil, gas and natural gas liquids sales	$103,236	106,413	114,009	128,446	452,104
Total revenues	$133,882	113,114	119,400	133,263	499,659
Net earnings (loss)	$ 42,652	14,604	16,785	(374,032)	(299,991)
Net earnings (loss) per share:					
Basic	$0.99	0.30	0.35	(7.75)	(6.38)
Diluted	$0.91	0.30	0.34	(7.75)	(6.38)

The fourth quarter of 1997 includes a $625.5 million pre-tax reduction of the carrying value of Canadian oil and gas properties. The after-tax effect of this charge was $397.9 million, or $8.24 per share. The third quarter of 1998 includes a $126.9 million pre-tax reduction of the carrying value of U.S. oil and gas properties. The after-tax effect of this charge was $88 million, or $1.82 per share. The fourth quarter of 1998 includes $13.1 million of costs incurred in connection with the Northstar Combination. The after-tax effect of these expenses was $9.7 million, or $0.20 per share.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by this Item 10 is incorporated herein by reference to the definitive Proxy Statement to be filed by the Company pursuant to Regulation 14A of the General Rules and Regulations under the Securities and Exchange Act of 1934 not later than April 30, 1999.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this Item 11 is incorporated herein by reference to the definitive Proxy Statement to be filed by the Company pursuant to Regulation 14A of the General Rules and Regulations under the Securities and Exchange Act of 1934 not later than April 30, 1999.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by this Item 12 is incorporated herein by reference to the definitive Proxy Statement to be filed by the Company pursuant to Regulation 14A of the General Rules and Regulations under the Securities and Exchange Act of 1934 not later than April 30, 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this Item 13 is incorporated herein by reference to the definitive Proxy Statement to be filed by the Company pursuant to Regulation 14A of the General Rules and Regulations under the Securities and Exchange Act of 1934 not later than April 30, 1999.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements

Reference is made to the Index to Consolidated Financial Statements and Consolidated Financial Statement Schedules appearing at Item 8 on Page 49 of this report.

2. Consolidated Financial Statement Schedules

All financial statement schedules are omitted as they are inapplicable, or the required information is immaterial.

3. Exhibits

2.1 Agreement and Plan of Merger among Registrant, Devon Energy Corporation (Nevada), Kerr-McGee Corporation, Kerr-McGee North American Onshore Corporation and Kerr-McGee Canada Onshore Ltd., dated October 17, 1996 (incorporated by reference to Addendum A to Registrant's definitive proxy statement for a special meeting of shareholders, filed on November 6, 1996).

2.2 Amended and Restated Combination Agreement between the Registrant and Northstar Energy Corporation dated as of June 29, 1998 (incorporated by reference to Annex B to Registrant's definitive proxy statement for a special meeting of shareholders, filed November 6, 1998).

3.1 Registrant's Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3 to Registrant's Form 8-K dated as of December 11, 1998).

3.2 Registrant's Bylaws (incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form 8- B filed on June 7, 1995).

4.1 Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form 8-B filed on June 7, 1995).

4.2 Rights Agreement between Registrant and The First National Bank of Boston (incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form 8-B filed on June 7, 1995).

4.3 First Amendment to Rights Agreement between Registrant and The First National Bank of Boston, dated October 16, 1996 (incorporated by reference to Exhibit H- 1 to Addendum A to Registrant's definitive proxy statement for a special meeting of shareholders, filed on November 6, 1996).

4.4 Second Amendment to Rights Agreement between Registrant and the First National Bank of Boston, dated December 31, 1996 (incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K dated December 31, 1996).

4.5 Third Amendment to Rights Agreement between Registrant and The First National Bank of Boston, dated December 10, 1998.

4.6 Certificate of Designations of Series A Junior Participating Preferred Stock of Registrant (incorporated by reference to Exhibit 3.3 to Registrant's Registration Statement on Form 8-B filed on June 7, 1995).

4.7 Certificate of Trust of Devon Financing Trust [incorporated by reference to Exhibit 4.5 to Amendment No. 1 to Registrant's Registration Statement on Form S-
3 (No. 333-00815)].

4.8 Amended and Restated Declaration of Trust of Devon Financing Trust, dated as of July 3, 1996, by J. Larry Nichols, H. Allen Turner, William T. Vaughn, The Bank of New York (Delaware) and The Bank of New York as Trustees and the Registrant as Sponsor [incorporated by reference to Exhibit 4.6 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

4.9 Indenture, dated as of July 3, 1996, between the Registrant and The Bank of New York
[incorporated by reference to Exhibit 4.7 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

4.10 First Supplemental Indenture, dated as of July 3, 1996, between the Registrant and The Bank of New York [incorporated by reference to Exhibit 4.8 to Amendment No. 1 to Registrant's Registration Statement on Form S-
3 (No. 333-00815)].

4.11 Form of 6 1/2% Preferred Convertible Securities (included as Exhibit A- 1 to Exhibit 4.7 above).

4.12 Form of 6 1/2% Convertible Junior Subordinated Debentures (included as Exhibit B to Exhibit 4.7 above).

4.13 Preferred Securities Guarantee Agreement, dated July 3, 1996, between Registrant, as Guarantor, and The Bank of New York, as Preferred Guarantee Trustee
[incorporated by reference to Exhibit 4.11 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

4.14 Stock Rights and Restrictions Agreement, dated as of December 31, 1996, between Registrant and Kerr-McGee Corporation (incorporated by reference to Exhibit 4.3 to Registrant's Current Report on Form 8-K dated December 31, 1996).

4.15 Registration Rights Agreement, dated December 31, 1996, by and between Registrant and Kerr-McGee Corporation (incorporated by reference to Exhibit 4.4 to Registrant's Current Report on Form 8-K, dated December 31, 1996).

4.16 Support Agreement, dated December 10, 1998, between the Registrant and Northstar Energy Corporation (incorporated by reference to Exhibit 4.1 to Registrant's Form 8-K dated as of December 11, 1998).

4.17 Exchangeable Share Provisions (incorporated by reference to Exhibit 4.2 to Registrant's Form 8-K dated as of December 11, 1998).

9 Voting and Exchange Trust Agreement, dated December 10, 1998, by and between the Registrant, Northstar Energy Corporation and CIBC Mellon Trust Company (incorporated by reference to Exhibit 9 to Registrant's Form 8-K dated as of December 11, 1998).

10.1 U.S. Credit Agreement, dated December 11, 1998, among the Registrant, as U.S. Borrower, NationsBank, N.A., as Administrative Agent, NationsBanc Montgomery Securities, L.L.C., as Arranger, Bank One, Texas, N.A., as Syndication Agent, Bank of Montreal, as Documentation Agent, First Union, as Co-Documentation Agent, and Certain Financial Institutions, as Lenders (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K dated as of December 11, 1998).

10.2 Canadian Credit Agreement, dated December 11, 1998, among Northstar Energy Corporation and Devon Energy Canada Corporation, as Canadian Borrowers, Bank of America Canada, as Administrative Agent, NationsBanc Montgomery Securities, L.L.C., as Arranger, First Chicago Capital Markets, Inc., as Syndication Agent, Bank of Montreal, as Documentation Agent, First Union, as Co-Documentation Agent, and Certain Financial Institutions, as Lenders (incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K dated as of December 11, 1998).

10.3 Morrison Petroleums Ltd. U.S. $75,000,000 6.76% Senior Notes Due July 19, 2005 Note Agreement Dated as of July 19, 1995.

10.4 Northstar Energy Corporation U.S. $150,000,000 6.79% Senior Notes Due 2009 Note Agreement Dated as of March 2, 1998.

10.5 Devon Energy Corporation 1988 Stock Option Plan
[incorporated by reference to Exhibit 10.4 to Registrant's Registration Statement on Form S-4 (No. 33-23564)].*

10.6 Devon Energy Corporation 1993 Stock Option Plan (incorporated by reference to Exhibit A to Registrant's Proxy Statement for the 1993 Annual Meeting of Shareholders filed on May 6, 1993).*

10.7 Devon Energy Corporation 1997 Stock Option Plan (incorporated by reference to Exhibit A to Registrant's Proxy Statement for the 1997 Annual Meeting of the Shareholders filed on April 3, 1997).*

10.8 Severance Agreement between Devon Energy Corporation (Nevada), Devon Energy Corporation (Delaware) and Mr. J. Larry Nichols, dated December 3, 1992 (incorporated by reference to Exhibit 10.10 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).*

10.9 Severance Agreement between Devon Energy Corporation (Nevada), Devon Energy Corporation (Delaware) and Mr. J. Michael Lacey, dated December 3, 1992 (incorporated by reference to Exhibit 10.12 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).*

10.10 Severance Agreement between Devon Energy Corporation (Nevada), Devon Energy Corporation (Delaware) and Mr. H. Allen Turner, dated December 3, 1992 (incorporated by reference to Exhibit 10.13 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).*

10.11 Severance Agreement between Devon Energy Corporation (Nevada), Devon Energy Corporation (Delaware) and Mr. Darryl G. Smette, dated December 3, 1992 (incorporated by reference to Exhibit 10.14 to Registrant's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1992).*

10.12 Severance Agreement between Devon Energy Corporation (Nevada), Registrant and Duke R. Ligon, dated March 26, 1997 (incorporated by reference to Exhibit 10.11 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).*

10.13 Employment Agreement between Devon Energy Corporation (Nevada), Registrant and Duke R. Ligon, dated February 7, 1997 (incorporated by reference to Exhibit 10.12 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).*

10.14 Supplemental Retirement Income Agreement among Devon Energy Corporation (Nevada), Registrant and John W. Nichols, dated March 26, 1997 (incorporated by reference to Exhibit 10.13 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).*

10.15 Supplemental Benefit Agreement between Northstar Enerty Corporation and John A. Hagg dated February 17, 1999.*

10.16 Consulting Agreement between Registrant and Thomas F.

Ferguson dated June 1, 1989.

10.17 Sale and Purchase Agreement relating to Registrant's San Juan Basin gas properties (incorporated by reference to Exhibit 10.15 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).

10.18 Second Restatement of and Amendment to Sale and Purchase Agreement relating to Registrant's San Juan Basin gas properties (incorporated by reference to Exhibit 10.16 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).

10.19 Registration Rights Agreement, dated July 3, 1996, by and among the Registrant, Devon Financing Trust and Morgan Stanley & Co. Incorporated [incorporated by reference to Exhibit 10.1 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (No. 333-00815)].

12 Computation of ratio of earnings to fixed charges

21 Subsidiaries of Registrant

23.1 Consent of LaRoche Petroleum Consultants, Ltd.

23.2 Consent of AMH Group Ltd.

23.3 Consent of Paddock Lindstrom & Associates Ltd.

23.4 Consent of KPMG LLP

23.5 Consent of Deloitte & Touche LLP

23.6 Consent of PricewaterhouseCoopers LLP

* Compensatory plans or arrangements.

(b) Reports on Form 8-K - A Current Report on Form 8-K dated December 11, 1999, was filed by the Registrant announcing the completion of the Northstar Combination. A Current Report on Form 8-K dated January 28, 1999, was filed by the Registrant regarding year- end 1998 financial results and year-end oil and gas reserves. A Current Report on Form 8-K dated February 8, 1999, was filed by the Registrant regarding 1999 forward-looking information. A Current Report on Form 8-K dated February 22, 1999 was filed regarding January, 1999 financial results.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DEVON ENERGY CORPORATION

March 29, 1999	*By /s/ J. Larry Nichols* *J. Larry Nichols, President*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

March 29, 1999	*By /s/ John W. Nichols* *John W. Nichols* *Chairman of the Board and Director*
March 29, 1999	*By /s/ J. Larry Nichols* *J. Larry Nichols* *President, Chief Executive Officer and Director*
March 29, 1999	*By /s/ William T. Vaughn* *William T. Vaughn* *Vice President - Finance*
March 29, 1999	*By /s/ Danny J. Heatly* *Danny J. Heatly* *Controller*
March 29, 1999	*By /s/ H. R. Sanders, Jr.* *H. R. Sanders, Jr.* *Director*
March 29, 1999	*By /s/ Luke R. Corbett* *Luke R. Corbett, Director*
March 29, 1999	*By /s/ Thomas F. Ferguson* *Thomas F. Ferguson, Director*
March 29, 1999	*By /s/ David M. Gavrin* *David M. Gavrin, Director*
March 29, 1999	*By /s/ Michael E. Gellert* *Michael E. Gellert, Director*
March 29, 1999	*By /s/ John A. Hagg* *John A. Hagg, Director*
March 29, 1999	*By /s/ Michael M. Kanovsky* *Michael M. Kanovsky, Director*
March 29, 1999	*By /s/ Tom J. McDaniel* *Tom J. McDaniel, Director*
March 29, 1999	*By /s/ Lawrence H. Towell* *Lawrence H. Towell, Director*

INDEX TO EXHIBITS

Exhibit Page

THIRD AMENDMENT TO RIGHTS AGREEMENT

The Rights Agreement dated as of April 17, 1995 between Devon Energy Corporation and BankBoston, N.A. (formerly, The First National Bank of Boston (Massachusetts)), as amended as of October 16, 1996 and December 31, 1996, is hereby further amended as of December 10, 1998 as follows:

1. Section 1(a) of the Rights Agreement is hereby amended to add to the end thereof the following:

; provided, further, that the trustee from

time to time (the "Trustee") under the Voting and Exchange Agreement (the "Voting and Exchange Trust Agreement") to be entered into by and among the Company, Northstar Energy Corporation and the Trustee shall not, and the Trustee's Affiliates and associates shall not, be deemed an Acquiring Person pursuant to this
Section solely as a result of the transactions contemplated by the Voting and Exchange Trust Agreement, including, without limitation, the issuance to the Trustee of the Voting Share (as defined in the Voting and Exchange Trust Agreement).

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, all as of the 10th day of December, 1998.

DEVON ENERGY CORPORATION

/s/ J. Larry Nichols
J. Larry Nichols
President and Chief Executive Officer

ATTEST:

/s/ Marian J. Moon
Marian J. Moon
Secretary

BANKBOSTON,
N.A. (formerly,
THE FIRST NATIONAL BANK OF BOSTON
(MASSACHUSETTS))

By: /s/ Frank Arron
Administration Manager

ATTEST:

/s/ Deborah H. Norris
Administration Manager

Exhibit 10.3

MORRISON PETROLEUMS LTD.

U.S. $75,000,000

6.76% SENIOR NOTES DUE JULY 19, 2005

NOTE AGREEMENT

Dated as of July 19, 1995

TABLE OF CONTENTS

(Not Part of Agreement)

PURCHASER SCHEDULE

MORRISON PETROLEUMS LTD.
3000, 400 - 3rd Avenue S.W.
Calgary, Alberta
T2P 4H2

As of July 19, 1995

To Each of the Purchasers Named in the
Purchaser Schedule Attached Hereto

Re: Issue and Sale of U.S. $75,000,000 6.76% Senior Notes

Ladies and Gentlemen:

The undersigned, Morrison Petroleums Ltd. (the "Corporation"), hereby agrees with the purchasers named in the Purchaser Schedule attached hereto (the "Purchasers") as follows:

PARAGRAPH 1. AUTHORIZATION OF ISSUE OF NOTES.

1. Authorization of Issue of Notes.

The Corporation will authorize the issue of its senior promissory notes in the aggregate principal amount of U.S. $75,000,000, to be dated the date of issue thereof, to mature July 19, 2005, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at the rate of 6.76% per annum and on overdue payments at the rate specified therein, and to be substantially in the form of Schedule A. The term "Notes" as used herein shall include each such senior promissory note delivered pursuant to any provision of this Agreement and each such senior promissory note delivered in substitution or exchange for any other Note pursuant to any such provision. Capitalized terms used herein have the meanings specified in paragraph 10.

PARAGRAPH 2. PURCHASE AND SALE OF NOTES.

2. Purchase and Sale of Notes.

The Corporation hereby agrees to sell to each Purchaser and, subject to the terms and conditions herein set forth, each Purchaser agrees to purchase from the Corporation the aggregate principal amount of Notes set forth opposite such Purchaser's name in the Purchaser Schedule attached hereto at 100% of such aggregate principal amount. The Corporation will deliver to each Purchaser, at the offices of Macleod Dixon at 3700, 400 - 3rd Avenue, S.W., Calgary, Alberta, T2P 4H2, one or more Notes registered in such Purchaser's name, evidencing the aggregate principal amount of Notes to be purchased by such Purchaser and in the denomination or denominations specified with respect to such Purchaser in the Purchaser Schedule against payment of the purchase price thereof by transfer of immediately available funds for credit through the account of Skadden, Arps, Slate, Meagher & Flom, Account no. 0391190261, at Chase Manhattan Bank NA, 200 East 57th Street, New York, New York, ABA #021000021 with instructions to pay Royal Bank of Canada, 339 - 8th Avenue S.W., Calgary, Alberta, Transit #003-00009, for credit to Morrison Petroleums Ltd. account #400-688-8 on the date of closing, which shall be July 19, 1995 or any other date on or before July 31, 1995 upon which the Corporation and the Purchasers may mutually agree (the "Closing" or the "Date of Closing").

If at the Closing the Corporation shall fail to tender such Notes to each Purchaser as provided above in this paragraph 2, or any of the conditions specified in paragraph 3 shall not have been fulfilled to each Purchaser's satisfaction, each Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights each Purchaser may have by reason of such failure or such nonfulfillment.

PARAGRAPH 3. CONDITIONS PRECEDENT.

3. Conditions of Closing.

Each Purchaser's obligation to purchase and pay for the Notes to be purchased by such Purchaser hereunder is subject to the satisfaction, on or before the Date of Closing, of the following conditions:

3A. Certain Documents. Each Purchaser shall have received the following, each dated the Date of Closing:

(i) The Notes to be purchased by such Purchaser.

(ii) A certified copy of the resolutions of the Board of Directors of the Corporation approving this Agreement and the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(iii) A certified copy of the articles and by-laws of the Corporation.

(iv) A certificate of the Secretary or an Assistant Secretary of the Corporation certifying the names and true signatures of the officers of the Corporation authorized to sign this Agreement and the Notes and the other documents to be delivered by it hereunder.

(v) Certificates of status for the Corporation issued by corporate registries for each jurisdiction in which the Corporation owns material property or carries on a material business.

(vi) An Officer's Certificate of the Corporation confirming that the existing Liens publicly registered against the Corporation and each Restricted Subsidiary, including any referred to in Part B of Schedule C, would be, if created immediately after the execution and delivery of this Agreement, permitted hereunder, and that the litigation to which the Corporation and the Restricted Subsidiaries are presently subject individually or in the aggregate is not reasonably expected to have a Material Adverse Effect.

(vii) A favourable opinion of McCarthy Tetrault, counsel to the Corporation, substantially in the form of Schedule B-1 and as to such other matters as the Purchasers may reasonably request.

(viii) A favourable opinion of Skadden, Arps, Slate, Meagher and Flom, United States counsel to the Corporation, to the effect that it is not necessary in connection with the offering, issuance, sale and delivery of the Notes under the circumstances contemplated by this Agreement to register the Notes under the Securities Act or to qualify an indenture in respect of the Notes under the United States Trust Indenture Act of 1939, as amended, and that the extension, arranging and obtaining of the credit represented by the Notes do not result in any violation of Regulation G, T or X of the Board of Governors of the United States Federal Reserve System.

(ix) A certified copy of the register of Notes maintained by the Corporation pursuant to paragraph 11D.

3B. Opinion of Purchasers' Special Counsel. Each Purchaser shall have received from Macleod Dixon, special counsel for the Purchasers in connection with this transaction, a favourable opinion substantially in the form of Schedule B-2 and as to such matters incident to the matters herein contemplated as the Purchasers may reasonably request.

3C. Representations and Warranties; No Default. The representations and warranties contained in paragraph 8 shall be true on and as of the Date of Closing; there shall exist on the Date of Closing no Event of Default or Default; and the Corporation shall have delivered to such Purchaser an Officer's Certificate, dated the Date of Closing, to both such effects.

3D. Purchase Permitted By Applicable Laws. The purchase of and payment for the Notes to be purchased by such Purchaser on the Date of Closing on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Corporation) shall not violate any Applicable Law (including section 5 of the Securities Act or Regulation G, T or X of the Board of Governors of the United States Federal Reserve System) and shall not subject such Purchaser to any tax, penalty or liability under or pursuant to any Applicable Law and such Purchaser shall have received such certificates or other evidence with respect to factual matters as it may request to establish compliance with this condition.

3E. Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to such Purchaser, and such Purchaser shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

3F. Sale of Notes to Other Purchasers. The Corporation shall sell to the other Purchasers, and the other Purchasers shall purchase, the Notes to be purchased by them at the Closing.

3G. Special Counsel Fees. Without limiting paragraph 11B, the Corporation shall have paid for credit on account of the fees of special counsel for the Purchasers the amount stipulated in a letter of Macleod Dixon delivered to the Corporation one day prior to Closing.

3H. Private Placement Number. A private placement number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

3I. Existing Bank Security Discharges. Canadian Imperial Bank of Commerce shall have discharged, or provided an unconditional undertaking to discharge, all security held by it over the properties and assets of the Corporation.

PARAGRAPH 4. PREPAYMENTS.

4. Prepayments.

The Notes shall be subject to prepayment only with respect to the required prepayments specified in paragraph 4A and the optional prepayments permitted by paragraph 4B.

4A. Required Prepayments. Until the Notes shall be paid in full, the Corporation shall apply to the prepayment of the Notes, without premium,

the following amounts on the following dates:

Prepayment Date	Amount of Required Prepayment
July 19, 2001	U.S. $15,000,000
July 19, 2002	U.S. $15,000,000
July 19, 2003	U.S. $15,000,000
July 19, 2004	U.S. $15,000,000

and such principal amounts of the Notes, together with interest thereon to the prepayment dates, shall become due on such prepayment dates. The remaining outstanding principal amount of the Notes, together with interest accrued thereon, shall become due on the maturity date of the Notes, being July 19, 2005.

4B. Optional Prepayment

(a) With Yield-Maintenance Amount. Prior to July 19, 2004, the Notes shall be subject to prepayment, in whole at any time or from time to time in part (in multiples of U.S. $1,000,000), at the option of the Corporation, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the Yield-Maintenance Amount, if any, with respect to each Note.

(b) Without Yield-Maintenance Amount in Final Year. On and after July 19, 2004, the Notes shall be subject to prepayment, in whole at any time or from time to time in part (in multiples of U.S. $1,000,000), at the option of the Corporation, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date.

(c) Application of Payments. Any partial prepayment of the Notes pursuant to this paragraph 4B shall be applied in satisfaction of required payments of principal in inverse order of their scheduled due dates.

4C. Notice of Optional Prepayment.

(a) The Corporation shall give the holder of each Note irrevocable written notice of any prepayment pursuant to paragraph 4B or paragraph 11Q not less than 15 nor more than 30 Business Days prior to the prepayment date, specifying such prepayment date (which shall be a Business Day) and the principal amount of the Notes, and of the Notes held by such holder, to be prepaid on such date and stating that such prepayment is to be made pursuant to paragraph 4B(a) or (b), or paragraph 11Q, as applicable. Notice of prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the Yield-Maintenance Amount, if any, with respect thereto, shall become due and payable on such prepayment date.

(b) The Corporation shall, at least two Business Days prior to the prepayment date, give the holder of each Note facsimile notice (followed by overnight written notice) setting forth the estimated Yield-Maintenance Amount (for the purposes only of such estimate, the yields referred to in the definition of "Reinvestment Yield" shall be those reported three Business Days preceding the Settlement Date instead of the yields on the Business Day next preceding the Settlement Date) payable on such prepayment date together with its calculations thereof in reasonable detail, and further setting forth the accrued interest payable on such prepayment date.

(c) The Corporation shall, on the day prior to the prepayment date, give notice by facsimile followed by overnight written notice of the actual Yield-Maintenance Amount (together with its calculations thereof in reasonable detail), principal and interest that the Corporation will be paying on the prepayment date to each holder of a Note.

4D. Payments Pro Rata. Upon any prepayment of the Notes pursuant to paragraph 4A or 4B, the principal amount so prepaid shall be allocated to all Notes at the time outstanding in proportion to the respective outstanding principal amounts thereof.

4E. Retirement of Notes. The Corporation shall not, and shall not permit any of its Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated final maturity (other than by prepayment pursuant to paragraph 4A or 4B or upon acceleration of such final maturity pursuant to paragraph 7A), or purchase or otherwise acquire, directly or indirectly, Notes held by any holder.

PARAGRAPH 5. AFFIRMATIVE COVENANTS.

5. Affirmative Covenants.

So long as any Note shall remain unpaid, the Corporation covenants that:

5A. Financial Statements. The Corporation will deliver to the holder of each Note in duplicate (unless, in respect of any holder, such holder designates a fewer number of copies in the Purchaser Schedule attached hereto):

(i) quarterly statements: as soon as practicable and in any event within 60 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, a consolidated statement of earnings and retained earnings and a consolidated statement of changes in financial position of the Corporation and its Subsidiaries (and of the Corporation and its Restricted Subsidiaries on a consolidated basis) for

such quarterly period, and for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated balance sheet of the Corporation and its Subsidiaries (and of the Corporation and its Restricted Subsidiaries on a consolidated basis) as at the end of such quarterly period, setting forth, in the case of the consolidated statements of earnings and retained earnings and of changes in financial position, in comparative form figures for the corresponding quarter and period in the preceding fiscal year and, in the case of the consolidated balance sheets, in comparative form figures for the most recent fiscal year end, all certified by an authorized financial officer of the Corporation, subject to changes resulting from normal year-end adjustments;

(ii) annual statements: as soon as practicable and in any event within 120 days after the end of each fiscal year, a consolidated statement of earnings and retained earnings and a consolidated statement of changes in financial position of the Corporation and its Subsidiaries (and of the Corporation and its Restricted Subsidiaries on a consolidated basis) for such year, and a consolidated balance sheet of the Corporation and its Subsidiaries (and of the Corporation and its Restricted Subsidiaries on a consolidated basis) as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, and, as to the consolidated statements, reported on by independent public accountants of recognized national or international standing in Canada or the United States selected by the Corporation whose report shall be without limitation as to the scope of the audit and satisfactory in substance to the Required Holders;

(iii) reports to shareholders: promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as it shall send to its public shareholders and copies of all prospectuses filed with Canadian or United States securities regulatory authorities, registration statements (without exhibits) and all reports (other than engineering reports) which it files with any Canadian or United States securities regulatory authorities;

(iv) notice requirements: as soon as practicable and in any event within 5 days after any Responsible Officer of the Corporation obtaining knowledge:

(a) of the existence of an Event of Default or Default,

(b) of any condition or event which, in the opinion of management of the Corporation, individually or in the aggregate could reasonably be expected to have a Material Adverse Effect,

(c) that any Person has given any notice to the Corporation or any of its Restricted Subsidiaries or taken any other action with respect to a claimed default or event or condition of the type referred to in paragraph 7A(iii), or

(d) that any holder of a Note has given notice to the Corporation of the existence or alleged existence of an Event of Default or Default,

an Officer's Certificate specifying the nature and period of existence of any such default, condition or event, or specifying the notice given or action taken by such Person and the nature of any such claimed default, event or condition, and further specifying what action the Corporation is taking or proposes to take with respect thereto; and

(v) other information: with reasonable promptness, such other information respecting the condition, properties or operations, financial or otherwise, of the Corporation or any of its Restricted Subsidiaries as such holder may reasonably request.

Together with each delivery of financial statements required by clauses
(i) and (ii) above, the Corporation will deliver to all holders of Notes an Officer's Certificate demonstrating (with computations in reasonable detail) compliance by the Corporation and its Restricted Subsidiaries with the provisions of paragraphs 6A, 6B(ix), 6C, 6D and 6E (for these purposes, documentation showing the computation of Consolidated Net Worth, Consolidated Funded Debt, Total Capitalization, Attributable Debt, Priority Debt, and Non-Recourse Debt of the Corporation and the Restricted Subsidiaries shall be delivered) and identifying the Subsidiaries and Restricted Subsidiaries, identifying any Sale-Leaseback proceeds not reinvested as contemplated in paragraph 6E(b), and stating that there exists no Event of Default or Default, or, if any Event of Default or Default exists, specifying the nature and period of existence thereof and what action the Corporation proposes to take with respect thereto.

If the Corporation has Subsidiaries that are not Restricted Subsidiaries during any relevant fiscal quarter or year, and the Corporation has delivered consolidated statements in respect of the Corporation and its Subsidiaries in accordance with paragraphs 5A(i) or (ii) for such fiscal quarter or year, as applicable, then notwithstanding such paragraphs the Corporation shall not be required to deliver additional separate statements in respect of such fiscal quarter or year if at the end thereof: (A) no Subsidiary has total assets (as included on the consolidated balance sheet of the Corporation) in excess of $2,000,000, and (B) the total assets of all Subsidiaries (as included on the consolidated balance sheet of the Corporation) does not exceed $20,000,000. Notwithstanding the foregoing, and for certainty, Subsidiaries that are not Restricted Subsidiaries shall not be included for the purposes of any financial covenants herein, and the documentation referred to in the previous paragraph shall reflect the non-inclusion of such Subsidiaries in accordance with such financial covenants. Further, if the Corporation is relying on this paragraph to relieve it from its obligation to deliver separate statements, the Officer's Certificate referred to in the previous paragraph shall show the total assets of each Subsidiary and the aggregate total assets of all Subsidiaries.

Together with each delivery of financial statements required by clause
(ii) above, the Corporation will deliver to each holder of a Note a certificate of such accountants stating that, during the course of the audit necessary for their report on such financial statements (without any special procedures being implemented for this purpose), they have obtained no knowledge of any Event of Default or Default, or, if they have obtained knowledge of any Event of Default or Default, specifying the nature

and period of existence thereof.

5B. Information Required by Rule 144A. The Corporation will, upon the request of the holder of any Note, and at the expense of the Corporation, provide to such holder, and to any qualified institutional buyer designated by such holder, the financial and other information described in paragraph (d)(4) of Rule 144A under the Securities Act required in order to permit reliance upon Rule 144A under the Securities Act in connection with the resale of Notes, except at such times as the Corporation is subject to the reporting requirements of section 13 or 15 (d) of the Exchange Act. For the purpose of this paragraph 5B, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act.

5C. Inspection of Property. The Corporation will permit any Person designated by any holder of a Note in writing, at such holder's expense, to visit and inspect any of the properties of the Corporation and its Restricted Subsidiaries, to examine the corporate books, financial records and engineering and property records and reports of the Corporation and its Restricted Subsidiaries and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of any of such corporations with the principal officers of the Corporation and its Restricted Subsidiaries and its independent public accountants, all at such reasonable times and as often as such holder may reasonably request, provided that the foregoing shall be at the Corporation's expense, and shall be reimbursable by the Corporation on demand by such holder, if such visitation, inspection or examination is conducted at a time when a Default or Event of Default has occurred and is continuing.

5D. Covenant to Secure Notes Equally. The Corporation will, if it or any Restricted Subsidiary shall create or assume any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than Liens expressly permitted by paragraph 6B (unless prior written consent to the creation or assumption thereof shall have been obtained pursuant to paragraph 11C), make or cause to be made effective provision whereby the Notes will be secured by such Lien equally and ratably with any and all other Indebtedness thereby secured so long as any such other Indebtedness shall be so secured.

5E. Reserve Reports. Upon request by a holder of a Note, the Corporation will deliver to such holder a summary of a Reserve Report prepared as at a date not earlier than the Corporation's most recent fiscal year end, such summary to be provided within 120 days of such fiscal year end, or if requested after such 120 days, within 10 days of request.

5F. Maintain Corporate Existence. The Corporation will, except as permitted in paragraph 6F, and except where failure to do so individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect, maintain and preserve its and each of the Restricted Subsidiary's corporate existence and organization in good standing in each jurisdiction in which it carries on business or owns assets, make all corporate and other filings and registrations necessary or advisable in connection therewith, obtain and maintain all licenses, permits, franchises, consents and other authorizations of any Governmental/Judicial Body necessary to its ownership of property and to the conduct of its business in each such jurisdiction.

5G. Comply With Laws. The Corporation will, and will cause each of its Restricted Subsidiaries to, comply with Applicable Laws, including Applicable Environmental Laws, where failure to do so individually or in the aggregate could reasonably be expected to have a Material Adverse Effect.

5H. Pay Taxes. The Corporation will, and will cause each of its Restricted Subsidiaries to, duly file on a timely basis all tax returns required to be filed by it, and duly and punctually pay all business, goods and services, income, capital and/or profits taxes and other governmental charges levied or assessed against it or its property save and except when and so long as the validity of any such tax is being contested by it in good faith by appropriate proceedings diligently conducted (which contest effectively postpones realization or enforcement of any Liens held by the taxing authority), in which event it shall make on its books provision adequate therefor to the extent the same is required in accordance with GAAP.

5I. Filings. The Corporation will, and will cause each of its Restricted Subsidiaries to, comply with all requirements which may exist under applicable securities legislation to file reports concerning the issuance of the Notes pursuant to filing, registration or prospectus exemptions under such legislation within the required time after such issuance.

5J. Defend Title. The Corporation will, and will cause each of its Restricted Subsidiaries to, defend its title to its property against every Person whomever claiming or attempting to claim the same, or asserting any interest adverse to its interest therein, other than Permitted Title Defects.

5K. Environmental Permits. The Corporation will, and will cause each of its Restricted Subsidiaries to, obtain and maintain all permits, licenses, consents and other authorizations which are required under Applicable Environmental Laws regarding its property, the absence of which individually or in the aggregate could reasonably be expected to have a Material Adverse Effect, and comply in all respects with the terms and conditions of all such permits, licenses, consents and authorizations, and comply in all respects with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any Applicable Environmental Laws, or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, where failure to do so individually or in the aggregate could reasonably be expected to have a Material Adverse Effect.

5L. Copies of Environmental Reports. The Corporation will, promptly upon receipt thereof, furnish to each holder of a Note a copy of any environmental site assessment or audit report required to be submitted by it or any Restricted Subsidiary to any Governmental/Judicial Body where the Corporation estimates that the Corporation's share of the cost of any clean-up or remedial action associated therewith will exceed $3,000,000, and in such event it shall conduct such clean-up or remedial action within such time as may be prescribed by such Governmental/Judicial Body.

5M. Continuous Environmental Risk Management. The Corporation will maintain, in respect of itself and each of its Restricted Subsidiaries, and in accordance with the practices and standards of companies of established reputation carrying on the same business, a prudent periodic program for environmental risk management.

5N. Environmental Audit. (i) The Corporation shall, promptly upon acquiring knowledge thereof, provide the holder of each Note with written notice of the discovery of any contaminant or of any spill, discharge, deposit, escape or release of a contaminant into the environment from or upon the land or property of the Corporation or a Restricted Subsidiary which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect; (ii) within 120 days after the end of each fiscal year of the Corporation, the Corporation shall provide a report to the holders in form and substance satisfactory to the holders, acting reasonably, describing the Corporation's environmental policies and the implementation of such policies and other significant environmental activities of the Corporation and its Restricted Subsidiaries during the previous fiscal year; (iii) the Corporation shall, upon the request of the Required Holders (acting reasonably), make available for discussion with the holders at all reasonable times the senior officers of the Corporation and any Restricted Subsidiary primarily responsible for the environmental activities and affairs of the Corporation and its Restricted Subsidiaries.

5O. Proceeds. The Corporation will use the proceeds from the issuance and sale of the Notes to pay down its existing revolving credit facilities, and for its general corporate purposes.

5P. Insurance. The Corporation will maintain business and property insurance in connection with its and its Restricted Subsidiaries' assets and business, and liability insurance with respect to claims for personal injury, death or property damage in relation to the operation of its businesses, all with responsible and reputable insurance companies in such amounts and with such deductibles as are customary in the case of businesses of established reputation engaged in the same or similar businesses.

5Q. Pari Passu. The Corporation will ensure that all payment obligations hereunder and under the Notes rank at least pari passu in priority of payment with its other most senior unsubordinated Indebtedness, including its bank Indebtedness.

PARAGRAPH 6. NEGATIVE COVENANTS.

6. Negative Covenants.

So long as any Note shall remain unpaid, the Corporation covenants that:

6A. Consolidated Net Worth. The Corporation will not permit Consolidated Net Worth at any time to be less than $240,000,000.

6B. Liens. The Corporation will not, and will not permit any Restricted Subsidiary to, create or assume any Lien upon any of its properties or assets, whether now owned or hereafter acquired, or any income or profits therefrom (whether or not provision is made for the equal and ratable securing of the Notes in accordance with paragraph 5D), except:

(i) Liens for taxes not yet due or which are being actively contested in good faith by appropriate proceedings promptly initiated and diligently conducted (so long as such contest effectively postpones realization or enforcement of any such Liens) and for which reserves or other appropriate provision, if any, as may be required by GAAP shall have been made therefor,

(ii) Permitted Encumbrances,

(iii) Liens existing on the date hereof as described in Part A of Schedule C,

(iv) Liens existing on property of a corporation or any other entity at the time it is being acquired by the Corporation or a Restricted Subsidiary if, concurrently with such acquisition, such corporation or other entity becomes a Restricted Subsidiary, provided that such Liens are not created in contemplation of such acquisition,

(v) Liens existing on property at the time of its acquisition by the Corporation or a Restricted Subsidiary, provided that such Liens are not created in contemplation of such acquisition,

(vi) Liens created by a Restricted Subsidiary in favour of the Corporation or another Restricted Subsidiary,

(vii) Liens relating wholly to Non-Recourse Debt,

(viii) any Lien created to secure all or any part of the purchase price, or to secure Indebtedness incurred or assumed to pay all or any part of the purchase price, of equipment, land, buildings or other assets acquired by the Corporation or a Restricted Subsidiary, provided that (A) any such Lien shall be confined solely to the item or items of equipment, land, buildings or other assets so acquired, (B) the principal amount of Indebtedness secured by any such Lien shall at the time of creation not exceed the lesser of (y) the purchase price payable by the Corporation or such Restricted Subsidiary for the property so acquired, and (z) the fair market value thereof, and (C) any such Lien shall be created within 6 months after such acquisition, and

(ix) other Liens (including Liens in respect of Production Payment Transactions and Sale Leasebacks, but excluding general Liens such as floating charges or security interests on all personal property) on property of the Corporation or its Restricted Subsidiaries, provided that (A) after giving effect thereto Priority Debt does not exceed 15% of Total Capitalization, (B) if an Event of Default or Default hereunder, or a default or event of default under the Corporation's bank loan agreements, has occurred and is continuing, such Liens are not created to secure existing Indebtedness, and (C) any Liens on the property of a Person existing at the time it becomes a Restricted Subsidiary, or Liens assumed in connection with any acquisition of property, shall be deemed to be created at that time.

6C. Funded Debt. The Corporation will not, and will not permit its Restricted Subsidiaries to, create, issue, assume, Guarantee or otherwise become liable in respect of, any Funded Debt if after giving effect thereto Consolidated Funded Debt exceeds 55% of Total Capitalization. For these purposes Funded Debt of a Person existing at the time it becomes a Restricted Subsidiary, or Indebtedness assumed in connection with any acquisition of property, shall be deemed to be incurred at that time.

6D. Restricted Subsidiary Funded Debt. The Corporation will not permit any Restricted Subsidiary to create, incur, assume, Guarantee or otherwise become liable in respect of, any Funded Debt if after giving effect thereto Priority Debt exceeds 15% of Total Capitalization. For these purposes Funded Debt of a Person existing at the time it becomes a Restricted Subsidiary, or Indebtedness assumed in connection with any acquisition of property, shall be deemed to be incurred at that time.

6E. Sale-Leasebacks. The Corporation will not, and will not permit any Restricted Subsidiary to, enter into any Sale-Leaseback unless at least one of the following conditions is met:

(a) the term of the lease is three years or less, or

(b) the proceeds thereof are either reinvested in oil and gas properties, equipment and fixed assets used in the business of the Corporation as described in paragraph 6G, or are used to repay Funded Debt of the Corporation or a Restricted Subsidiary, or a combination thereof, within a period of 360 days following receipt thereof, or

(c) after giving effect thereto, Priority Debt does not exceed 15% of Total Capitalization.

6F. Merger. The Corporation will not enter into any transaction whereby all or substantially all of its undertaking, property and assets would become the property of any other Person (herein called a "Successor Corporation") whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, except that:

(i) the Corporation may amalgamate or merge with any Restricted Subsidiary (provided that the Corporation shall be the Successor Corporation or shall form part of the Successor Corporation), and

(ii) the Corporation may enter into such transaction with any other corporation if:

(A) the Successor Corporation is a corporation organized and existing under the laws of Canada or a province thereof, or any state of the United States of America, with substantially all of its assets located and a majority of its business conducted within the member countries (from time to time) of the Organization for Economic Co-operation and Development,

(B) such Successor Corporation expressly assumes, by an agreement satisfactory in substance and form to the Required Holders (which agreement may require the delivery in connection with such assumption of such opinions of counsel as the Required Holders may reasonably require), the obligations of the Corporation under this Agreement and the Notes,

(C) immediately following such amalgamation or merger, such Successor Corporation could incur at least $1.00 of additional Funded Debt in compliance with paragraphs 6C and 6D, and at least $1.00 of Indebtedness secured by Liens in compliance with paragraph 6B (ix) and

(D) no Default or Event of Default has occurred and is continuing or would exist if such transaction is effected.

6G. Change of Business. The Corporation will not change in any material respect the nature of its or its Restricted Subsidiaries' business or operations from the exploration for, and development, production, transportation and marketing of, petroleum, natural gas and related products, nor will it engage directly or indirectly in any material business activity, or purchase or otherwise acquire any material property, in either case not related to the conduct of its business or operations as presently carried on.

PARAGRAPH 7. EVENTS OF DEFAULT.

7A. Acceleration. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) failure to pay principal: the Corporation defaults in the payment of any principal of or Yield-Maintenance Amount payable with respect to any Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or

(ii) failure to pay interest: the Corporation defaults in the payment of any interest on any Note for more than 5 Business Days after the date due; or

(iii) cross acceleration: the Corporation or any Restricted Subsidiary (A) defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of, premium (if any) or interest on any Indebtedness beyond any period of grace provided with respect thereto, or (B) fails to perform or observe any other agreement, term or condition contained in any agreement under which any such Indebtedness is created (or if any other event thereunder or under any such agreement shall occur and be continuing), and the effect of such default in paragraph (A) or (B) is to cause such obligation to become due and payable (or to be repurchased by the Corporation or any Subsidiary) prior to any stated maturity, provided in either case that the aggregate amount of all obligations in respect of which such default shall occur and be continuing exceeds $10,000,000 (or its then equivalent in U.S. Dollars), and provided further that if (x) the holders of such accelerated Indebtedness rescind the acceleration which has resulted in an Event of Default under this paragraph 7A(iii) pursuant to an express right to do so contained in the governing agreement for such Indebtedness, (y) no holders of Notes have then commenced legal action in respect of their Notes, and (z) no other Event of Default has occurred and is continuing, then the holders of Notes shall thereupon be deemed to have waived any Default or Event of Default under this paragraph 7A(iii), and to have rescinded any acceleration that occurred by reason of this paragraph 7A(iii); or

(iv) incorrect representations: any representation or warranty made by the Corporation herein or by or on behalf of the Corporation or any of its officers in any writing furnished in connection with or pursuant to this Agreement shall be false or incorrect in any respect on the date as of which made, and the actual facts that exist and give rise to such falsity individually or in the aggregate could reasonably be expected to have a Material Adverse Effect, or could have any adverse effect on the legality, validity or enforceability of this Agreement or any Notes; or

(v) breach of other covenant: the Corporation fails to perform or observe any other agreement, covenant, term or condition contained herein and such failure shall not be remedied within 30 days after the earlier of (A) a Responsible Officer obtaining actual knowledge thereof, and (B) a holder of a Note giving written notice thereof to the Corporation; or

(vi) insolvency (voluntary proceedings): the Corporation or any Restricted Subsidiary shall:

(a) become insolvent, or generally not pay its debts or meet its liabilities as the same become due, or admit in writing its inability to pay its debts generally, or declare any general moratorium on its indebtedness, or propose a compromise or arrangement between it and any class of its creditors,

(b) commit an act of bankruptcy under the Bankruptcy and Insolvency Act (Canada), or make an assignment of its property for the general benefit of its creditors under such Act, or make a proposal (or file a notice of its intention to do so) under such Act,

(c) institute any proceeding seeking to adjudicate it an insolvent, or seeking liquidation, dissolution, winding-up, reorganization, compromise, arrangement, adjustment, protection, moratorium, relief, stay of proceedings of creditors generally (or any class of creditors), or composition of it or its debts under any other statute, rule or regulation relating to bankruptcy, winding-up, insolvency, reorganization, plans of arrangement, relief or protection of debtors (including the Bankruptcy and Insolvency Act (Canada), the Companies' Creditors Arrangement Act (Canada) and any applicable Business Corporations Act or Company Act), or at common law or in equity,

(d) apply for the appointment of, or the taking of possession by, a receiver, interim receiver, receiver/manager, custodian, administrator, trustee, liquidator or other similar official for it or any substantial part of its property, or

(e) threaten to do any of the foregoing, or take any action, corporate or otherwise, to approve, consent to or authorize any of the actions described in this paragraph (vi) or in paragraph (vii), or otherwise act in furtherance thereof or fail to act in defense thereof; or

(vii) insolvency (involuntary proceedings): any petition shall be filed, application made or other proceeding instituted against or in respect of the Corporation or any Restricted Subsidiary:

(a) seeking to adjudicate it an insolvent,

(b) seeking a receiving order against it under the Bankruptcy and Insolvency Act (Canada),

(c) seeking liquidation, dissolution, winding-up, reorganization, compromise, arrangement, adjustment, protection, moratorium, relief, stay of proceedings of creditors generally (or any class of creditors), or composition of it or its debts under any statute, rule or regulation relating to bankruptcy, winding-up, insolvency, reorganization, plans of arrangement, relief or protection of debtors (including the Bankruptcy and Insolvency Act (Canada), the Companies' Creditors Arrangement Act (Canada) and any applicable Business Corporations Act or Company Act), or at common law or in equity, or

(d) seeking the entry of an order for relief or the appointment of a receiver, interim receiver, receiver/manager, custodian, administrator, trustee, liquidator or other similar official for it or any substantial part of its property,

and such petition, application or proceeding shall continue undismissed, or unstayed and in effect, for a period of 60 days after the institution thereof, provided that if an order, decree or judgment has been granted (whether or not entered or subject to appeal) against the Corporation or

any Restricted Subsidiary thereunder in the interim, such grace period shall cease to apply; or

(viii) extra-territorial proceedings: any other event shall occur which, under the laws of any applicable jurisdiction, has an effect equivalent to any of the events referred to in paragraphs (vi) or (vii); or

(ix) attachment or seizure (secured or unsecured): any property of the Corporation or any Restricted Subsidiary having a fair market value in excess of $10,000,000 (or its then equivalent in U.S. Dollars) in the aggregate shall be seized (including by way of execution, attachment, garnishment or distraint) or any Lien thereon shall be enforced, or such property shall become subject to any charging order or equitable execution of a Governmental/Judicial Body, or any writ of execution or distress warrant shall exist in respect of the Corporation, any Restricted Subsidiary or the property of either, or any sheriff or other Person shall become lawfully entitled to seize or distrain upon such property under the Execution Creditors Act (Alberta), Seizures Act (Alberta), the Workers' Compensation Act (Alberta), the Personal Property Security Act (Alberta) or any other Applicable Laws whereunder similar remedies are provided, and in any case such seizure, enforcement, execution, attachment, garnishment, distraint, charging order or equitable execution, or other seizure or right, shall continue in effect and not be released or discharged for more than 60 days; or

(x) judgments: one or more judgments for the payment of money in excess of $10,000,000 (or its then equivalent in U.S. Dollars) in the aggregate shall be rendered against the Corporation or any Restricted Subsidiary and the Corporation or such Restricted Subsidiary shall not have (A) provided for its discharge in accordance with its terms within 60 days from the date of entry thereof, or (B) procured a stay of execution thereof within 60 days from the date of entry thereof and within such period, or such longer period during which execution of such judgment shall have been stayed, appealed such judgment and caused the execution thereof to be stayed during such appeal, provided that if enforcement and/or realization proceedings are lawfully commenced in respect thereof in the interim, such grace period shall cease to apply; or

(xi) unenforceability of documents: this Agreement or any Note or any material provision of either shall at any time for any reason cease to be in full force and effect, be declared to be void or voidable or shall be repudiated, or the validity or enforceability thereof shall at any time be contested by the Corporation, or the Corporation shall deny that it has any or any further liability or obligation thereunder or any action or proceeding shall be commenced to enjoin or restrain the performance or observance by the Corporation of the terms thereof or to question the validity or enforceability thereof, or at any time it shall be unlawful or impossible for the Corporation to perform any of its obligations thereunder;

then:

(a) if such event is an Event of Default specified in clause (i) or (ii) of this paragraph 7A, then the holder of any Note may at its option, by notice in writing to the Corporation, declare such Note to be, and such Note shall thereupon be and become, immediately due and payable at par together with interest accrued thereon and together with the Yield Maintenance Amount, if any, with respect to such Note, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Corporation;

(b) if such event is an Event of Default specified in clause (vi), (vii) or (viii) of this paragraph 7A with respect to the Corporation, then all of the Notes at the time outstanding shall automatically become immediately due and payable at par together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Corporation; and

(c) if such event is not an Event of Default specified in clause (vi),
(vii) or (viii) of this paragraph 7A with respect to the Corporation, then, whether or not notice has been given pursuant to paragraph (a), the holders of not less than 25% of the outstanding principal amount of the Notes, in the case of an event specified in paragraphs (i) and (ii), and not less than 50% in any other case, may at its or their option, by notice in writing to the Corporation, declare all of the Notes to be, and all of the Notes shall thereupon be and become, immediately due and payable together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Corporation.

7B. Rescission of Acceleration. At any time after any or all of the Notes shall have been declared immediately due and payable pursuant to paragraph 7A, the Required Holders may, by notice in writing to the Corporation, rescind and annul such declaration and its consequences if (i) the Corporation shall have paid all overdue interest on the Notes, the principal of and Yield- Maintenance Amount, if any, payable with respect to any Notes which have become due otherwise than by reason of such declaration, and interest on such overdue interest and overdue principal and Yield-Maintenance Amount at the rate specified in the Notes, (ii) the Corporation shall not have paid any amounts which have become due solely by reason of such declaration, (iii) all Events of Default and Defaults, other than non-payment of amounts which have become due solely by reason of such declaration, shall have been cured or waived pursuant to paragraph 11C, and (iv) no judgment or decree shall have been entered for the payment of any amounts due pursuant to the Notes or this Agreement. No such rescission or annulment shall extend to or affect any subsequent Event of Default or Default or impair any right arising therefrom.

7C. Notice of Acceleration or Rescission. Whenever any Note shall be declared immediately due and payable pursuant to paragraph 7A or any such declaration shall be rescinded and annulled pursuant to paragraph 7B, the Corporation shall forthwith give written notice thereof to the holder of each Note.

7D. Other Remedies. If any Event of Default or Default shall occur and be continuing, the holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note by exercising such remedies as are available to such holder in respect thereof under

Applicable Law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement. No remedy conferred in this Agreement upon the holder of any Note is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or now or hereafter existing at law or in equity or by statute or otherwise.

PARAGRAPH 8. REPRESENTATIONS, COVENANTS AND WARRANTIES.

8. Representations, Covenants and Warranties.

The Corporation represents, covenants and warrants as follows:

8A. Organization. The Corporation is a corporation duly organized and validly existing in good standing under the laws of the Province of Alberta, and each Restricted Subsidiary is duly organized and existing in good standing under the laws of the jurisdiction in which it is incorporated. The Corporation is validly registered as an extra-provincial corporation under the laws of the Provinces of British Columbia and Saskatchewan, and in each other jurisdiction where failure to be so registered individually or in the aggregate could reasonably be expected to have a Material Adverse Effect. The execution, delivery and performance by the Corporation of this Agreement and the Notes are within the Corporation's corporate powers and have been duly authorized by all necessary corporate action. This Agreement and the Notes constitute legal, valid and binding obligations of the Corporation enforceable against it in accordance with their respective terms, subject only to the qualifications to enforceability contained in the opinion of the Corporation's counsel delivered pursuant to paragraph 3A(vii). All of the Subsidiaries of the Corporation and the percentage direct or indirect ownership thereof by the Corporation are listed in Schedule D.

8B. Financial Statements. The Corporation has furnished each Purchaser with the following financial statements: (a) a consolidated balance sheet of the Corporation as at December 31 in each of the years 1992 to 1994, inclusive, and consolidated statements of earnings and retained earnings and consolidated statements of changes in financial position of the Corporation for each such year, all reported on by Coopers & Lybrand; and (b) a consolidated balance sheet of the Corporation as at March 31 in each of the years 1994 and 1995 and consolidated statements of earnings and retained earnings and consolidated statements of changes in financial position for the 3 month period ended on each such date, prepared by the Corporation. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and normal year-end adjustments), have been prepared in accordance with GAAP consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Corporation and its Subsidiaries required to be shown in accordance with GAAP. The balance sheets present fairly the condition of the Corporation and its Subsidiaries as at the dates thereof, and the statements of earnings, retained earnings and changes in financial position present fairly the results of the operations, properties of the Corporation and its Subsidiaries and their cash flows for the periods indicated. There has been no change in the business, condition (financial or otherwise), operations, properties or business prospects of the Corporation and its Subsidiaries taken as a whole since December 31, 1994 which individually or in the aggregate could reasonably be expected to have a Material Adverse Effect.

8C. Actions Pending. There is no action, suit, investigation or proceeding pending or, to the knowledge of the Corporation, threatened against the Corporation or any of its Restricted Subsidiaries, or any properties or rights of the Corporation or any of its Restricted Subsidiaries, by or before any Governmental/Judicial Body which individually or in the aggregate could reasonably be expected to have a Material Adverse Effect. There is no action, suit, investigation or proceeding pending or threatened against the Corporation or any of its Subsidiaries which alleges the breach of any Applicable Environmental Laws, or could result in an order against the Corporation or any Restricted Subsidiary for the clean up of any property except as disclosed by the Corporation to each holder of a Note in writing prior to the date hereof, with reference to this paragraph. There is no action, suit, investigation or proceeding pending or threatened against the Corporation or any of its Subsidiaries which purports to affect the validity or enforceability of this Agreement or any Note.

8D. Outstanding Indebtedness. Neither the Corporation nor any of its Restricted Subsidiaries has outstanding any Indebtedness except for Indebtedness that, if it were incurred immediately after the execution and delivery of this Agreement, would be permitted by paragraphs 6C and 6D of this Agreement, and all such Indebtedness is accurately described in Part C of Schedule C, together with particulars thereof. There exists no default or event of default under the provisions of any instrument evidencing such Indebtedness or of any agreement relating thereto.

8E. Title to Properties. Except for Permitted Title Defects, the Corporation and each of its Restricted Subsidiaries have good and marketable title to its proved producing oil and gas properties and proved non-producing oil and gas properties, and good and valid title to all of its other respective material properties and assets, including the properties and assets reflected in the balance sheet as at March 31, 1995 referred to in paragraph 8B (other than properties and assets disposed of in the ordinary course of business), subject to no Lien of any kind except Liens that, if they were incurred immediately after the execution and delivery of this Agreement, would be permitted by paragraph 6B. All leases (including petroleum and/or natural gas leases) necessary in any material respect for the conduct of the respective businesses of the Corporation and its Restricted Subsidiaries are valid and subsisting and are in full force and effect.

8F. Taxes. The Corporation and each of its Restricted Subsidiaries has filed all federal, provincial and other income tax returns which are required to be filed, and each has paid all taxes as shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in the reasonable opinion of the Corporation and in accordance with GAAP.

8G. Conflicting Agreements and Other Matters. Neither the Corporation nor any of its Subsidiaries is a party to any contract or agreement or subject to any charter or other corporate restriction which individually or in the aggregate could reasonably be expected to have a Material Adverse Effect. Neither the execution nor delivery of this Agreement or the Notes, nor the offering, issuance and sale of the Notes, nor

fulfilment of nor compliance with the terms and provisions hereof and the Notes will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Corporation or any of its Restricted Subsidiaries pursuant to, the articles or by-laws of the Corporation or any of its Restricted Subsidiaries, any Applicable Law or any agreement (including any instrument or agreement creating or evidencing Indebtedness), to which the Corporation or any of its Restricted Subsidiaries is subject. The Corporation and each Restricted Subsidiary is in compliance with Applicable Laws where failure to do so would individually or in the aggregate could reasonably be expected to have a Material Adverse Effect. Neither the Corporation nor any of its Subsidiaries is a party to, or otherwise subject to any provision contained in, its articles, any instrument or agreement creating or evidencing Indebtedness of the Corporation or such Subsidiary, any agreement relating thereto or any other contract or agreement which limits the amount of, or otherwise imposes restrictions on the incurring of, Indebtedness of the Corporation of the type to be evidenced by the Notes except for the agreements listed in Part B of Schedule C.

8H. Offering of Notes. Neither the Corporation nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Corporation for sale to, or solicited any offers to buy the Notes or any similar security of the Corporation from, or otherwise approached or negotiated with respect thereto with, any Person other than 60 institutional "accredited investors" (as such term is defined in paragraph 9B(2)(a) hereof), each of which has been offered the Notes at a private sale for investment, and neither the Corporation nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act or to the registration, qualification or similar provisions of any securities or "blue sky" laws of any applicable jurisdiction or result in any contravention of the provisions of any securities law of Alberta or any other applicable jurisdiction.

8I. Use of Proceeds. The Corporation will apply the proceeds of the sale of the Notes as set forth in paragraph 5O hereof. Neither the Corporation nor any Subsidiary owns or has any present intention of acquiring any "margin stock" as defined in Regulation G (12 CFR Part 207) of the Board of Governors of the United States Federal Reserve System ("margin stock"). None of the proceeds of the sale of the Notes will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock or for the purpose of maintaining, reducing or retiring any Indebtedness which was originally incurred to purchase or carry any stock that is currently a margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of such Regulation G. Neither the Corporation nor any agent acting on its behalf has taken any action which might cause this Agreement or the Notes to violate Regulation G, Regulation T, Regulation X or any other regulation of the Board of Governors of the United States Federal Reserve System or to violate the Exchange Act, and the Corporation covenants that it will not, and will not permit any agent acting on its behalf to, take any action which would cause this Agreement or the Notes to violate any such regulations or laws or any amendments thereto.

8J. Governmental Consent. Neither the nature of the Corporation or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Corporation or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any Governmental/Judicial Body (other than routine notification filings and payment of applicable fees after the Date of Closing with the applicable provincial securities authorities) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes or fulfilment of or compliance with the terms and provisions hereof or of the Notes.

8K. Environmental Compliance. The Corporation and its Restricted Subsidiaries and all of their respective properties and facilities have complied at all times and in all respects with all Applicable Environmental Laws except, in any such case, where failure to comply individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect.

8L. Disclosure. Neither this Agreement, the Private Placement Memorandum, nor any other document, certificate or statement furnished to any Purchaser by the Corporation or its agents in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact or facts peculiar to the Corporation or any of its Subsidiaries (excluding conditions general to the oil and gas industry) which individually or in the aggregate materially adversely affects or could reasonably be expected to materially adversely affect the business, condition (financial or otherwise), operations, properties or business prospects of the Corporation and of its Restricted Subsidiaries taken as a whole and which has not been set forth in this Agreement or in the other documents, certificates and statements furnished to each Purchaser by or on behalf of the Corporation prior to the date hereof in connection with the transactions contemplated hereby.

8M. Pari Passu. All payment obligations of the Corporation hereunder and under the Notes rank at least pari passu in priority of payment with its other most senior unsubordinated Indebtedness (including Indebtedness referred to in Part C of Schedule C) (it being acknowledged that certain holders of such Indebtedness may hold security therefor to the extent permitted in paragraph 6B).

8N. ERISA. The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406(a) of the Employee Retirement Income Security Act (U.S.) of 1974, as amended ("ERISA") and in connection with which a tax could be imposed pursuant to section 4975(c)(1(A)-(D)) of the Internal Revenue Code (U.S.) (the "Code").

The representation by the Corporation in this paragraph 8N is made in reliance upon and subject to (i) the accuracy of a Purchaser's representation in paragraph 9A(2) as to the sources of the funds used to pay the purchase price of the Notes to be purchased by such Purchaser, and (ii) the assumption, made solely for the purpose of making such representation, that the proposed prohibited transaction class exemption published by the United States Department of Labor in the Federal Register on August 22, 1994 (59 FR 43134, August 22, 1994) will become final in its current form.

8O. List of Plans. The Corporation has furnished a list ("ERISA Schedule") to each Purchaser identifying (i) each ERISA Affiliate, if any, and

(ii) each "employee benefit plan" as defined in Section 3 of ERISA, and each "plan" (as defined in section 4975 (e)(1) of the Code), maintained by the Corporation or any ERISA Affiliate, if any. If the name of any employee benefit plan (as defined in Section 3 of ERISA) has been disclosed to the Corporation pursuant to paragraph 9A(2)(g), the Corporation is not a "party in interest" (as defined in Section 3 of ERISA) with respect to any such plan. For these purposes, "ERISA Affiliate" means any corporation which is a member of the same controlled group of corporations as the Corporation within the meaning of Section 414(b) of the Code, or any trade or business which is under common control with the Corporation within the meaning of Section 414(c) of the Code.

8P. Foreign Assets Control Regulations, etc. The Corporation is not a "national" of any foreign country with which the United States maintains a commercial embargo, or an order freezing assets, pursuant to legislation, Executive orders of the President, or regulations of the Treasury Department. Neither the sale of the Notes by the Corporation nor the use of the proceeds thereof by the Corporation will violate any of such legislation, regulations or orders.

8Q. Investment Company Act and Public Utility Holding Company Status. The Corporation is not (a) an investment company or a Person directly or indirectly controlled by or acting on behalf of an investment company, within the meaning of the United States Investment Company Act of 1940, as amended, or (b) a "holding company" or "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", or a "public utility", within the meaning of the United States Public Utility Holding Company Act of 1935, as amended.

PARAGRAPH 9. REPRESENTATIONS, WARRANTIES AND COVENANTS OF EACH PURCHASER.

9A. Representations and Warranties of Each Purchaser.

Each Purchaser represents and warrants as follows:

9A(1) Nature of Purchase. Each Purchaser represents (and in entering into this Agreement the Corporation understands) that each Purchaser is acquiring the Notes for its own account or for an account over which it exercises sole investment discretion, and that it is not acquiring the Notes with a view to the distribution thereof and that it has no present intention of selling, negotiating or otherwise disposing of the Notes; it being understood, however, that the disposition of its property shall at all times be and remain within its control. Each acquisition of a Note is in respect of a security which has an aggregate acquisition cost to such Purchaser or account of not less than $97,000, all within the meaning of the Securities Act (Alberta). Without limiting the foregoing, each Purchaser agrees that it will only re-offer or resell the Notes purchased by it in accordance with any applicable federal, state or provincial securities laws, as the case may be; it understands that the Notes are not being registered under the Securities Act and are being sold to it in transactions that are exempt from the registration requirements of the Securities Act; and it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Notes, and it (and any account for which it is purchasing) is able to bear the economic risk of investment in the Notes for an indefinite period.

9A(2) ERISA. In connection with the acquisition of Notes to be purchased by it hereunder and solely for purposes of determining whether such acquisition is a "prohibited transaction" (as provided for in section 406 of ERISA or section 4975 of the Code), one or more of the following statements is correct with respect to each source of funds being used by Purchaser to acquire the Notes:

(a) no part of such funds constitutes the assets of any "employee benefit plan" as defined in Section 3(3) of ERISA, or its related trust, or any "plan" as defined in Section 4975(e)(1) of the Code, or its related trust (each a "Plan");

(b) it is an "insurance company" as defined in Section 2(13) of the Securities Act and it is acquiring such Notes for its own account with funds from its general account assets, or from assets of one or more segments of such general account, and, if any assets in such general account are, or are deemed to be, assets of any Plan, such acquisition is eligible for and satisfies the requirements of Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995), and will be exempt from the restrictions of section 406(a) and 407(a) of ERISA and the taxes imposed by section 4975(a) and (b) of the Code;

(c) it is acquiring such Notes with assets of a separate account that is maintained solely in connection with fixed contractual obligations of an insurance company under which the amounts payable, or credited, to any employee benefit plan having an interest in such account and to any participant or beneficiary of such plan (including an annuitant) are not affected in any manner by the investment performance of the separate account (as provided by the exception set forth in 29 C.F.R. Section 2510.3-101(h)(1)(iii));

(d) such funds constitute assets of either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of PTE 91-38 (issued July 12, 1991); no Plan (together with any other Plan maintained by the same employer or employee organization) holds more than a 10% interest in such account or fund; and the Purchaser's acquisition of the Notes with such funds is eligible for and satisfies the requirements of PTE 90-1 or PTE 91-38 and will be exempt from the restrictions of section 406(a), 406(b)(2) and 407(a) of ERISA and the taxes imposed by section 4975(a) and (b) of the Code; (e) such funds constitute assets of a governmental plan as defined in Section 3(32) of ERISA;

(f) (i) the source of such funds is one or more "employee benefit plans" or "plans" (as defined in section 3(3) of ERISA and section 4975 of the Code, respectively) (each a "Plan") or a separate account or trust fund including the assets of one or more Plans; and (ii) the Purchaser has

identified each such Plan to the Corporation in writing; or (g) it is acquiring such Notes with assets of one or more single customer separate accounts and it has disclosed to the Corporation in writing the names of such employee benefit plans whose assets are invested in such separate accounts, and the purchase of such Notes with assets of such accounts will not result in a non-exempt "prohibited transaction"; provided that the foregoing representation is made in reliance upon the ERISA Schedule delivered to the Purchasers by the Corporation pursuant to paragraph 8O.

9A(3) Location. The head registered office of such Purchaser is located outside of Canada, the employees of such Purchaser responsible for investment decisions relating to the purchase and holding of the Notes are located outside Canada, and the Notes will be held by such Purchaser outside Canada.

9B. Representations, Acknowledgements and Covenants of Each Purchaser.

9B(1) Credit Decision. By its execution of this Agreement, each Purchaser severally represents and acknowledges to each other Purchaser that it has, independently and without reliance upon any other Purchaser and based on the financial statements referred to in paragraph 8B, the Private Placement Memorandum, and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Purchaser also severally represents and acknowledges to each other Purchaser that it will, independently and without reliance upon any other Purchaser and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the Notes. The provisions of this paragraph are for the sole benefit of the Purchasers and are not intended to benefit or to confer any right upon the Corporation or any other Person.

9B(2) Acknowledgement. Each Purchaser acknowledges that:

(a) it has purchased the Notes for its own account, or for the account of one or more separate accounts, each of which is an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) of the Securities Act;

(b) it has received the Private Placement Memorandum; and

(c) the Notes shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") AND MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION "S" UNDER THE U.S. SECURITIES ACT, (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER, OR (D) PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT.

THIS NOTE MAY NOT BE TRADED IN CANADA EXCEPT AS PERMITTED BY RELEVANT SECURITIES LEGISLATION.

ANY TRANSFER OF THIS NOTE IS SUBJECT TO THE PROVISIONS OF THE NOTE AGREEMENT."

9B(3) Transferee ERISA Representation. By its acquisition of a Note,

each Transferee will be deemed to represent that for the purposes set forth in paragraph 9A(2), one or more of the statements in clauses (a) to (g) thereof is correct with respect to the source of funds being used by it to acquire the Notes.

PARAGRAPH 10. DEFINITIONS.

10. Definitions.

For the purpose of this Agreement, the terms defined in the introductory sentence and in paragraphs 1 and 2 shall have the respective meanings specified therein, and the following terms shall have the meanings specified with respect thereto below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

10A. Yield-Maintenance Terms.

"Business Day" shall mean, when used in connection with the Yield- Maintenance Amount, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York are required or authorized to be closed.

"Called Principal" shall mean, with respect to any Note, the principal of such Note that is to be prepaid pursuant to paragraph 4B or is declared

to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"Discounted Value" shall mean, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" shall mean, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the yields reported, as of 10:00 a.m. (New York City time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace Page 678 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury bill with the maturity closest to and greater than the Remaining Average Life, and (2) the actively traded U.S. Treasury bill with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" shall mean, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" shall mean, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

"Settlement Date" shall mean, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to paragraph 4B or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"Yield-Maintenance Amount" shall mean, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Yield-Maintenance Amount shall in no event be less than zero.

10B. Other Terms.

"Affiliate" shall mean:

(a) any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, the Corporation. A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise,

(b) any Person who beneficially owns or holds 10% or more of any class of shares of the Corporation, or

(c) any Person, 10% or more of any class of shares (or in the case of a Person that is not a corporation, 10% or more of the partnership or equity interest) of which is beneficially owned or held by the Corporation or a Subsidiary.

"Applicable Environmental Laws" shall mean those Applicable Laws which pertain to the environment or the release of Hazardous Materials into the environment, and includes any condition or requirement contained in a permit, licence, approval, consent or other document issued pursuant to such laws.

"Applicable Laws" shall mean, in relation to any Person, transaction or event:

(a) all applicable provisions of laws, statutes, rules and regulations from time to time in effect of any Governmental/ Judicial Body, and

(b) all judgments, orders, awards, decrees, official directives, writs and injunctions from time to time in effect of any Governmental/Judicial Body in an action, proceeding or matter in which the Person is a party or by which it or its property is bound or having application to the transaction or event.

"Attributable Debt" shall mean, in respect of any Sale-Leaseback transaction where all of the proceeds thereof have not been reinvested as

contemplated in paragraph 6E(b), the lesser of (a) the fair value of the assets subject to such transaction, and (b) the present value (discounted in accordance with GAAP at the interest rate implicit in the lease) of the obligations of the lessee for rental payments during the term of such lease.

"Business Day" shall mean, when used other than in connection with the Yield-Maintenance Amount, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Calgary, Alberta are required or authorized to be closed.

"Canadian Dollars" or "Cdn. $" means lawful money of Canada.

"Capitalized Lease Obligation" shall mean, with respect to any Person, any rental obligation which, under GAAP, would be required to be capitalized on the books of such Person, taken at the amount thereof accounted for as indebtedness (net of interest expense) in accordance with such principles.

"Closing" or "Date of Closing" shall have the meaning specified in paragraph 2.

"Code" shall have the meaning specified in paragraph 8N.

"Confidential Information" shall mean any material non-public information regarding the Corporation that was clearly marked or labelled or otherwise adequately identified when received by the holders of Notes as being "confidential", that is provided to any holder of any Note, any Person who purchases a participation in a Note and any offeree of a Note or a participation therein pursuant to this Agreement other than information (a) which was publicly known or otherwise known to such holder, such Person or such offeree at the time of disclosure, (b) which subsequently becomes publicly known through no act or omission of such holder, such Person or such offeree or (c) which otherwise becomes known to such holder, such Person or such offeree, other than through disclosure by the Corporation or any Subsidiary.

"Consolidated Funded Debt" shall mean, as at any date of determination, the total Funded Debt of the Corporation and its Restricted Subsidiaries determined on a consolidated basis in accordance with GAAP, after eliminating all intercompany transactions.

"Consolidated Net Worth" shall mean, as at any date of determination, shareholders' equity (including capital stock and retained earnings) of the Corporation and its Restricted Subsidiaries determined on a consolidated basis in accordance with GAAP as at such date of determination, after eliminating all amounts properly attributable to minority interests, if any, in the shares and surplus of Subsidiaries, and after eliminating all earnings which are derived from assets which are subject to a Lien that secures Non-Recourse Debt.

"ERISA" shall have the meaning specified in paragraph 8N.

"Event of Default" shall mean any of the events specified in paragraph 7A, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and "Default" shall mean any of such events, whether or not any such requirement has been satisfied.

"Exchange Act" shall mean the United States Securities Exchange Act of 1934, as amended.

"Funded Debt" shall mean all Indebtedness which is payable more than one year from the date of creation thereof, including Indebtedness which is payable within one year but which by its terms is renewable or extendible to a date beyond one year from the date of creation thereof, but excluding Non-Recourse Debt. For certainty, obligations and Indebtedness (contingent or not) under Guarantees of Funded Debt shall be considered to be Funded Debt.

"GAAP" shall mean generally accepted accounting principles in Canada from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable on the date on which the applicable determination or calculation is made or required to be made, subject to paragraphs 10C and 10D.

"Governmental/Judicial Body" shall mean:

(a) any government, parliament or legislature or any regulatory or administrative authority, agency, commission, tribunal or board of any government and any other law, regulation or rule making entity having or purporting to have jurisdiction in the relevant circumstances, or any Person acting or purporting to act under the authority of any of the foregoing, and

(b) any judicial, administrative or arbitral court, authority, tribunal or commission having jurisdiction in the relevant circumstances.

"Guarantee" shall mean, with respect to any Person, any direct or indirect liability, contingent or otherwise, of such Person with respect to any indebtedness, letter of credit, lease, dividend or other obligation of another, including any such obligation directly or indirectly guaranteed, endorsed
(otherwise than for collection or deposit in the ordinary course of business)
or discounted or sold with recourse by such Person, or in respect of which such Person is otherwise directly or indirectly liable, including any such obligation in effect guaranteed by such Person through any agreement (contingent or otherwise) to purchase, repurchase or otherwise

acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain the solvency or any balance sheet or other financial condition of the obligor of such obligation (including keep-well covenants), in any such case if the purpose or intent of such agreement is to provide assurance that such obligation will be paid or discharged, or that the holders of such obligation will be protected against loss in respect thereof.

"Hazardous Materials" shall mean any substance that:

(a) when released to the natural environment is likely to cause, immediately or at some future time, material harm or degradation to the natural environment or any risk to human health and without restricting the generality of the foregoing, includes any pollutant, contaminant, waste or hazardous waste, or any "dangerous goods", "hazardous chemical", "hazardous substance" or "hazardous waste" as may be defined by Applicable Environmental Law for the protection of the natural environment or human health, or (b) exhibits characteristics of flammability, corrosivity, reactivity or toxicity.

"Indebtedness" shall mean, with respect to any Person, without duplication:

(a) all liabilities for borrowed money of such Person (including, for certainty, reimbursement obligations in respect of letters of credit, bankers' acceptances and note purchase facilities, liabilities of such Person evidenced by a bond, note, debenture or similar instrument, and liabilities of such Person in relation to purchase money obligations, deferred purchase price payments, conditional sales or title retention agreements),

(b) all Capitalized Lease Obligations of such Person, and all obligations of such Person under Sale-Leasebacks,

(c) all liabilities of such Person under Production Payment Transactions,

(d) all liabilities secured by a Lien on any property or asset owned or held by such Person, whether or not the liabilities secured thereby shall have been assumed, and

(e) all Guarantees of such Person with respect to liabilities of a type described in the preceding clauses (a) to (d), provided that contingent liabilities thereunder shall be included only to the extent of the lesser of (i) the amount of Indebtedness guaranteed or (ii) the amount to which the maximum exposure of the Person shall have been expressly limited.

"Lien" shall mean any mortgage, pledge, security interest, encumbrance, statutory deemed trust, contractual deposit arrangement, lien (statutory or otherwise) or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement or any Capitalized Lease Obligation) which secures payment or performance of an obligation, including any right of set-off created for the purpose of securing, directly or indirectly, the repayment of Indebtedness.

"Material Adverse Effect" shall mean a material adverse effect on the business, financial condition, operations or property of the Corporation and its Restricted Subsidiaries taken as a whole, or a material adverse effect on the rights of the holders hereunder or under the Notes or on the ability of the Corporation to perform any of its obligations hereunder or under any Note.

"Non-Recourse Debt" means Indebtedness incurred by the Corporation or any Restricted Subsidiary to finance the acquisition or construction of property or assets if the terms and conditions of such Indebtedness provide that:

(a) in enforcing their rights in respect of such Indebtedness the creditors shall have recourse only to, and the obligations of the Corporation or the Restricted Subsidiary shall be performed, satisfied and paid only out of, the acquired or constructed (as the case may be) property or assets or the revenue therefrom which shall have been mortgaged, pledged or otherwise encumbered as security for the payment of such Indebtedness, and

(b) no resort or recourse for such purpose shall be had by such creditors to any other property or assets or revenues of the Corporation or the Restricted Subsidiary and in particular no resort or recourse shall be had, judgment issued or execution or other process levied by such creditors against any of the property or assets of the Corporation or the Restricted Subsidiary as the case may be, other than the acquired or constructed (as the case may be) property or assets or the revenue therefrom which shall have been mortgaged, pledged or otherwise encumbered as security for the payment of such Indebtedness,

provided that if under Applicable Law any creditor in respect of such Indebtedness could ever become entitled to recourse against the Corporation or the Restricted Subsidiary pursuant to any bankruptcy, insolvency, reorganization, moratorium or similar laws of any jurisdiction, or in the event of a breached representation or warranty or fraud, or for any other reason, then such instrument shall contain a further provision to the effect that such creditor's recourse in respect of such Indebtedness shall be and remain in all respects subordinate and junior to all of the Notes and that such creditor shall not be entitled to receive any payment, under any condition, in respect of such Indebtedness, other than the proceeds of such specific property or assets, until the Notes shall have been indefeasibly paid in full.

"Notes" shall have the meaning specified in paragraph 1.

"Officer's Certificate" shall mean a certificate signed in the name of the Corporation by any two of its President, a Vice President or its Treasurer.

"Permitted Encumbrances" shall mean, as at any particular time, any of the following Liens on or in respect of the property or assets of the Corporation or any Restricted Subsidiary:

(a) Liens of any judgments rendered, or claims filed, against the Corporation or any Restricted Subsidiary which the Corporation or Restricted Subsidiary shall be contesting in good faith if and for so long as (i) a stay of enforcement of such judgment or claim (if enforceable by seizure, sale or other remedy against any property), as the case may be, shall, by reason of a pending appeal or otherwise, be in effect and (ii) in respect of all such Liens which are in excess of $10,000,000 in the aggregate, an amount in cash sufficient to pay such judgments or claims shall have been deposited with a court of competent jurisdiction,

(b) Liens incurred or created in the ordinary course of business of the Corporation or any Restricted Subsidiary and in accordance with sound industry practice and incidental to construction or operations which have not at such time been filed pursuant to law or which relate to obligations not due or delinquent,

(c) Liens incurred or created in the ordinary course of business and in accordance with sound industry practice in respect of any of the property and assets of the Corporation or any Restricted Subsidiary as security in favour of any other Person who is conducting the exploration, development or operation of the property to which such rights relate for the Corporation's or Subsidiary's portion of the costs and expenses of such development or operation which have not at such time been filed pursuant to law or which relate to obligations not due or delinquent,

(d) Liens securing assessments under workers' compensation laws, unemployment insurance or similar social security legislation which relate to obligations not due or delinquent, and

(e) Liens on any specific property in favour of a government within or outside Canada or any political subdivision, department, agency or instrumentality thereof to secure the performance by the Corporation or any Restricted Subsidiary of any covenant or obligation to or in favour of or entered into at the request of any such authorities in the ordinary course of the Corporation's or Restricted Subsidiary's business where such security is required pursuant to any statute, order or regulation, and which relate to obligations not due or delinquent.

"Permitted Title Defects" shall mean, as at any particular time, any of the following rights, limitations, reservations, provisos, conditions, exceptions, qualifications, agreements, obligations and interests on or in respect of the undertaking, property or assets, or any part of the undertaking, property or assets, of the Corporation or any Restricted Subsidiary:

(a) easements, rights-of-way, servitudes, and similar rights in land (including rights-of-way and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) granted to or reserved or taken by other Persons, which, individually or in the aggregate, do not materially detract from the use or value of the property subject thereto,

(b) the reservations, limitations, provisos and conditions in any original grants from the Crown of any land or interests therein and statutory exceptions, qualifications and reservations in respect of title,

(c) the rights reserved or vested in any governmental or other authority or Person by the terms of any leases, or by any statutory provisions to terminate any such leases, or to require annual or other periodic payments as a condition of the continuance thereof,

(d) royalties, overriding royalties, net profits and other interests and obligations arising in the ordinary course of business and in accordance with sound industry practice under leases in which the Corporation or Restricted Subsidiaries have an interest,

(e) any agreement, or any interest or right created in favour of any Person thereunder, relating to pooling or unitization affecting the property and arising in the ordinary course of business and in accordance with sound industry practice,

(f) any rights of first refusal, pre-emption or first purchase or requirements of consent to sale or disposition, created in the ordinary course of business, none of which have become exercisable heretofore or as a result of the execution and delivery of this Agreement or will, merely on the passage of time, become exercisable, and

(g) the potential existence of defects in title which are not general in application and which in the aggregate do not materially detract from the value of the petroleum and natural gas lands and rights of the Corporation or any Restricted Subsidiary or any significant part thereof or materially impair the use of any thereof in the operation of their respective businesses, or the cash flow therefrom.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, a limited liability company, an unincorporated organization and a government or any department or agency thereof.

"Priority Debt" shall mean the aggregate, without duplication, of (a) Indebtedness of the Corporation or Restricted Subsidiaries that is secured by any Lien other than Liens expressly permitted by clauses (i) to and including

(viii) of paragraph 6B, plus (b) Indebtedness of the Corporation or Restricted Subsidiaries associated with Production Payment Transactions, plus (c) Funded Debt of Restricted Subsidiaries, plus (d) Attributable Debt in respect of Sale- Leaseback transactions entered into after the date of this Agreement.

"Private Placement Memorandum" means the Private Placement Memorandum dated June 1995 furnished to the Purchasers through Nesbitt Burns Securities Inc. and Toronto Dominion Securities (USA) Inc.

"Production Payment Transactions" shall mean:

(a) the sale (including any forward sale) or other transfer of petroleum or natural gas substances, chemicals, minerals or other products of the Corporation or a Restricted Subsidiary, whether in place or when produced, for a period of time until, or an amount such that, the purchaser will realize a specified amount of money (however determined, including by reference to interest rates or other factors which may not be fixed) or a specified amount of such products, or

(b) any other transaction involving an interest in property of the character commonly referred to as a "production payment",

but excluding, for certainty, any sale or forward sale entered into for the sole purpose of risk management/hedging in respect of production prices in the ordinary course of the Corporation's business.

"Responsible Officer" shall mean the chief executive officer, chief operating officer, chief financial officer, any vice president, or treasurer of the Corporation.

"Required Holders" shall mean the holder or holders of more than 50% of the aggregate principal amount of the Notes from time to time outstanding, exclusive of Notes held by Affiliates.

"Reserve Report" shall mean a consolidated engineering evaluation of and report on all proven producing and proven non-producing petroleum and natural gas rights now or hereafter owned by the Corporation and its Restricted Subsidiaries in form, detail and content satisfactory to the Required Holders and setting out estimates of reserves and cash flows attributable thereto, prepared by an independent engineer or firm of engineers [or qualified in-house engineer], provided that either (a) an evaluation and report that is acceptable to the Corporation's principal bankers or (b) an evaluation and report that accords with regulations or guidelines established by provincial securities regulatory authorities, shall be deemed to be satisfactory to the Required Holders.

"Restricted Subsidiary" shall mean each Subsidiary identified as a Restricted Subsidiary in Schedule D, and any Subsidiary which has substantially all of its assets located and a majority of its business conducted within the member countries (from time to time) of the Organization for Economic Co-operation and Development, and which is hereafter designated as a Restricted Subsidiary by the Chief Executive Officer, the President and Chief Operating Officer, or the Vice President, Finance, of the Corporation (such designation to be effective upon receipt by all holders of Notes of a notice of such designation in the form of Schedule E duly completed and signed by the Corporation), provided that no Subsidiary may be designated as a Restricted Subsidiary if after giving effect thereto a Default or Event of Default would exist, or if the Corporation could not incur at least $1.00 of Indebtedness secured by Liens in compliance with paragraph 6B(ix) and at least $1.00 of additional Indebtedness in compliance with paragraphs 6C and 6D or if any shares in its capital stock are owned by a Subsidiary that is not itself a Restricted Subsidiary.

The Chief Executive Officer, the President and Chief Operating Officer, or the Vice President, Finance, of the Corporation may remove the designation of any Restricted Subsidiary (the Subsidiary to cease being a Restricted Subsidiary upon receipt by all holders of Notes of a notice to that effect signed by the Corporation), if the following conditions are met: (a) the Corporation shall be able to incur at least $1.00 of Indebtedness secured by Liens in compliance with paragraph 6B(ix), and at least $1.00 of additional Indebtedness in compliance with paragraphs 6C and 6D, immediately after such removal, (b) no Default or Event of Default has occurred and is continuing or would exist immediately after such removal, and (c) the Subsidiary being removed does not directly or indirectly own any Funded Debt of, or shares in the capital stock of, any Restricted Subsidiary.

If a Subsidiary previously removed as a Restricted Subsidiary is again designated hereunder, then any deemed creation of Liens or incurrence of Indebtedness under paragraph 6B, 6C or 6D shall be deemed to have been created or incurred on the date of such designation.

"Sale-Leaseback" means an arrangement under which title to any property or an interest therein, is transferred by or on the direction of a person ("X") to another person which leases or otherwise grants the right to use such property, asset or interest to X or nominee of X, whether or not in connection therewith X also acquires a right or is subject to an obligation to acquire the property, asset or interest, and regardless of the accounting treatment of such arrangement.

"Securities Act" shall mean the United States Securities Act of 1933, as amended.

"Subsidiary" shall mean any corporation organized under the laws of Canada, or any province of Canada, or any state of the United States of America, over 50% of the total combined voting power of all classes of Voting Stock of which shall, at the time as of which any determination is being made, be owned by the Corporation either directly or through Subsidiaries, provided that in the case of a "wholly-owned Subsidiary", 100% of the issued and outstanding shares in the capital of such Subsidiary shall, at the time as of which any determination is being made, be

owned by the Corporation either directly or through wholly- owned Subsidiaries.

"Total Capitalization" shall mean Consolidated Net Worth plus Consolidated Funded Debt.

"Transferee" shall mean any direct or indirect transferee of all or any part of any Note purchased by any Purchaser under this Agreement.

"Voting Stock" shall mean, with respect to any corporation, any shares of stock of such corporation whose holders are entitled under ordinary circumstances to vote for the election of directors of such corporation (irrespective of whether at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

"U.S. Dollars" or "U.S. $" means lawful currency of the United States of America.

10C. Accounting Principles, Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all financial statements and certificates and reports as to financial matters required to be furnished hereunder shall be prepared, in accordance with GAAP, applied on a basis consistent with the most recent audited consolidated financial statements of the Corporation and its Subsidiaries delivered pursuant to clause (ii) of paragraph 5A or, if no such statements have been so delivered, the most recent audited financial statements referred to in clause (a) of paragraph 8B.

10D. Changes in GAAP. If, due to a change in GAAP after the date hereof, the Corporation or the Required Holders determine that an amount required to be calculated for purposes of a financial covenant in paragraphs 6A, 6B(ix), 6C, 6D and 6E would be materially different if such amount were calculated in accordance with GAAP in effect on the date hereof, and the parties hereto cannot agree on equitable adjustments (if any) that may be required to deal therewith, then either the Corporation or the Required Holders may give written notice to the other party that it desires to revert, for such purposes, to GAAP on the date hereof. Effective as of the first day of the fiscal quarter in which such change in GAAP became effective, the term "GAAP" shall thereafter be deemed to mean GAAP in effect on the date hereof, together with changes in GAAP that are not objected to for these purposes after the date hereof, for the purposes of such financial covenants. Within 30 days of such notice being given, the Corporation shall deliver to each holder of Notes:

(a) revised financial statements prepared utilizing GAAP in effect on the date hereof, together with changes in GAAP that are not objected to for these purposes after the date hereof, and

(b) a revised Officer's Certificate pursuant to paragraph 5A utilizing, for the purposes of such financial covenants, such revised financial statements.

No notice shall be delivered under this paragraph except within one year of the date that the objectionable change in GAAP was made.

PARAGRAPH 11. MISCELLANEOUS.

11A. Note Payments. So long as any Purchaser shall hold any Note, the Corporation will make payments of principal of, interest on and any Yield- Maintenance Amount payable with respect to such Note in compliance with the terms of the Note and this Agreement, such payments to be made by wire transfer of immediately available funds for credit (not later than 10:00 a.m., New York City time, on the date due) to such Purchaser's account or accounts as specified in the Purchaser Schedule attached hereto, or such other account or accounts in the United States as such Purchaser may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. Each Purchaser agrees that, before disposing of any Note, such Purchaser will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Corporation agrees to afford the benefits of this paragraph 11A to any transferee which shall have made the same agreement as each Purchaser has made in this paragraph 11A.

11B. Expenses. The Corporation agrees, whether or not the transactions contemplated hereby shall be consummated, to pay, and save each Purchaser and any holder of a Note harmless against liability for the payment of, all out-of- pocket expenses arising in connection with such transactions, including (i) all document production and duplication charges and the reasonable fees and expenses of special counsel (and, if reasonably required, local or other counsel) engaged by the Purchasers or such holders of a Note in connection with this Agreement, the transactions contemplated hereby (including the reasonable fees and expenses of Macleod Dixon) and any subsequent proposed modification of, or proposed consent or waiver under, this Agreement, whether or not such proposed modification shall be effected or proposed consent or waiver granted, (ii) the fees for obtaining a private placement number for the Notes from Standard & Poors CUSIP Service Bureau, and (iii) the costs and expenses, including attorneys' fees and solicitors' fees (on a solicitor and his own client basis), incurred by such Purchaser or such holder of a Note in enforcing (or determining whether or how to enforce) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand of any Governmental/Judicial Body issued in connection with this Agreement or the transactions contemplated hereby or by reason of such Purchaser's or such holder's having acquired any Note, including costs and expenses incurred in any bankruptcy case. The obligations of the Corporation under this paragraph 11B shall survive the transfer of any Note or portion thereof or interest therein by any Purchaser or any holder of a Note and the payment of any Note provided that the Corporation shall not be liable for legal fees of a Purchaser or Transferee in connection with the transfer of a Note or any portion thereof.

11C. Consent to Amendments. This Agreement may be amended, and the Corporation may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Corporation shall obtain the written consent to such amendment, action or

omission to act, of the holders of not less than 66 2/3% of the aggregate principal outstanding on the Notes (exclusive of Notes held by Affiliates) except that, without the written consent of the holder or holders of all Notes at the time outstanding, no amendment to this Agreement shall change the maturity of any Note, or change the principal of, or the time of payment of interest on or any Yield- Maintenance Amount payable with respect to any Note, or affect the time, amount or allocation of any prepayments, or reduce the rate on the Notes, or change the proportion of the principal amount of the Notes required with respect to any consent, amendment, waiver or declaration. The Corporation shall provide to each holder of a Note sufficient information in respect of the amendment or consent requested to allow it to make a fully informed decision thereon, and shall also, if requested by the Required Holders, certify that no Default or Event of Default has occurred or is then continuing or would occur if such amendment is made or consent granted. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Notes issued thereafter may bear a notation referring to any such consent. No course of dealing between the Corporation and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein and in the Notes, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

11D. Form, Registration, Transfer and Exchange of Notes; Lost Notes.

(a) The Notes are issuable as registered notes without coupons in amounts of at least U.S. $1,000,000, except as may be necessary to reflect any principal amount not evenly divisible by U.S. $1,000,000. Except as repaid or prepaid in accordance herewith, no holder of a Note shall hold less than an aggregate principal amount of U.S. $1,000,000 of Notes.

(b) The Corporation shall keep at its principal office a register in which the Corporation shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the principal office of the Corporation, the Corporation shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount, registered in the name of such transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the principal office of the Corporation. Whenever any Notes are so surrendered for exchange, the Corporation shall, at its ex- pense, execute and deliver the Notes which the holder making the exchange is entitled to receive. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or such holder's attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange.

(c) Upon receipt of written notice from the holder of any Note of the loss, theft, destruction or mutilation of such Note and, in the case of any such loss, theft or destruction, upon receipt of such holder's unsecured indemnity agreement, or in the case of any such mutilation upon surrender and cancellation of such Note, the Corporation will make and deliver a new Note, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note.

11E. Persons Deemed Owners; Participations. Prior to due presentment for registration of transfer, the Corporation may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Corporation shall not be affected by notice to the contrary. Subject to the preceding sentence, the holder of any Note may from time to time grant participations in such Note to any Person on such terms and conditions as may be determined by such holder in its sole and absolute discretion, provided that any such participation shall be in a principal amount of at least U.S. $250,000.

11F. Survival of Representations and Warranties; Entire Agreement. All representations and warranties contained herein or made in writing by or on behalf of the Corporation in connection herewith shall survive the execution and delivery of this Agreement and the Notes, the transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any Transferee, regardless of any investigation made at any time by or on behalf of any Purchaser. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between the Purchasers and the Corporation and supersede all prior agreements and understandings relating to the subject matter hereof.

11G. Successors and Assigns. All covenants and other agreements in this Agreement contained by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto (including any Transferee) whether so expressed or not.

11H. Disclosure to Other Persons; Confidentiality. Except as provided in this paragraph 11H, each holder and each Person who purchases a participation in a Note or any part thereof agrees that, prior to the occurrence of a Default, it will, in accordance with its usual practices, hold in confidence and not disclose the Confidential Information. The Corporation acknowledges that the holder of any Note may deliver copies of any financial statements and other documents delivered to such holder, and disclose any other information disclosed to such holder, by or on behalf of the Corporation or any Subsidiary in connection with or pursuant to this Agreement to (i) such holder's directors, officers, employees, agents and professional consultants (to the extent such disclosure relates to the administration of the investment represented by the Notes), (ii) any other holder of any Note, (iii) any Person to which such holder offers to sell such Note or any part thereof, and any Person to which such holder sells or offers to sell a participation in all or any part of such Note (if such Person has agreed in writing prior to its receipt of s uch Confidential Information to be bound by this paragraph), (iv) any Person from which such holder offers to purchase any security of the Corporation (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by this paragraph), (v) any federal or state

regulatory authority having jurisdiction over such holder, (vi) the National Association of Insurance Commissioners (including the Securities Valuation Office) or any similar organization, (vii) rating agencies that require access to information about the Purchaser's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (a) in compliance with any law, rule, regulation or order applicable to such holder, (b) in response to any subpoena or other legal process or informal investigative demand of a Governmental/Judicial Body or (c) in connection with any litigation to which such holder is a party.

11I. Notices. All notices or other communications provided for hereunder (except for the facsimile notice required by paragraph 4C) shall be in writing and sent by nationwide overnight delivery service (with charges prepaid) and
(i) if to any Purchaser, addressed to such Purchaser at the address specified for such communications in the Purchaser Schedule attached hereto, or at such other address as such Purchaser shall have specified to the Corporation in writing, (ii) if to any other holder of any Note, addressed to such other holder at such address as such other holder shall have specified to the Corporation in writing or, if any such other holder shall not have so specified an address to the Corporation, then addressed to such other holder in care of the last holder of such Note which shall have so specified an address to the Corporation, and (iii) if to the Corporation, addressed to it at Suite 3000, 400 Third Avenue S.W., Calgary, Alberta, T2P 4H2 Attention: Vice President, Finance, or at such other address as the Corporation shall have specified to the holder of each Note in writing; provided that any such communication to the Corporation may also, at the option of the holder of any Note, be delivered by any other means either to the Corporation at its address specified above or to any officer of the Corporation.

11J. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day. If the date for any payment is extended to the next succeeding Business Day by reason of the preceding sentence, the period of such extension shall be included in the computation of the interest payable on such Business Day, provided that this shall not result in duplication of interest payable.

11K. Satisfaction Requirement. If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to any Purchaser or to the Required Holders, the determination of such satisfaction shall be made by such Purchaser or the Required Holders, as the case may be, in the sole and exclusive judgment (exercised in good faith) of the Person or Persons making such determination.

11L. Governing Law and Submission to Jurisdiction.

(a) THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE PROVINCE OF ALBERTA AND THE LAW OF CANADA APPLICABLE THEREIN.

(b) The Corporation agrees that the courts of Alberta shall have jurisdiction to hear and determine any suit, action or proceeding and to settle any disputes which may arise out of or in connection with the aforesaid documents and it irrevocably submits to the non-exclusive jurisdiction of such courts, without prejudice to the rights of any holder to take proceedings in any other jurisdictions, whether concurrently or not.

(c) The Corporation agrees that final judgment in any such suit, action or proceeding brought in such courts shall be conclusive and binding upon it and may be enforced against it in the courts of Canada (or any other courts to the jurisdiction of which it or its property is subject) by a suit upon such judgment, provided that it does not waive any right to appeal any such judgment, to seek any stay or otherwise to seek reconsideration or review of any such judgment.

11M. Amendments. This Agreement may not be changed orally, but (subject to the provisions of paragraph 11C) only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

11N. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11O. Descriptive Headings. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11P. Payment Free from Equities. The Notes shall be paid by the Corporation, and may be assigned by each holder, absolutely free and clear of all equities, rights of set-off, claims, defenses, counterclaims, rights or other matters whatsoever (collectively, "Claims"), whether existing between a holder and the Corporation and/or any third parties or intermediate holders, and whether now existing or hereafter arising (before or after notice of any assignment to the Corporation) which could impair or adversely affect in any way the entitlement of any present or future holder to enforce the Notes strictly in accordance with the terms and provisions hereof and of the Note, and the Corporation hereby agrees not to assert, as against any assignee or any present or future holder, any Claims arising out of this Agreement or any Note (other than the defense that obligations hereunder have been performed or observed by the Corporation). For greater certainty, but without limiting the generality of the foregoing, the foregoing shall apply:

(a) notwithstanding that such Claim arises due to any act or omission of any holder or any intermediate holder or any other party;

(b) regardless of how closely or inseparably connected such Claim is to the obligations or whether it flows out of dealings or transactions related thereto; and

(c) notwithstanding actual or constructive notice to any assignee or any present or future holder, or to any intermediate holder of a Note or any other third party of such Claim, regardless of when received or deemed to be received.

The foregoing shall be without prejudice to the right of the Corporation to subsequently assert any Claim as against the assignor.

11Q. Note Repayment Net of Withholding Imposts. (a) All payments by the Corporation under this Agreement or any Note, whether in respect of principal, Yield-Maintenance Amount (if any), interest, interest on overdue interest, fees or any other payment obligations, shall be made in full without any deduction or withholding (whether in respect of or on account of taxes, charges or otherwise whatsoever) unless the Corporation is prohibited by Applicable Law from doing so, in which event the Corporation shall:

(i) ensure that the deduction or withholding does not exceed the minimum amount legally required;

(ii) forthwith pay to the holder of each Note such additional amount so that the net amount received by the holder will equal the full amount which would have been received by it had no such deduction or withholding been made;

(iii) pay to the relevant taxation or other authorities within the period for payment permitted by Applicable Law the full minimum amount of the deduction or withholding (including the full amount of any deduction or withholding from any additional amount paid pursuant to this paragraph); and

(iv) furnish to the holder of each Note promptly, as soon as available, an official receipt of the relevant taxation or other authorities involved for all amounts deducted or withheld as aforesaid.

(b) If as a result of any payment by the Corporation under this Agreement or any Note, whether in respect of principal, Yield-Maintenance Amount (if any), interest, interest on overdue interest, fees or other payment obligations, any holder is required to pay tax under Part XIII of the Income Tax Act (Canada) or any successor provisions (for instance, in accordance with Section 803 of the Regulations to the Income Tax Act), then the Corporation will, upon demand by the holder of any Note, and whether or not such taxes are correctly or legally asserted, indemnify the holder of each Note for the payment of any such taxes, together with any interest, penalties and expenses in connection therewith. All such amounts shall be payable by the Corporation on demand and shall bear interest at 7.76% per annum calculated from the date incurred by the holder to the date paid by the Corporation.

(c) If, as a result of a change in Applicable Laws after the date hereof, the Corporation is required to make payments to all holders of Notes under paragraph (a)(ii) above or make any indemnity payment to all holders of Notes under paragraph (b) above, then, unless all holders of Notes waive future obligations under this paragraph 11Q (without prejudice to accrued obligations), the Corporation shall be entitled to prepay the Notes in whole at 100% of the principal thereof plus interest thereon to the prepayment date, plus all accrued but unpaid obligations under this paragraph 11Q to and including the date of prepayment, subject to the notice requirements in paragraph 4C hereof, provided that the Corporation's right to repay under this paragraph shall terminate if the Corporation has not given notice of optional prepayment under paragraph 4C(a) within 30 days after the Corporation is first called upon by any holder to honour its payment or indemnity obligations in paragraph (a)(ii) or (b) above, respectively.

11R. Interest.

(a) In respect of any overdue amounts hereunder or under the Notes where no provision is made herein or therein for payment of interest thereon, the Corporation shall pay interest on such overdue amounts on demand, calculated from the date such unpaid amount is due until such unpaid amount is paid in full at 7.76% per annum.

(b) In no event shall any interest or fee to be paid hereunder or under a Note exceed the maximum rate permitted by Applicable Law. In the event any such interest rate or fee exceeds such maximum rate, such rate shall be adjusted downward to the highest rate (expressed as a percentage per annum) or fee that the parties could validly have agreed to by contract on the date hereof under Applicable Law. It is further agreed that any excess actually received by a holder shall be credited against the principal of the Notes (or, if the principal shall have been or would thereby be paid in full, the remaining amount shall be credited to the Corporation).

(c) All interest (including interest on overdue interest) payable by the Corporation hereunder and under the Notes shall accrue from day to day, computed as provided herein, and shall be payable after as well as before maturity, demand, default and judgment.

11S. Counterparts. This Agreement may be executed in any number of counterparts, and by facsimile, all of which together shall constitute one instrument.

11T. Severalty of Obligations. The sales of Notes to the Purchasers are to be several sales, and the obligations of the Purchasers under this Agreement are several obligations. Except as provided in paragraph 3F, no failure by any Purchaser to perform its obligations under this Agreement shall relieve any other Purchaser or the Corporation of any of its obligations hereunder, and no Purchaser shall be responsible for the obligations of, or any action taken or omitted by, any other Purchaser hereunder.

11U. Judgment Currency.

(a) If for the purposes of obtaining judgment in any court it becomes necessary to convert any amount due hereunder or under a Note in one currency into another currency, then the conversion shall be made at the Rate of Exchange prevailing on the last Business Day before the day on which the judgment is given. "Rate of Exchange" means the rate at which the holder is able on the relevant date to purchase the currency being converted for such other currency.

(b) In the event that there is a change in the Rate of Exchange prevailing between the Business Day before the day on which the judgment is given and the date of payment, the Corporation will pay such additional amount (if any) or, as the case may be, the holder will refund such amount (if any) as may be necessary to ensure that the amount paid on such date is the amount in such other currency which, when converted at the Rate of Exchange prevailing on the date of payment, is the amount then due under this Agreement or any Note in the currency which was converted.

(c) Any amount due from the Corporation or any holder pursuant to this Section will be due as a separate debt and shall not be affected by judgment being obtained for any other sum due under or in respect of this Agreement or any Note.

(d) The Corporation shall indemnify each holder against payment by the holder of any premiums and costs of exchange incurred in connection with the purchase of, or conversion into, the relevant currency.

11V. Currency; Time; "Including"; Interest Equivalency; Currency Conversion.

(a) Unless otherwise stated, references in this Agreement to dollar amounts or $ shall be deemed to be references to Canadian Dollars.

(b) Unless otherwise stated, references to time shall mean local time in Calgary, Alberta.

(c) The word "including" shall not be construed to limit or restrict the generality of the matter that precedes it.

(d) Interest on the Notes shall be computed on the basis of a 360-day year of 12 30-day months. Solely for purposes of the Interest Act (Canada), the yearly rate of interest to which interest calculated for a period of less than one year on the basis of a year of 360 days consisting of 12 30-day periods is equivalent is such rate of interest multiplied by a fraction of which (i) the numerator is the product of (A) the actual number of days in the year commencing on the first day of such period, multiplied by (B) the sum of (y) the product of 30 multiplied by the number of complete months elapsed in such period and (z) the actual number of days elapsed in any incomplete month in such period; and (ii) the denominator is the product of (a) 360 multiplied by
(b) the actual number of days in such period.

(e) The theory of "deemed reinvestment" shall not apply to the computation of interest and no allowance, reduction or deduction shall be made for the deemed reinvestment of interest in respect of any payments. Calculation of interest shall be made using the nominal rate method, and not the effective rate method, of calculation.

(f) A reference in this Agreement to the equivalent of one currency in another currency shall mean the equivalent determined using the noon spot rate of exchange for conversion announced by the Bank of Canada on the day for conversion.

(g) For certainty, the words "property" and "assets" are used interchangeably herein, and include both real and personal property.

(h) To the extent permitted by law, Section 6 of the Judgment Interest Act (Alberta) is hereby waived and shall not apply to this Agreement or the Notes.

11W. Further Assurances.

(a) Each party shall promptly cure any defect by it in the execution and delivery of this Agreement or the Notes.

(b) The Corporation, at its expense, shall promptly execute and deliver to any holder of a Note, upon request by such holder in writing, all such other and further documents, agreements, opinions, certificates and instruments in order to give effect to the covenants and agreements of the Corporation in this Agreement or the Notes, and shall make any recording, file any notice or obtain any consent in connection therewith, all as may be reasonably necessary or appropriate in connection therewith.

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterparts of this letter and return the same to the Corporation, whereupon this letter shall become a binding agreement among the Corporation and the Purchasers.

Very truly yours,

MORRISON PETROLEUMS LTD.

By: _____

Chairman and
Chief Executive Officer

By: _____
Treasurer

The foregoing Agreement is hereby accepted as of the date first above written.

CONNECTICUT GENERAL LIFE INSURANCE COMPANY
By: CIGNA Investments, Inc.

By:
Title:

PRINCIPAL MUTUAL LIFE INSURANCE COMPANY

By:
Title:

By:
Title:

CONNECTICUT GENERAL LIFE COMPANY, on behalf of one or more separate accounts
By: CIGNA Investments, Inc.

By:
Title:

CONNECTICUT MUTUAL LIFE INSURANCE COMPANY

By:
Title:

By:
Title:

C M LIFE INSURANCE COMPANY

By:
Title:

By:
Title:

CIGNA PROPERTY AND CASUALTY INSURANCE COMPANY
By: CIGNA Investments, Inc.

By:
Title:

By:
Title:

SECURITY LIFE OF DENVER INSURANCE COMPANY

By:
Title:

By:

Title:

LIFE INSURANCE COMPANY OF NORTH AMERICA
By: CIGNA Investments, Inc.

By:
Title:

[Execution Copy] Exhibit 10.4

NORTHSTAR ENERGY CORPORATION

U.S. $150,000,000

6.79% SENIOR NOTES DUE 2009

NOTE AGREEMENT

Dated as of March 2, 1998

This Agreement contains confidentiality obligations in paragraph 11X.

TABLE OF CONTENTS

(Not Part of Agreement)

PURCHASER SCHEDULE

NORTHSTAR ENERGY CORPORATION
3000, 400 - 3rd Avenue S.W.
Calgary, Alberta
T2P 4H2

As of March 2, 1998

To: The Prudential Insurance Company of America c/o Prudential Capital Group
Gateway Center Four
100 Mulberry Street
Newark, NJ 07102-4069

U.S. $150,000,000 6.79% Senior Notes due March 2, 2009

Ladies and Gentlemen:

The undersigned, Northstar Energy Corporation (the "Corporation"), hereby agrees with you as follows:

PARAGRAPH 1. AUTHORIZATION OF ISSUE OF NOTES.

1. Authorization of Issue of Notes. The Corporation will authorize the issue of its senior promissory notes (the "Notes") in the aggregate principal amount of U.S. $150,000,000; to be dated the date of issue thereof; to mature March 2, 2009; to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall become due and payable at the rate of 6.79% per annum and on overdue payments at the rate specified therein; and to be substantially in the form of Schedule A attached hereto. The term "Notes" as used herein shall include each Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. Capitalized terms used herein have the meanings specified in paragraph 10.

PARAGRAPH 2. PURCHASE AND SALE OF NOTES.

2. Purchase And Sale Of Notes. The Corporation hereby agrees to sell to you and, subject to the terms and conditions herein set forth, you agree to purchase from the Corporation Notes in the aggregate principal amount of U.S. $150,000,000 at 100% of such aggregate principal amount. The Corporation will deliver to you, at the offices of Macleod Dixon at 3700, 400 - 3rd Avenue S.W., Calgary, Alberta, T2P 4H2, one or more Notes registered in your name, evidencing the aggregate principal amount of Notes to be purchased by you and in the denomination or denominations specified in the Purchaser Schedule attached hereto against payment of the purchase price thereof by transfer of immediately available funds for credit to Bank of America NT&SA, One World Trade Center, New York, New York, ABA #026-009-593 for credit to Canadian Imperial Bank of Commerce, Toronto, Ontario, account # 6550-8-26157, for further credit to CIBC Place, 309 - 8th Avenue S.W., Calgary, Alberta, Transit # 00009, for credit to Northstar Energy Corporation account # 03-38710 on the date of the closing, which shall be March 2, 1998 or any other date on or before March 27, 1998 upon which the Corporation and you may mutually agree (the "Closing" or the "Date of Closing").

If at the Closing the Corporation shall fail to tender such Notes to you as provided above in this paragraph 2, or any of the conditions specified in paragraph 3 shall not have been fulfilled to your satisfaction, you shall, at your election, be relieved of all further obligations under this Agreement, without thereby waiving any rights you may have by reason of such failure or such nonfulfillment.

PARAGRAPH 3. CONDITIONS PRECEDENT.

3. Conditions Precedent. Your obligation to purchase and pay for the Notes to be purchased by you is subject to the satisfaction, on or before the Date of Closing, of the following conditions:

3A. Certain Documents. You shall have received the following, each dated the Date of Closing:

(i) The Notes to be purchased by you duly executed by the Corporation.

(ii) A duly executed Material Subsidiary Guarantee from each Material Subsidiary except the Mountain Companies.

(iii) A certified copy of the resolutions of the Board of Directors of the Corporation approving this Agreement and the Notes and authorizing the performance by the Corporation of all of its rights and obligations under this Agreement from time to time including, without limitation, the issuance of the Notes hereunder and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(iv) A certified copy of the articles and by-laws of the Corporation.

(v) A certificate of the Secretary or an Assistant Secretary of the Corporation certifying the names and true signatures of the officers of the

Corporation authorized to sign this Agreement, the Notes and the other documents to be delivered by it hereunder.

(vi) A certified copy of the resolutions of the Board of Directors of each Material Subsidiary or of the partners of Northstar Energy Partnership and David Limited Partnership, and in the case any Material Subsidiary which is a corporation subject to a unanimous shareholders agreement or declaration which removes the powers of the directors to the shareholders, a certified copy of the resolutions of such shareholders of each such Material Subsidiary, in each case, approving its Material Subsidiary Guarantee and authorizing the performance by such Material Subsidiary of all of its rights and obligations under its Material Subsidiary Guarantee from time to time including, without limitation, the delivery of all documents evidencing other necessary corporate or partnership action and governmental approvals, if any, with respect to the Loan Documents.

(vii) A certified copy of the articles, by-laws and any unanimous shareholders agreement or declaration of each Material Subsidiary that is a corporation, and the partnership agreement, as amended, for each of Northstar Energy Partnership and David Limited Partnership.

(viii) A certificate of the Secretary or an Assistant Secretary (or Managing Partner in the case of Northstar Energy Partnership and David Limited Partnership) of each Material Subsidiary certifying the names and true signatures of the officers or persons for each Material Subsidiary authorized to sign its Material Subsidiary Guarantee, and the other documents to be delivered by it hereunder.

(ix) A certificate of the Corporation confirming that the Consolidated Tangible Assets of the Corporation and its Material Subsidiaries are equal to or greater than 95% of the Consolidated Tangible Assets of the Corporation and its Subsidiaries as of December 31, 1997.

(x) A certified copy of each of the Morrison Note Agreement, the CIBC Credit Agreements, all guarantees issued by Material Subsidiaries and each of the documents evidencing the West Windsor Power Indebtedness (including the agreements listed in the definition thereof).

(xi) An Officer's Certificate of the Corporation confirming that the existing Liens publicly registered against the Corporation and its Material Subsidiaries, including any referred to in Part A of Schedule C, are permitted hereunder, and that the litigation to which the Corporation and its Material Subsidiaries are presently subject, individually or in the aggregate, is not reasonably expected to have a Material Adverse Effect.

(xii) A favourable opinion of Bennett Jones Verchere, counsel to the Corporation and each Material Subsidiary, substantially in the form of Schedule B attached hereto and as to such other matters as you may reasonably request.

(xiii) A favourable opinion of Paul, Weiss, Rifkind, Wharton & Garrison, United States counsel to the Corporation, upon which you and your Transferees may rely, to the effect that (A) it is not necessary in connection with the offering, issuance, sale and delivery of the Notes under the circumstances contemplated by this Agreement to register the Notes under the Securities Act or to qualify an indenture in respect of the Notes under the United States Trust Indenture Act of 1939, as amended, (B) the extension, arranging and obtaining of the credit represented by the Notes do not result in any violation of Regulations G or X of the Board of Governors of the United States Federal Reserve System and (C) the Corporation is not an investment company or a Person directly or indirectly controlled by or acting on behalf of an investment company, within the meaning of the United States Investment Company Act of 1940, as amended.

(xiv) A certified copy of the register of Notes maintained by the Corporation pursuant to paragraph 11D.

(xv) Certificates of status/compliance for the Corporation and each Material Subsidiary issued by the corporate registries for its jurisdiction of incorporation and each jurisdiction in which the Corporation or such Material Subsidiary owns material property or carries on a material business and, for the purposes of this clause (xv) "material" shall mean material in relation to the properties or businesses of the Corporation and its Subsidiaries taken as a whole; in the case of Northstar Energy Partnership and David Limited Partnership, evidence of registration as a partnership in such jurisdictions.

3B. Opinions of Purchaser's Special Counsel. You shall have received from Macleod Dixon, who are acting as special counsel for you in connection with this transaction, favourable opinions satisfactory to you as to such matters incident to the matters herein contemplated as you may reasonably request.

3C. Representations and Warranties; No Default. The representations and warranties contained in paragraph 8 shall be true on and as of the Date of Closing; there shall exist on the Date of Closing no Event of Default or Default; and the Corporation shall have delivered to you an Officer's Certificate, dated the Date of Closing, to both such effects.

3D. Purchase Permitted By Applicable Laws. The offer by the Corporation of, and the purchase of and payment for, the Notes to be purchased by you on the Date of Closing on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Corporation) shall not violate any Applicable Law (including Section 5 of the Securities Act or Regulation G or X of the Board of Governors of the United States Federal Reserve System) and shall not subject you to any tax, penalty or liability under or pursuant to any Applicable Law and you shall have received such certificates or other evidence with respect to factual matters as you may request to establish compliance with this condition.

3E. Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to you, and you shall have received all such counterpart originals or certified or other copies of such documents as you may reasonably request.

3F. Private Placement Number. A private placement number issued by Standard & Poor's CUSIP Services Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

3G. Structuring Fee. The Corporation shall have paid to you a structuring fee in the amount of U.S. $185,000 by wire transfer of immediately available funds to The Bank of New York, New York, New York, ABA # 021-000-018, for credit to your account, Account No. 890-0304-391.

PARAGRAPH 4. PREPAYMENTS.

4. Prepayments. The Notes shall be subject to prepayment only with respect to the required prepayments specified in paragraph 4A and the optional prepayments permitted by paragraph 4B.

4A. Required Prepayments. Until the Notes shall be paid in full, the Corporation shall apply to the prepayment of the Notes, without Yield-Maintenance Amount, the sum of U.S. $50,000,000 on March 2, 2007 and March 3, 2008, and such principal amounts of the Notes, together with interest thereon to the prepayment dates, shall become due on such prepayment dates; provided that, upon any partial prepayment of the Notes pursuant to paragraph 4B or purchase of the Notes pursuant to paragraph 4E, the principal amount of each required prepayment of the Notes becoming due under this paragraph 4A on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase. The remaining outstanding principal amount of the Notes, together with interest accrued thereon, shall become due on the maturity date of the Notes, being March 2, 2009.

4B. Optional Prepayment With Yield-Maintenance Amount.

(a) The Notes shall be subject to prepayment, in whole at any time or from time to time in part (in multiples of U.S. $5,000,000), at the option of the Corporation, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the Yield-Maintenance Amount, if any, with respect to each Note. Any partial prepayment of the Notes pursuant to this paragraph 4B shall be applied in satisfaction of remaining scheduled payments of principal on a pro rata basis.

(b) If the Corporation is required to make payments to all Holders under paragraph 11Q(a) or make any indemnity payment to all Holders under paragraph 11Q(b), then the Corporation shall be entitled to prepay the Notes in whole at 100% of the principal amount so prepaid plus interest thereon to the prepayment date, plus all accrued but unpaid obligations under paragraph 11Q to and including the date of prepayment, subject to the notice requirements in paragraph 4C, plus the Yield-Maintenance Amount, if any, with respect to each Note, provided that:

(i) the Corporation's right to prepay under this clause (b) shall terminate if the Corporation has not given notice of optional prepayment under paragraph 4C(a) on or before the later of (A) 90 days after the date that the Corporation is first called upon by any Holder to honour its payment or indemnity obligations under paragraph 11Q(a) or (b), respectively, or (B) 30 days after the date that any legislation requiring the Corporation to make any deduction or withholding under paragraph 11Q(a), or requiring any Holder to pay tax under Part XIII of the Income Tax Act (Canada) as contemplated in paragraph 11Q(b), comes into force; and

(ii) the Corporation shall not be entitled to prepay under this clause (b) any Notes in respect of which the Holder thereof has waived in writing the future obligations of the Corporation under paragraph 11Q (without prejudice to accrued obligations thereunder).

4C. Notice of Optional Prepayment.

(a) The Corporation shall give each Holder irrevocable written notice of any prepayment pursuant to paragraph 4B not less than 15 nor more than 30 days prior to the prepayment date, specifying (i) such prepayment date (which shall be a Business Day), (ii) the total principal amount of the Notes, and of the Notes held by such Holder, to be prepaid on such date, and (iii) stating that such prepayment is to be made pursuant to paragraph 4B. Notice of prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the Yield- Maintenance Amount, if any, with respect thereto, shall become due and payable on such prepayment date.

(b) The Corporation shall, concurrently with giving the notice under paragraph 4C(a), give notice by facsimile of the principal amount of Notes to be prepaid and the prepayment date to each Holder which shall have designated a facsimile number in the Purchaser Schedule attached hereto or by notice in writing to the Corporation.

(c) The Corporation shall, at least two Business Days prior to the prepayment date, give each Holder facsimile notice (followed by overnight written notice) setting forth the estimated Yield-Maintenance Amount (for the purposes only of such estimate, the yields referred to in the definition of "Reinvestment Yield" shall be those reported three Business Days preceding the Settlement Date instead of the yields on the Business Day next preceding the Settlement Date) payable on such prepayment date together with its calculations thereof in reasonable detail, and further setting forth the accrued interest payable on such prepayment date.

(d) The Corporation shall, on the Business Day prior to the prepayment date, give notice by facsimile (followed by overnight written notice) of the actual Yield-Maintenance Amount (together with its calcula- tions thereof in reasonable detail), principal and interest that the Corporation will be paying on the prepayment date to each Holder.

4D. Partial Payments Pro Rata. Upon any partial prepayment of the Notes pursuant to paragraph 4A or 4B, the principal amount so prepaid shall be allocated to all Notes at the time outstanding (including, for the purpose of this paragraph 4D only, all Notes prepaid or otherwise retired or purchased or otherwise acquired by the Corporation or any of its Subsidiaries or Affiliates other than by prepayment pursuant to paragraph 4A or 4B), in proportion to the respective outstanding principal amounts thereof.

4E. Retirement of Notes. The Corporation shall not, and shall not permit any of its Subsidiaries or Affiliates to, prepay or otherwise retire, in whole or in part, prior to their stated final maturity (other than by prepay- ment pursuant to paragraph 4A or 4B or upon acceleration of such final maturity pursuant to paragraph 7A), or purchase or otherwise acquire, directly or indirectly, Notes held by any Holder unless the Corporation or such Subsidiary or Affiliate shall have offered to prepay or otherwise retire or purchase or otherwise acquire, as the case may be, the same proportion of the aggregate principal amount of Notes held by each other Holder at the time outstanding upon the same terms and conditions. Any Notes so prepaid or otherwise retired or purchased or otherwise acquired by the Corporation or any of its Subsidiaries or Affiliates shall not be deemed to be outstanding for any purpose under this Agreement, except as provided in paragraph 4D.

PARAGRAPH 5. AFFIRMATIVE COVENANTS.

5. Affirmative Covenants. So long as any Note shall remain unpaid, the Corporation covenants that:

5A(1). Financial Statements. The Corporation will deliver to each Holder in duplicate (unless, in respect of any Holder, such Holder designates a fewer number of copies in the Purchaser Schedule attached hereto or in a written notice from such Holder):

(i) quarterly statements: as soon as practicable and in any event within 60 days after the end of each Fiscal Quarter of the Corporation (other than the last Fiscal Quarter) in each Fiscal Year, a consolidated statement of earnings and retained earnings and a consolidated statement of cash flow of the Corporation and its Subsidiaries for such Fiscal Quarter, and for the period from the beginning of the current Fiscal Year to the end of such Fiscal Quarter, and a consolidated balance sheet of the Corporation and its Subsidiaries as at the end of such Fiscal Quarter, setting forth in each case in comparative form figures for the correspond- ing quarter and period in the preceding Fiscal Year, all in reasonable detail and satisfactory in form to the Required Holders and in each case certified by an authorized financial officer of the Corporation, subject to changes resulting from year-end adjustments (provided that delivery pursuant to clause (iii) below of copies of the quarterly consolidated balance sheet and statements of earnings, retained earnings and cash flow included in the quarterly reports delivered to its public shareholders and filed with provincial securities regulatory authorities shall be deemed to satisfy the foregoing requirements);

(ii) annual statements: as soon as practicable and in any event within 120 days after the end of each Fiscal Year of the Corporation, a consolidated statement of earnings and retained earnings and a consolidated statement of cash flow of the Corporation and its Subsidiaries for such Fiscal Year, and a consolidated balance sheet of the Corporation and its Subsidiaries as at the end of such Fiscal Year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audited consolidated financial statements and reported on by independent public accountants of recognized national or international standing selected by the Corporation whose report shall be without limitation as to the scope of the audit and satisfactory in substance to the Required Holders, all in reasonable detail and satisfactory in form to the Required Holders (provided that delivery pursuant to clause (iii) below of copies of the audited annual consolidated balance sheet and statements of earnings, retained earnings and cash flow included in the annual reports delivered to its public shareholders and filed with provincial securities regulatory authorities shall be deemed to satisfy the foregoing requirements);

(iii) reports to shareholders: promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as it shall send to its public shareholders and copies of all prospectuses filed with Canadian and/or United States securities regulatory authorities, registration statements (without exhibits) and all reports which it files with any Canadian or United States securities regulatory authorities;

(iv) accountants reports: promptly upon receipt thereof, a copy of each other material report submitted to the Corporation or any Subsidiary by independent accountants in connection with any annual, interim or special audit made by them of the books of the Corporation or any Subsidiary;

(v) notices: promptly after any Responsible Officer obtaining knowledge

(A) of the existence of any condition or event which, in the opinion of management of the Corporation, has or could reasonably be expected to have a Material Adverse Effect; or

(B) of any action, suit, litigation or other proceeding which is commenced or threatened against the Corporation or any Material Subsidiary and which involves a claim in excess of Cdn. $15,000,000 or which is reasonably likely to have a Material Adverse Effect;

an Officer's Certificate specifying the nature and period of existence of any such default, event or condition, or specifying the notice given or action taken by such Person and the nature of any such claimed default, event or condition, or specifying the details of such proceeding, litiga- tion or dispute and what action the Corporation or any of its Material Subsidiaries has taken, is taking or proposes to take with respect thereto; and

(vi) other information: with reasonable promptness and subject to the provisions of any confidentiality agreements of third parties, such other information respecting the condition, businesses or operations (financial or otherwise), and properties, of the Corporation or any of its Material

Subsidiaries (including in respect of Non-Recourse Debt) as such Holder may reasonably request, and any information that any Holder may request that is required to be filed with the United States National Association of Insurance Commissioners.

5A(2). Compliance Certificates. Together with each delivery of financial statements required by clauses (i) and (ii) above, the Corporation will deliver to each Holder a Compliance Certificate, executed by the chief executive officer, chief operating officer, chief financial officer or treasurer of the Corporation (or persons fullfilling equivalent functions), together with such back-up information, including spread sheets, prepared by the Corporation for the purpose of preparing the Compliance Certificate as the Required Holders may reasonably request and stating that there exists no Default or Event of Default, or, if any Default or Event of Default exists, specifying the nature and period of existence thereof and what action the Corporation proposes to take with respect thereto. Together with the delivery of the Compliance Certificate, the Corporation shall make the Offers to Amend, if not previously made pursuant to paragraph 6G and 6H, and shall deliver the documents required by the last sentence of paragraph 6G and 6H if not previously delivered.

5A(3). Auditors Certificate. Together with each delivery of financial statements required by clause (ii) above, the Corporation will deliver to each Holder a certificate of such accountants stating whether, in making their audit necessary for their report on the financial statements, they have become aware of any condition or event that then constitutes a Default or an Event of Default, and, if they are aware that any such condition or event then exists, specifying the nature and period of the existence thereof.

5A(4). Notice of Default or Event of Default. The Corporation will, promptly (and in any event within five Business Days) after any Responsible Officer obtains knowledge of the existence of an Event of Default or Default, deliver to each Holder an Officer's Certificate specifying the nature and period of existence thereof and what action the Corporation is taking or proposes to take with respect thereto.

5B. Information Required by Rule 144A.5A(4). The Corporation will, upon the request of any Holder, provide to such Holder, and to any qualified institutional buyer designated by such Holder, such financial and other information as such Holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Notes, except at such times as the Corporation is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act. For the purpose of this paragraph 5B, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act.

5C. Inspection of Property.5A(4). The Corporation will permit any Person designated by any Holder in writing, at such Holder's expense, to examine the corporate/partnership books, financial records and engineering and property records and reports of the Corporation and its Material Subsidiaries and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of any of such entities with the principal officers of the Corporation or its Material Subsidiaries and its independent public accountants and independent or in-house petroleum engineers, all at such reasonable times and as often as such Holder may reasonably request, provided that the foregoing shall be at the Corporation's expense, and shall be reimbursable by the Corporation on demand by such Holder, if such visitation, inspection or examination is conducted at a time when a Default or Event of Default has occurred and is continuing.

5D. Covenant to Secure Notes Equally. The Corporation will, concur- rently with and as a condition precedent to it or any Material Subsidiary creating or assuming any Lien on its assets, whether now owned or hereafter acquired, or upon any income, profits or proceeds therefrom, other than Liens expressly permitted by paragraph 6B(1):

(i) make or cause to be made effective provision whereby the Notes will be secured by such Lien equally and ratably with any and all other Indebtedness thereby secured so long as any such other Indebtedness shall be so secured, pursuant to security arrangements reasonably satisfactory in form, scope and substance to the Required Holders,

ii) deliver or cause to be delivered an opinion of its counsel addressed to all Holders as to such Lien, such opinion to be in form and substance reasonably satisfactory to the Required Holders, including an opinion as to the validity, enforceability, registration and perfection of such Lien and that all payment obligations of the Corporation under the Notes rank at least pari passu in right of payment with all other obliga- tions secured by such Lien, and

iii) cause the holders of the obligations secured by such other Lien to enter into an inter-creditor agreement with all Holders, such inter- creditor agreement to be in form and substance satisfactory to the Required Holders.

5E. Engineering Reports; Accuracy of Engineering Reports.

(i) The Corporation shall furnish to the Holders as soon as available and in any event within 120 days after the end of each Fiscal Year, an Engineering Report dated as of the first day of the immediately following Fiscal Year.

(ii) The Corporation shall ensure that each internally prepared Engineering Report and all other related data prepared by and provided by the Corporation or any Subsidiary to the Holders, or an independent engineering firm,with respect to the oil and gas properties evaluated in an Engineering Report or discussed in such related data are substantially accurate and fairly reflect the interests of the Corporation and each Subsidiary therein and thereto net of all royalties and other burdens affecting same, except to the extent that any inaccuracies would not have a Material Adverse Effect.

5F. Corporate Existence; Existence of Material Subsidiaries.

(i) The Corporation shall, except as permitted by paragraph 6B(2), maintain its corporate existence and organization in good standing under the laws of the Province of Alberta and register and qualify and remain registered and qualified as a corporation authorized to carry on business under the laws of each jurisdiction in which the nature of any business conducted by it or the character of any properties and assets owned or leased by it requires such registration and qualification, except to the extent that failure to maintain such registration or qualification does not have a Material Adverse Effect.

(ii) The Corporation shall cause each Material Subsidiary, except as permitted by paragraph 6B(2), to maintain its corporate or partnership existence, as the case may be, and organization in good standing under the laws of its jurisdiction of incorporation or formation, as applicable, and shall cause each Material Subsidiary to duly register and qualify and remain duly registered and qualified as a corporation or partnership, as applicable, qualified to carry on business under the laws of each jurisdiction in which the nature of any business conducted by it or the character of any properties and assets owned or leased by it requires such registration and qualification, except to the extent that failure to maintain such registration or qualification does not have a Material Adverse Effect.

5G. Compliance With Applicable Laws. The Corporation shall and shall cause each Material Subsidiary to:

(i) carry on and conduct its business and keep, maintain and operate its assets and properties in accordance with all Applicable Laws, including Applicable Environmental Laws, and in a good and workmanlike manner and in accordance with sound oil and gas industry practice; and

(ii) observe and conform in all respects to all valid requirements of any Governmental Approval relative to any of its assets and properties and all covenants, terms and conditions of all agreements upon or under which any of its assets and properties are held;

except to the extent failure to so comply or failure to so observe and conform does not have a Material Adverse Effect.

5H. Payment of Taxes. The Corporation shall and shall cause each Material Subsidiary:

(i) to duly file on a timely basis all tax returns which are required to be filed by it; and

(ii) to pay or make provision for payment (in accordance with GAAP) of all business, goods and services, income, capital and/or profits taxes and other governmental charges levied or assessed against it or its property which are due and payable by it, or to provide adequate reserves (in accordance with GAAP) for the payment of any such amount, the payment of which is being contested by it in good faith.

5I. Environmental Matters.

(i) Notice of Environmental Damage. The Corporation shall, promptly upon acquiring knowledge thereof, provide the Holders with written notice of:

(a) the discovery of any Hazardous Material or of any Release of Hazardous Materials into the environment from or upon the land or property of the Corporation or a Material Subsidiary which would reasonably be expected to have a Material Adverse Effect; or

(b) any order, judgment or claim (if such claim is determined adversely) that has been made by any Person against the Corporation, a Material Subsidiary or their assets and properties that would give rise to any Environmental Liability which would have a Material Adverse Effect.

(ii) Additional Environmental Information. The Corporation shall, upon the request of the Required Holders (acting reasonably), make available for discussion with any Holder at all reasonable times the senior officers of the Corporation and any Material Subsidiary primarily responsible for the environmental activities and affairs of the Corporation and its Material Subsidiaries.

(iii) Environmental Audit. Upon the occurrence or discovery of any circumstance, condition or event which in the opinion of the Required Holders, acting reasonably, may result in any Environmental Liability which would have a Material Adverse Effect during the continuance of a Default or Event of Default, the Holders may arrange for an environmental audit to be conducted by an independent environmental engineer or other environmental consultant, at the expense of the Corporation. The Corporation shall, and shall cause each Material Subsidiary to, upon reasonable notice, and so long as any such engineer or consultant agrees to comply with the health and safety standards generally applicable to the property or assets to be audited, provide access to its property and assets in order for such engineer or consultant to conduct such environmental and other inspections as it deems advisable and in that connection to examine the books, records, assets, affairs and business operations of the Corporation or such Material Subsidiary and to make inquiries of government offices concerning compliance by the Corporation or such Material Subsidiary with Applicable Environmental Laws.

5J. Insurance. The Corporation shall, and shall cause each Material Subsidiary to, maintain in full force and effect such policies of insurance in such amounts issued by insurers of recognized standing covering the properties and operations of the Corporation and its Material Subsidiaries, including their respective oil and gas properties and related production facilities, in such amounts and with such deductibles as are customarily maintained by businesses of established reputation engaged in the same or similar business in the localities where its properties and operations are located; provided that the Corporation or any Material Subsidiary may self-insure to the extent it determines, acting reasonably and in accordance with good insurance practice, that it has the capacity to do so.

5K. Ranking With Other Debt. The Corporation shall ensure that its payment obligations hereunder and under the Notes and the payment obligations of each Material Subsidiary under its Material Subsidiary Guarantee rank at least pari passu in right of payment with the other most senior unsecured and unsubordinated Indebtedness for Borrowed Money of the Corporation (including any unsecured Bank Indebtedness) or such Material Subsidiary (including any guarantees of the Bank Indebtedness), as applicable.

5L. Material Subsidiary Test. The Corporation shall ensure that, within 90 days of the end of each Fiscal Quarter, the Consolidated Tangible Assets of the Corporation and its Material Subsidiaries as of the last day of such Fiscal Quarter are equal to or greater than 95% of the Consolidated Tangible Assets of the Corporation and its Subsidiaries as of the last day of such Fiscal Quarter.

5M. Material Subsidiary Guarantee; Release of Certain Guarantees.

(i) If a Subsidiary is to be included as a Material Subsidiary after the Date of Closing for the purposes of ensuring compliance with paragraph 5L, the Corporation shall cause such Subsidiary to provide to the Holders a Material Subsidiary Guarantee on a pari passu basis with all other unsecured and unsubordinated Indebtedness of such Material Subsidiary and, in addition thereto, shall provide, or cause to be provided, to each Holder a favourable opinion of counsel to the Corporation (such opinion to be satisfactory in form and substance to the Required Holders, acting reasonably), as to the legality, validity and enforceability of such Material Subsidiary Guarantee and as to such other matters as the Required Holders may reasonably require, together with such other documents, including certification that the representations and warranties contained in paragraph 8 are true and correct with respect to such Material Subsidiary and certified resolutions and constating/governing documents of such Material Subsidiary, as the Required Holders may reasonably require.

(ii) If, on or before September 30, 1998, the lenders under the CIBC Credit Agreements (A) release the guarantees of David Limited Partnership and Morrison, the Holders will, upon the request of the Corporation, promptly release the Material Subsidiary Guarantees of such Material Subsidiaries; and (B) reduce the figure "95%" contained in paragraph 5L and 5Q to a percentage greater than or equal to 85%, the Holders will, upon the request of the Corporation, promptly enter into an amendment to this Agreement to reflect such change.

(iii) If the Holders release the guarantee of David Limited Partnership or Morrison and subsequently either David Limited Partnership or Morrison guarantees any portion of the Bank Indebtedness, such Subsidiary will also guarantee the Notes; provided that the Holders will release any such subsequent guarantee of the Notes upon the holders of such Bank Indebtedness releasing their guarantee provided by such Subsidiary. If the Holders reduce the 95% figure as provided in clause
(ii)(B) above, the Corporation will thereafter cause any Subsidiary that guarantees the Bank Indebtedness outstanding under the Corporation's largest unsubordinated bank credit facility to issue a Material Subsidiary Guarantee to the Holders; provided that if the holders of such Bank Indebtedness subsequently release such guarantees, the Holders will release such Material Subsidiary Guarantees.

5N. Payment and Performance. The Corporation shall duly and punctually pay all sums of money due by it hereunder and under the Notes and the Corporation shall and shall cause each Material Subsidiary to perform all other obligations on its part to be performed under the terms of the Loan Documents to which it is a party at the times and places and in the manner provided for therein.

5O. Payment of Other Obligations. The Corporation shall and shall cause each Material Subsidiary to pay or cause to be paid all material rents, royalties and other obligations to pay money validly imposed upon it, or upon its properties or assets or any part thereof, as and when the same become due and payable or shall provide adequate reserves (in accordance with GAAP) for payment of any such obligation, the payment of which is being contested in good faith.

5P. Maintenance of Books and Records. The Corporation shall and shall cause each Material Subsidiary to keep proper and adequate records and books of account in which true and complete entries will be made in a manner sufficient to enable the preparation of financial statements in accordance with GAAP and, subject to paragraph 5C, make the same available for confidential inspection by each Holder and its employees.

5Q. Subsidiary Designation. The Corporation shall from time to time by notice in writing to the Holders be entitled to designate that either:

i) a Subsidiary will no longer be a Subsidiary and will become an Excluded Subsidiary;

ii) a Material Subsidiary will no longer be a Material Subsidiary and will become a Subsidiary; or

iii) an Excluded Subsidiary will no longer be an Excluded Subsidiary and will become a Subsidiary;

provided that the Corporation shall not be entitled to make any such designation if immediately after giving effect to any such designation:

(x) a Default or Event of Default would occur or remain outstanding; and

(y) the Consolidated Tangible Assets of the Corporation and its Material Subsidiaries (after excluding any Material Subsidiary to be designated as an Excluded Subsidiary or to be otherwise removed as a Material Subsidiary) calculated as of the last day of the immediately preceding Fiscal Quarter is less than 95% of the Consolidated Tangible Assets of the Corporation and its Subsidiaries calculated as of the last day of the immediately preceding Fiscal Quarter; and

provided, further, that, notwithstanding this paragraph 5Q and the definition of "Subsidiary," the designation of Northstar Energy Partnership as a Material Subsidiary shall not be removed without the written consent of the Required Holders.

If, in compliance with the foregoing, a Material Subsidiary is designated an Excluded Subsidiary or is to be otherwise removed as a Material Subsidiary, the Holders shall (as soon as reasonably practicable) cancel and return to the Corporation the Material Subsidiary Guarantee of such Subsidiary.

5R. Proceeds. On or before March 31, 1998, the Corporation will use the proceeds from the issuance and sale of the Notes to repay Existing Northstar Notes in an aggregate principal amount of U.S. $60,000,000 and repay a portion of the revolving loans outstanding under the CIBC Credit Agreements, directly or indirectly. The Corporation will deliver to the Holders on or before March 16, 1998 an irrevocable notice of prepayment of all of the Existing Northstar Notes previously delivered to the holders of the Existing Northstar Notes in accordance with the Northstar Note Agreement.

5S. Filings. The Corporation will comply with all requirements which may exist under applicable securities legislation to file reports concerning the issuance of the Notes pursuant to filing, registration or prospectus exemptions under such legislation within the required time after such issuance.

5T. Defend Title. The Corporation will, and will cause each Material Subsidiary to, defend its title to its property against every Person whomever claiming or attempting to claim the same, or asserting any interest adverse to its interest therein, other than Permitted Title Defects, disposi- tions permitted under this Agreement and such other adverse claims or asserted interests which, if valid, would not individually or in the aggregate have a Material Adverse Effect.

5U. West Windsor Power. The Corporation will sell its investment in West Windsor Power before June 30, 1999.

PARAGRAPH 6. NEGATIVE COVENANTS.

6. NEGATIVE COVENANTS. So long as any Note shall remain unpaid, the Corporation covenants that:

6A. Financial Covenants.

6A(1) Consolidated Tangible Net Worth. The Corporation will not permit Consolidated Tangible Net Worth as at the end of each Fiscal Quarter to be less than $230,000,000.

6A(2) Consolidated Debt to EBITDA Ratio. The Corporation will not permit Consolidated Debt (i) at the Date of Closing, to exceed 315% of EBITDA for the most recent period of four consecutive completed Fiscal Quarters and
(ii) as at the end of any Fiscal Quarter commencing with the Fiscal Quarter ending March 31, 1998, to exceed 300% of EBITDA for the most recent period of four consecutive completed Fiscal Quarters.

6A(3) Alternate Consolidated Net Worth Test. At any time that paragraph 6H is not in effect, the Corporation will not permit Consolidated Tangible Net Worth as at the end of each Fiscal Quarter to be less than the sum of (i) $400,000,000 plus (ii) 25% of the proceeds from any sale of capital stock or other form of equity by the Corporation after the first day of the Fiscal Quarter following the day on which paragraph 6H is no longer effective plus (iii) 25% of Consolidated Net Earnings for each Fiscal Quarter (if positive) commencing with the first Fiscal Quarter ending after the day on which paragraph 6H is no longer effective, up to a maximum required Consolidated Tangible Net Worth of $500,000,000.

For greater certainty, (i) the financial covenants in paragraphs 6A(1) and 6A(3) shall not include the assets, liabilities, income or equity of any Excluded Subsidiary or any Excluded Assets and (ii) the financial covenant in paragraph 6A(2) shall not include the assets, liabilities, income or equity of any Excluded Subsidiary or, except to the extent received by the Corporation, any Excluded Assets.

6B. Liens and Other Restrictions. The Corporation will not, and will not permit any Material Subsidiary to

6B(1) Liens. Except for Permitted Encumbrances, create, incur, assume, suffer to exist or otherwise have outstanding any Lien upon or with respect to any of its undertaking, properties, rights or assets, whether now owned or hereafter acquired, including its oil and gas properties and related production facilities.

6B(2). Restriction on Amalgamation etc. Except for the winding-up of all of the assets of, or an amalgamation of, a Subsidiary into, and the assump- tion of all Indebtedness of such Subsidiary by, the Corporation or a Wholly- Owned Subsidiary (or any winding-up or amalgamation between the two Mountain Companies), enter into any transaction whereby all or substantially all of its undertaking, property and assets would become the property of any other solvent Person (herein called a "Successor") whether by way of reconstruction, reorganization, recapitalization, consolidation, amalgamation, merger, transfer, sale, arrangement or otherwise (each a "Transaction"), unless:

(i) prior to or contemporaneously with the consummation of such Transaction:

(A) the Successor expressly assumes, by an agreement satisfactory in substance and form to the Required Holders, acting reasonably, all the covenants and obligations of either the Corporation under this Agreement and the other Loan Documents to which it is a party or the Material Subsidiary under any Loan Documents to which it is a party, as applicable; and

(B) this Agreement and the other Loan Documents to which the Corporation or the Material Subsidiary was a party immediately prior to entering into the Transaction will (except for any merger at law of any Material Subsidiary Guarantee as a result of the Transaction) be valid and binding obligations of the Successor, enforceable against the Successor and entitling each Holder, as against the Successor, to exercise all its rights under, as applicable, this Agreement and the other Loan Documents;

and provided that the Successor shall also execute and deliver to the Holders such documents (including favourable legal opinions of counsel to the Corporation and/or Successor in this regard, and in regard to with- holding tax matters, acceptable to the Required Holders, acting reasonably), if any, as may, in the reasonable opinion of the Required Holders, be necessary to effect or establish (A) and (B) above;

(ii) if the Transaction involves the Corporation, the Successor is either (y) a corporation governed (as to corporate matters) by the federal laws of Canada or the laws in force in a province of Canada other than Quebec; or (z) a general partnership which partnership is formed under and governed (as to partnership matters) by the laws in force in a province in Canada, other than Quebec, and, in each case a majority of the assets of which Successor are located, and a majority of its business is conducted, in Canada, the United States or some Other Permitted Country;

(iii) if the Transaction involves a Material Subsidiary but not the Corporation:

(A) if such Material Subsidiary is governed as to corporate or partnership matters by the federal laws of Canada or a province thereof, the Successor is either (y) a corporation governed (as to corporate matters) by the laws of Canada or the laws in force in a province of Canada other than Quebec or (z) a partnership formed under and governed (as to partnership matters) by the laws in force in a province in Canada, other than Quebec, and, in each case a majority of the assets of which Successor are located, and a majority of its business is conducted, in Canada, the United States of America or some Other Permitted Country; or

(B) if such Material Subsidiary is governed as to corporate or partnership matters by any other laws, the Successor is governed by the same laws as such Material Subsidiary, including as to corporate or partnership matters; and

(C) the Successor remains a Material Subsidiary unless, as of the date of the completion of the Transaction, the inclusion of such Successor is not required to satisfy the Material Subsidiary Test contained in paragraph 5L as of such date of completion;

(iv) such Transaction shall be on such terms and shall be carried out in such manner as to preserve and not to impair any of the rights and powers of the Holders hereunder and under any other Loan Documents;

(v) such Transaction shall not result in the undertaking, property and assets of the Successor being subject to any Liens other than Permitted Encumbrances; and

(vi) no Event of Default or Default shall have occurred and be con- tinuing immediately prior to such Transaction or would exist if such Transaction is effected.

6B(3). Restriction on Sale. Directly or indirectly make any sale (including a Sale-Leaseback), exchange, lease, transfer or other disposition to any Person of any of its assets or properties classified as property, plant and equipment on the consolidated balance sheet of the Corporation and its Subsidiaries, including the petroleum and natural gas reserves of the Corpora- tion and its Material Subsidiaries, or any Voting Shares in any Material Subsidiary, except:

(i) Permitted Dispositions;

(ii) any other sales or dispositions of any assets or properties classified as property, plant and equipment on the consolidated balance sheet of the Corporation, including a Sale-Leaseback, if the aggregate proceeds of all such sales and dispositions in a Fiscal Year, including therein the proceeds received from any Sale-Leaseback, (net of Eligible Reinvestments) does not exceed 15% of the Consolidated Tangible Assets of the Corporation and its Subsidiaries as at the end of the immediately preceding Fiscal Year; and

(iii) the Corporation and its Material Subsidiaries may sell such assets and properties in excess of the 15% limit described in clause (ii) above during a Fiscal Year if all of the proceeds in excess of the 15% permitted in clause (ii) of this paragraph 6B(3) (the "Excess Cash Proceeds") are reinvested in Eligible Reinvestments before the date that is the earlier of (a) five days after a Responsible Officer has knowledge that sales have occurred generating Excess Cash Proceeds and (b) 60 days after the end of such Fiscal Year, provided that pending such reinvestment such Excess Cash Proceeds shall on and after such date be segregated in a separate deposit account in the name of the Corporation with a bank (the short-term deposits of which would qualify as Permitted Investments, and which is not at any relevant time a creditor of the Corporation or any Subsidiary), and may thereafter be paid directly out of that account only
(x) to acquire Permitted Investments with issuers which are not at any relevant time creditors of the Corporation or any Subsidiary (which shall also be kept separate from the other assets of the Corporation and its Subsidiaries), or (y) to acquire Eligible Reinvestments, or a combination of (x) and (y), provided, further, that if any of such Excess Cash Proceeds have not been reinvested in Eligible Reinvestments within 12 months of the date of the transaction giving rise thereto, the Corporation shall thereupon invest the same in investments of the type referred to in

clauses (a) and (b) of the definition of "Permitted Investments" with issuers which are not at any relevant time creditors of the Corporation or any Subsidiary pending reinvestment thereof in Eligible Reinvestments;

provided that no Default or Event of Default has occurred and is continuing or would exist if such sale, exchange, lease, transfer or other disposition is effected.

6B(4). Sale-Leaseback. Enter into any Sale-Leaseback where the assets of the Corporation or a Material Subsidiary subject to such Sale-Leaseback are being sold for less than their fair market value.

6C. Joint Venture Company. The Corporation will not permit a Joint Venture Company to create, incur, assume or suffer to exist any Indebtedness for Borrowed Money (including, for greater certainty, Prepaid Obligations or by way of Guarantee), other than Non-Recourse Debt and indebtedness in favour of the shareholders of such Joint Venture Company holding Voting Shares or in favour of the Corporation or any Material Subsidiary; provided that such covenant shall not apply if such Joint Venture Company has been designated as an Excluded Subsidiary pursuant to paragraph 5Q.

6D. Change of Business. The Corporation will not, and will not permit any Material Subsidiary to, change in any material respect the nature of its business or operations from the exploration for, and development, produc- tion, transportation, processing and marketing of, petroleum, natural gas and related products or investments in West Windsor Power (at any time before June 30, 1999), nor engage directly or indirectly in any material business activity or purchase or otherwise acquire any material property, in either case not primarily related to the conduct of its business or operations as presently carried on.

6E. Actions in Respect of Material Subsidiaries. Notwithstanding anything to the contrary provided in paragraphs 5 or 6, where the Corporation has covenanted to cause any Material Subsidiary to do or not to do any act or thing, and the Corporation does not own more than 50% of the Voting Shares of such Material Subsidiary, the Corporation shall have complied with its covenants in that regard if it shall have used all reasonable commercial efforts to cause such Material Subsidiary to comply with the requirements of paragraphs 5 or 6 or to remedy any breaches thereof, provided that reasonable commercial efforts shall be deemed to include, without limitation, exercising any veto or voting power it might have with respect to any such Material Subsidiary; and with respect to any breach of paragraphs 5 and 6 caused by any Material Subsidiary acting or failing to act in the manner required by such paragraphs 5 or 6, the Corporation's obligation to use its reasonable commercial efforts to prevent or remedy such breach shall only be applicable from and after the date that the Corporation becomes aware of such breach or the date the Corporation becomes aware such breach may occur, as the case may be.

6F. Constating Documents. The Corporation will not, and will not permit any Material Subsidiary to, alter its articles or by-laws, or in the case of any partnership that is a Material Subsidiary, its partnership agree- ment, in any manner that would individually or in the aggregate have a Material Adverse Effect.

6G. Amendments to Bank Agreement. The Corporation will not agree to any amendment, supplement or modification of the covenants contained in Article 8, or the events of default contained in Article 9, of either of the CIBC Credit Agreements (except an amendment to the covenant contained in Section 8.3(b) of the CIBC Credit Agreements), or agree to any consent, waiver or release with respect to such agreements unless the Corporation contemporaneously gives each Holder a notice of the amendment, supplement, modification, consent, waiver or release and offers to amend this Agreement to incorporate such change (a "CIBC Offer to Amend"); provided, however, that (i) in the event the Corporation shall enter into, assume or otherwise become bound by or obligated under any such change without offering to amend this Agreement, the terms of this Agreement shall, without any further action on the part of the Corporation or any of the Holders, be deemed to be amended automatically and retroactively to include such changes, but only for so long as such change remains in effect with respect to the CIBC Credit Agreements and (ii) the good faith failure to contempora- neously make a CIBC Offer to Amend shall not constitute an Event of Default if such CIBC Offer to Amend is made in accordance with paragraph 5A(2). The Corporation further covenants to promptly execute and deliver at its expense (including, without limitation, the fees and expenses of counsel for the Holders) an amendment to this Agreement in the form and substance satisfactory to the Required Holders evidencing the amendment of this Agreement to include such change provided that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this paragraph 6H, but shall merely be for the convenience of the parties hereto and the good faith failure to promptly deliver such amendment shall not constitute an Event of Default unless the Corporation fails to deliver such amendment within five Business Days of the request of any Holder. The Corporation shall promptly provide to each Holder a true copy of any such amendment, supplement or modification of the CIBC Credit Agreements or such other credit facility, and any consent, waiver or release given under any thereof; provided that the good faith failure to provide such document promptly shall not constitute an Event of Default if such document is delivered in accordance with paragraph 5A(2).

6H. Most Favoured Lender Status. The Corporation will not, and will not permit any Material Subsidiary that owns more than 30% of the consolidated assets of the Corporation and its Subsidiaries to, enter into, assume or other- wise be bound or obligated under any agreement entered into after the date hereof creating or evidencing Indebtedness (other than Non-Recourse Debt or Capitalized Lease Obligations) with one or more institutions pertaining to the issuance of debt or borrowing of funds in an amount equal to in the aggregate U.S. $50,000,000 or more (or the equivalent amount in another currency) which contains one or more Additional Covenants, unless the Corporation shall have offered to amend this Agreement to include such Additional Covenants (an "Other Lender Offer to Amend"); provided, however, that (i) in the event the Corporation or any Material Subsidiary shall enter into, assume or otherwise become bound by or obligated under any such agreement without offering to amend this Agreement, the terms of this Agreement shall, without any further action on the part of the Corporation or any of the Holders, be deemed to be amended automatically and retroactively to include each Additional Covenant contained in such agreement, but only for so long as such Additional Covenants remain in effect with respect to such other agreement and (ii) the good faith failure to contemporaneously make an Other Lender Offer to Amend shall not constitute an Event of Default if such Other Lender Offer to

Amend is made in accordance with paragraph 5A(2). In the case where a Material Subsidiary has entered into such an agreement containing one or more Additional Covenants, the Corporation will covenant to cause such Material Subsidiary to comply with such Additional Covenants. The Corporation further covenants to promptly execute and deliver at its expense (including, without limitation, the fees and expenses of counsel for the Holders) an amendment to this Agreement in the form and substance satisfactory to the Required Holders evidencing the amendment of this Agreement to include such Additional Covenants, provided that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this paragraph 6H, but shall merely be for the convenience of the parties hereto and the good faith failure to promptly deliver such amendment shall not constitute an Event of Default unless the Corporation fails to deliver such amendment within five Business Days of the request of any Holder. The Corporation shall promptly provide each Holder a true copy of any such agreement, or any amendment, supplement or modification thereof or any consent, waiver or release given thereunder; provided that the good faith failure to provide such document promptly shall not constitute an Event of Default if such document is delivered in accordance with paragraph 5A(2). This paragraph 6H shall not be effective at any time after the last day of any Fiscal Quarter of the Corporation if, (x) as of such last day, Consolidated Tangible Net Worth of the Corporation exceeds Cdn. $600,000,000 and for so long there- after that the Consolidated Tangible Net Worth of the Corporation remains in excess of Cdn. $600,000,000 and (y) the Corporation shall have elected to have this paragraph 6H no longer be effective in the Compliance Certificate delivered for such Fiscal Quarter. For clarity, if the Consolidated Tangible Net Worth of the Corporation thereafter falls below Cdn. $600,000,000, the Corporation shall be required to comply with the provisions of this paragraph 6H.

6I. Northstar Energy Partnership. The Corporation will not permit Northstar Energy Partnership to have as a partner any Person which is not either the Corporation or a Material Subsidiary.

PARAGRAPH 7. EVENTS OF DEFAULT.

7A. Acceleration. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) failure to pay principal: the Corporation defaults in the pay- ment of any principal of or Yield-Maintenance Amount payable with respect to any Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or

(ii) failure to pay interest: the Corporation defaults in the payment of any interest on any Note for more than five Business Days after the date due; or

(iii) cross-default: the Corporation or any Material Subsidiary

(A) defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of, premium (if any) or interest on any other obligation for money borrowed (or any Capitalized Lease Obligation, any obligation under a conditional sale or other title retention agreement, any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto (including any period of grace provided in a waiver), or

(B) fails to perform or observe any other agreement, term or condition contained in any agreement under which any such obligation is created or by which it is evidenced (or if any other event there- under or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or permit any holder or holders of such obligation (or any trustee on behalf of such holder or holders) to cause, such obligation to become due (or to be repurchased by the Corporation or any Subsidiary) prior to any stated maturity,

provided in either case that (x) the aggregate amount of all obligations in respect of which such a payment default shall occur and be continuing, or such a failure or other event causing or permitting acceleration (or resale to the Corporation or any Subsidiary) shall occur and be continuing, exceeds $15,000,000 (or its then equivalent in U.S. Dollars); and (y) this clause (iii) shall not apply to a default or failure in respect of Non- Recourse Debt where the same would not individually or in the aggregate have a Material Adverse Effect; or

(iv) incorrect representations: any representation or warranty made by the Corporation or by any Material Subsidiary in any Loan Document to which they are a party, or by the Corporation or any Material Subsidiary or any of their officers in any writing furnished in connection with or pursuant to this Agreement or any other Loan Document, shall be false in any material respect on the date as of which made; and if such representa- tion is contained in the second sentence of paragraph 8E or paragraph 8F and the falsity thereof can be cured within 20 days, upon the expiration of a period of 20 days if such falsity is not cured; or

(v) breach of negative covenant: the Corporation fails to perform or observe any term, covenant or agreement contained in paragraph 5D, 5R, 5U or paragraph 6 (other than paragraph 6B(1), 6C or 6I), or the Corporation fails to give notice of a Default or Event of Default as required by paragraph 5A(4); or the Corporation fails to perform or observe any term, covenant or agreement contained in paragraph 6B(1), 6C or 6I and such failure shall not be remedied within 30 days; or

(vi) breach of other covenant: the Corporation or any Material Subsidiary fails to perform or observe any other agreement, covenant, term or condition contained herein or in any other Loan Document, and such failure shall not be remedied within 30 days after the earlier of the date that (a) the chief executive officer, chief operating/engineering officer, chief financial officer or treasurer of the Corporation (or persons ful- filling equivalent functions) obtains actual knowledge of such default, and (b) the Corporation receives notice of such default from any Holder;

or

(vii) insolvency (voluntary proceedings): the Corporation or any Material Subsidiary shall:

(a) become insolvent, or generally not pay its debts or meet its liabilities as the same become due, or admit in writing its in- ability to pay its debts generally, or declare any general moratorium on its indebtedness, or propose a compromise or arrangement between it and any class of its creditors,

(b) commit an act of bankruptcy under the Bankruptcy and Insolvency Act (Canada), or make an assignment of its property for the general benefit of its creditors under such Act, or make a proposal (or file a notice of its intention to do so) under such Act,

(c) institute any proceeding seeking to adjudicate it an insol- vent, or seeking liquidation, dissolution, winding-up, reorganization, compromise, arrangement, adjustment, protection, moratorium, relief, stay of proceedings of creditors generally (or any class of creditors), or composition of it or its debts under any other statute, rule or regulation relating to bankruptcy, winding-up, insolvency, reorganization, plans of arrangement, relief or protection of debtors (including the Bankruptcy and Insolvency Act (Canada), the Companies' Creditors Arrangement Act (Canada) and any applicable Business Corporations Act or Company Act), or at common law or in equity,

(d) apply for the appointment of, or the taking of possession by, a receiver, interim receiver, receiver/manager, custodian, administrator, trustee, liquidator or other similar official for it or any substantial part of its property, or

(e) threaten to do any of the foregoing, or take any action, corporate or otherwise, to approve, consent to or authorize any of the actions described in this clause (vii) or in clause (viii), or otherwise act in furtherance thereof, or fail to act in defense thereof; or

(viii) insolvency (involuntary proceedings): any petition shall be filed, application made or other proceeding instituted against or in respect of the Corporation or any Material Subsidiary:

(a) seeking to adjudicate it an insolvent,

(b) seeking a receiving order against it under the Bankruptcy and Insolvency Act (Canada),

(c) seeking liquidation, dissolution, winding-up, reorganiza- tion, compromise, arrangement, adjustment, protection, moratorium, relief, stay of proceedings of creditors generally (or any class of creditors), or composition of it or its debts under any statute, rule or regulation relating to bankruptcy, winding-up, insolvency, reorganization, plans of arrangement, relief or protection of debtors (including the Bankruptcy and Insolvency Act (Canada), the Companies' Creditors Arrangement Act (Canada) and any applicable Business Corporations Act or Company Act), or at common law or in equity, or

(d) seeking the entry of an order for relief or the appointment of a receiver, interim receiver, receiver/manager, custodian, admin- istrator, trustee, liquidator or other similar official for it or any substantial part of its property,

and, if contested by the Corporation or such Material Subsidiary, such petition, application or proceeding shall continue undismissed, or unstayed and in effect, for a period of 30 days after the institution thereof, pro- vided that if an order, decree or judgment is granted (whether or not entered or subject to appeal) against the Corporation or any Material Subsidiary thereunder in the interim and such order, decree or judgment is not stayed or discharged within five days of it being granted, such grace period shall cease to apply; or

(ix) extra-territorial proceedings: any other event shall occur which, under the laws of any applicable jurisdiction, has an effect equiva- lent to any of the events referred to in paragraphs (vii) or (viii); or

(x) judgments and attachments: (A) one or more judgments for the payment of money in excess of $15,000,000 (or its then equivalent in U.S. Dollars) in the aggregate shall be rendered against the Corporation or any Material Subsidiary and the Corporation or such Material Subsidiary shall not have (1) satisfied or provided for the discharge of such judgment in accordance with its terms within 30 days from the date of entry thereof, or (2) procured a stay of execution thereof within 30 days from the date of entry thereof and within such period, or such longer period during which execution of such judgment shall have been stayed, appealed such judgment and caused the execution thereof to be stayed during such appeal, provided that, if enforcement and/or realization proceedings are commenced in respect thereof in the interim, such grace period shall cease to apply; or (B) any property of the Corporation or any Material Subsidiary having a fair market value in excess of $15,000,000 (or its then equivalent in U.S. Dollars) in the aggregate shall be seized (including by way of execution, attachment, garnishment or distraint), or any Lien thereon securing Indebtedness in excess of $15,000,000 (or its then equivalent in U.S. Dollars) in the aggregate shall be enforced, or such property shall become subject to any charging order or equitable execution of a Governmental Authority, or any writ of enforcement, writ of execution or distress warrant shall exist in respect of the Corporation, any Material Subsidiary or the property of either, or any sheriff or other Person shall become lawfully entitled to seize or distrain upon such property under the Civil Enforcement Act (Alberta), the Workers' Compensation Act (Alberta), the Personal Property Security Act (Alberta) or any other Applicable Laws whereunder similar remedies are provided, and in any case such seizure, enforcement, execution, attachment, garnishment, distraint, charging order or equitable execution, or other seizure or right, shall continue in effect and not be released or discharged for more than 30 days, provided that if the property is removed from the use of the Corporation or Material Subsidiary, or is sold, in the interim, such grace period shall cease to apply (provided that this clause (x) shall not apply to Non-Recourse Debt or any realization on security for Non-Recourse Debt where such judgment, seizure,

realization or proceeding in respect thereof would not have a Material Adverse Effect); or

(xi) unenforceability of documents: this Agreement, any Note or any Material Subsidiary Guarantee or any material provision of any thereof shall at any time for any reason cease to be in full force and effect, be declared to be void or voidable or shall be repudiated, or the validity or enforceability thereof shall at any time be contested by the Corporation or any Material Subsidiary, or the Corporation or any Material Subsidiary shall deny that it has any or any further liability or obligation there- under or any action or proceeding shall be commenced to enjoin or restrain the performance or observance by the Corporation or any Material Subsidiary of any terms thereof or determining the same to be invalid or unenforce- able, or at any time it shall be unlawful or impossible for the Corporation or any Material Subsidiary to perform any of its obligations thereunder; or

(xii) cessation of business: other than as permitted hereunder, the Corporation shall cease or threaten to cease to carry on all or any material part of its business as now conducted, or shall make a bulk sale of its assets; or

(xiii) ERISA: if (a) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under Section 412 of the Code, (b) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA
Section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Corporation or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (c) the aggregate "amount of unfunded benefit liabilities" (within the meaning of Section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed $15,000,000, (d) the Corporation or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (e) the Corporation or any ERISA Affiliate withdraws from any Multiemployer Plan, or (f) the Corporation or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare bene- fits in a manner that would increase the liability of the Corporation or any Subsidiary thereunder; and any such event or events described in clauses (a) through (f) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect and such default is not cured within 30 days after the earlier of the date that (a) the chief executive officer, chief opera- ting/engineering officer, chief financial officer or treasurer of the Corporation (or persons fulfilling equivalent functions) obtains actual knowledge of such default, and (b) the Corporation receives notice of such default from any Holder. As used in clause (xiii), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA;

then:

(a) if such event is an Event of Default specified in clause (i) or (ii) of this paragraph 7A, then any Holder (other than the Corporation or any of its Subsidiaries or Affiliates) may at its option by notice in writing to the Corporation, declare such Note to be, and such Note shall thereupon be and become, immediately due and payable at par together with interest accrued thereon, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Corporation;

(b) if such event is an Event of Default specified in clause
(vii), (viii) or (ix) of this paragraph 7A with respect to the Corporation, then all of the Notes at the time outstanding shall automatically become immediately due and payable at par together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Corporation; and

(c) if such event is not an Event of Default specified in clause
(vii), (viii) or (ix) of this paragraph 7A with respect to the Corporation, then the Required Holders may at their option, by notice in writing to the Corporation, declare all of the Notes to be, and all of the Notes shall thereupon be and become, immediately due and pay- able together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Corporation.

The Corporation acknowledges, and the parties hereto agree, that each Holder has the right to maintain its investment in the Notes free from repayment by the Corporation (except as herein specifically provided for) and that the provision for payment of any Yield-Maintenance Amount by the Corporation, in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

7B. Rescission of Acceleration. At any time after any or all of the Notes shall have been declared immediately due and payable pursuant to paragraph 7A, the Required Holders may, by notice in writing to the Corporation, rescind and annul such declaration and its consequences if (i) the Corporation shall have paid all overdue interest on the Notes, the principal of and Yield- Maintenance Amount, if any, payable with respect to any Notes which have become due otherwise than by reason of such declaration, and interest on such overdue interest and overdue principal and Yield-Maintenance Amount at the rate specified in the Notes, (ii) the Corporation shall not have paid any amounts which have become due solely by reason of such declaration, (iii) all Events of Default and Defaults, other than non-payment of amounts which have become due solely by reason of the circumstances giving rise to such declaration, shall have been cured or waived pursuant to paragraph 11C, and (iv) no judgment or decree shall have been entered for the payment of any amounts due pursuant to the Notes or this Agreement. No such rescission or annulment shall extend to or affect any subsequent Event of Default or Default or impair any right arising therefrom.

7C. Notice of Acceleration or Rescission. Whenever any Note shall be declared immediately due and payable pursuant to paragraph 7A or any

such declaration shall be rescinded and annulled pursuant to paragraph 7B, the Corporation shall forthwith give written notice thereof to each Holder.

7D. Other Remedies. If any Event of Default or Default shall occur and be continuing, the Holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note and under any Material Subsidiary Guarantee by exercising such remedies as are available to such Holder in respect thereof under Applicable Law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement con- tained in this Agreement or any other Loan Document or in aid of the exercise of any power granted in this Agreement or any other Loan Document. No remedy conferred in this Agreement upon the Holder of any Note is intended to be exclu- sive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or therein or now or hereafter existing at law or in equity or by statute or otherwise.

PARAGRAPH 8. REPRESENTATIONS, COVENANTS AND WARRANTIES.

8. Representations, Covenants and Warranties.

The Corporation represents, covenants and warrants as follows:

8A. Organization.

i) Corporation. The Corporation is a corporation duly organized and validly existing in good standing under the laws of the Province of Alberta. The Corporation is validly registered as an extra-provincial corporation under the laws of Saskatchewan and British Columbia, being the only other jurisdictions in which it carries on a material business or owns material property. The execution, delivery and performance by the Corporation and each Material Subsidiary of the Loan Documents to which it is a party are within the Corporation's and such Material Subsidiary's respective corporate or partnership powers, as applicable, and have been duly authorized by all necessary corporate or partnership action. This Agreement and the Notes constitute legal, valid and binding obligations of the Corporation enforceable against it in accordance with their respective terms subject to bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally.

ii) Material Subsidiaries. Each Material Subsidiary is duly organized and validly existing in good standing under the laws of the jurisdiction in which it is incorporated or formed as a partnership, as set out in Schedule G attached hereto. Each Material Subsidiary is validly registered as an extra-provincial corporation or partnership under the laws of the Provinces set out in Schedule G attached hereto, being the only other jurisdictions in which such Material Subsidiary carries on a material business or owns material property. The Material Subsidiary Guarantee of each Material Subsidiary constitutes the legal, valid and binding obliga- tions of such Material Subsidiary enforceable against it in accordance with its terms subject to bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally.

8B. Financial Statements.6I.Northstar Energy Partnership The Corporation has furnished you with the following financial statements, identi- fied by a principal financial officer of the Corporation: (i) a consolidated balance sheet of the Corporation and its Subsidiaries as at December 31 in each of years 1997, 1996 and 1995, and consolidated statements of earnings and retained earnings and consolidated statements of cash flow of the Corporation and its Subsidiaries for each such year, each of the 1996 and 1995 balance sheets and statements reported on by Deloitte & Touche; and (ii) a consolidated balance sheet of the Corporation and its Subsidiaries as at September 30 in each of the years 1997 and 1996 and consolidated statements of earnings and retained earnings and consolidated statements of cash flow for the nine-month period ended on each such date, and for the quarter ended on each such date, prepared by the Corporation. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with GAAP consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Corporation and its Subsidiaries required to be shown in accordance with GAAP. The consolidated balance sheets present fairly the financial position of the Corporation and its Subsidiaries as at the dates thereof, and the statements of earnings, retained earnings and cash flows present fairly the results of the operations of the Corporation and its Subsidiaries and their cash flows for the periods indicated. The 1997 statements, although not reported on by Deloitte & Touche as of the Date of Closing, will not change (except changes to footnote 12 thereof and changes to such financial statements relating to the treatment of the West Windsor Power disposition). There has been no material adverse change in the business, property or assets, condition (financial or otherwise), operations or prospects of the Corporation and its Subsidiaries taken as a whole since December 31, 1997.

8C. Actions Pending. There is no action, suit, investigation or pro- ceeding pending or, to the knowledge of the Corporation, threatened against the Corporation or any of its Subsidiaries, or any properties or rights of the Corporation or any of its Subsidiaries, by or before any Governmental Authority which, if determined adversely to the Corporation or its Subsidiaries, individu- ally or in the aggregate would reasonably be expected to have a Material Adverse Effect. There is no action, suit, investigation or proceeding pending or, to the knowledge of the Corporation, threatened against the Corporation or any of its Subsidiaries which purports to affect the validity or enforceability of any Loan Document.

8D. Outstanding Indebtedness. Neither the Corporation nor any of its Material Subsidiaries has outstanding any Indebtedness except for Indebtedness for Borrowed Money that is permitted by paragraph 6A(2) of this Agreement, and all such Indebtedness for Borrowed Money, including all guarantees of Subsidiaries of any Indebtedness for Borrowed Money of the Corporation, is included in Part C of Schedule C attached hereto, together with particulars thereof. There exists no default or event of default under the provisions of any instrument evidencing such Indebtedness for Borrowed Money or of any agree- ment relating thereto, and no waiver of default is currently in effect. Neither CIBC nor any other lender under the CIBC Credit Agreements holds any Liens in respect of the obligations of the Corporation under the CIBC Credit

Agreements. The holders of Indebtedness of West Windsor Power under the West Windsor Credit Agreement (exclusive of the agreements set forth in clauses (a) through (e) of the definition thereof) have recourse therefor only to the assets of West Windsor Power, and not to the Corporation or any Material Subsidiary or any of their respective assets (other than the Corporation's partnership interest in West Windsor Power, its interest in the partnership agreement governing West Windsor Power, and proceeds thereof). The Corporation has no Sale-Leasebacks, Capitalized Lease Obligations, Production Payment Transactions (other than the Indeck Gas Contract and the Indeck Security), Prepaid Obligations (other than the Indeck Gas Contract and the Indeck Security) or Non-Recourse Debt as of the date hereof.

8E. Title to Properties. Except for Permitted Title Defects, the Corporation and each of its Material Subsidiaries has good and marketable title to its material proved producing oil and gas properties, its material proved non-producing oil and gas properties, and all of its other respective material properties and assets, including partnership interests in Northstar Energy Partnership and David Limited Partnership, shares in the Material Subsidiaries and the other assets reflected in the balance sheet as at December 31, 1997 referred to in paragraph 8B (other than properties and assets disposed of in the ordinary course of business). None of such properties are subject to any Lien of any kind except Liens that are expressly permitted by paragraph 6B(1). All of the producing and non-producing oil and/or gas properties directly or indirectly owned by the Corporation are owned directly by the Corporation and its Material Subsidiaries. All leases (including petroleum and/or natural gas leases) necessary in any material respect for the conduct of the respective businesses of the Corporation and its Material Subsidiaries are valid and subsisting and are in full force and effect.

8F. Taxes. The Corporation and each of its Material Subsidiaries has filed all federal, provincial and other income tax returns which are required to be filed, and each has paid all taxes as shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in the reasonable opinion of the Corporation and in accordance with GAAP.

8G. Conflicting Agreements and Other Matters. Neither the Corporation nor any of its Subsidiaries is a party to any contract or agreement or subject to any charter or other corporate or partnership restriction which individually or in the aggregate has a Material Adverse Effect. Neither the execution nor delivery of this Agreement, the Notes or the Material Subsidiary Guarantees, nor the offering, issuance and sale of the Notes, nor fulfilment of nor com- pliance with the terms and provisions hereof and the other Loan Documents will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Corporation or any of its Subsidiaries pursuant to, the articles or by-laws of the Corporation or any of its Subsidiaries, the partnership agreement of Northstar Energy Partnership and David Limited Partnership, any Applicable Law or any agreement (including any agreement with shareholders), to which the Corporation or any of its Subsidiaries is subject. The Corporation and its Subsidiaries are in com- pliance with Applicable Laws where failure to do so would individually or in the aggregate have a Material Adverse Effect. Neither the Corporation nor any of its Subsidiaries is a party to, or otherwise subject to any provision con- tained in, its articles, by-laws, its partnership agreement, any applicable shareholders agreement or shareholder declaration, any instrument evidencing Indebtedness of the Corporation or such Subsidiary, any agreement relating thereto or any other contract or agreement which limits the amount of, or other-wise imposes restrictions on the incurring of, Indebtedness of the Corporation of the type to be evidenced by the Notes except as set forth in the agreements listed in Part B of Schedule C attached hereto.

8H. Private Offering of Notes. Neither the Corporation nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Corporation for sale to, or solicited any offers to buy the Notes or any similar security of the Corporation from, or otherwise approached or negotiated with respect thereto with, any Person other than institutional investors, and neither the Corporation nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act or to the registration, qualification or similar provisions of any securities or "blue sky" laws of any applicable jurisdiction or result in any contravention of the provisions of any securities law of Alberta or any other applicable jurisdic- tion.

8I. Use of Proceeds. Neither the Corporation nor any Subsidiary owns or has any present intention of acquiring any "margin stock" as defined in Regulation G (12 CFR Part 207) of the Board of Governors of the United States Federal Reserve System ("margin stock"). The proceeds of the sale of the Notes will be used as set forth in paragraph 5R. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock or for the purpose of main- taining, reducing or retiring any Indebtedness which was originally incurred to purchase or carry any stock that is currently a margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of such Regulation G. Neither the Corporation nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation G, Regulation X or any other regulation of the Board of Governors of the United States Federal Reserve System or to violate the Exchange Act, in each case as in effect now or as the same may hereafter be in effect.

8J. Governmental Consent. Neither the nature of the Corporation or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Corporation or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes or the execution or delivery of the Material Subsidiary Guarantees is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any Governmental Authority in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes, or the execution or delivery of the Material Subsidiary Guarantees or fulfilment of or compliance with the terms and provisions hereof or of the other Loan Documents.

8K. Environmental Compliance. Except where individually or in the aggregate no Material Adverse Effect would reasonably be expected to result therefrom:

(a) environmental compliance:

i) the Corporation, each Subsidiary and West Windsor Power are in compliance with Applicable Environmental Laws, and the condition and use of their property is in compliance with Applicable Environmental Laws;

ii) the Corporation, each Subsidiary and West Windsor Power are not subject to any environmental protection order or enforcement order under any Applicable Environmental Law;

iii) the Corporation, each Subsidiary and West Windsor Power are not subject to any proceeding of any Governmental Authority alleging the violation of any Applicable Environmental Law, or that may lead to a claim or order for clean-up costs, remedial work, reclamation, conservation, damage to natural resources or personal injury, or that may lead to the issuance of a stop-work order, environmental protec- tion order, enforcement order, suspension order, control order, prevention order or clean-up order;

iv) the Corporation, each Subsidiary and West Windsor Power are not the subject of any federal, provincial, state, local or foreign review, audit or investigation which may lead to a proceeding referred to in clause (iii);

v) the Corporation, each Subsidiary and West Windsor Power are not aware of any of their predecessors in title to any of their pro- perty being the subject of any order referred to in clause (ii), or any federal, provincial, state, local or foreign review, audit or investigation which may lead to a proceeding referred to in clause (iii);

vi) none of the Corporation's, any Subsidiary's or West Windsor Power's property is (or could reasonably be expected to be) designated as a "contaminated site" or has an equivalent designation under Applicable Environmental Laws, nor could it be considered to be an "unsightly property" under Applicable Environmental Laws;

vii) the Corporation, each Subsidiary and West Windsor Power are not subject to any action, suit, claim or proceeding by any Person other than a Governmental Authority, relating to non-compliance with any Applicable Environmental Law or to the release or existence of Hazardous Materials on any property or in the environment;

viii) the Corporation and each Subsidiary are not subject to any well abandonment order or direction from the Alberta Energy and Utilities Board (Alberta) or equivalent agency in any other jurisdic- tion, nor are they liable for abandonment costs in respect of property in which the Corporation or such Subsidiary no longer is a working interest participant under Section 20.4 of the Oil and Gas Conservation Act (Alberta) or equivalent legislation in another jurisdiction;

ix) the Corporation and each Subsidiary are not aware of their respective property or the property of West Windsor Power ever having been the subject of any non-compliance of any Applicable Environmental Law, or any order referred to in clause (ii), or any proceeding of the nature referred to in clause (iii), or any review, audit or investiga- tion of the nature referred to in clauses (iv) or (v), or any designation of the nature referred to in clause (vi), or any action, suit, claim or proceeding of the nature referred to in clause (vii); and

x) the Corporation and each Subsidiary are not aware of any Person which is acting or has acted on their behalf, or for which they could have any liability under Applicable Environmental Laws, viola- ting any Applicable Environmental Laws; and

(a) environmental permits: the Corporation, each Subsidiary and West Windsor Power have obtained and continue to hold all approvals, permits, licenses, consents, certificates of variance, certificates of qualification and other authorizations which are necessary or advisable under Applicable Environmental Laws.

8L. Environmental Disclosure. The Corporation, each Subsidiary and West Windsor Power have no material contingent liability of which they have knowledge or reasonably should have knowledge in connection with any release of any Hazardous Materials into the environment, and no Hazardous Materials have been released on the real property of the Corporation or any Subsidiary (whether by the Corporation or any Subsidiary or, to their respective knowledge, any pre- decessor in title), or now exist thereon, in a manner contrary to Applicable Environmental Laws and which could result in a material expenditure for clean- up; the Corporation, each Subsidiary and West Windsor Power do not directly or indirectly generate, transport, handle, treat, store, recycle or dispose of Hazardous Materials (other than substances associated with the production of petroleum, natural gas and electricity).

8M. Environmental Risk Management8D.Outstanding Indebtedness . The Corporation, each Subsidiary and West Windsor Power have implemented and are now maintaining a prudent periodic program for environmental risk management.

8N. Disclosure. Neither this Agreement nor any other document, certificate or written statement furnished to you by the Corporation or its officers in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements con- tained herein or therein not misleading. There is no fact or facts peculiar to the Corporation or any of its Subsidiaries (excluding conditions general to the oil and gas industry) or West Windsor Power (excluding conditions general to the cogeneration industry) which individually or in the aggregate materially adversely affects or in the future would reasonably be expected to (so far as the Corporation can now foresee) materially adversely affect the business or assets, or financial condition of the Corporation and its Subsidiaries taken as a whole and which has not been set forth in this Agreement or in the other docu- ments, certificates and statements furnished to you by or on behalf of the Corporation prior to the date hereof in connection with the transactions contemplated hereby.

8O. Pari Passu. All payment obligations of the Corporation hereunder and under the Notes rank at least pari passu in priority of payment with

the Bank Indebtedness and with its other most senior unsubordinated Indebtedness for Borrowed Money, subject only to the secured rights of the holders of valid Liens expressly permitted by paragraph 6B(1) for Indebtedness owed to them. All payment obligations of each Material Subsidiary under any Material Subsidiary Guarantee executed by it, rank at least pari passu in priority of payment with the guarantees by Material Subsidiaries of the Bank Indebtedness and its other most senior unsubordinated Indebtedness, subject only to the secured rights of the holders of valid Liens expressly permitted by paragraph 6B(1) for Indebtedness owed to them.

8P. ERISA. No accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to any Plan (other than a Multiemployer Plan). No liability to the PBGC has been or is expected by the Corporation or any ERISA Affiliate to be incurred with respect to any Plan (other than a Multiemployer Plan) by the Corporation, any Subsidiary or any ERISA Affiliate which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Corporation and its Subsidiaries taken as a whole. Neither the Corporation, any Subsidiary nor any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Corporation and its Subsidiaries taken as a whole. The execution and delivery of this Agreement and the issuance and sale of the Notes will be exempt from, or will not involve any transaction which is subject to, the prohibitions of Section 406(a) of ERISA and will not involve any transaction in connection with which a penalty or a tax could be imposed under Section 4975 of the Code. The representation by the Corporation in the next preceding sentence is made in reliance upon and subject to the accuracy of your representation in paragraph 9A(2).

8Q. Foreign Assets Control Regulations, etc. The Corporation is not a "national" of any foreign country with which the United States of America maintains a commercial embargo, or an order freezing assets, pursuant to legislation, executive orders of the President, or regulations of the Treasury Department. Neither the sale of the Notes by the Corporation nor the use of the proceeds thereof by the Corporation will violate any of such legislation, regu- lations or orders.

8R. Investment Company Act and Public Utility Holding Company Status. The Corporation is not (a) an investment company or a Person directly or indirectly controlled by or acting on behalf of an investment company, within the meaning of the United States Investment Company Act of 1940, as amended, or
(b) a "holding company" or "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", or a "public utility", within the meaning of the United States Public Utility Holding Company Act of 1935, as amended.

8S. Engineering Reports. The most recent Engineering Report and other related engineering data, production and cash flow projections, economic models and other information provided by the Corporation to you in respect of the reserves attributable to the oil and gas properties owned by the Corporation and its Subsidiaries is substantially accurate and fairly reflects the interests of the Persons specified therein and thereto as of the date thereof net of all royalties and other burdens affecting same, except to the extent that any inaccuracies would not have a Material Adverse Effect.

8T. Subsidiaries. Schedule G attached hereto contains a complete list, as of the Date of Closing, of (i) all of the Subsidiaries of the Corporation other than Subsidiaries the assets of which do not exceed Cdn. $1,000,000 in the aggregate, (ii) all Subsidiaries which have been designated as Material Subsidiaries, (iii) all Persons which have been designated as Excluded Subsidiaries by the Corporation, and (iv) the direct or indirect percentage ownership of the issued and outstanding Voting Shares of such Subsidiaries and Excluded Subsidiaries.

8U. Material Subsidiaries. As of the Date of Closing, the Corporation is, directly or indirectly, the registered and beneficial owner of all of the issued and outstanding Voting Shares and all other securities of each Material Subsidiary, other than the Mountain Companies.

8V. West Windsor Power. Neither the Corporation nor any Subsidiary has outstanding any commitments, obligations, other Indebtedness or Liens in favour of or for the benefit of any lender under the West Windsor Credit Agreement or any supplier to, buyer from, contractor of, or any other Person who may now or hereafter become a creditor of, West Windsor Power, other than
(i) Non-Recourse Debt under the West Windsor Credit Agreement and obligations pursuant to the documents described in paragraphs (a) through (e) of the defini- tion of West Windsor Power Indebtedness, which documents have not been amended to change in any material respect the non-recourse nature of the obligations thereunder or (ii) commitments, obligations, other Indebtedness or Liens in favour of any supplier to, buyer from, contractor of, or any other Person who may now or hereafter become a creditor of, West Windsor Power, which in the aggregate could have a Material Adverse Effect.

8W. Indeck. The total liability of the Corporation and its Subsidiaries under the Indeck Gas Contract and Indeck Security is less than Cdn. $7,000,000.

8X. PLC-Windsor Ltd. The proved producing and proved non-producing oil and gas properties formerly owned by PLC-Windsor Ltd. were contributed to Northstar Energy Partnership, other than the Dover oil sands project near Fort McMurray, Alberta.

PARAGRAPH 9. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE PURCHASER.

9A. Representations and Warranties of the Purchaser. You represent and warrant as follows:

9A(1) Nature of Purchase. You are acquiring the Notes to be purchased by you hereunder as principal and not with a view to or for sale in

connection with any distribution thereof within the meaning of the Securities Act and the Securities Act (Alberta) and such acquisition is in respect of a security which has an aggregate acquisition cost to you of not less than $97,000, within the contemplation of the Securities Act (Alberta), provided that the disposition of your property shall at all times be and remain within your control.

9A(2) Source of Funds. At least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by you to acquire the Notes to be purchased by you hereunder:

(a) the Source constitutes assets allocated to your "insurance company general account" (as such term is defined under Section V of the United States Department of Labor's Prohibited Transaction Class Exemption ("PTCE") 95-60) and, as of the date of the purchase of the Notes, you satisfy all of the applicable requirements for relief under Sections I and V of PTCE 95-60;

(b) no part of the Source constitutes the assets of any "employee benefit plan" as defined in Section 3(3) of ERISA, or its related trust, or any "plan" as defined in Section 4975(e)(1) of the Code, or its related trust (in this paragraph 9A(2), each a "Plan");

(c) the Source constitutes assets of either (i) an insurance company pooled separate account, within the meaning of PTCE 90-1, or (ii) a bank collective investment fund, within the meaning of PTCE 91-38; and either (x) no Plan (together with any other Plan maintained by the same employer or employee organization) holds more than a 10% interest in such account or fund; and your acquisition of the Notes to be acquired hereunder with the Source is eligible for and satisfies the requirements of PTCE 90-1 or PTCE 91-38 as in effect on the date of this representation and will be exempt from the restrictions of Section 406(a), 406(b)(2) and 407(a) of ERISA and the taxes imposed by Section 4975(a) and (b) of the Code or (y) you have identified in writing to the Corporation those Plans which (to- gether with any other Plan maintained by the same employer or employee organization) hold more than a 10% interest in such pooled separate account or bank collective investment fund and the Corporation has notified you in writing that it is not a party in interest or a disqualified person (as defined in Section 3 (14) of ERISA and Section 4975(e)(2) of the Code, respectively) with respect to any such Plan;

(d) the Source constitutes assets of one or more Plans which you have identified in writing to the Corporation, or one or more separate accounts or trust funds in which is included assets of one or more of such identi- fied Plans, and the Corporation has notified you in writing that it is not a "party in interest" or a "disqualified person" (as defined in Section 3(14) of ERISA and Section 4975(e)(2) of the Code, respectively) with respect to any such Plan;

(e) the Source constitutes assets of a "governmental plan" as defined in Section 3(32) of ERISA; or

(f) the Source constitutes assets of an investment fund, the assets of which do not include assets of any employee benefit plan within the meaning of ERISA.

9A(3) Location. Your head registered office is located outside of Canada, and the Notes will be held by you outside Canada.

9B. Representations, Acknowledgements and Covenants of the Purchaser.

9B(1) Acknowledgement. You (by your execution of this Agreement) acknowledge that the Notes shall bear the following legend:

THIS NOTE HAS NOT BEEN QUALIFIED FOR DISTRIBUTION IN ALBERTA AND THIS NOTE, OR ANY INTEREST IN THIS NOTE, MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED OR ASSIGNED TO ANY RESIDENT OR PERSON IN ALBERTA UNTIL MAY 31, 1998.

The Corporation confirms that on and after May 31, 1998, upon request of the registered Holder of such Note for exchange of the certificates evidencing such Note and compliance with the terms and conditions hereof, the Corporation will issue a replacement Note without the above-captioned legend, provided that the registered Holder of such Note delivers to the Corporation a certificate that such Note is not beneficially owned by residents of Alberta. By your execution of this Agreement, you consent to the Corporation making a notation on its records in order to implement the foregoing provisions.

You, by your execution of this Agreement,

(i) represent that you are an insurance company as defined in
Section 2(13) of the Securities Act, and

(ii) understand and agree that the Notes have not been registered, and that the Corporation does not intend to register the Notes, under the Securities Act, and that such Notes shall bear the following legend:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 AS AMENDED, AND NEITHER THIS NOTE NOR ANY PARTICIPATION HEREIN MAY BE OFFERED OR SOLD IN CONTRAVENTION OF SAID ACT.

9B(2) Covenants Regarding Transfer of Notes. You covenant that you will not on or before May 31, 1998 sell, offer for sale, transfer or assign such Notes, or any interest therein, to any Person resident in Alberta. By its acquisition and holding of a Note, each Transferee will be deemed

to represent that one or more of the statements in clauses (a) through (f) of paragraph 9A(2) is correct with respect to each Source being used by it to acquire any Note.

PARAGRAPH 10. DEFINITIONS.

10. Definitions.

For the purpose of this Agreement, the terms defined in the introduc- tory sentence and in paragraphs 1 and 2 shall have the respective meanings specified therein, and the following terms shall have the meanings specified with respect thereto below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

10A. Yield-Maintenance Terms.

"Business Day" shall mean, when used in connection with the Yield- Maintenance Amount, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York are required or authorized to be closed.

"Called Principal" shall mean, with respect to any Note, the principal of such Note that is to be prepaid pursuant to paragraph 4B, or has become or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"Designated Spread" shall mean the following:

(a) for all purposes except a prepayment pursuant to paragraph 4B(b), 0.50% in the case of each Note, and

(b) for purposes of any prepayment of any Notes pursuant to para- graph 4B(b), 1.11%.

"Discounted Value" shall mean, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on such Note is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" shall mean, with respect to the Called Principal of any Note, the Designated Spread over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City local time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace Page 678 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if neces- sary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities.

"Remaining Average Life" shall mean, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" shall mean, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

"Settlement Date" shall mean, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to paragraph 4B, or has become or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"Yield-Maintenance Amount" shall mean, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Yield-Maintenance Amount shall in no event be less than zero.

10B. Other Terms.

"Additional Covenant" shall mean any affirmative or negative covenant or similar restriction applicable to the Corporation or any Subsidiary (regardless of whether such provision is labeled or otherwise characterized as a covenant or a default or event of default) the subject matter of

which either (i) is similar to that of the covenants in paragraphs 5D, 5K, 5L, 5M, 5Q, and 6 of this Agreement, or related definitions in paragraph 10 of this Agreement, but con- tains one or more percentages, amounts or formulas that is more restrictive than those set forth herein or more beneficial to the holder or holders of the Indebtedness created or evidenced by the document in which such covenant or similar restriction is contained (and such covenant or similar restriction shall be deemed an "Additional Covenant" only to the extent that it is more restric- tive or more beneficial) or (ii) is different from the subject matter of such covenants but contains restrictions or prohibitions on the ability of the Corporation or its Subsidiaries to (a) create, incur or permit to exist any indebtedness, Liens, leases or other similar obligations, (b) make any loans, advances or investments, (c) pay any dividends or make any distributions or repurchases of securities, (d) sell receivables, stock, debt or other assets,
(e) concerning pension plans or (f) involving any financial test (other than a "Debt to Cash Flow" covenant similar to that contained in Section 8.3(b) of the CIBC Credit Agreements).

"Affiliate" shall mean any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, the Corporation, except a Subsidiary. A Person shall be deemed to control a corporation or other entity if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation or such entity, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" shall have the meaning specified in paragraph 11C.

"Applicable Environmental Laws" shall mean those Applicable Laws which pertain to the environment or the release of Hazardous Materials into the environment, and includes any condition or requirement contained in a permit, license, approval, consent or other document issued pursuant to such laws.

"Applicable Laws" shall mean, in relation to any Person, property, trans- action or event:

(a) all applicable provisions of laws, statutes, rules and regula- tions from time to time in effect of any Governmental Authority, and

(b) all judgments, orders, awards, decrees, official directives, writs and injunctions from time to time in effect of any Governmental Authority in any action, proceeding or matter in which the Person is a party or by which it or its property is bound or having application to the transaction or event.

"Bank Indebtedness" shall mean the Indebtedness of the Corporation from time to time under the CIBC Credit Agreements and any other credit facility established in favour of the Corporation by any other bank(s), whether in substitution therefor or in addition thereto.

"Business Day" shall mean, when used other than in connection with the Yield-Maintenance Amount, any day other than a Saturday or a Sunday or a day on which commercial banks in New York, New York or Calgary, Alberta are required or authorized to be closed.

"Canadian Dollars" or "Cdn. $" or "$" shall mean lawful money of Canada.

"Capitalized Lease Obligation" shall mean, with respect to any Person, any rental obligation which, under GAAP, would be required to be capitalized on the books of such Person, taken at the amount thereof accounted for as indebtedness (net of interest expense) in accordance with such principles.

"CIBC" shall mean the Canadian Imperial Bank of Commerce, a Canadian chartered bank.

"CIBC Credit Agreements" shall mean the Credit Agreement relating to the Cdn. $300,000,000 Extendible Revolving Term Credit Facility between the Corporation and CIBC, Royal and TD, as Lenders and CIBC, as Agent for the Lenders, and Royal and TD as Co-Agents, dated April 15, 1997, as amended from time to time and the Credit Agreement relating to the Cdn. $60,000,000 Extendible Operating Credit Facility between the Corporation and CIBC, as amended from time to time, and the guarantees of David Limited Partnership dated April 15, 1997, Morrison dated April 15, 1997 and Northstar Energy Partnership dated November 1, 1997, each as amended from time to time.

"CIBC Offer to Amend" shall have the meaning specified in paragraph 6G.

"Claims" shall have the meaning specified in paragraph 11P.

"Closing" shall have the meaning specified in paragraph 2.

"Code" shall mean the United States Internal Revenue Code of 1986, as amended.

"Commodity Swap" means an agreement entered into between the Corporation or a Subsidiary and a counterparty on a case by case basis, the purpose and effect of which is to mitigate or eliminate the Corporation's or a Subsidiary's exposure to fluctuations in commodity prices.

"Compliance Certificate" means a compliance certificate substantially in the form attached hereto as Schedule E or such other form as may be reasonably acceptable to the Required Holders, executed on behalf of the Corporation by the Chairman, Chief Executive Officer, Chief

Operating Officer, Chief Financial Officer, President, any Vice President, Treasurer or Controller of the Corporation or any other officer of the Corporation involved principally in its financial administration or controllership function.

"Confidential Information" shall mean any material non-public information regarding the Corporation that is expressly and conspicuously marked as being "confidential", that is provided to any Holder, any Person who purchases a participation in a Note and any offeree of a Note or a participation therein pursuant to this Agreement other than information (a) which was publicly known or otherwise known to such Holder, such Person or such offeree at the time of the disclosure, (b) which subsequently becomes publicly known through no act or omission of such Holder, such Person or such offeree or (c) which otherwise becomes known to such Holder, such Person or such offeree, other than through disclosure by the Corporation or any Subsidiary.

"Consolidated Debt" shall mean, in respect of the Corporation and its Subsidiaries, as of the end of any Fiscal Quarter and as determined in accord- ance with GAAP on a consolidated basis, without duplication, an amount equal to:

(a) the aggregate of:

(i) the amount of Indebtedness for Borrowed Money; and

(ii) to the extent not included in Indebtedness for Borrowed Money:

(A) Guarantees in respect of the Indebtedness for Borrowed Money of any other Person (including Excluded Subsidiaries), other than a Subsidiary; provided that any such Indebtedness for Borrowed Money of such other Person shall include obligations of the kind described in subparagraphs (A) through (F) inclusive of this paragraph
(ii) of the definition of Consolidated Debt;

(B) obligations:

(I) to purchase indebtedness or to advance or supply funds for the payment or purchase of indebtedness, including the pur- chase of debt securities, obligations or shares, or

(II) to make any payment, loan, advance, capital contribu- tion or other investment in or to a Person, or become or be bound by any agreement to do so, for the purpose of assuring a minimum equity, an asset base, a working capital or other balance sheet test or condition for any date or to provide funds for the payment of any debt liability, dividend or share liquida- tion payment, or otherwise to supply funds to or in any manner invest in such Person,

other than where such Person is a Subsidiary or where any such obligations relate to payments made or to be made on behalf of any such Person in the ordinary course of business in accordance with normal petroleum and natural gas industry practice pursuant to the provisions of operating agreements which require or permit joint operators under any such operating agreements to make such payments after such Person has defaulted in the payment thereof;

(C) obligations with respect to Prepaid Obligations and deferred revenues relating to third party obligations;

(D) the amount of Capitalized Lease Obligations;

(E) any Sale-Leaseback to the extent it constitutes a Capitalized Lease Obligation;

(F) obligations arising under Swaps entered into by the Corporation or a Subsidiary for speculative purposes (determined, where relevant, by reference to GAAP) or other than in the ordinary course of its business to the extent of the net amount due or accruing due by the Corporation or a Subsidiary thereunder (determined by marking-to-market the same in accordance with their terms); provided that Interest Swaps having as a subject matter principal amounts (determined on a net basis taking into account Swaps entered into to reverse the position or limit the exposure under an existing Swap) greater than the aggregate indebtedness of the Corporation and its Subsidiaries for borrowed money available to them and Commodity Swaps in respect of which the Corporation or a Subsidiary is not permitted to create a Permitted Encumbrance pursuant to paragraph (n) of the definition thereof shall be deemed to be for speculative purposes or other than in the ordinary course of business; and

(G) the redemption amount of any preferred shares of the Corporation or its Subsidiaries (if such preferred shares are not owned by the Corporation or a Subsidiary) which are redeemable at the option of the holder thereof;

and shall exclude in any event:

(b) to the extent permitted by GAAP, any particular indebtedness if, upon or prior to the maturity thereof, there shall have been irrevocably deposited with the proper depository in trust the necessary funds (or evidences of indebtedness) for the payment, redemption or satisfaction of such indebted- ness, and thereafter such funds and evidences of indebtedness or other security so deposited are not included in any computation of the assets of such Person;

(c) contingent obligations in respect of court actions, suits or other proceedings which have not come to a final and conclusive judgment before a court of competent jurisdiction or such other Person as may have jurisdiction in the premises and the Corporation or any Subsidiary reasonably expects to be successful in the defense of such action, suit or other proceeding;

(d) any lease or other arrangement relating to real or personal property which would, in accordance with GAAP, be accounted for as an operating lease of such Person;

(e) deferred taxes;

(f) Non-Recourse Debt; and

(g) for greater certainty, any Indebtedness for Borrowed Money included on the balance sheet of an Excluded Subsidiary, including Indebtedness of the type described in paragraph (a) above.

"Consolidated Interest Expense" shall mean, with reference to any period, the following for the Corporation and its Subsidiaries on a consolidated basis, after eliminating all intercompany transactions:

(a) all interest charges (including amortization of debt discount, bankers' acceptance discounts and stamping fees, commercial paper discounts, guarantee fees, and expense and imputed interest on Capitalized Lease Obligations and on Sale-Leasebacks to the extent they constitute Capitalized Lease Obligations) on Indebtedness properly charged or chargeable to income during such period in accordance with GAAP; plus

(b) all interest charges capitalized or deferred in determining Consolidated Net Earnings for such period; less

(c) to the extent included in clauses (a) or (b), interest charges in respect of Non-Recourse Debt; less

(d) to the extent included in (a) or (b), interest charges paid by Excluded Subsidiaries

provided that any interest charges paid or accrued by any Person acquired by the Corporation or any Subsidiary through purchase, amalgamation, merger or other- wise, or paid or accrued by any Person which is a successor to the Corporation by amalgamation or merger or as a transferee of its assets, shall be included in Consolidated Interest Expense only to the extent taken into account in determin- ing the net income of such Person included in Consolidated Net Earnings for such period.

"Consolidated Net Earnings" shall mean, with reference to any period, the net earnings (or loss) of the Corporation and its Subsidiaries (other than earn- ings of Excluded Subsidiaries) (after all taxes) for such period (taken as a cumulative whole), all determined in accordance with GAAP on a consolidated basis after deducting portions of income properly attributable to minority interests, if any, in the shares and surplus of Subsidiaries, provided that there shall be excluded:

(a) the income (or loss) of any Person prior to the date it becomes a Subsidiary or is merged into or amalgamated with the Corporation or a Subsidiary;

(b) the income (or loss) of any Person (other than a Subsidiary) in which the Corporation or any Subsidiary has an ownership interest, except to the extent that any such income has been actually received by the Corporation or such Subsidiary in the form of cash dividends;

(c) the undistributed income of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of its articles or any agreement, instrument or Applicable Law;

(d) any restoration to income of any contingency reserve taken in the same Fiscal Year;

(e) any aggregate net gain (or loss) during such period arising from the sale, exchange or other disposition of capital assets (such term to include all fixed assets, whether tangible or intangible, and all inventory sold in conjunction with the disposition of fixed assets);

(f) any gains or losses resulting from any write-up or write-down of assets;

(g) any net gain from the collection of the proceeds of life insurance policies;

(h) any gain or loss arising from the acquisition of any securities, or the extinguishment, under GAAP, of any Indebtedness, of the Corporation or any Subsidiary;

(i) any net income or gain or net loss during such period from any change in accounting, from any extraordinary items or from any prior period adjust- ments;

(j) any net income or gain or net loss during such period from any discon- tinued operations or the disposition thereof (for clarity, not including

the net income or gain arising from the disposition or particular oil and gas properties or related tangibles);

(k) in the case of a successor to the Corporation by amalgamation or merger or as a transferee of its assets, any earnings of the Person (other than a Subsidiary) amalgamated with or merged into the Corporation, or whose assets are transferred to the Corporation, prior to the date of such amalgama- tion, merger or transfer of assets;

(l) any net income or net loss from operations (for clarity after deduc- tion of interest expense relating to such operations) included therein and which are attributable to assets of the Corporation and its Subsidiaries to which a Non-Recourse Debt holder's rights, remedies and recourse are limited; and

(m) any net income or loss included therein from, and which is attribu- table to, Excluded Assets except to the extent received by the Corporation.

"Consolidated Tangible Assets" shall mean, as of the end of any Fiscal Quarter and as determined in accordance with GAAP, without duplication, the net book value of the property, plant and equipment as shown on the consolidated balance sheet of a Person for such Fiscal Quarter, less the aggregate of any amount included therein which is attributable to:

(a) any property, plant and equipment of such Person which is subject to a Lien securing Non-Recourse Debt; and

(b) any property, plant and equipment of such Person which is not located in Canada, the United States of America or Other Permitted Countries;

and, for greater certainty, there shall be excluded from the determination of Consolidated Tangible Assets, the net book value of any property, plant and equipment of the Excluded Subsidiaries.

"Consolidated Tangible Net Worth" shall mean, as of the end of any Fiscal Quarter, and as determined in accordance with GAAP on a consolidated basis, an amount equal to the amount of shareholders' equity of the Corporation and its Subsidiaries (including therein retained earnings) but excluding therefrom any shareholders' equity attributable to:

(a) preferred shares of the Corporation or of a Subsidiary (if such pre- ferred shares are not owned by the Corporation or another Subsidiary) which are redeemable at the option of the holder thereof;

(b) any Non-Recourse Debt, any Excluded Assets (for so long as the Excluded Assets are subject to a Lien securing Non-Recourse Debt) and any assets of the Corporation and its Subsidiaries to which any such Non-Recourse Debt holder's rights, remedies and recourse are limited and all retained earn- ings attributable to such assets;

(c) goodwill, trademarks, copyrights and other similar intangible assets as shown on the consolidated balance sheet of the Corporation and its Subsidiaries for such Fiscal Quarter; and

(d) all amounts properly attributable to minority interests, if any, in the shares and surplus of Subsidiaries;

and, for greater certainty, there shall be excluded from the determination of Consolidated Tangible Net Worth all Excluded Subsidiaries and all investments (whether by way of equity, loans or otherwise) of the Corporation and its Subsidiaries in all Excluded Subsidiaries.

"Currency Swap" shall mean a contract entered into between the Corporation or a Subsidiary and a counterparty on a case by case basis in connection with forward rate, currency swap or currency exchange and other similar currency related transactions, the purpose and effect of which is to mitigate or elimin- ate the Corporation's or a Subsidiary's exposure to fluctuations in exchange rates.

"Date of Closing" shall have the meaning specified in paragraph 2.

"David Limited Partnership" shall mean David Limited Partnership, a limited partnership formed under the laws of Alberta.

"EBITDA" shall mean, with reference to any period, the sum of Consolidated Net Earnings plus, to the extent deducted in determining Consolidated Net Earnings, the following for the Corporation and its Subsidiaries (other than Excluded Subsidiaries) on a consolidated basis, without duplication, after eliminating amounts properly attributable to minority interests and after eliminating all intercompany transactions:

(a) Consolidated Interest Expense,

(b) current and deferred income taxes (except current income taxes relating to sales or other dispositions of capital assets the losses from which are included in determining Consolidated Net Earnings),

(c) depreciation, depletion and amortization expense, and

(d) other non-cash expenses for such period,

and for certainty, excluding any non-cash income or gain. There shall be deducted from the foregoing the following for the Corporation and its Subsidiaries on a consolidated basis (to the extent included in determining Consolidated Net Earnings): income tax recovery (except income tax recovery relating to sales or other dispositions of capital assets the losses from which are included in determining Consolidated Net Earnings).

"Eligible Reinvestments" shall mean

(a) all purchases of property, plant and equipment in Canada, the United States of America and Other Permitted Countries made by the Corporation and its Subsidiaries during the relevant Fiscal Year;

(b) any proceeds of disposition in the relevant Fiscal Year held as cash or other liquid investments at the end of such Fiscal Year; and

(c) investments to acquire shares in the capital stock of petroleum and/or natural gas exploration and production companies organized and existing under the laws of Canada or a province thereof, or any state of the United States of America, with substantially all of its assets located and a majority of its business conducted within Canada or the continental United States of America (including Alaska), where the Corporation's objec- tive in making such acquisition is ultimately to acquire control of the subject company, provided that (i) the Corporation notifies the Holders in the next Compliance Certificate delivered pursuant to paragraph 5A(2) that it is invoking this clause (c) in order to comply with its obligation in paragraph 6B(3), and identifying the original date of the investment and the amount thereof as at the date the Compliance Certificate relates to, and (ii) within 270 days of the date such investment is made, the Corporation designates the subject company as a Material Subsidiary in accordance with the terms of this Agreement. For clarity, such investment shall cease to be an "Eligible Reinvestment" if at any time during such 270-day period the Corporation becomes unwilling or unable to acquire over 50% of the total combined voting power of all classes of Voting Shares of the subject company.

"Engineering Report" shall mean an engineering evaluation report prepared by an independent engineering firm or qualified in-house engineers of the Corporation, in form and substance satisfactory to the Required Holders, acting reasonably, which report shall, as of the date of such report, set forth the reserves attributable to the oil and gas properties owned by the Corporation and its Subsidiaries and evaluated therein, the royalties and other burdens applicable thereto and a projection of the rate of production and future net revenue therefrom and shall evaluate at least 70.0% of the proven producing oil and gas properties of the Corporation and its Subsidiaries determined by reference to future net revenue of such proven producing oil and gas properties.

"Environmental Liabilities" means any and all Indebtedness for any Release, any environmental damage, any contamination or any other environmental problem caused or alleged to have been caused to any Person, property or the environment as a result of any Release or the condition of any property or asset, whether or not caused by a breach of Applicable Laws, including, without limitation, all Indebtedness arising from or related to: any surface, underground, air, ground- water, or surface water contamination; the abandonment or plugging of any well; restorations and reclamations; the removal of or failure to remove any founda- tions, structures or equipment; the cleaning up or reclamation of storage sites; any Release; violation of pollution standards; and personal injury (including sickness, disease or death) and property damage arising from the foregoing.

"ERISA" shall mean the United States Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall mean any corporation which is a member of the same controlled group of corporations as the Corporation within the meaning of
Section 414(b) of the Code, or any trade or business which is under common control with the Corporation within the meaning of Section 414(c) of the Code.

"Event of Default" shall mean any of the events specified in paragraph 7A, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or both, or the happening of any further condition, event or act, and "Default" shall mean any of such events, whether or not any such requirement has been satisfied.

"Excess Cash Proceeds" shall have the meaning specified in paragraph 6B(3).

"Exchange Act" shall mean the United States Securities Exchange Act of 1934, as amended.

"Excluded Assets" shall mean, in respect of the Corporation or any Material Subsidiary, any of its assets and properties which are described in Schedule H.

"Excluded Subsidiary" shall mean a Person which would otherwise be a Subsidiary but in respect of which the Corporation has advised the Holders in writing, in the circumstances permitted pursuant to paragraph 5R, that such Person is no longer a Subsidiary.

"Existing Northstar Notes" shall mean the 7.03% Senior Notes due November 7, 2005 of the Corporation outstanding under the Northstar Note Agreement.

"Fiscal Quarter" shall mean the three month period commencing on the first day of each Fiscal Year and each successive three month period thereafter during such Fiscal Year.

"Fiscal Year" shall mean the Corporation's fiscal year which at present commences on January 1 of each year and ends on December 31 of such year.

"GAAP" shall mean generally accepted accounting principles in Canada from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable on the date on which the applicable determina- tion or calculation is made or required to be made.

"Governmental Approval" means an authorization, consent, approval, waiver, order, decree, license, exemption, permit, registration, filing, qualification or declaration of or with any Governmental Authority or the giving of notice to any Governmental Authority or any other action in respect of a Governmental Authority.

"Governmental Authority" means any federal, state, provincial, county, local or municipal government; any governmental body, agency, authority, board, bureau, department or commission (including any taxing authority); any instru- mentality or office of any of the foregoing (including any court or tribunal) exercising executive, legislative, judicial, regulatory or administrative func- tions; or any Person directly or indirectly controlled by any of the foregoing.

"Guarantee" shall mean any undertaking to assume, guarantee, indemnify, endorse (other than the routine endorsement of cheques in the ordinary course of business), contingently agree to purchase or to provide funds for the payment of, or otherwise become directly or indirectly liable (contingent or otherwise) in respect of, any Indebtedness of any Person; provided that the amount of each Guarantee shall be deemed to be the amount of the Indebtedness guaranteed thereby, unless the Guarantee is limited to a specified amount or to realization exclusively on specified assets in which case the amount of such Guarantee shall be deemed to be the lesser of such specified amount or the fair market value of such specified assets, as the case may be, or the amount of such Indebtedness.

"Hazardous Materials" shall mean any substance that:

(a) when released to the natural environment is likely to cause, immedi- ately or at some future time, material harm or degradation to the natural environment or any risk to human health and without restricting the generality of the foregoing, includes any pollutant, contaminant, waste or hazardous waste, or any "dangerous goods", "hazardous chemical", "hazardous substance" or "hazardous waste" as may be defined by Applicable Environmental Law for the protection of the natural environment or human health, or

(b) exhibits characteristics of flammability, corrosivity, reactivity or toxicity.

"Holder" or "Holders" shall mean the holder or holders of any Notes from time to time.

"Indebtedness" shall mean, with respect to any Person, all the Person's present and future indebtedness, liabilities and obligations of every nature and kind whatsoever, whether absolute or contingent, material or not, known or unknown, direct or indirect, including indebtedness created, incurred, assumed or guaranteed by such Person, all indebtedness for borrowed money, any obliga- tion arising in respect of any Swap or similar obligation and all liabilities which in accordance with GAAP would appear on the liability side of a balance sheet of such Person prepared as at such time, except items of capital, retained earnings, surplus, deferred tax reserves or accrued taxes.

"Indebtedness for Borrowed Money" shall mean, at any date of determination and as determined in accordance with GAAP on a consolidated basis, all indebted- ness, obligations and liabilities of a Person as of such date of determination which would be classified as long term debt upon a consolidated balance sheet of such Person (including, without limitation, the current portion of such long term debt) and all other indebtedness for borrowed money, including loans and commercial paper, which would be classified as current liabilities upon a con- solidated balance sheet of such Person as of such date of determination.

"Indeck" shall mean Indeck-Yerkes Limited Partnership.

"Indeck Gas Contract" shall mean the Gas Sales and Purchase Agreement dated March 9, 1989 between the Corporation and Indeck Gas Supply Corporation ("IGS") as amended by Amending Agreements dated May 31, 1990, June 28, 1991, and November 11, 1991, respectively, and as assigned by IGS to Indeck pursuant to an Assignment and Assumption Agreement dated as of May 14, 1992 among IGS, the Corporation and Indeck, and as further amended by an Amending Agreement dated July 6, 1992, between the Corporation and Indeck.

"Indeck Security" shall mean:

(a) the demand debenture dated July 6, 1992 in the principal amount of US $25,000,000 made by the Corporation in favour of Indeck;

(b) the security deposit agreement made as of July 6,1992 between Indeck and the Corporation; and

(c) any Lien granted under existing commitments in the Indeck Gas Contract.

"Interest Swap" shall mean a contract entered into between the Corporation or a Subsidiary and a counterparty on a case by case basis, in connection with interest rate swap transactions, interest rate options, cap transactions, floor transactions, collar transactions and other similar interest rate related trans- actions, the purpose and effect of which is to mitigate or eliminate the Corporation's or a Subsidiary's exposure to fluctuations in interest rates.

"Joint Venture Company" shall mean any corporation which is jointly con- trolled by the Corporation (either by itself or through any combination of itself and its Subsidiaries) and the other shareholders of such corporation; provided that no one Person exercises control over such corporation and the accounts of any such corporation, in accordance with GAAP, are proportionately consolidated into the accounts of the Corporation and, for greater certainty, "Joint Venture Company" presently includes each Mountain Company.

"Lien" shall mean any assignment, mortgage, charge, pledge, lien, encum- brance, title retention agreement (including, without limitation, Capitalized Lease Obligation) or any security interest whatsoever, howsoever created or arising, whether absolute or contingent, fixed or floating, legal or equitable, perfected or not.

"Loan Documents" shall mean this Agreement, each Note, each Material Subsidiary Guarantee and all other certificates, instruments and documents con- taining representations, warranties or covenants delivered from time to time by or on behalf of the Corporation or any Subsidiary in connection herewith or therewith.

"Material Adverse Effect" shall mean any event, circumstance, occurrence or change which would reasonably be expected to materially impair or have a material adverse effect on (i) the business, financial condition, operations, assets or properties of the Corporation and its Material Subsidiaries taken as a whole, (ii) the ability of the Corporation to repay the Notes or any other amount outstanding hereunder or any Material Subsidiary to perform its obliga- tions underits Material Subsidiary Guarantee, or (iii) the validity or enforce- ability of this Agreement or any other Loan Document.

"Material Subsidiary" shall mean a Subsidiary which has executed and delivered a Material Subsidiary Guarantee to the Holders and, notwithstanding that they are unable to provide a Material Subsidiary Guarantee, shall be deemed as of the Date of Closing to also include the Mountain Companies.

"Material Subsidiary Guarantee" shall mean a guarantee of the obligations of the Corporation by a Subsidiary to or for the benefit of the Holders substan- tially in the form of Schedule D, as amended from time to time, which in the case of Morrison shall initially be limited in an amount to Cdn. $100,000,000.

"Morrison" shall mean Morrison Petroleums Ltd., a corporation amalgamated pursuant to the laws of the Province of Alberta.

"Morrison Note Agreement" shall mean the Note Agreement dated as of July 19, 1995, as amended by letter agreement dated November 1, 1997, with respect to the issuance by Morrison of U.S. $75,000,000 of 6.76% senior notes due July 19, 2005, or any substitution therefor or replacement thereof.

"Mountain Companies" shall mean, collectively, Mountain Energy Inc. and 659502 Alberta Inc., the two corporations, the first of which ("Mountain 1") is owned (as to Voting Shares) as to 50% by each of the Corporation and Morrison Middlefield Resources Limited and the second of which is owned (as to Voting Shares) as to 100% by Mountain 1 and "Mountain Company" means either of them.

"Multiemployer Plan" shall mean any Plan which is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

"Non-Recourse Debt" shall mean Indebtedness incurred by the Corporation or a Subsidiary to finance the construction, development or acquisition of assets where the recourse of the lender of such Indebtedness (or any agent, trustee, receiver or other Person acting on behalf of the lender in respect of such Indebtedness) or any judgment in respect of such Indebtedness is limited, in all circumstances (other than in respect of false or misleading representations, warranties and covenants customary in limited recourse financing, in respect of which the lender's recourse is against the Corporation or a Subsidiary, as applicable, on an unsecured basis) to the assets constructed, developed or acquired (including all personal property arising from or relating to such assets) and in respect of which such Indebtedness has been incurred.

"Northstar Energy Partnership" shall mean Northstar Energy, a general partnership formed under the laws of Alberta, the partners of which are the Corporation and Morrison .

"Northstar Note Agreement" shall mean the Note Agreement dated as of November 7, 1995 with respect to the issuance by the Corporation of U.S. $60,000,000 of 7.03% senior notes due November 7, 2005, as amended.

"Notes" shall have the meaning specified in paragraph 1.

"Offers to Amend" shall mean any CIBC Offer to Amend and/or any Other Lender Offer to Amend.

"Officer's Certificate" shall mean a certificate signed in the name of the Corporation by a Responsible Officer.

"Other Lender Offer to Amend" shall have the meaning specified in paragraph 6H.

"Other Permitted Countries" shall mean the countries listed in Schedule F.

"PBGC" shall mean the United States Pension Benefit Guaranty Corporation or any successor entity.

"Permitted Disposition" shall mean, in respect of the Corporation or any Subsidiary, any of the following:

(a) a sale or disposition by such Person of oil and gas properties (and related tangibles) resulting from any pooling, unit or farmout agreement entered into in the ordinary course of its business and in accordance with sound industry practice when, in the reasonable judgment of the Corporation or such Subsidiary, it is necessary or desirable to do so in order to facili- tate the orderly exploration, development or operation of such oil and gas properties;

(b) a sale or other disposition by such Person in the ordinary course of business and in accordance with sound industry practice of tangible personal property that is obsolete, no longer useful for its intended purpose, or being replaced in the ordinary course of its business;

(c) a sale or disposition by such Person of current production from oil and gas properties made in the ordinary course of its business;

(d) sales or dispositions (including Voting Securities) by a Subsidiary to the Corporation, by a Material Subsidiary to a Material Subsidiary and by the Corporation to a Material Subsidiary, including dispositions to a partner- ship involving the Corporation and Morrison;

(e) a sale or disposition of assets by such Person which are subject to a Lien securing Non-Recourse Debt; and

(f) any sale or disposition of any assets or properties classified as property, plant and equipment on the most recent consolidated balance sheet of the Corporation and its Subsidiaries, including a Sale-Leaseback and any Prepaid Obligations, where the proceeds of disposition are applied to the pro rata prepayment of the Notes (in accordance with paragraph 4B(a)) and the out- standing Indebtedness under the CIBC Credit Agreements. The pro rata portion of such proceeds of disposition to be prepaid to the Holders shall be deter- mined by multiplying such proceeds by a fraction, the numerator of which is the aggregate principal amount of the Notes then outstanding plus the Yield- Maintenance Amount that the Corporation would ordinarily be required to pay on the full payout of the Notes (determined as of the Business Day next preceding the date of prepayment), and the denominator of which is the aggregate principal amount of the Notes outstanding plus the aggregate prin- cipal amount of Indebtedness outstanding under the CIBC Credit Agreements, plus all premiums which the Corporation would ordinarily be required to pay on the full payout of the Notes and such Indebtedness (determined as of the Business Day next preceding the date of prepayment).

"Permitted Encumbrances" shall mean any of the following:

(a) Liens for taxes, assessments or governmental charges which are not due or delinquent, or the validity of which the Corporation or any Subsidiary shall be contesting in good faith; provided the Corporation or such Subsidiary shall have made adequate provision therefor in accordance with GAAP;

(b) the Lien of any judgment rendered, or claim filed, against the Corporation or any Subsidiary which the Corporation or any such Subsidiary shall be contesting in good faith; provided the Corporation or such Subsidiary shall have made adequate provision therefor in accordance with GAAP;

(c) Liens, privileges or other charges imposed or permitted by law such as statutory liens and deemed trusts, carriers' liens, builders' liens, materialmens' liens and other Liens, privileges or other charges of a similar nature which relate to obligations not due or delinquent, including any Lien or trust arising in connection with workers' compensation, unemployment insurance, pension and employment laws or regulations;

(d) Liens arising in the ordinary course of and incidental to construc- tion, maintenance or current operations which have not been filed pursuant to law against the Corporation or any Subsidiary or in respect of which no steps or proceedings to enforce such Lien have been initiated or which relate to obligations which are not due or delinquent or if due or delinquent, which the Corporation or such Subsidiary shall be contesting in good faith; provided the Corporation or such Subsidiary shall have made adequate provision therefor in accordance with GAAP;

(e) Liens incurred or created in the ordinary course of business and in accordance with sound oil and gas industry practice in respect of the explora- tion, development or operation of oil and gas properties or related production or processing facilities or the transmission of petroleum substances as security in favour of any other Person conducting the exploration, develop- ment, operation or transmission of the property to which such Liens relate for the Corporation's or any of its Subsidiary's portion of the costs and expenses of such exploration, development, operation or transmission, provided that such costs or expenses are not due or delinquent or, if due or delinquent, which the Corporation or such Subsidiary shall be contesting in good faith; provided the Corporation or such Subsidiary shall have made adequate provision therefor in accordance with GAAP;

(f) overriding royalty interests, net profit interests, reversionary interests and carried interests or other similar burdens on production in respect

of the Corporation's or any of its Subsidiary's oil and gas properties that are entered into with or granted to arm's length third parties in the ordinary course of business and in accordance with sound oil and gas industry practice in Alberta;

(g) Liens for penalties arising under ordinary course non-participation provisions of operating agreements in respect of the Corporation's or any of its Subsidiary's oil and gas properties if such Liens do not materially detract from the value of any material part of the property of the Corporation and its Subsidiaries taken as a whole;

(h) easements, rights-of-way, servitudes, zoning or other similar rights or restrictions in respect of land held by the Corporation or any Subsidiary (including, without limitation, rights-of-way and servitudes for railways, sewers, drains, pipe lines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) which, either alone or in the aggregate, do not materially detract from the value of such land or materially impair its use in the operation of the business of the Corporation and its Subsidiaries taken as a whole;

(i) Liens given by the Corporation or any Subsidiary to a public utility or any Governmental Authority when required by such public utility or Governmental Authority in the ordinary course of the business of the Corporation or any Subsidiary in connection with operations of the Corporation or any Subsidiary if such Lien does not, either alone or in the aggregate, materially detract from the value of any material part of the property of the Corporation and its Subsidiaries taken as a whole and relates to obligations not due or delinquent;

(j) the right reserved to or vested in any Governmental Authority by the terms of any lease, license, grant or permit or by any statutory or regulatory provision to terminate any such lease, license, grant or permit or to require annual or other periodic payments as a condition of the continuance thereof;

(k) all reservations in the original grant from the Crown of any lands and premises or any interests therein and all statutory exceptions, qualifica- tions and reservations in respect of title;

(l) any Lien from time to time disclosed by the Corporation or any Subsidiary to the Holders and which is consented to by the Required Holders;

(m) any right of first refusal in favour of any Person granted in the ordinary course of business with respect to all or any of the oil and gas properties of the Corporation or any Subsidiary;

(n) Liens on cash or marketable securities of the Corporation or any Subsidiary granted in connection with any Swap entered into in the ordinary course of business and not for any speculative purpose provided:

(A) such Liens only secure the obligations of the Corporation or any Subsidiary under such Swap and, in respect of Commodity Swaps, the Corporation reasonably expects the Corporation or such Subsidiary to produce sufficient crude oil, natural gas or natural gas liquids in the ordinary cause of business equal to or greater than the amount of production subject to such Commodity Swap; and

(B) the obligations of the Corporation or a Subsidiary under such Swaps are not due and delinquent;

(o) Liens relating wholly to Non-Recourse Debt or any Lien on the Excluded Assets;

(p) Liens in favour of the Holders to secure the Notes;

(q) Liens to collateralize monies held in a cash collateral account by a lender in respect of the prepayment of bankers' acceptances, letters of credit or similar obligations accepted or issued by such lender but only if at the time of such prepayment no default or event of default has occurred and is continuing under the credit facility pursuant to which the bankers' accept- ances or letters of credit have been accepted or issued;

(r) the Indeck Gas Contract and the Indeck Security;

(s) the rights of buyers under production sale contracts related to the Corporation's or a Subsidiary's share of petroleum substances entered into in the ordinary course of business, provided that the contracts create no rights (including any Lien) in favour of the buyer or any other Person in, to or over any reserves of petroleum substances or other assets of the Corporation or a Subsidiary, other than a dedication of reserves (not by way of Lien or abso- lute assignment) on usual industry terms;

(t) Liens or trusts created, incurred or assumed by the Corporation or a Subsidiary in respect of Indebtedness for Borrowed Money incurred or assumed by the Corporation or a Subsidiary (the "Other Security Interest") where the Corporation or such Subsidiary, concurrently with the creation, incurrence or assumption of any Other Security Interest, (I) provides equal and ratable Liens and trusts to or for the benefit of the Holders to secure the Notes on the same property and assets in form and substance satisfactory to the Holders, acting reasonably, together with such other documents (including legal opinions in form and substance reasonably satisfactory to the Required Holders, including an opinion as to the validity, enforceability, registration and perfection of such Lien and that all payment obligations of the Corporation under the Notes rank at least pari passu in right of payment with all other obligations secured by such Other Security Interest) with respect to such Lien and trust as

the Holders may reasonably require and (II) causes the holders of the obligations secured by such Other Security Interest to enter into an inter-creditor agreement with all Holders, such inter-creditor agreement to be in form and substance satisfactory to the Required Holders; provided that at the time of and immediately after the creation, incurrence or assumption of the Other Security Interest and the Indebtedness for Borrowed Money secured thereby, no Default or Event of Default has occurred and is continuing;

(u) purchase money Liens upon or in any tangible personal property and fixtures (including real property surface rights upon which such fixtures are located) acquired by the Corporation or a Subsidiary in the ordinary course of business to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property; including any Liens existing on such property at the time of its acquisition (other than any such Lien created in contemplation of any such acquisition) provided that the aggregate amount of Indebtedness secured by all such Liens is not at any time in excess of 7.0% of the Consolidated Tangible Assets of the Corporation and its Subsidiaries as at the end of the immediate- ly preceding Fiscal Quarter;

(v) Liens on the assets of the Corporation or any Subsidiary which are not otherwise Permitted Encumbrances; provided that the aggregate amount of Indebtedness secured by all such Liens is not at any time in excess of 3.0% of the Consolidated Tangible Assets of the Corporation and its Subsidiaries as at the end of the immediately preceding Fiscal Quarter and such Liens do not attach generally to all or substantially all of the assets of the Corporation or a Material Subsidiary; and

(w) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Lien referred to in the preceding paragraphs (a) to (v) inclusive of this definition, so long as any such extension, renewal or replacement of such Lien is limited to all or any part of the same property that secured the Lien extended, renewed or replaced (plus improvements on such property) and the indebtedness or obliga- tion secured thereby is not increased from its original amount or any amount to which it has been repaid;

provided that nothing in this definition shall in and of itself constitute or be deemed to constitute an agreement or acknowledgment by any Holder that the Indebtedness subject to or secured by any such Permitted Encumbrance ranks (apart from the effect of any Lien included in or inherent in any such Permitted Encumbrance) in priority to the Indebtedness of the Corporation hereunder or of any Material Subsidiary under its Material Subsidiary Guarantee.

"Permitted Investments" shall mean

(a) investments in certificates of deposit or bankers' acceptances of com- mercial banks organized under the laws of Canada or the United States of America having capital, surplus or undivided profits in excess of U.S. $100,000,000 or equivalent in Canadian Dollars, a short term deposit rating of A-1 or better by Standard and Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), P-1 or better by Moody's Investors Services, Inc. ("Moody's"), A-1 or better by Canadian Bond Rating Service ("CBRS") or R-1
(low) or better by Dominion Bond Rating Service ("DBRS") or their equivalent, and a long term unsecured bond rating of A or better by S&P, A2 or better by Moody's, A or better by CBRS and A or better by DBRS, in each case such certificates or acceptances shall be due within one year from the date of purchase and payable in Canadian or U.S. Dollars,

(b) obligations of the Canadian or United States Government, and obliga- tions fully guaranteed by the Canadian or United States Government, in each case due within one year from the date of purchase and payable in Canada or the United States of America in Canadian or U.S. Dollars, and

(c) commercial paper having a short-term rating of A-1 or better by S&P, P-1 or better by Moody's, A-1 or better by CBRS and R-1
(middle/low) or better by DBRS or their equivalent and issued by corporations domiciled in Canada or the United States of America, in each case due within one year (in the case of Canadian Dollar denominated commercial paper) and 270 days (in the case of U.S. Dollar denominated commercial paper) from the date of purchase and payable in Canadian or U.S. Dollars.

"Permitted Title Defects" shall mean, as at any particular time, any of the following rights, limitations, reservations, provisos, conditions, excep- tions, qualifications, agreements, obligations and interests on or in respect of the assets, or any part of the assets, of the Corporation or any Subsidiary:

(i) easements, rights-of-way, servitudes, zoning, and similar rights in or restrictions in respect of land (including rights-of-way and servitudes for railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light and power and telephone or telegraph or cable television conduits, poles, wires and cables) granted to or reserved or taken by other Persons, which do not, individually or in the aggregate, materially detract from the use or value of the property subject thereto,

(ii) the reservations, limitations, provisos and conditions in any original grants from the Crown of any land or interests therein and statutory excep- tions, qualifications and reservations in respect of title,

(iii) the unexercised rights reserved or vested in any municipality or governmental or other authority or Person by the terms of any title documents, or by any statutory provisions, to terminate any such title documents, or other interests in land, or to require annual or other periodic payments as a condition of the continuance thereof,

(iv) obligations to deliver petroleum substances to buyers thereof or their assignees or nominees and rights of the buyers, their assignees and nominees under sales contracts entered into in the ordinary course of business and in accordance with sound industry practice, as the same may

be amended, replaced or renewed from time to time,

(v) royalties, overriding royalties, production payments, net profits and other interests and obligations arising in the ordinary course of business and in accordance with sound industry practice,

(vi) any agreement, or any interest or right created in favour of any Person thereunder, relating to pooling or unitization affecting the property and arising in the ordinary course of business and in accordance with sound industry practice,

(vii) any rights of first refusal, pre-emption or first purchase or requirements of consent to sale or disposition, created in the ordinary course of business, none of which have become exercisable heretofore or as a result of the execution and delivery of this Agreement or will, merely on the passage of time, become exercisable, and

(viii) defects in title which are not general in application and which do not, individually or in the aggregate, materially detract from the value of the property of the Corporation or any Subsidiary or any significant part thereof or materially impair the use of any thereof in the operation of their respective businesses.

"Person" shall mean any individual, firm, partnership, company, corporation or other body corporate, government, governmental body, agency, instrumentality, unicorporated body of Persons or association and the heirs, executors, administrators or other legal representatives of an individual.

"Plan" shall mean any "employee pension benefit plan" (as such term is defined in Section 3 of ERISA) which is or has been established or maintained, or to which contributions are or have been made, by the Corporation or any ERISA Affiliate or with respect to which the Corporation or any ERISA Affiliate may have any liability.

"Prepaid Obligations" shall mean "take-or-pay" or similar prepaid Indebtedness of a Person whereby such Person is obligated to settle, at some future date more than 90 days from the date the obligation is incurred, payment in respect of petroleum substances, whether by deliveries (accelerated or otherwise) of petroleum substances, payment of money or otherwise howsoever.

"Prime Rate" shall mean:

(a) in respect of amounts in U.S. Dollars, the rate of interest, expressed as a rate per annum, which The Bank of New York from time to time publicly announces in New York City as its Prime Rate, and

(b) in respect of amounts in Canadian Dollars, the prime lending rate of interest, expressed as a rate per annum, which CIBC from time to time establishes as the reference rate of interest in order to determine the interest rate it will charge for loans in Canadian Dollars to customers in Canada.

If either such institution ceases to announce or establish such rates, the Required Holders may designate an alternate similar financial institution in its place, both for the purposes of this Agreement and (in the case of U.S. Dollars) the Notes.

"Production Payment Transaction" shall mean:

(i) the sale (including any forward sale) or other transfer of petroleum or natural gas substances, chemicals, minerals or other products of the Corporation or a Subsidiary, whether in place or when produced, for a period of time until, or an amount such that, the purchaser will realize a specified amount of money (however determined, including by reference to interest rates or other factors which may not be fixed) or a specified amount of such pro- ducts, or

(ii) any other transaction involving an interest in property of the character commonly referred to as a "production payment".

"Rate of Exchange" has the meaning specified in paragraph 11U.

"Release" shall mean any release, spill, emission, leaking, pumping, pouring, injection, escaping, deposit, disposal, discharge, leeching or migra- tion of any element or compound in or into the indoor or outdoor environment (including the abandonment or disposal of any barrels, tanks, containers or receptacles containing any contaminant), or in, into or out of any vessel or facility, including the movement of any contaminant through the air, soil, subsoil, surface, water, groundwater, rock formation or otherwise.

"Required Holders" shall mean the Holder or Holders of at least 51% of the aggregate principal amount of the Notes outstanding at such time (exclusive of Notes held by the Corporation or any of its Affiliates or Subsidiaries).

"Responsible Officer" shall mean the chief executive officer, chief opera- ting officer, executive vice-president, chief financial officer, vice-president finance or treasurer of the Corporation or any other officer of the Corporation involved principally in its financial administration or its controllership function.

"Royal" shall mean the Royal Bank of Canada, a Canadian chartered bank.

"Sale-Leaseback" shall mean an arrangement under which title to any tan- gible personal property or fixture is transferred by the Corporation or a Subsidiary (a "transferor") to another Person which leases or otherwise grants the right to use such property to the transferor (or nominee of the transferor), whether or not in connection therewith the transferor also acquires a right or is subject to an obligation to acquire the property, asset or interest, and regardless of the accounting treatment of such arrangement.

"Securities Act" shall mean the United States Securities Act of 1933, as amended.

"Subsidiary" shall mean:

(a) a Person of which another Person alone or in conjunction with its other Subsidiaries owns an aggregate number of the Voting Shares sufficient to enable the election of a majority of the directors (or other Persons per- forming similar functions) regardless of the manner in which other Voting Shares are voted;

(b) a Person of which another Person alone or in conjunction with its other Subsidiaries has, through the operation of any agreement or otherwise, the ability to elect or cause the election of a majority of the directors (or other Persons performing similar functions) or otherwise exercise control over the management and policies of such Person; and

(c) a Joint Venture Company;

and shall include any Person in like relation to a Subsidiary, but shall exclude in all circumstances an Excluded Subsidiary; and unless otherwise expressly indicated herein, "Subsidiary" shall only refer to and mean a Subsidiary of the Corporation (including a Joint Venture Company) which is not an Excluded Subsidiary.

"Successor" has the meaning specified in paragraph 6B(2).

"Swap" shall mean a Commodity Swap, Currency Swap or Interest Swap. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended Fiscal Quarter of such Person, based on the assumption that such Swap had terminated at the end of such Fiscal Quarter, and in making such deter- mination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then, in each such case, the amount of such obligation shall be the net amount so determined.

"TD" shall mean The Toronto-Dominion Bank, a Canadian chartered bank.

"Transaction" shall have the meaning specified in paragraph 6B(2).

"Transferee" shall mean any direct or indirect transferee of all or any part of any Note purchased by you under this Agreement.

"U.S. Dollars" or "U.S. $" shall mean lawful currency of the United States of America.

"Voting Shares" shall mean:

(a) capital stock of any class of any corporation or other securities of any other Person which carries voting rights to elect the board of directors (or other Persons performing similar functions) under any circumstances; and

(b) an interest in a general partnership, limited partnership, joint venture or similar Person which entitles the holder of such interest to receive a share of the profits, or on dissolution or partition, of the assets, of such Person.

"West Windsor Credit Agreement" has the meaning specified in the definition of West Windsor Power Indebtedness.

"West Windsor Power" shall mean West Windsor Power, an Ontario general partnership.

"West Windsor Power Indebtedness" shall mean the Indebtedness of the Corporation and any Material Subsidiary in relation to a Cdn. $150,000,000 Credit Agreement dated as of November 2, 1993 among West Windsor Power, the lenders named therein, Banque National de Paris and Citibank Canada as Lead Agents, Paribas Bank of Canada and Union Bank of Switzerland (Canada) as Co-Agents and Union Bank of Switzerland (Canada) as LC Bank, Administrative Agent and Collateral Agent, as amended by a Consent, Waiver and Amendment Agreement dated April 20, 1994, by a Consent Agreement dated January 13, 1995, by an Amendment dated February 23, 1996 and by an Amendment and Consent Agreement dated as of June 28, 1996 (as so amended, the "West Windsor Credit Agreement") and any documents related thereto to which the Corporation or any Material Subsidiary is a party or is bound, including, without limitation;

(a) the obligations of the Corporation pursuant to the Amended and Restated Sponsor Funding Agreement and Pledge dated as of January 1, 1996 by and among the Corporation, American Tractebel Corporation, Sky Energy Corporation, West Windsor Power and Union Bank of Switzerland (Canada);

(b) the obligations of the Corporation under the Amended and Restated Keep-Well Agreement made the 1st day of January, 1996 by and between the Corporation, PLC-Windsor Ltd. and Sky Energy Corporation;

(c) the obligations of PLC-Windsor Ltd. under the Amended and Restated Equity Subscription Agreement made as of January 1, 1996 by and among PLC-Windsor Ltd., Tractebel Canada Inc., Sky Energy Corporation and West Windsor Power;

(d) the obligations of PLC-Windsor Ltd. under the Assignment of Partnership Interest dated as of November 2, 1993 between PLC-Windsor Ltd. as Assignor and Union Bank of Switzerland (Canada) as Collateral Agent, as amended by a Letter Agreement dated January 1, 1996; and

(e) the obligations of the Corporation or PLC-Windsor Ltd. in respect of the "Debt Service Letter of Credit" (as defined in the West Windsor Credit Agreement).

"Wholly-Owned Subsidiary" shall mean a Subsidiary all of the Voting Shares and other equity interests of which are owned by the Corporation directly or indirectly through one or more Wholly-Owned Subsidiaries.

10C. Accounting Principles, Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all financial statements and certificates and reports as to financial matters required to be furnished hereunder shall be prepared, in accordance with GAAP, applied on a basis consistent with the most recent audited consolidated finan- cial statements of the Corporation and its Subsidiaries delivered pursuant to clause (ii) of paragraph 5A or, if no such statements have been so delivered, the most recent audited financial statements referred to in clause (i) of paragraph 8B.

PARAGRAPH 11. MISCELLANEOUS.

11A. Note Payments. The Corporation agrees that, so long as you shall hold any Note, the Corporation will make payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note in compliance with the terms of the Note and this Agreement, such payments to be made by wire transfer of immediately available funds for credit (not later than noon, New York City local time, on the date due) to your account or accounts as specified in the Purchaser Schedule attached hereto, or such other account or accounts in the United States of America as you may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. You agree that, before disposing of any Note, you will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Corporation agrees to afford the benefits of this paragraph 11A to any Transferee which shall have made the same agreement as you have made in this paragraph 11A.

11B. Expenses. The Corporation agrees, whether or not the transactions contemplated by this Agreement are consummated, to pay, and save you and any Transferee harmless against liability for the payment of, all out-of-pocket expenses arising in connection with such transactions, including (i) all docu- ment production and duplication charges and the fees and expenses of any special counsel engaged by you or such Transferee in connection with this Agreement (other than the fees and expenses of your special counsel in connection with the negotiation of and the execution and delivery of the Loan Documents at Closing), the transactions contemplated hereby and any subsequent proposed modification of, or proposed consent or waiver under, this Agreement (including the fees and expenses of counsel), whether or not such proposed modification shall be effected or proposed consent or waiver granted, and (ii) the costs and expenses, including attorneys' fees and solicitors' fees (on a solicitor and his own client basis), incurred by you or such Transferee in enforcing (or determining whether or how to enforce) any rights under this Agreement or the other Loan Documents or in responding to any subpoena or other legal process or informal investigative demand of any Governmental Authority issued in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby or by reason of you or such Transferee being the Holder of any Note, including costs and expenses incurred in any bankruptcy case. The obligations of the Corporation under this paragraph 11B shall survive the transfer of any Note or portion thereof or interest therein by you or any Transferee and the payment of any Note; provided that the Corporation shall not be liable for legal fees of a Purchaser or Transferee in connection with the transfer of a Note or any portion thereof.

11C. Consent to Amendments.

(a) This Agreement may be amended, and the Corporation may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Corporation shall obtain the written consent to such amendment, action or omission to act, of the Required Holders except that, without the written consent of the Holders of all Notes at the time outstanding, no amend- ment to this Agreement shall change the stated maturity date of any Note, or change the principal of, or the rate or time of payment of interest on or any Yield-Maintenance Amount payable with respect to any Note, or affect the time, amount or allocation of any prepayments, amend this paragraph 11C, or change the proportion of the principal amount of the Notes required with respect to any consent, amendment, waiver or declaration. Each Holder at the time or thereafter outstanding shall be bound by any consent authorized by this para- graph 11C, whether or not such Note shall have been marked to indicate such consent, but any Notes issued thereafter may bear a notation referring to any such consent. No course of dealing between the Corporation and any Holder nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any Holder of such Note. As used herein and in the Notes, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

(b) The Corporation will provide each Holder with sufficient information, sufficiently far in advance of the date a decision is required, to enable such Holder to make an informed and considered decision with respect to any pro- posed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Corporation will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provi- sions of this paragraph to each Holder promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite Holders of Notes.

11D. Form, Registration, Transfer and Exchange of Notes; Lost Notes.

(a) The Notes are issuable as registered notes without coupons in amounts of at least U.S. $1,000,000, except as may be necessary to reflect any prin- cipal amount not evenly divisible by U.S. $1,000,000. Except as repaid or prepaid in accordance herewith, no Holder shall hold less than an aggregate principal amount of U.S. $2,000,000 of Notes.

(b) The Corporation shall keep at its principal office in Calgary, Alberta a register in which the Corporation shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the principal office of the Corporation, the Corporation shall, at its expense, promptly execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount, registered in the name of such transferee or transferees. At the option of the Holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the principal office of the Corporation. Whenever any Notes are so surrendered for exchange, the Corporation shall, at its expense, promptly execute and deliver the Notes which the Holder making the exchange is entitled to receive. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the Holder of such Note or such Holder's attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange. A true and complete copy of such register (containing names and addresses of each Holder) shall be provided to any Holder promptly upon request therefor.

(c) Upon receipt of written notice from the Holder of any Note of the loss, theft, destruction or mutilation of such Note and, in the case of any such loss, theft or destruction, upon receipt of such Holder's unsecured indemnity, or in the case of any such mutilation upon surrender and cancella- tion of such Note, the Corporation will make and deliver promptly a new Note, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note.

11E. Persons Deemed Owners; Participations. Prior to due presentment for registration of transfer, the Corporation may treat the Person in whose name any Note is registered as the owner and Holder of such Note for the purpose of receiving payment of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Corporation shall not be affected by notice to the contrary. Subject to the preceding sentence and to Applicable Laws, the Holder of any Note may from time to time grant participations in such Note to any Person on such terms and conditions as may be determined by such Holder in its sole and absolute discretion, provided that any such participation shall be in a principal amount of at least U.S. $1,000,000.

11F. Survival of Representations and Warranties. All representations and warranties contained herein or made in writing by or on behalf of the Corporation in connection herewith shall survive the execution and delivery of this Agreement and the Notes, the transfer by you of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any Transferee, regardless of any investigation made at any time by or on behalf of you or any Transferee.

11G. Entire Agreement. Subject to paragraph 11F, this Agreement and the Notes embody the entire agreement and understanding between you and the Corporation and supersede all prior agreements and understandings relating to the subject matter hereof.

11H. Successors and Assigns. All covenants and other agreements in this Agreement contained by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto (including any Transferee) whether so expressed or not.

11I. Notices. All notices or other communications provided for hereunder (except for the facsimile notice required by paragraph 4C) shall be in writing and sent by nationwide overnight delivery service (with charges prepaid) and
(i) if to you, addressed to you at the address specified for such communications in the Purchaser Schedule attached hereto, or at such other address as you shall have specified to the Corporation in writing, (ii) if to any other Holder, addressed to such other Holder at such address as such other Holder shall have specified to the Corporation in writing or, if any such other Holder shall not have so specified an address to the Corporation, then addressed to such other Holder in care of the last Holder of such Note which shall have so specified an address to the Corporation, and (iii) if to the Corporation, addressed to it at 3000, 400 - 3rd Avenue S.W., Calgary, Alberta, T2P 4H2, Attention: Chief Financial Officer, or at such other address as the Corporation shall have specified to each Holder in writing; provided that any such communication to the Corporation may also, at the option of any Holder, be delivered by any other means either to the Corporation at its address specified above or to any officer of the Corporation.

11J. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day. If the date for any payment is extended to the next succeeding Business Day by reason of the preceding sentence, the period of such extension shall not be included in the computation of the interest payable on such Business Day.

11K. Satisfaction Requirement.9B.Representations, Acknowledgements and Covenants of the Purchaser If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to you or to the Required Holders, the determination of such satisfaction shall be made by you or the Required Holders, as the case may be, in the sole and exclusive judgment (exercised in good faith) of the Person or Persons making such determination.

11L. Governing Law and Submission to Jurisdiction.9B.Representations, Acknowledgements and Covenants of the Purchaser

(a) THIS AGREEMENT AND THE NOTES SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE PROVINCE OF ALBERTA AND THE LAW OF CANADA APPLICABLE THEREIN.

(b) The Corporation agrees that the courts of Alberta shall have jurisdiction to hear and determine any suit, action or proceeding and to settle any disputes which may arise out of or in connection with the aforesaid documents and it irrevocably submits to the non-exclusive jurisdiction of such courts, without prejudice to the rights of any Holder to take proceedings in any other jurisdictions, whether concurrently or not.

(c) The Corporation agrees that final judgment in any such suit, action or proceeding brought in such courts shall be conclusive and binding upon it and may be enforced against it in the courts of Canada (or any other courts to the jurisdiction of which it or its property is subject) by a suit upon such judgment, provided that it does not waive any right to appeal any such judg- ment, to seek any stay or otherwise to seek reconsideration or review of any such judgment.

11M. Amendments. This Agreement may not be changed orally, but (subject to the provisions of paragraph 11C) only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

11N. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11O. Descriptive Headings. The descriptive headings of the several para- graphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11P. Payment Free from Equities. The Notes shall be paid by the Corporation, and may be assigned by each Holder, absolutely free and clear of all equities, rights of set-off, claims, defenses, counterclaims, rights or other matters whatsoever (collectively, "Claims"), whether existing between a Holder and the Corporation and/or any third parties or intermediate Holders, and whether now existing or hereafter arising (before or after notice of any assign- ment to the Corporation) which could impair or adversely affect in any way the entitlement of any present or future Holder to enforce the Notes strictly in accordance with the terms and provisions hereof and of the Notes, and the Corporation hereby agrees not to assert, as against any assignee or any present or future Holder, any Claims arising out of this Agreement or any Note (other than the defenses that obligations hereunder have been performed or observed by the Corporation, or that such performance has been waived or that the Holders have consented to non-performance). For greater certainty, but without limiting the generality of the foregoing, the foregoing shall apply:

(a) notwithstanding that such Claim arises due to any act or omission of any Holder or any intermediate Holder or any other party;

(b) regardless of how closely or inseparably connected such Claim is to the obligations or whether it flows out of dealings or transactions related thereto; and

(c) notwithstanding actual or constructive notice to any assignee or any present or future Holder, or to any intermediate Holder or any other third party of such Claim, regardless of when received or deemed to be received.

The foregoing shall be without prejudice to the right of the Corporation to subsequently assert any Claim as against the assignor.

11Q. Note Repayment Net of Withholding Imposts. (a) All payments by the Corporation under this Agreement or any Note, whether in respect of principal, Yield-Maintenance Amount (if any), interest, interest on overdue interest, fees or any other payment obligations, shall be made in full without any deduction or withholding on account of taxes or duties of whatsoever nature imposed or levied by or on behalf of Canada or any Governmental Authority in Canada having power to tax unless the Corporation is prohibited by Applicable Law from doing so, in which event the Corporation shall:

(i) forthwith pay to each Holder such additional amount so that the net amount received by such Holder will equal the full amount which would have been received by it had no such deduction or withholding been made;

(ii) pay to the relevant taxation or other authorities within the period for payment permitted by Applicable Law the full amount of the deduction or withholding (including the full amount of any deduction or withholding from any additional amount paid pursuant to this paragraph); and

(iii) furnish to each Holder promptly, as soon as available, an official receipt of the relevant taxation or other authorities involved for all amounts deducted or withheld as aforesaid.

(b) If as a result of any payment by the Corporation under this Agreement or any Note, whether in respect of principal, Yield-Maintenance Amount (if any), interest, interest on overdue interest, fees or other payment obligations, any Holder is required to pay tax under Part XIII of the Income Tax Act (Canada) or any successor provisions (for instance, in accordance with Section 803 of the Regulations to the Income Tax Act (Canada)), then the Corporation will, upon demand by any Holder, and whether or not such taxes are correctly or legally asserted, indemnify each Holder for the payment of any such taxes, together with any interest, penalties and expenses in connection therewith, and for any taxes on such indemnity payment. All such amounts shall be payable by the Corporation on demand and shall bear interest at 8.79% per annum calculated from the date incurred by the Holder to the date paid by the Corporation.

(c) If, following any payment made by the Corporation to any Holder under paragraph (a)(i) above or any indemnity payment made by the Corporation to any Holder under paragraph (b) above, such Holder shall receive or be granted a refund, credit, allowance or remission in respect of the taxes or duties result- ing in the payment thereof and such Holder is able to readily identify such refund, credit, allowance or remission as being attributable to such taxes or duties, such Holder shall, to the extent that it can do so without prejudice to the retention of the amount of such refund, credit, allowance or remission and without prejudice to the right of such Holder to obtain any other relief or allowance which may be available to it, reimburse the Corporation with such amount as such Holder, acting reasonably, determines to be the amount of money attributable to such refund, credit, allowance or remission that may be paid by such Holder to leave it (after such reimbursement) in no worse position than it would have been in had there been no such deduction or withholding or payment of tax which resulted in the payment under paragraph (a)(i) or (b) above. Such Holder may charge to the Corporation (and may deduct from amounts reimbursable to the Corporation hereunder) a fee reasonably determined by such Holder to compensate it for any additional effort expended or cost incurred in determining such credit or remission or allocating it to the Corporation. Notwithstanding the foregoing, no Holder shall be obligated to disclose to the Corporation, or any of its agents, any computation made by such Holder in connection with this paragraph 11Q(c) or any information regarding such Holder's tax status or affairs.

11R. Interest.

(a) In respect of any overdue amounts hereunder or under the Notes where no provision is made herein or therein for payment of interest thereon, the Corporation shall pay interest on such overdue amounts on demand, calculated from the date such unpaid amount is due until such unpaid amount is paid in full, at 8.79% per annum.

(b) In no event shall any interest or fee to be paid hereunder or under a Note exceed the maximum rate permitted by Applicable Law. In the event any such interest rate or fee exceeds such maximum rate, such rate shall be adjusted downward to the highest rate (expressed as a percentage per annum) or fee that the parties could validly have agreed to by contract on the date hereof under Applicable Law. It is further agreed that any excess actually received by a Holder shall be credited against the princi- pal of the Notes (or, if the principal shall have been or would thereby be paid in full, the remaining amount shall be credited to the Corporation).

(c) All interest (including interest on overdue interest) payable by the Corporation hereunder and under the Notes shall accrue from day to day, computed as provided herein, and shall be payable after as well as before maturity, demand, default and judgment.

(d) Interest on the Notes shall be computed on the basis of a 360-day year of 12 30-day months. Solely for purposes of the Interest Act (Canada), the yearly rate of interest to which interest calculated for a period of less than one year on the basis of a year of 360 days consisting of 12 30- day periods is equivalent is such rate of interest multiplied by a fraction of which (i) the numerator is the product of (A) the actual number of days in the year commencing on the first day of such period, multiplied by (B) the sum of (y) the product of 30 multiplied by the number of complete months elapsed in such period and (z) the actual number of days elapsed in any incomplete month in such period; and (ii) the denominator is the product of (a) 360 multiplied by (b) the actual number of days in such period.

(e) The theory of "deemed reinvestment" shall not apply to the computation of interest and no allowance, reduction or deduction shall be made for the deemed reinvestment of interest in respect of any payments. Calculation of interest shall be made using the nominal rate method, and not the effective rate method, of calculation.

(f) To the extent permitted by law, Section 6 of the Judgment Interest Act (Alberta) is hereby waived and shall not apply to this Agreement or the Notes.

11S. Counterparts. This Agreement may be executed in any number of coun- terparts, and by facsimile, all of which together shall constitute one instrument.

11T. Currency References, Conversion and Payments.

(a) Unless otherwise stated, references in this Agreement to dollar amounts, Cdn. $, or $ shall be deemed to be references to Canadian Dollars.

(b) A reference in this Agreement to the equivalent of one currency in another currency shall mean the equivalent determined using the noon spot rate of exchange for conversion announced by the Bank of Canada on the day for conversion.

(c) All payments on account of the Notes (including interest and Yield-Maintenance Amounts) shall be made in U.S. Dollars.

11U. Judgment Currency. If, for the purposes of obtaining or enforcing judgment against the Corporation in any court, or for any other related

purpose hereunder, it is necessary to convert an amount due under this Agreement or any Note in the currency in which it is due (the "Original Currency") into another currency (the "Second Currency"), the rate of exchange applicable shall be the daily noon day rate quoted by the Bank of Canada on the relevant date to purchase the Original Currency with the Second Currency and includes any premium and costs of exchange payable in connection with such purchase. The Corporation agrees that its obligation in respect of any Original Currency due from it shall, notwithstanding any judgment or payment in the Second Currency, be dis- charged only to the extent that on the Business Day following the receipt of any sum so paid or adjudged to be due hereunder in the Second Currency the payee may purchase in the market the Original Currency with the amount of the Second Currency so paid or so adjudicated to be due; and if the amount of the Original Currency so purchased is less than the amount originally due in the Original Currency, the Corporation agrees that the deficiency shall be a separate obligation of it, independent from its obligations under this Agreement or any Note, and shall constitute in favour of the Holders a cause of action which shall continue in full force and effect notwithstanding any such judgment or order to the contrary, and the Corporation agrees, notwithstanding any such payment or judgment, to indemnify the Holders against any such loss or deficiency.

11V. Time; "Including"; "Assets"; "Property"

(a) Unless otherwise stated, references to time shall mean local time in Calgary, Alberta.

(b) The word "including" shall not be construed to limit or restrict the generality of the matter that precedes it.

(c) The words "property" and "assets" of a Person are used interchangeably herein, and each encompasses all property, assets and undertakings of the Person, both real and personal, present and future.

11W. Environmental Indemnity. The Corporation shall indemnify each Holder and hold each harmless against any and all losses, costs, expenses, liabilities, actions, suits, claims or damages of any and every kind sustained, paid or incurred by any of them as a result of any environmental claims, liabilities or obligations of any and every nature whatsoever relating to or affecting the Corporation, its Subsidiaries or West Windsor Power or the property of any of them ("their property"), or the property of others where the Corporation, any Subsidiary or West Windsor Power could have any liability in respect thereof under Applicable Environmental Laws, or personal injury or death, including in respect of:

(i) any environmental harm or damage to or impairment of their property (or any other Person's property) caused by the presence or release of any Hazardous Materials on their property, or by the Corporation or any Subsidiary or West Windsor Power, whether or not such presence or release was under control, care or management of a previous owner or of a tenant;

(ii) any decrease or loss in value of their property (or any other Person's property) occasioned by non-compliance with Applicable Environmental Laws;

(iii) the imposition or assertion of any Lien including any expenses collectable as taxes affecting their property under Applicable Environmental Laws by any Governmental Authority;

(iv) any claim asserted or order issued by a Governmental Authority (including an enforcement order or an environmental protection order issued under the Environmental Protection and Enhancement Act (Alberta)) against a Holder or an agent of any of them in respect of any matter referred to in clauses (i), (ii), or (iii), or for any clean-up, restoration, well abandonment, reclamation or other securing or remedial action in respect of their property (or any other Person's property); or

(v) any non-compliance with any provision herein relating to environmental matters.

Without limiting the generality of the foregoing, the indemnities in this paragraph shall extend to:

(i) legal fees on a solicitor and his own client basis, including the costs of defending and/or counterclaiming or claiming over against third parties in respect of any action or matters; and

(ii) any amounts payable arising out of a settlement of any action entered into between any Holder, and any Person with or without the consent of the Corporation;

but shall not extend to any claim, liability or obligation to the extent the same arises solely due to the gross negligence or willful misconduct of the Holder claiming indemnification.

These indemnities shall extend to the officers, directors, employees, agents and assignees of each Holder and the Corporation will hold the benefit of these indemnities in trust for such indemnified parties to the extent necessary to give effect hereto. The provisions of and undertakings and indemnification set out in this paragraph 11W shall survive the payment and satisfaction of the Notes.

11X. Disclosure to Other Persons; Confidentiality. Except as provided in this paragraph, each Holder and each Person who purchases a participation in a Note or any part thereof agrees that, prior to the occurrence of a Default, it will use its best efforts to hold in confidence and not to disclose the Confidential Information. The Corporation acknowledges that any Holder may deliver copies of any financial statements and

other documents delivered to such Holder, and disclose any other information disclosed to such Holder (including Confidential Information), by or on behalf of the Corporation or any Subsidiary in connection with or pursuant to this Agreement to (i) such Holder's directors, officers, employees, agents and legal counsel, (ii) financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the provisions of this paragraph 11X, (iii) any other Holder, (iv) any Person to which such Holder offers to sell such Note or any part thereof (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this paragraph 11X), (v) any Person to which such Holder sells or offers to sell a participation in all or any part of such Note (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this paragraph 11X), (vi) any Person from which such Holder offers to purchase any security of the Corporation (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this paragraph 11X),
(vii) any federal or state regulatory authority having jurisdiction over such Holder, (viii) the National Association of Insurance Commissioners or any similar organization, (ix) rating agencies that require access to information about the Holder's investment portfolio, or (x) any other Person to which such delivery or disclosure may be necessary or appropriate (a) in compliance with any law, rule, regulation or order applicable to such Holder, (b) in response to any subpoena or other legal process or informal investigative demand of a Governmental Authority, or (c) in connection with any litigation to which such Holder is a party.

11Y. Further Assurances.

(a) Each party shall promptly cure any defect by it in the execution and delivery of this Agreement or the Notes.

(b) The Corporation, at its expense, shall promptly deliver to any Holder, upon request by such Holder in writing, all such other and further documents, agreements, opinions, certificates and instruments (executed, as necessary) in order to give effect to the covenants and agreements of the Corporation in this Agreement or the other Loan Documents, and shall make any recording, file any notice or obtain any consent in connection therewith, all as may be reasonably necessary or appropriate in connection therewith.

If you are in agreement with the foregoing, please sign the form of accept- ance on the enclosed counterparts of this letter and return the same to the Corporation, whereupon this letter shall become a binding agreement among the Corporation and the Purchasers.

NORTHSTAR ENERGY CORPORATION

By: _____
John Richels c/s
Chief Financial Officer

The foregoing Agreement is hereby accepted as of the date first above written.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: _____ Robert G. Gwin
Vice President

SUPPLEMENTAL BENEFIT AGREEMENT

THIS AGREEMENT made effective as of the 31st day of December, 1998.

BETWEEN:

NORTHSTAR ENERGY CORPORATION, a body corporate having offices in the City of Calgary, in the Province of Alberta (hereinafter referred to as "Northstar")

OF THE FIRST PART

JOHN A. HAGG, an individual residing in the City of Calgary, in the Province of Alberta (hereinafter referred to as "Hagg")

OF THE SECOND PART BACKGROUND:

(a) Hagg is presently employed as its Chairman;

(b) Hagg has devoted considerable efforts on behalf of Northstar as an employee of Northstar and its predecessor corporations;
(c) the pension benefits that may be provided for Hagg through a registered plan are, due to maximum benefit levels imposed by the Income Tax Act, not adequate to provide Hagg with a retirement income commensurate with his contributions to the corporation; and

(d) Hagg is currently a highly valued employee of Northstar and Northstar wishes to provide Hagg an incentive to remain in the employ of Northstar and wishes to provide Hagg with an adequate retirement income in recognition of his long service.

NOW THEREFORE, the parties hereto agree as follows:

ARTICLE I
INTERPRETATION

1.01 Definitions. In this Agreement, the following words and phrases shall have the following meanings:

"Agreement" means this Supplemental Benefit Agreement;

"Compensation" means, in the respect of any calendar year, the aggregate of:

(a) the annual base salary paid by Northstar to Hagg during that year; plus

(b) any remuneration paid by Northstar to Hagg in that year pursuant to any profit sharing or officer or employee incentive, compensation or bonus program; but

(c) not including any amount paid under this Agreement, any amount paid due to Hagg's termination of employment, contributions made on behalf of Hagg pursuant to the Northstar Savings Plan, any amount included in income attributable to the exercise of (or acceleration of rights in) a stock option or receipt of a stock award; "Corporation" means Northstar;

"Final Average Compensation" shall mean the average of the highest annual Compensation earned by Hagg during the three consecutive calendar years of his employment during the 10 calendar years immediately preceding his attainment of age 60 or his earlier termination of employment, as the case may be;

"Retirement Benefit" means the retirement benefit payable by Northstar to Hagg pursuant to paragraph 2.01 hereof; and

"Spouse" means Hagg's wife, Kristin Bengsten Hagg.

1.02 Headings. The headings of the Articles and paragraphs herein are inserted for convenience of reference only and shall not affect the meaning or construction hereof.
1.03 Applicable Law. This Agreement shall be construed and interpreted in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein. Each of the parties hereby irrevocably attorn to the jurisdiction of the courts of the Province of Alberta with respect to any matters arising out of this Agreement.

ARTICLE II
RETIREMENT PAYMENT

2.01 Amount of Payment. Upon his retirement as an employee of Northstar (as provided below), the Corporation shall pay to Hagg an annual Retirement Benefit in the amount of 65% of his Final Average Compensation. Provided, in the event that Hagg terminates employment prior to his retirement date (as provided below), then, his Retirement Benefit shall be calculated as of such date based on his then earned Final Average Compensation. The Retirement Benefit shall commence upon Hagg's retirement or upon Hagg attaining the age of 60 years, whichever is later. The Retirement Benefit shall be payable to Hagg for his lifetime, subject to the survivor benefit payable to his Spouse pursuant to paragraph 2.03 hereof.
2.02 Manner of Payment. The Retirement Benefit payable hereunder at any point in time shall be calculated in Canadian dollars but shall be paid in U.S. dollars using the conversion rate in effect at the time of each payment based on the rate of exchange as quoted by the Bank of Canada (or, if not so quoted, the spot rate of exchange quoted for wholesale transactions made by Bank of America Canada at Toronto, Ontario), however, such exchange rate shall not be less than a conversion rate of .70 or greater than 1.00 from Canadian to U.S. dollars.
2.03 Survivor Benefit. In the event of Hagg's death after commencement of the payment of the Retirement Benefit, his Spouse will continue to receive 60% of the Retirement Benefit during her lifetime.

In the event of Hagg's death, prior to commencement of the payment of the Retirement Benefit, his Spouse's entitlement to receipt of 60% of the Retirement Benefit shall commence on the day that Hagg would have attained the age of 60 years or the date of his death, whichever occurs later, and such shall be payable to her thereafter during her lifetime.
2.04 Disability Benefit. In the event that Hagg is disabled while employed by Northstar and is, as a result thereof, unable to continue his employment with Northstar, Hagg's then earned Retirement Benefit will commence when Hagg attains age 60. If the disability occurs after Hagg attains the age of 60, the Retirement Benefit payments shall commence upon the occurrence of the disability.
2.05 No Adjustment. Except as provided in paragraph 2.02 herein, with respect to currency conversion, there will be no adjustment to the Retirement Benefit payable to Hagg after such payments commence, whether inflationary, deflationary, or other wise.

ARTICLE III
FUNDING AND TERMINATION

3.01 Funding Policy. The Retirement Benefit payable hereunder shall not be funded by Northstar in any way, in advance of payment to Hagg. The Retirement Benefit shall be unsecured contractual obligation of Northstar, payable from the available funds of Northstar, and with payment of the annual Retirement Benefit being made to Hagg in equal monthly installments. The Survivor Benefit payable to his Spouse shall similarly be paid. Hagg may, at his sole option, require Northstar to provide reasonable security for the ongoing obligations of the Corporation to make the Retirement Benefit payments, at the time of his retirement or thereafter, but not prior thereto.
3.02 Commutation. Northstar may, with the written agreement of Hagg or his Spouse, as the case may be, at any time after the date of the first payment of the Retirement Benefit, commute into a lump sum the value of the remaining Retirement Benefit payable under this Agreement and pay such commuted lump sum value to Hagg or his Spouse, as applicable.

3.03 Continuation of Employment. In consideration for the benefits payable hereunder, Hagg agrees to continue his employment with Northstar from January 1, 1999 through December 31, 2000 in the capacity as he presently serves as of the date this Agreement is executed. However, notwithstanding any provision herein to the contrary, Hagg will forfeit no benefits payable under the terms of this Agreement in the event that his employment with Northstar terminates for any reason prior to December 31, 2000.
3.04 Termination Of Employment. The Retirement Benefit payable to Hagg, and the Survivor Benefit payable to his Spouse, as the case may be, shall, subject to the provisions of paragraph 2.01 hereof, be payable by Northstar notwithstanding the date of Hagg's retirement or whether his employment is terminated voluntarily or involuntarily at any time.

ARTICLE IV
GENERAL

4.01 Confidentiality. Hagg shall not at any time use for his own purposes or purposes other than those of Northstar, or improperly divulge or communicate to anyone, confidential information which he receives or obtains in relation to the business or affairs of Northstar, other than information which is in the public domain or which enters the public domain other than through the act or failure to act on the part of Hagg.
4.02 Non-Competition. Hagg agrees that, at the time of his retirement or termination of his employment, he will make available to Northstar, at reasonable times, the benefits of his experience and advice in a consulting capacity, provided that Northstar pays to Hagg the costs and expenses, including travelling expenses, incurred by him in connection with rendering such services. In addition, Hagg agrees that he will not, within a two year period following commencement of payment of Retirement Benefits hereunder, without prior written approval from the board of directors of Northstar, either individually or in partnership or in conjunction with any person or entity, carry on or be engaged in or connected with any business that is in direct competition with the business carried on by Northstar at the time of Hagg's retirement. Nothing herein contained shall restrict or prohibit Hagg from making equity investments in any company or other business entity in the oil and gas industry or in any other industry sector in which Northstar is carrying on business at the time of Hagg's retirement, provided that the investment is passive in nature and Hagg is not involved in the management, direction or ongoing operation of that company or other business entity.
4.03 Severable. If any provision of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.
4.04 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, among the parties with respect to the subject matter of this Agreement.
4.05 Amendments. No amendment or modification of this Agreement shall be binding unless in writing, signed by each of the parties hereto.
4.06 Waiver. No waiver by either party hereto of any breach of any of the provisions of this Agreement shall take effect or be binding upon the party unless in writing and signed by such party. Unless otherwise provided therein, such waiver shall not limit or affect the rights of such party with respect to any other breach.

4.07 Successors and Assigns. This Agreement shall be non-assignable but shall enure to the benefit and be binding upon the parties hereto and their respective heirs, executors, administrators, other legal personal representatives.
4.08 Guarantee By Devon Energy. Devon Energy Corporation, an Oklahoma corporation, does hereby guarantee the performance of all of the obligations of Northstar to Hagg under the terms of this Agreement.
4.09 Effect of Agreement on Prior Related Agreement. This Agreement supersedes and replaces that certain agreement between Northstar and Hagg entitled "Supplemental Benefit Agreement" and dated January 1, 1996.
4.10 Further Acts. The parties hereto agree to execute and deliver such further and other documents and perform and cause to be performed such further and other acts and things as may be necessary or desirable in order to give full effect to this Agreement and every part hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

Executed this 17th day of February, 1999.

NORTHSTAR ENERGY CORPORATION

Per:_____

/s/ John A. Hagg
John A. Hagg

ACCEPTED AND AGREED TO THIS 17th DAY OF FEBRUARY, 1999:

DEVON ENERGY CORPORATION

Per: /s/William T. Vaughn
William T. Vaughn

CONSULTING AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

THAT, in consideration of the premises and the mutual agreements contained herein, DEVON ENERGY CORPORATION (the "Company"), a Delaware corporation of 1500 Mid-America Tower, Oklahoma City, Oklahoma 73102, has retained THOMAS F. FERGUSON ("Consultant"), of 46 Mount Street, London W1Y54D, England, as a consultant for the Company under the following terms and conditions:

1. Consultant shall use his best efforts and shall devote such time as may be necessary in maintaining the best possible relations between the Company, the shareholders of the Company and other Company project investors and participants in Europe; in assisting in identifying additional corporate opportunities for the Company involving European investors or participants; in establishing and maintaining the best possible relations with such prospective investors or participants; and in generally assisting the Company in each of such matters or others which are agreed upon by the parties from time-to-time.

2. Consultant shall provide the Company reports as often as may be appropriate under the circumstances (but no less than quarterly) describing the services performed hereunder and identifying the personal contacts made by Consultant, each in sufficient detail to adequately keep the Company apprised of the actions of Consultant hereunder.

3. It is recognized by the parties that Consultant's obligations hereunder are limited, and that Consultant's services shall be performed on a part-time basis only. The parties agree that Consultant is not and shall not be considered to be an employee of the Company, nor shall Consultant be authorized to take any action on the Company's behalf nor shall Consultant be authorized to obligate Company in any manner.

4. The Company shall pay Consultant for his services hereunder the sum of U.S. $30,000 per year in equal, quarterly installments. In addition, the Company shall reimburse all reasonable out of pocket expenses incurred by you in performing services hereunder. Unless specifically agreed to by the parties in a separate, written agreement, no other compensation, benefit or fee shall be due Consultant by the Company for these or other services performed by him.

5. This Agreement may be terminated by either party upon simple, written notice one to the other.

EXECUTED as of the 1st day of June, 1989.

DEVON ENERGY CORPORATION

By: /s/ J. Larry Nichols
J. Larry Nichols,
President

By:/s/ Thomas F. Ferguson
Thomas F. Ferguson

Exhibit 12

DEVON ENERGY CORPORATION
Computation of Ratio of Earnings to Fixed Charges

	Year Ended December 31, 1998	1997	1996
	(In Thousands, Except Ratios)		
Earnings (loss) before income taxes	$(75,792)	(473,833)	118,689
Add:			
Interest expense	22,632	18,788	12,662
Distributions on preferred securities of subsidiary	9,717	9,717	4,753
Amortization of costs incurred in connection with offering of the preferred securities of subsidiary trust	240	269	82
Estimated interest factor of operating payments	683	505	319
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	16,104	5,860	199
Earnings (loss) as adjusted (A)	$(26,416)	(438,694)	136,704
Fixed charges:			
Interest costs incurred	22,632	18,788	12,662
Distributions on preferred securities of subsidiary trust	9,717	9,717	4,753
Amortization of costs incurred in connection with the offering of the preferred securities of subsidiary trust	240	269	82
Estimated interest factor of operating lease payments	683	505	319
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	16,104	5,860	199
Total fixed charges (B)	$ 49,376	35,139	18,015
Ratio of earnings to fixed charges (A)/(B)	N/A	N/A	7.59
Insufficiency of earnings to cover fixed charges	$ 75,792	473,833	N/A

Exhibit 21

DEVON ENERGY CORPORATION

Subsidiaries of Registrant

The Registrant has the following significant subsidiaries:

Name of Subsidiary	Jurisdiction of Incorporation
Devon Energy Corporation (Nevada)	Nevada
Northstar Energy Corporation	Alberta, Canada
Devon Energy Canada Corporation	Alberta, Canada
Devon Financing Trust	Delaware
DBC, Inc.	Oklahoma

Exhibit 23.1

ENGINEER'S CONSENT

We consent to incorporation by reference in the Registration Statements (No. 33-32378, No. 33-67924 and No. 333-66873) on Form S-8 and the Registration Statements (No. 333-00815 and No. 333- 66899) on Form S-3 of Devon Energy Corporation the reference to our appraisal report for Devon Energy Corporation as of December 31, 1998, which appears in the December 31, 1998 annual report on Form 10-K of Devon Energy Corporation.

By: William E. LaRoche
LAROCHE PETROLEUM CONSULTANTS, LTD.

March 29, 1999

Exhibit 23.2

ENGINEER'S CONSENT

We consent to incorporation by reference in the Registration Statements (No. 33-32378, No. 33-67924 and No. 333-66873) on Form S-8 and the Registration Statements (No. 333-00815 and No. 333- 66899) on Form S-3 of Devon Energy Corporation the reference to our appraisal report for Devon Energy Corporation as of December 31, 1998, which appears in the December 31, 1998 annual report on Form 10-K of Devon Energy Corporation.

By: Allen K. Ashton
AMH GROUP LTD.

March 29, 1999

Exhibit 23.2

ENGINEER'S CONSENT

We consent to incorporation by reference in the Registration Statements (No. 33-32378, No. 33-67924 and No. 333-66873) on Form S-8 and the Registration Statements (No. 333-00815 and No. 333- 66899) on Form S-3 of Devon Energy Corporation the reference to our appraisal report for Devon Energy Corporation as of December 31, 1998, which appears in the December 31, 1998 annual report on Form 10-K of Devon Energy Corporation.

By: D. L. Paddock
PADDOCK LINDSTROM & ASSOCIATES LTD.

March 29, 1999

Exhibit 23.4

Independent Auditors' Consent

The Board of Directors
Devon Energy Corporation

We consent to incorporation by reference in the Registration Statements (No. 33-32378, 33-67924, 333-48643 and 333-66873) on Form S-8 and the Registration Statements (No. 333-00815 and 333-66899) on Form S-3 of Devon Energy Corporation of our report dated January 26, 1999, relating to the consolidated balance sheets of Devon Energy Corporation and subsidiaries as of December 31, 1998, 1997 and 1996 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended, which report appears in the December 31, 1998 annual report on Form 10-K of Devon Energy Corporation.

KPMG LLP

Oklahoma City, Oklahoma
March 24, 1999

Exhibit 23.5

Independent Auditors' Consent

We consent to the incorporation by reference in the Registration Statements (Nos. 33-32378, 33-67924, 333-48643 and 333-66873) on Form S-8 and Registration Statements (Nos. 333-00815 and 333-66899) on Form S-3 of Devon Energy Corporation of our report dated January 20, 1999 to the shareholders of Northstar Energy Corporation, appearing in this Form 10-K.

(SIGNED) DELOITTE & TOUCHE LLP
Deloitte & Touche LLP Chartered Accountants

Calgary, Alberta
Canada
March 24, 1999

Exhibit 23.6

INDEPENDENT AUDITORS' CONSENT

We consent to incorporation by reference in the Registration Statements (No. 33-32378, 33-67924, 333-48643 and 333-66873) on Form S-8 and the Registration Statements (No. 333-00815 and 333-66899) on Form S-3 of Devon Energy Corporation and our report dated February 5, 1997, relating to the consolidated balance sheet of Northstar Energy Corporation and subsidiaries as of December 31, 1996 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for the year then ended, which report appears in the December 31, 1998 annual report on Form 10-K of Devon Energy Corporation.

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

Calgary, Alberta, Canada
March 26, 1999

ARTICLE 5

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	YEAR	YEAR	YEAR
FISCAL YEAR END	DEC 31 1996	DEC 31 1997	DEC 31 1998
PERIOD END	DEC 31 1996	DEC 31 1997	DEC 31 1998
CASH	13417	42065	19154
SECURITIES	0	0	0
RECEIVABLES	63942	96828	83858
ALLOWANCES	0	0	0
INVENTORY	4310	4012	2750
CURRENT ASSETS	233643	213257	110648
PP&E	1488336	2320735	2610511
DEPRECIATION	568789	1325452	1509583
TOTAL ASSETS	1183290	1248986	1226356
CURRENT LIABILITIES	146807	136314	80656
BONDS	83000	305337	405271
PREFERRED MANDATORY	0	0	0
PREFERRED	0	0	0
COMMON	4288	4829	4842
OTHER SE	674484	591717	518121
TOTAL LIABILITY AND EQUITY	1183290	1248986	1226356
SALES	256765	452104	369660
TOTAL REVENUES	291335	499659	387508
CGS	0	0	0
TOTAL COSTS	0	0	0
OTHER EXPENSES	69614	120124	127400
LOSS PROVISION	0	0	0
INTEREST EXPENSE	12662	18788	22632
INCOME PRETAX	118689	(473833)	(75792)
INCOME TAX	51086	(173842)	(15507)
INCOME CONTINUING	67603	(299991)	(60285)
DISCONTINUED	0	0	0
EXTRAORDINARY	0	0	0
CHANGES	0	0	0
NET INCOME	67603	(299991)	(60285)
EPS PRIMARY	2.06	(6.38)	(1.25)
EPS DILUTED	1.99	(6.38)	(1.25)

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