

History of circumstances surrounding
The Bertha J. Barber No. 12 well
Located 330' FNL and 990' FEL of
Section 7-20S-37E, Lea Co., NM

- I. On or about October 17, 2000, Sapient received a letter from Chevron stating that it would seek regulatory approval to deepen an existing well, the G.C. Mathews #12, at a non standard location for the Monument Tubb West Pool at a location 330' North of Sapient's lease line. The letter stated that any objections to the application must be filed within 20 days.
- II. Sapient's initial review revealed that Chevron had other available wellbores in the SE 4 of Section 6 that were at standard locations which appeared to be re-entry candidates therefore, Sapient, believing it had an NMOCD approved unorthodox location filed an objection to Chevron's application.
- III. Falcon Creek purchased the Bertha Barber #12 well, along with several hundred other wells, from Cross Timbers Oil Company on April 1, 2000. Prior to such purchase Cross Timbers represented that all properties complied with any required regulatory permits and/or other orders needed to operate, produce and own the properties. Such representations have now expired. Further, Falcon Creek personnel performed a routine due diligence and found no evidence or notice, with regard to the Bertha Barber #12 that further regulatory approval was needed.
- IV. Sapient Energy Corp. acquired all of Falcon Creek, through merger agreement on July 14, 2000. In such merger, Sapient acquired 340 producing wells. Sapient relied on Falcon Creek's expertise as an experienced and knowledgeable operator of New Mexico properties to have in place all needed State orders to properly and legally produce all wells. In addition, a cursory review of all properties did not reveal or disclose anything that would lead one to believe additional State approvals were needed. As such, Sapient gave full value for the 100% WI, 87.5% NRI which Falcon Creek owned in the well.
- V. After Chevron filed its request for a unorthodox location, a closer review of the well file by Sapient indicated that Cross Timbers, as owner / operator of the Bertha Barber #12 prior to its sale to Falcon Creek on April 1, 2000, recompleted the well from an oil well to a gas well producing from the Tubb formation.
 - A. The file contained a State of New Mexico form C-103 dated August 10, 1999 wherein Cross Timbers provides notice that it intended to recomplete the well in the Tubb formation. Said form C-103 was approved by the State on September 20, 1999.
 - B. Cross Timbers then filed a State form C-105 dated September 9, 1999 providing notice that the well had been recompleted as a Tubb gas well.
 - C. Cross Timbers then filed a form C-103 dated September 9, 1999 providing notice that the well had indeed been recompleted in the Tubb formation as a gas well. The form was approved by the State on September 20, 1999.
 - D. Cross Timbers then filed a form C-102 dated September 9, 1999 showing an unorthodox Tubb gas well location being 330' FNL and 660' FEL of Section 7-20S-37E and the dedication of a 160 spacing unit described as the E/2 E/2 of said Section 7.
 - E. The State then approved, on September 20, 1999, Cross Timbers form C-104 allowable request, which grants an allowable for a wildcat Tubb gas well.

F. The well was then sold to Falcon Creek on April 1, 2000 and on April 14, 2000 the State approved Falcon Creek's allowable request form C-104 granting an allowable to produce gas from the Monument Tubb West Gas Pool.

VI. There was no indication in the files at any time that Cross Timbers or Falcon Creek had violated any regulatory rules or requirements nor does there exist any internal memos or letters of notification from the State of New Mexico that further approvals were required. To the contrary, it appeared to Sapien, who had not previously owned or operated any properties in New Mexico until its merger with Falcon Creek, that all needed State Regulatory papers had been approved.

VII. It was not until our attorney, after receipt of Chevron's request to deepen the G.C. Mathews #12, and after his review of the records in Sapien's file and at the NMOCD in Santa FE that Sapien was made aware

VIII. In Addition to Sapien paying Falcon Creek full value for 100% of the ~~Bertha~~ Barbe: #12 well, Sapien has also paid its 79 different royalty owners \$137,000.