

## **MATERIAL CHANGE REPORT**

Under Section 85(1) of the *Securities Act* (British Columbia) and Section 118(1) of the *Securities Act* (Alberta).

### **1. REPORTING ISSUER**

Mesquite Exploration Ltd.  
1545, 202 - 6<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 2R9

### **2. DATE OF MATERIAL CHANGE**

December 14, 2000

### **3. PUBLICATION OF MATERIAL CHANGE**

A press release was issued on December 15, 2000.

### **4. SUMMARY OF MATERIAL CHANGE**

On December 15, 2000, Mesquite Exploration Ltd. ("**Mesquite**") announced that it has entered into a formal pre-acquisition agreement with KB Resources Inc. ("**KB**") pursuant to which Mesquite has agreed to make an offer to acquire all of the issued and outstanding common shares of KB by way of a take-over bid.

The consideration for each common share of KB is to be made up of, at the option of the KB shareholder, either 0.564 Common Shares of Mesquite or \$0.62 cash, or any combination thereof, subject a maximum cash amount of \$7,536,315 and a maximum issuance of 1,000,000 Mesquite Common Shares. Total consideration for the offer equates to \$11.1 million based on the fully diluted number of common shares of KB outstanding including the assumption of approximately \$2.6 million in outstanding debt and working capital deficiency.

### **5. FULL DESCRIPTION OF MATERIAL CHANGE**

On December 15, 2000, Mesquite and KB jointly announced that they have entered into a formal pre-acquisition agreement pursuant to which Mesquite has agreed to make an offer to acquire all of the issued and outstanding common shares of KB by way of a take-over bid.

The consideration for each common share of KB is to be made up of, at the option of the KB shareholder, either 0.564 Common Shares of Mesquite or \$0.62 cash, or any combination thereof, subject a maximum cash amount of \$7,536,315 and a maximum issuance of 1,000,000 Mesquite Common Shares. Total consideration for the offer equates to \$11.1 million based on the fully diluted number of common shares of KB outstanding including the assumption of approximately \$2.6 million in outstanding debt and working capital deficiency.

The boards of directors of each of Mesquite and KB have unanimously approved the proposed transaction and the board of directors of KB has unanimously agreed to recommend that its shareholders accept the Mesquite offer. Collins Barrow Securities Inc. has provided a fairness opinion

to the board of directors of KB that the proposed transaction is fair from a financial point of view to the shareholders of KB.

The offer is subject to a number of conditions, including acceptance of the offer by at least 66 2/3% of the shareholders of KB. It is a condition of the mailing of the offer that certain major shareholders, senior management and directors representing over 50.1% of the outstanding shares of KB enter into lock-up agreements with Mesquite to deposit and not withdraw their shares under the offer, except in certain circumstances. The board of directors of KB has agreed that it will not solicit or initiate discussion or negotiations with any third party concerning any sale of any material position or assets of KB, or any business combination involving KB. KB has agreed to pay Mesquite a non-completion fee of \$500,000 in certain circumstances. Mesquite anticipates mailing the offer to all registered KB shareholders by December 21, 2000.

The offer will be open for acceptance for a minimum of 21 days after mailing. The acquisition will complement Mesquite's operating base, which currently consists of approximately 1100 boe (62% light oil, 10% natural gas and 28% heavy oil). KB's production profile consists of approximately 350 boe per day of production (33% gas, 67% light oil and natural gas liquids) and KB's undeveloped land inventory of approximately 16,300 net acres of land. At October 1, 2000, independent reservoir engineers assessed KB's reserves at 4,186 mmcf of natural gas and 759.2 mbbls of oil and NGL on a proven plus 1/2 probable basis.

KB has recently drilled a well in the Mitsue field that is waiting on completion and is currently drilling a potential gas well on the Medicine Lodge acreage. Mesquite will capture optimization and operating efficiencies at Mitsue as well as increase the potential for incremental gas production through the completion of this transaction.

As well, KB has significant tax pools of approximately \$8.5 million of which approximately \$3.4 million is CEE and CDE.

The transaction's acquisition parameters are as follows:

Gas converted to oil at	<u>6 mcf = 1 bbl</u>	<u>10 mcf = 1 bbl</u>
Current 2000 KB production (boe/d)	427	350
Current KB reserves (mboe)	1456.2	1177.8
Production acquisition cost (\$/boe/d)	\$27,332.00	\$33,346.00
Established reserve acquisition cost (\$/boe)	\$8.01	\$9.91

6. **RELIANCE ON CONFIDENTIAL FILING PROVISION**

Not applicable.

7. **OMITTED INFORMATION**

Not applicable.

8. **SENIOR OFFICERS**

Scott St. John, President of Mesquite, is knowledgeable about the material change set forth herein and can be reached at 403-263-5355.

9. **STATEMENT OF SENIOR OFFICER**

The foregoing accurately discloses the material change referred to herein.

Dated at the City of Calgary, in the Province of Alberta, this 18<sup>th</sup> day of December, 2000.

**MESQUITE EXPLORATION LTD.**

Per: "Scott St. John"  
Scott St. John  
President