

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

Commission file number 001-31539



ST. MARY LAND & EXPLORATION COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

41-0518430
(I.R.S. Employer Identification No.)

1776 Lincoln Street, Suite 700, Denver, Colorado
(Address of principal executive offices)

80203
(Zip Code)

(303) 861-8140
(Registrant's telephone number, including area code)

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 the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of April 25, 2008, the registrant had 61,519,532 shares of common stock, \$0.01 par value, outstanding.

ST. MARY LAND & EXPLORATION COMPANY

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share amounts)

	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,511	\$ 43,510
Short-term investments	1,187	1,173
Accounts receivable	200,385	159,149
Refundable income taxes	-	933
Prepaid expenses and other	12,022	14,129
Accrued derivative asset	1,181	17,836
Deferred income taxes	58,956	33,211
Total current assets	<u>281,242</u>	<u>269,941</u>
Property and equipment (successful efforts method), at cost:		
Proved oil and gas properties	2,851,809	2,721,229
Less - accumulated depletion, depreciation, and amortization	(823,410)	(804,785)
Unproved oil and gas properties, net of impairment allowance of \$9,554 in 2008 and \$10,319 in 2007	153,148	134,386
Wells in progress	146,932	137,417
Oil and gas properties held for sale less accumulated depletion, depreciation, and amortization	27,181	76,921
Other property and equipment, net of accumulated depreciation of \$11,940 in 2008 and \$11,549 in 2007	9,755	9,230
	<u>2,365,415</u>	<u>2,274,398</u>
Noncurrent assets:		
Goodwill	9,452	9,452
Accrued derivative asset	1,744	5,483
Other noncurrent assets	12,434	12,406
Total noncurrent assets	<u>23,630</u>	<u>27,341</u>
Total Assets	<u>\$ 2,670,287</u>	<u>\$ 2,571,680</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 285,481	\$ 254,918
Accrued derivative liability	156,345	97,627
Deposit associated with oil and gas properties held for sale	-	10,000
Total current liabilities	<u>441,826</u>	<u>362,545</u>
Noncurrent liabilities:		
Long-term credit facility	276,500	285,000
Senior convertible notes	287,500	287,500
Asset retirement obligation	100,171	96,432
Asset retirement obligation associated with oil and gas properties held for sale	1,104	8,744
Net Profits Plan liability	225,032	211,406
Deferred income taxes	289,050	257,603
Accrued derivative liability	235,795	190,262
Other noncurrent liabilities	9,813	8,843
Total noncurrent liabilities	<u>1,424,965</u>	<u>1,345,790</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value: authorized - 200,000,000 shares; issued: 61,501,825 shares in 2008 and 64,010,832 shares in 2007; outstanding, net of treasury shares: 61,301,725 shares in 2008 and 63,001,120 shares in 2007	615	640
Additional paid-in capital	64,923	170,070
Treasury stock, at cost: 200,100 shares in 2008 and 1,009,712 shares in 2007	(2,804)	(29,049)
Retained earnings	971,570	878,652
Accumulated other comprehensive loss	(230,808)	(156,968)
Total stockholders' equity	<u>803,496</u>	<u>863,345</u>
Total Liabilities and Stockholders' Equity	<u>\$ 2,670,287</u>	<u>\$ 2,571,680</u>

The accompanying notes are an integral part of these consolidated financial statements.

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

	For the Three Months Ended March	
	31,	
	2008	2007
Operating revenues:		
Oil and gas production revenue	\$ 310,432	\$ 193,706
Realized oil and gas hedge gain (loss)	(23,950)	18,684
Marketed gas system and other operating revenue	19,603	8,616
Gain on sale of proved properties	56,017	-
Total operating revenues	<u>362,102</u>	<u>221,006</u>
Operating expenses:		
Oil and gas production expense	59,476	52,320
Depletion, depreciation, amortization and asset retirement obligation liability accretion	70,354	48,959
Exploration	14,308	19,019
Abandonment and impairment of unproved properties	1,008	1,484
General and administrative	21,128	12,891
Change in Net Profits Plan liability	13,626	4,965
Marketed gas system and other operating expense	18,445	7,952
Unrealized derivative loss	6,417	3,904
Total operating expenses	<u>204,762</u>	<u>151,494</u>
Income from operations	157,340	69,512
Nonoperating income (expense):		
Interest income	97	103
Interest expense	(4,971)	(6,053)
Income before income taxes	152,466	63,562
Income tax expense	(56,470)	(23,612)
Net income	<u>\$ 95,996</u>	<u>\$ 39,950</u>
Basic weighted-average common shares outstanding	62,861	57,011
Diluted weighted-average common shares outstanding	64,045	64,908
Basic net income per common share	<u>\$ 1.53</u>	<u>\$ 0.70</u>
Diluted net income per common share	<u>\$ 1.50</u>	<u>\$ 0.63</u>

The accompanying notes are an integral part of these consolidated financial statements.

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated	Total Stockholders' Equity
	Shares	Amount		Shares	Amount		Other	
								Comprehensive Income(Loss)
Balances, December 31, 2006	55,251,733	\$ 553	\$ 38,940	(250,000)	\$ (4,272)	\$ 695,224	\$ 12,929	\$ 743,374
Comprehensive income, net of tax:								
Net income	-	-	-	-	-	189,712	-	189,712
Change in derivative instrument fair value	-	-	-	-	-	-	(154,497)	(154,497)
Reclassification to earnings	-	-	-	-	-	-	(15,470)	(15,470)
Minimum pension liability adjustment	-	-	-	-	-	-	70	70
Total comprehensive income								<u>19,815</u>
Cash dividends, \$ 0.10 per share	-	-	-	-	-	(6,284)	-	(6,284)
Treasury stock purchases	-	-	-	(792,216)	(25,957)	-	-	(25,957)
Issuance of common stock under Employee Stock Purchase Plan	29,534	-	919	-	-	-	-	919
Conversion of 5.75% Senior Convertible Notes due 2022 to common stock, including income tax benefit of conversion	7,692,295	77	106,854	-	-	-	-	106,931
Issuance of common stock upon settlement of RSUs following expiration of restriction period, net of shares used for tax withholdings	302,370	3	(4,569)	-	-	-	-	(4,566)
Sale of common stock, including income tax benefit of stock option exercises	733,650	7	19,011	-	-	-	-	19,018
Stock-based compensation expense	1,250	-	8,915	32,504	1,180	-	-	10,095
Balances, December 31, 2007	64,010,832	\$ 640	\$ 170,070	(1,009,712)	\$ (29,049)	\$ 878,652	\$ (156,968)	\$ 863,345
Comprehensive income, net of tax:								
Net income	-	-	-	-	-	95,996	-	95,996
Change in derivative instrument fair value	-	-	-	-	-	-	(88,921)	(88,921)
Reclassification to earnings	-	-	-	-	-	-	15,080	15,080
Minimum pension liability adjustment	-	-	-	-	-	-	1	1
Total comprehensive income								<u>22,156</u>
Cash dividends, \$ 0.05 per share	-	-	-	-	-	(3,078)	-	(3,078)
Treasury stock purchases	-	-	-	(2,135,600)	(77,150)	-	-	(77,150)
Retirement of treasury stock	(2,945,212)	(29)	(103,237)	2,945,212	103,266	-	-	-
Issuance of common stock upon settlement of RSUs following expiration of restriction period, net of shares used for tax withholdings	408,829	4	(6,275)	-	-	-	-	(6,271)
Sale of common stock, including income tax benefit of stock option exercises	27,376	-	1,184	-	-	-	-	1,184
Stock-based compensation expense	-	-	3,181	-	129	-	-	3,310
Balances, March 31, 2008	61,501,825	\$ 615	\$ 64,923	(200,100)	\$ (2,804)	\$ 971,570	\$ (230,808)	\$ 803,496

The accompanying notes are an integral part of these consolidated financial statements.

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	For the Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Reconciliation of net income to net cash provided		
by operating activities:		
Net income	\$ 95,996	\$ 39,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of proved properties	(56,017)	-
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	70,354	48,959
Exploratory dry hole expense	690	9,569
Abandonment and impairment of unproved properties	1,008	1,484
Unrealized derivative loss	6,417	3,904
Change in Net Profits Plan liability	13,626	4,965
Stock-based compensation expense (1)	3,310	2,967
Deferred income taxes	50,089	21,237
Other	3,627	(125)
Changes in current assets and liabilities:		
Accounts receivable	(41,236)	7,762
Refundable income taxes	933	-
Prepaid expenses and other	(336)	2,319
Accounts payable and accrued expenses	(5,142)	(16,003)
Income tax benefit from the exercise of stock options	(860)	(913)
Net cash provided by operating activities	142,459	126,075
Cash flows from investing activities:		
Proceeds from sale of oil and gas properties	130,400	324
Capital expenditures	(161,306)	(135,183)
Acquisition of oil and gas properties	(53,031)	(1,186)
Other	(10,007)	16
Net cash used in investing activities	(93,944)	(136,029)
Cash flows from financing activities:		
Proceeds from credit facility	389,000	19,000
Repayment of credit facility	(397,500)	(3,000)
Repayment of short-term note payable	-	(4,469)
Income tax benefit from the exercise of stock options	860	913
Proceeds from sale of common stock	328	779
Repurchase of common stock	(77,202)	-
Net cash provided by (used in) financing activities	(84,514)	13,223
Net change in cash and cash equivalents	(35,999)	3,269
Cash and cash equivalents at beginning of period	43,510	1,464
Cash and cash equivalents at end of period	\$ 7,511	\$ 4,733

(1) Stock-based compensation expense is a component of exploration expense and general and administrative expense on the consolidated statements of operations. During the periods ended March 31, 2008, and 2007, respectively, \$1.1 million and \$1.0 million of stock-based compensation expense was included in exploration expense. During the periods ended March 31, 2008, and 2007, respectively, \$2.2 million and \$1.9 million of stock-based compensation expense was included in general and administrative expense.

The accompanying notes are an integral part of these consolidated financial statements.

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)

Supplemental schedule of additional cash flow information and noncash investing and financing activities:

	For the Three Months Ended March 31,	
	2008	2007
	(in thousands)	
Cash paid for interest, net of capitalized interest	\$ 3,616	\$ 9,102
Cash paid (refunded) for income taxes	\$ 2,081	\$ (1,815)

As of March 31, 2008, and 2007, \$132.8 million and \$99.0 million, respectively, are included as additions to oil and gas properties and as increases to accounts payable and accrued expenses. These oil and gas property additions are reflected in cash used in investing activities in the periods that the payables are settled.

In March 2007 the Company called the 5.75% Senior Convertible Notes for redemption. All of the note holders elected to convert the 5.75% Senior Convertible Notes to common stock. As a result, the Company issued 7,692,295 shares of common stock on March 16, 2007, in exchange for the \$100 million of 5.75% Senior Convertible Notes. The conversion was executed in accordance with the conversion provisions of the original indenture. Additionally, the conversion resulted in a \$7.0 million decrease in non-current deferred income taxes and a corresponding increase in additional paid-in capital that is a result of the recognition of the cumulative excess tax benefit earned by the Company associated with the contingent interest feature of this note.

In June 2006 the Company hired a new senior executive. In March 2008 and February 2007 the Company issued 3,750 and 1,250 shares of stock, respectively, to the senior executive, as the Company reached certain performance levels. The total value of these issuances was \$136,425 and \$45,475, respectively.

In February 2008 and February 2007, the Company issued 158,744 and 78,657 restricted stock units, respectively, pursuant to the Company's restricted stock plan. The total value of the issuances were \$6.0 million and \$2.5 million, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

March 31, 2008

Note 1 – The Company and Business

St. Mary Land & Exploration Company (“St. Mary” or the “Company”) is an independent energy company engaged in the exploration, exploitation, development, acquisition, and production of natural gas and crude oil. The Company’s operations are conducted entirely in the continental United States.

Note 2 - Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of St. Mary have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in St. Mary’s Annual Report on Form 10-K/A for the year ended December 31, 2007. In the opinion of management, all adjustments, consisting of normal recurring accruals that are considered necessary for a fair presentation of the interim financial information have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

Certain 2007 amounts in the unaudited consolidated financial statements have been reclassified to correspond to the 2008 presentation. As a result of a change in circumstances in 2007, the Company began classifying payments made under the Net Profits Interest Bonus Plan (the “Net Profits Plan”), to exploration overhead for individuals who are currently employed by St. Mary and who continue to be involved in the Company’s exploration efforts. As a result of the change, distributions being made and accrued for under the Net Profits Plan for former employees are now fully allocated to general and administrative expense since there is no longer any functional link to geologic and geophysical or exploration related work by those former employees. The entire impact for 2007 was recorded in the fourth quarter. The quarterly financial information presented for 2007 throughout the accompanying unaudited consolidated financial statements has been reclassified to reflect the change. The reclassification had no impact on total operating expenses, income from operations, income before income taxes, net income, basic net income per share, or diluted net income per share as it was simply a reclassification between two line items within the accompanying consolidated statements of operations. Refer to Note 14 of Part II, Item 8 within the Form 10-K/A for the year ended December 31, 2007, for further discussion.

Other Significant Accounting Policies

The accounting policies followed by the Company are set forth in Note 1 to the Company’s consolidated financial statements in the Form 10-K/A for the year ended December 31, 2007, and are supplemented throughout the footnotes of this document. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in the Form 10-K/A for the year ended December 31, 2007.

Note 3 – Acquisitions, Divestitures, Variable Interest Entities, and Assets Held for Sale

Carthage Acquisition

On March 21, 2008, the Company acquired oil and gas properties located primarily in the Carthage Field in Panola County, Texas in exchange for \$49.7 million of cash. After normal purchase price adjustments of \$219,000, the Company allocated \$29.8 million to proved oil and gas properties and \$20.5 million to unproved oil and gas properties. The Company also recorded \$390,000 in asset retirement obligation liability associated with the acquired properties. The acquisition was funded with cash on hand and borrowings under the Company's existing credit facility.

Abraxas Divestiture

On January 31, 2008, the Company completed the divestiture of certain non-strategic oil and gas properties located primarily in the Rocky Mountain and Mid-Continent regions to Abraxas Petroleum Corporation and Abraxas Operating, LLC. The cash received at closing, net of commission costs, was \$129.6 million. The final sale price is subject to normal post-closing adjustments and is expected to be finalized during the second quarter of 2008. The estimated gain on sale of proved properties related to the divestiture is approximately \$56.0 million and may be impacted by the above mentioned forthcoming post-closing adjustments. The Company determined that these sales do not qualify for discontinued operations accounting under Financial Accounting Standards Board ("FASB") Emerging Issues Task Force Issue No. 03-13.

Rockford Acquisition

On October 4, 2007, the Company completed the purchase of certain oil and gas properties in the Gold River Project Area targeting the Olmos shallow gas formation located primarily in Webb and Dimmit Counties, Texas. The assets were purchased from Rockford Energy Partners II, LLC for \$148.9 million of cash, which is net of normal purchase price adjustments of \$2.1 million. The acquisition was funded with cash on hand and borrowings under the Company's existing revolving credit facility. The Company allocated \$127.3 million to proved oil and gas properties, \$23.0 million to unproved oil and gas properties, and a net \$292,000 to other assets. The Company also recorded \$1.7 million in asset retirement obligation liability associated with the acquired properties. This property acquisition is adjacent to the Catarina project area. The Company has hedged the equivalent of the first three years of natural gas production and the first two years of associated natural gas liquids production related to this acquisition.

Like-Kind Exchanges and Variable Interest Entities

The Carthage acquisition described above was structured to qualify as the first step of a reverse like-kind exchange under Section 1031 of the Internal Revenue Code of 1986, as amended, ("the IRC") and I.R.S. Revenue Procedure 2000-37. Prior to closing on the acquisition, the Company assigned all of its rights and duties under the purchase and sale agreement to NBF Reverse Exchange, LLC, an indirect wholly-owned subsidiary of Comerica Incorporated, which further assigned all of its rights and duties under the purchase and sale agreement to St. Mary Acquisition, LLC ("SMA, LLC"), a company unaffiliated with St. Mary. The Carthage Field assets were acquired by NBF Reverse Exchange, LLC as an exchange accommodation titleholder. SMA, LLC will hold the assets pursuant to a qualified exchange accommodation agreement until the second step of the like-kind exchange is completed. As of the date of closing on March 21, 2008, the assets held by SMA, LLC, are being leased by St. Mary under a triple net lease whereby St. Mary has the benefit and risk of all revenues and costs attributed to the properties. The Carthage Field assets are managed by St. Mary under the terms of a management agreement with SMA, LLC.

In connection with the reverse like-kind exchange described above, St. Mary loaned an amount equal to the purchase price of the assets to SMA, LLC. Based on the provisions of FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"), the Company determined that SMA, LLC is a variable interest entity for which St. Mary is the primary beneficiary. Accordingly, SMA, LLC was consolidated into St. Mary subsequent to the completion of the purchase of oil and gas properties on March 21, 2008. As a result of the consolidation, St. Mary recognized all oil and gas reserves and production as well as all revenues and expenses attributed to the Carthage acquisition beginning on March 21, 2008.

The Rockford acquisition of the Gold River assets was also structured to qualify as the first step of a reverse like-kind exchange under Section 1031 of the IRC, and I.R.S. Revenue Procedure 2000-37. Prior to closing on the Rockford acquisition, the Company assigned all of its rights and duties under the purchase and sale agreement to NBF Reverse Exchange, LLC, an indirect wholly-owned subsidiary of Comerica Incorporated, which further assigned all of its rights and duties under the purchase and sale agreement to St. Mary Land & Exploration Acquisition, LLC ("SMLEA, LLC"), a company unaffiliated with St. Mary. The Gold River assets were acquired by NBF Reverse Exchange, LLC as an exchange accommodation titleholder. SMLEA, LLC held the assets pursuant to a qualified exchange accommodation agreement until January 31, 2008, when the second step of the like-kind exchange was completed in conjunction with the divestiture of certain non-core oil and gas properties discussed above under *Abraxas Divestiture* and St. Mary acquired all of the limited liability company interests of SMLEA, LLC from NBF Reverse Exchange, LLC. As of the date of closing on October 4, 2007, through February 7, 2008, the assets held by SMLEA, LLC, were leased by St. Mary under a triple net lease whereby St. Mary enjoyed the benefits and risks of all revenues and costs attributed to the properties. The Gold River assets were managed by St. Mary under the terms of a management agreement with SMLEA, LLC. On February 7, 2008, the Gold River assets were transferred to St. Mary. As of this filing date SMLEA, LLC, is inactive and does not hold any assets.

In connection with the reverse like-kind exchange described in the preceding paragraph, St. Mary loaned an amount equal to the purchase price of the assets to SMLEA, LLC. Based on the provisions of FIN No. 46(R), the Company determined that SMLEA, LLC is a variable interest entity for which St. Mary is the primary beneficiary. Accordingly, SMLEA, LLC was consolidated into St. Mary subsequent to the completion of the purchase of oil and gas properties on October 4, 2007. As a result of the consolidation, St. Mary recognized all oil and gas reserves and production as well as all revenues and expenses attributed to the Rockford acquisition beginning on October 4, 2007. The loan was repaid on February 7, 2008.

Assets Held for Sale

As of March 31, 2008, the Company is engaged in marketing for sale certain non-core oil and gas properties located in the Rocky Mountain, Gulf Coast, and Mid-Continent regions. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", these properties have been separately presented in the balance sheet at the lower of net book value or fair value less the cost to sell. The accompanying consolidated balance sheet as of March 31, 2008, presents \$27.2 million of assets held for sale, net of \$10.1 million of accumulated depletion, depreciation and amortization. Asset retirement obligation liabilities of \$1.1 million related to these properties have also been reclassified to liabilities associated with oil and gas properties held for sale on the consolidated balance sheet as of March 31, 2008. The Company determined that these sales do not qualify for discontinued operations accounting under FASB Emerging Issues Task Force Issue No. 03-13.

Note 4 – Earnings per Share

Basic net income per common share of stock is calculated by dividing net income available to common stockholders by the weighted-average basic common shares outstanding for the respective period.

The shares represented by vested restricted stock units (“RSUs”) are included in the calculation of the weighted-average basic common shares outstanding. The earnings per share calculations reflect the impact of any repurchases of shares of common stock made by the Company.

Diluted net income per common share of stock is calculated by dividing adjusted net income by the weighted-average of diluted common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for the diluted earnings per share calculations consist of unvested RSUs, in-the-money outstanding options to purchase the Company’s common stock, and shares into which the 3.50% Senior Convertible Notes due 2027 (the “3.50% Senior Convertible Notes”) are convertible.

The restricted shares underlying the grants of RSUs are included in the basic and diluted earnings per share calculations as described above. Following the lapse of the restriction periods, the shares underlying the units will be issued and therefore will be included in the number of issued and outstanding shares.

Prior to the March 16, 2007, conversion of the Company’s 5.75% Senior Convertible Notes due 2022 (the “5.75% Senior Convertible Notes”), potentially dilutive shares associated with this instrument were accounted for using the if-converted method for the determination of diluted earnings per share. Adjusted net income used in the if-converted method was derived by adding interest expense paid on the 5.75% Senior Convertible Notes back to net income and then adjusting for nondiscretionary items that are based on net income and would have changed had the 5.75% Senior Convertible Notes been converted at the beginning of the period. The 5.75% Senior Convertible Notes were called for redemption by the Company on March 16, 2007, and all of the note holders elected to convert the notes to shares of the Company’s common stock. The Company issued 7.7 million common shares in connection with the conversion of the 5.75% Senior Convertible Notes. Upon conversion, these shares were included in the calculation of weighted-average common shares outstanding. The diluted earnings per share calculation for the three-month period ended March 31, 2007, was adjusted for the conversion and included approximately 6.3 million potentially dilutive shares related to the 5.75% Senior Convertible Notes.

The Company’s 3.50% Senior Convertible Notes, which were issued April 4, 2007, have a net-share settlement right, and the treasury stock method is used to measure the potentially dilutive impact of shares associated with that conversion feature. The 3.50% Senior Convertible Notes have not been dilutive at any point during the time they have been outstanding and therefore do not impact the diluted earnings per share calculation for the three-month period ended March 31, 2008.

The treasury stock method is used to measure the dilutive impact of stock options. The dilutive effect of stock options and unvested RSUs is considered in the detailed calculation below. There were no anti-dilutive securities related to stock options or RSUs for the three-month periods ended March 31, 2008, and 2007.

The following table sets forth the calculation of basic and diluted earnings per share:

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands, except per share amounts)	
Net income	\$ 95,996	\$ 39,950
Adjustments to net income for dilution:		
Add: interest expense not incurred if 5.75% Senior Convertible Notes converted	-	1,284
Less: other adjustments	-	(13)
Less: income tax effect of adjustment items	-	(472)
Net income adjusted for the effect of dilution	<u>\$ 95,996</u>	<u>\$ 40,749</u>
Basic weighted-average common shares outstanding	62,861	57,011
Add: dilutive effects of stock options and unvested RSUs	1,184	1,581
Add: dilutive effect of 5.75% Senior Convertible Notes using the if-converted method	-	6,316
Diluted weighted-average common shares outstanding	<u>64,045</u>	<u>64,908</u>
Basic net income per common share	<u>\$ 1.53</u>	<u>\$ 0.70</u>
Diluted net income per common share	<u>\$ 1.50</u>	<u>\$ 0.63</u>

Note 5 – Compensation Plans

Cash Bonus Plan

The Company has a cash bonus plan, under which the Company has established a performance measurement framework whereby selected employee participants can generally be awarded an annual cash bonus of up to a maximum of 50 percent of their aggregate base salary. As the plan is currently administered, any awards under the plan are based on Company and regional performance, and then are further refined by individual performance. As amended by the Board of Directors on March 28, 2008, the plan document provides that no participant may receive an annual bonus under the plan of more than 200 percent of his or her base salary. The Company accrues cash bonus expense related to the current year's performance. The Company paid \$3.5 million for cash bonuses in February 2008 related to the 2007 performance year and paid \$1.8 million in February 2007 related to the 2006 performance year. Included in the general and administrative and exploration expense line items in the accompanying consolidated statements of operations are \$1.8 million and \$1.2 million of cash bonus expense related to the specific performance year for the three-month periods ended March 31, 2008, and 2007, respectively.

Equity Incentive Compensation Plan

There are several components to equity compensation that are described in this section. Various types of equity awards have been granted by the Company in different periods. For example, the Company ceased issuing stock options and began issuing restricted stock or RSUs to employees and directors in 2004.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share Based Payment" ("SFAS No.123(R)") using the modified-prospective transition method. Under that transition method, compensation expense recognized in 2007 and 2008, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

As of March 31, 2008, 2.4 million shares of common stock remained available for grant under the 2006 Equity Incentive Compensation Plan (the "2006 Equity Plan"). The 2006 Equity Plan serves as the successor to the St. Mary Land & Exploration Company Stock Option Plan, the St. Mary Land & Exploration Company Incentive Stock Option Plan, the St. Mary Land & Exploration Company Restricted Stock Plan, and the St. Mary Land & Exploration Company Non-Employee Director Stock Compensation Plan (collectively referred to as the "Predecessor Plans"). For any issuance of a direct share benefit such as an outright grant of common stock, a grant of a restricted share, or a RSU grant, each direct share benefit issued counts as two shares against the number of shares available to be granted under the 2006 Equity Plan. Stock options granted count as one share for each instrument issued against the number of shares available to be granted under the 2006 Equity Plan.

St. Mary has decided to grant Performance Share Plan ("PSP") awards beginning in the third quarter of 2008 in place of RSUs and the Net Profits Plan as the primary form of long-term equity incentive compensation for certain employees. The performance shares are expected to be subject to vesting periods and pre-established performance conditions. PSP awards will result in tradable shares of St. Mary common stock being issued immediately upon final vesting at the end of the planned three-year performance measurement period. Pending stockholder approval of an amendment and restatement of the 2006 Equity Plan at the Company's 2008 annual stockholders' meeting to be held on May 21, 2008, the Company expects that awards granted under the PSP will be granted under the 2006 Equity Plan as amended and restated as of March 31, 2008. The Company does have outstanding stock option grants under the Predecessor Plans and RSU grants under the Predecessor Plans and the 2006 Equity Plan. The following sections describe the details of RSU grants and stock options outstanding as of March 31, 2008.

Restricted Stock Incentive Program Under the Equity Incentive Compensation Plan

The Company has a long-term incentive program whereby grants of restricted stock or RSUs have been awarded to eligible employees, consultants, and members of the Board of Directors. Restrictions and vesting periods for the awards are determined at the discretion of the Board of Directors and are set forth in the award agreements. Each RSU represents a right for one share of the Company's common stock to be delivered upon settlement of the award at the end of a specified period. These grants are determined annually based on a formula consistent with the cash bonus plan.

St. Mary issued 158,744 RSUs on February 29, 2008, related to 2007 performance and 78,657 RSUs on February 28, 2007, related to 2006 performance. The total fair value associated with these issuances was \$6.0 million in 2008 and \$2.5 million in 2007 as measured on the respective grant dates. The granted RSUs vest 25 percent immediately upon grant and 25 percent on each of the next three anniversary dates of the grant. Compensation expense is recorded monthly over the vesting period of the award. For RSUs awarded prior to 2006, vested shares of common stock underlying the RSU grants were issued on the third anniversary of the grant, at which time the shares carried no further restrictions. For all awards subsequent to the 2005 RSU grant, St. Mary has eliminated the restriction period that extends beyond the vesting period so that shares will be issued without restriction upon vesting, rather than on the third anniversary of the award. This change was effected within the safe harbor adoption provisions of the newly enacted U.S. Treasury regulations interpreting IRC laws governing deferred compensation. The mutual election of the employee and the Company were required to effect this change for each outstanding award. Essentially all of the awards were modified for this mutual election, and as such the incremental value associated with removing this restriction period will be amortized over the remaining service period for these awards. For grants made beginning with the 2006 grant period, the Company is using the accelerated amortization method as described in FASB

Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans – an interpretation of APB Opinions No. 15 and 25," whereby approximately 48 percent of the total estimated compensation expense is recognized in the first year of the vesting period. As of March 31, 2008, a total of 259,146 RSUs were outstanding, of which 8,027 were vested. Total RSU compensation expense for the three-month periods ended March 31, 2008 and 2007 was \$3.1 million and \$2.6 million, respectively. This amount includes \$1.2 million of compensation expense related to the 2008 equity plan year for vesting of the estimated value of RSUs expected to be granted in mid 2008. As of March 31, 2008, there was \$5.5 million of total unrecognized compensation expense related to unvested RSU awards. The unrecognized compensation expense is being amortized through 2011.

St. Mary also issued 2,600 and 3,350 RSUs for various grants to certain employees during the three-month periods ended March 31, 2008 and 2007, respectively. These grants have various vesting schedules. The fair value of these awards will be recorded to compensation expense over the respective vesting periods using the same basic framework as described above.

On February 28, 2008, the Company converted 400,794 RSUs, which were granted on February 28, 2006, February 28, 2007, and February 28, 2008, into common stock based on the amended terms of the RSU awards. On March 14, 2008, the Company converted 169,701 RSUs that were granted on March 15, 2005, into common stock based on the original terms of the RSU awards. The Company and the majority of the grant participants mutually agreed to net share settle the awards to cover income and payroll tax withholdings as provided for in the plan document and original award agreements. As a result, the Company issued a net 402,653 shares of common stock associated with these grants. The remaining 167,842 shares were withheld to satisfy income and payroll tax withholding obligations that occurred upon the delivery of the shares underlying those RSUs.

In measuring compensation expense from the grant of RSUs, SFAS No. 123(R) requires companies to estimate the fair value of the award on the grant date. For grants prior to January 1, 2008 the Company had a restriction period beyond vesting. Therefore, the fair value of the RSUs was inherently less than the market value of an unrestricted share of St. Mary's common stock. The fair value of RSUs had been measured using the Black-Scholes option-pricing model. The Company's computation of expected volatility was based on the historic volatility of St. Mary's common stock. The Company's computation of expected life was determined based on historical experience of similar awards, giving consideration to the contractual terms of the awards, vesting schedules, and expectations of future employee behavior. The interest rate for periods within the contractual life of the award was based on the U.S. Treasury constant maturity yield at the time of grant.

The fair values of RSUs granted in the three-month period ended March 31, 2007 were estimated using the following weighted-average assumptions:

	<u>2007</u>
Risk free interest rate:	4.55%
Dividend yield:	0.28%
Volatility factor of the market price of the Company's common stock:	32.94%
Expected life of the awards (in years):	3

Beginning January 1, 2008, RSU awards no longer have a restriction beyond vesting. Therefore fair value of an RSU is equal to the market value of the underlying stock on the date of the grant.

Stock Awards Under the Equity Incentive Compensation Plan

As part of hiring a new senior executive in the second quarter of 2006, St. Mary granted a special stock award whereby the employee may earn an additional 5,000 shares over a four-year period, beginning in 2006, and an additional 15,000 shares if certain net asset value growth targets are met over that period. The fair value of this award is being recorded as compensation expense over the vesting period. In March 2008 and February 2007 the Company issued 3,750 and 1,250 shares of stock, respectively, to the senior executive. The total value of these issuances was \$136,425 and \$45,475, respectively.

A summary of the status and activity of non-vested RSUs for the three-month period ended March 31, 2008, is presented in the following table.

	Non-Vested RSUs	Weighted- Average Grant-Date Fair Value
Non-vested, at December 31, 2007	289,385	\$ 32.26
Granted	163,844	\$ 37.85
Vested	(192,678)	\$ 32.61
Forfeited	(9,432)	\$ 35.12
Non-vested, at March 31, 2008	<u>251,119</u>	<u>\$ 35.41</u>

Stock Option Grants Under the Equity Incentive Compensation Plan

The Company previously granted stock options under the St. Mary Land & Exploration Company Stock Option Plan and Incentive Stock Option Plan. The last issuance of stock options was December 31, 2004. Options to purchase shares of the Company's common stock had been issued to eligible employees and members of the Board of Directors. All options granted to date under the option plans were granted at exercise prices equal to the respective closing market price of the Company's underlying common stock on the grant dates, which generally occurred on the last date of a fiscal period. All stock options granted under the option plans are exercisable for a period of up to ten years from the date of grant.

During the three-month periods ended March 31, 2008, and 2007, the Company recognized stock-based compensation expense of approximately \$11,000 and \$221,000, respectively, related to stock options that were outstanding and unvested as of January 1, 2006. There was no cumulative effect adjustment from the adoption of SFAS No. 123(R).

Prior to adopting SFAS No. 123(R), all tax benefits resulting from the exercise of stock options were presented as operating cash flows in the accompanying consolidated statements of cash flows. SFAS No. 123(R) requires cash flows resulting from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to stock compensation costs for such options. The Company has recorded \$860,000 and \$913,000 of excess tax benefits for the three-month periods ended March 31, 2008, and 2007, respectively, as cash inflows from financing activities. Cash received from option exercises for the three-month periods ended March 31, 2008, and 2007, was \$324,000 and \$779,000, respectively.

The following table summarizes the stock options outstanding as of March 31, 2008:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding, beginning of period	2,385,500	\$ 12.62		
Exercised	(27,376)	\$ 11.82		
Forfeited	-	\$ 0.00		
Outstanding, end of period	2,358,124	\$ 12.63	4.18	\$ 61,015
Vested, or expected to vest, end of period	2,358,124			\$ 61,015
Exercisable, end of period	2,350,624	\$ 12.62	4.18	\$ 60,823

As of March 31, 2008, there was \$6,000 of total unrecognized compensation cost related to unvested stock option awards.

Employee Stock Purchase Plan

Under the St. Mary Land & Exploration Company Employee Stock Purchase Plan (“the ESPP”), eligible employees may purchase shares of the Company’s common stock through payroll deductions of up to 15 percent of eligible compensation. The purchase price of the stock is 85 percent of the lower of the fair market value of the stock on the first or last day of the purchase period, and shares issued under the ESPP are restricted for a period of 18 months from the date issued. The ESPP is intended to qualify under Section 423 of the IRC. The Company has set aside 2,000,000 shares of its common stock to be available for issuance under the ESPP, of which 1,599,811 shares are available for issuance as of March 31, 2008. The fair value of ESPP grants is measured at the date of grant using the Black-Scholes option-pricing model. There were no shares issued under the ESPP in the first quarter of 2008 or 2007. The Company expensed \$75,000 and \$66,000 based on the estimated fair value on the respective grant date for the three-month periods ended March 31, 2008, and 2007, respectively.

Net Profits Plan

Under the Company’s Net Profits Plan, all oil and gas wells that are completed or acquired during a year are designated within a specific pool. Key employees recommended by senior management and designated as participants by the Company’s Compensation Committee of the Board of Directors and employed by the Company on the last day of that year become entitled to payments under the Net Profits Plan after the Company has received net cash flows returning 100 percent of all costs associated with that pool. Thereafter, ten percent of future net cash flows generated by the pool are allocated among the participants and distributed at least annually. The portion of net cash flows from the pool to be allocated among the participants increases to 20 percent after the Company has recovered 200 percent of the total costs for the pool, including payments made under the Net Profits Plan at the ten percent level. The Net Profits Plan has been in place since 1991. Pool years prior to and including 2005 are fully vested. The 2006 and 2007 pool years carry a vesting period of three years whereby one-third is vested at the end of the year for which participation is designated and one-third vests on each of the following two anniversary dates. The 2006 and 2007 pool years include a cap whereby the maximum benefit to participants from a particular year’s pool is limited to 300 percent of a participating individual’s adjusted base salary paid during the year to which the pool relates. In December 2007 the Board approved a restructuring of the Company’s incentive compensation programs. The change in the incentive compensation structure is designed to replace the current RSU and Net Profits Plan programs with a single long-term equity incentive compensation program utilizing performance shares. As a result, pending stockholder approval of an amendment and restatement of the Company’s 2006 Equity Plan, the 2007 Net Profits Plan pool is expected to be the last pool established by the Company.

The Company records changes in the present value of estimated future payments under the Net Profits Plan as a separate item in the accompanying consolidated statements of operations. The change in the estimated liability is recorded as a non-cash expense or benefit in the current period. The amount recorded as an expense or benefit associated with the change in the estimated liability is not allocated to general and administrative expense or exploration expense because it is associated with the future net cash flows from oil and gas properties in the respective pools rather than results realized in the current period. The table below presents the estimated allocation of the expense related to the change in the Net Profits Plan liability if the Company did allocate the adjustment to these specific functional line items based on the current allocation of actual distributions being made by the Company. The change in allocation of costs to the functional classification relates to the current composition of employees as compared to those individuals that have terminated employment with the Company. For the three-month periods ended March 31, 2008, and 2007, 20 percent and 22 percent, respectively, of payments made under the Net Profits Plan were classified as exploration expense in the accompanying consolidated statements of operations. As time progresses, less of the distribution relates to prospective exploration efforts as more of the distributions are made to employees that have terminated employment and thereby do not provide any ongoing exploration support.

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands)	
General and administrative expense	\$ 10,907	\$ 3,894
Exploration expense	2,719	1,071
Total	<u>\$ 13,626</u>	<u>\$ 4,965</u>

Note 6 - Income Taxes

Income tax expense for each of the three-month periods ended March 31, 2008, and 2007, differs from the amounts that would be provided by applying the statutory U.S. federal income tax rate to income before income taxes primarily due to the effect of state income taxes, percentage depletion, the estimated effect of the domestic production activities deduction, and other permanent differences.

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Current portion of income tax expense		
Federal	\$ 5,881	\$ 1,782
State	500	593
Deferred portion of income tax expense	50,089	21,237
Total income tax expense	<u>\$ 56,470</u>	<u>\$ 23,612</u>
Effective tax rates	<u>37.0%</u>	<u>37.1%</u>

A change in tax rates between reported periods will generally reflect differences in the Company's estimated highest marginal state tax rate due to changes in the composition of income between state tax jurisdictions. Differences can also reflect various effects from the Company's estimates of the domestic production activities deduction, percentage depletion, and the possible impact of permanent differences related to state income tax calculations.

The Company or its subsidiaries file income tax returns in the U.S. federal jurisdiction and in various states. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2004. The Internal Revenue Service completed audits for the 2000, 2002, and 2003 tax years during the quarter ended March 31, 2007. There was no change to the provision for income tax as a result of these examinations. On April 24, 2008, the Internal Revenue Service initiated an audit of the Company's 2005 tax year.

In 2007 the Company received a \$3.1 million refund of income tax and interest from a carryback of net operating losses to the 2000 tax year. An additional \$980,000 was received in the first quarter of 2008 for income tax refunds and accrued interest resulting from a carry-over of minimum tax credits to the 2003 tax year. These amounts have been previously recognized by the Company.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007. There was no financial statement adjustment required as a result of adoption. As of March 31, 2008, the Company had a long-term liability of \$1.0 million related to this item. The entire amount of unrecognized tax benefit would affect the Company's effective tax rate if recognized. Interest expense associated with income tax is recorded as interest expense in the accompanying consolidated statements of operations. Penalties associated with income tax are recorded in general and administrative expense in the accompanying consolidated statements of operations.

Note 7 - Long-term Debt

Revolving Credit Facility

The Company's revolving credit facility specifies a maximum loan amount of \$500 million and has a maturity date of April 7, 2010. Borrowings under the facility are secured by a pledge in favor of the lenders of collateral that includes the majority of the Company's oil and gas properties and the common stock of any material subsidiaries of the Company. The borrowing base under the credit facility as authorized by the bank group as of the date of this filing is \$1.4 billion and is subject to regular semi-annual redeterminations. The borrowing base redetermination process considers the value of St. Mary's oil and gas properties and other assets, as determined by the bank syndicate. The Company has elected an aggregate commitment amount of \$500 million under the credit facility. The Company is in compliance with all financial and non-financial covenants under the credit facility. The payment of dividends is subject to covenants under the Company's existing credit facility, including the requirement that the Company maintain certain levels of stockholders' equity and the limitation of the Company's annual dividend rate to no more than \$0.25 per share per year. Interest and commitment fees are accrued based on the borrowing base utilization percentage table below. Euro-dollar loans accrue interest at London Interbank Offered Rate ("LIBOR") plus the applicable margin from the utilization table, and Alternative Base Rate ("ABR") loans accrue interest at Prime plus the applicable margin from the utilization table. Commitment fees are accrued on the unused portion of the aggregate commitment amount and are included in interest expense in the accompanying consolidated statements of operations.

Borrowing base utilization percentage	<50%	>50%<75%	>75%<90%	>90%
Euro-dollar loans	1.000%	1.250%	1.500%	1.750%
ABR loans	0.000%	0.000%	0.250%	0.500%
Commitment fee rate	0.250%	0.300%	0.375%	0.375%

The Company had \$276.5 million and \$270.0 million outstanding under its revolving credit agreement as of March 31, 2008, and April 25, 2008, respectively.

5.75% Senior Convertible Notes Due 2022

The Company called for redemption of its 5.75% Senior Convertible Notes on March 16, 2007. The call for redemption resulted in the note holders electing to convert the notes to common stock in accordance with the conversion provision in the original indenture. The 5.75% Senior Convertible Note holders converted all \$100 million of the 5.75% Senior Convertible Notes to common shares at a conversion price of \$13.00 per share. The Company issued 7.7 million common shares in connection with the conversion.

3.50% Senior Convertible Notes Due 2027

On April 4, 2007, the Company issued \$287.5 million aggregate principal amount of 3.50% Senior Convertible Notes. The 3.50% Senior Convertible Notes mature on April 1, 2027, unless earlier converted, redeemed, or purchased by the Company. The 3.50% Senior Convertible Notes are unsecured senior obligations and rank equal in right of payment with all of the Company's existing and any future unsecured senior debt and senior in right of payment to any future subordinated debt.

Holders may convert their notes based on a conversion rate of 18.3757 shares of the Company's common stock per \$1,000 principal amount of the 3.50% Senior Convertible Notes (which is equal to an initial conversion price of approximately \$54.42 per share), subject to adjustment, contingent upon and only under the following circumstances: (1) if the closing price of the Company's common stock reaches specified thresholds or the trading price of the notes falls below specified thresholds, (2) if the notes are called for redemption, (3) if specified distributions to holders of the Company's common stock are made or specified corporate transactions occur, (4) if a fundamental change occurs, or (5) during the ten trading days prior to, but excluding, the maturity date. The notes and underlying shares have been registered under a shelf registration statement. If the Company becomes involved in a material transaction or corporate development, it may suspend trading of the 3.50% Senior Convertible Notes under the prospectus. In the event the suspension period exceeds 45 days within any three-month period or 90 days within any twelve-month period, the Company will be required to pay additional interest to all holders of the 3.50% Senior Convertible Notes, not to exceed a rate per annum of 0.50 percent of the issue price of the 3.50% Senior Convertible Notes; provided that no such additional interest shall accrue after April 4, 2009.

Upon conversion of the 3.50% Senior Convertible Notes, holders will receive cash or common stock or any combination thereof as elected by the Company. At any time prior to the maturity date of the notes, the Company has the option to unilaterally and irrevocably elect to net share settle its obligations upon conversion of the notes in cash and, if applicable, shares of common stock. If the Company makes this election, then, for each \$1,000 principal amount of notes converted, the Company will pay the following to holders in lieu of shares of common stock: (1) an amount in cash equal to the lesser of (i) \$1,000 or (ii) the conversion value determined in the manner set forth in the indenture for the 3.50% Senior Convertible Notes, and (2) if the conversion value exceeds \$1,000, the Company will also deliver, at its election, cash or common stock or a combination of cash and common stock with respect to the remaining value deliverable upon conversion. Currently, it is the Company's intention to net share settle the 3.50% Senior Convertible Notes. However, the Company has not made this a formal legal irrevocable election and thereby reserves the right to settle the 3.50% Senior Convertible Notes in any manner allowed under the offering memorandum as business conditions warrant.

If a holder elects to convert the notes in connection with certain events that constitute a change of control before April 1, 2012, the Company will pay, to the extent described in the related indenture, a make-whole premium by increasing the conversion rate applicable to the 3.50% Senior Convertible Notes. In addition, the Company will pay contingent interest in cash, commencing with any six-month period beginning on or after April 1, 2012, if the average trading price of a note for the five trading days ending on the third trading day immediately preceding the first day of the relevant six-month period equals 120 percent or more of the principal amount of the 3.50% Senior Convertible Notes.

On or after April 6, 2012, the Company may redeem for cash all or a portion of the 3.50% Senior Convertible Notes at a redemption price equal to 100 percent of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any, up to but excluding the applicable redemption date. Holders of the 3.50% Senior Convertible Notes may require the Company to purchase all or a portion of their notes on each of April 1, 2012, April 1, 2017, and April 1, 2022, at a purchase price equal to 100 percent of the principal amount of the notes to be repurchased plus accrued and unpaid interest, if any, up to but excluding the applicable purchase date. On April 1, 2012, the Company may pay the purchase price in cash, in shares of common stock, or in any combination of cash and common stock. On April 1, 2017, and April 1, 2022, the Company must pay the purchase price in cash. Based on the market price of the 3.50% Senior Convertible Notes, the estimated fair value of the notes was approximately \$293 million as of March 31, 2008.

Weighted-Average Interest Rate Paid and Capitalized Interest Costs

The weighted-average interest rates paid for the first quarters of 2008 and 2007 were 5.2 percent, and 6.9 percent, respectively, including commitment fees paid on the unused portion of the credit facility aggregate commitment, amortization of deferred financing costs, amortization of the contingent interest embedded derivative associated with the 5.75% Senior Convertible Notes for 2007, and the effect of interest rate swaps. The average outstanding loan balance during the first quarter of 2008 increased in comparison to 2007, while the rates associated with the balances decreased for the same periods. As such, the weighted-average interest rate decreased. Capitalized interest costs for the Company for the three-month periods ended March 31, 2008, and 2007, were \$1.2 million and \$1.3 million, respectively.

Note 8 – Derivative Financial Instruments

Oil and Gas Commodity Hedges

To mitigate a portion of the potential exposure to adverse market changes, the Company has entered into various derivative contracts. The Company's derivative contracts in place include swap and collar arrangements for the sale of oil, natural gas, and natural gas liquids. Please refer to the tables under *Summary of Oil and Gas Production Hedges in Place* in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, for details regarding the Company's hedged volumes and associated prices. As of March 31, 2008, the Company has hedge contracts in place through 2011 for a total of approximately 11 million Bbls of anticipated crude oil production, 77 million MMBtu of anticipated natural gas production, and 1 million Bbls of anticipated natural gas liquids production.

The Company attempts to qualify its oil and natural gas derivative instruments as cash flow hedges for accounting purposes under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), and related pronouncements. The Company formally documents all relationships between the derivative instruments and the hedged production, as well as the Company's risk management objective and strategy for the particular derivative contracts. This process includes linking all derivatives that are designated as cash flow hedges to the specific forecasted sale of oil or gas at its physical location. The Company also formally assesses (both at the derivative's inception and on an ongoing basis) whether the derivatives being utilized have been highly effective at offsetting changes in the cash flows of hedged production and whether those derivatives may be expected to remain highly effective in future periods. If it is determined that a derivative has ceased to be highly effective as a hedge, the Company will discontinue hedge accounting prospectively. If hedge accounting is discontinued and the derivative remains outstanding, the Company will recognize all subsequent changes in its fair value on the Company's consolidated statements of operations for the period in which the change occurs. As of March 31, 2008, all oil and natural gas derivative instruments qualified as cash flow hedges for accounting purposes. The Company anticipates that all forecasted transactions will occur by the end of their originally specified periods. All contracts are entered into for other than trading purposes.

The fair value of oil and natural gas derivative contracts designated and qualifying as cash flow hedges under SFAS No. 133 was a net liability balance of \$388.3 million at March 31, 2008. The Company realized a net loss of \$23.9 million and a net gain of \$18.7 million from its oil and gas derivative contracts for the three-month periods ended March 31, 2008, and 2007, respectively.

After-tax changes in the fair value of derivative instruments designated as cash flow hedges, to the extent they are effective in offsetting cash flows attributable to the hedged risk, are recorded in other comprehensive income until the hedged item is recognized in earnings upon the sale of the hedged production. As of March 31, 2008, the amount of unrealized loss net of deferred income taxes to be reclassified from accumulated other comprehensive income to oil and gas production operating revenues in the next twelve months was \$92.7 million.

Any change in fair value resulting from ineffectiveness is recognized currently in unrealized derivative loss in the accompanying consolidated statements of operations. Unrealized derivative loss for the three-month periods ended March 31, 2008, and 2007, includes net losses of \$6.4 million and \$4.0 million, respectively, from ineffectiveness related to oil and natural gas derivative contracts.

Gains or losses from the settlement of oil and gas derivative contracts are reported in the total operating revenues section of the accompanying consolidated statements of operations.

The following table summarizes derivative instrument gain (loss) activity (in thousands):

	For the Three Months Ended March 31,	
	2008	2007
Derivative contract settlements included in oil and gas hedge gain	\$ (23,950)	\$ 18,684
Ineffective portion of hedges qualifying for hedge accounting included in derivative loss	(6,417)	(4,025)
Non-qualified derivative contracts included in derivative gain	-	121
Interest rate derivative contract settlements included in interest expense	(121)	(283)
Total gain (loss)	\$ (30,488)	\$ 14,497

Interest Rate and Convertible Note Derivative Instruments

In relation to the Company's 5.75% Senior Convertible Notes converted in March 2007, the Company entered into a fixed-to-floating interest rate swap on \$50 million of principal in October 2003, and entered into a floating-to-fixed rate swap for this same notional amount of \$50 million in April 2005 in order to effectively offset the initial fixed-to-floating interest rate swap.

In September 2007 the Company entered into a one year floating-to-fixed interest rate derivative contract for a notional amount of \$75 million. Under the agreement, the Company will pay a fixed rate of 4.90 percent and will be paid a variable rate based on the one-month LIBOR rate. The interest rate derivative contract is measured at fair value using quoted prices in active markets. The liability in the accompanying consolidated balance sheets at March 31, 2008, was \$901,000. The interest rate swap is a straightforward, non-complex, non-structured instrument that is highly liquid. This derivative qualifies for cash flow hedge treatment under SFAS No. 133 and related pronouncements. The Company recorded a net derivative gain of \$121,000 in the accompanying consolidated statements of operations for the three-month period ended March 31, 2008, related to this interest rate derivative contract.

The contingent interest provision of the 3.50% Senior Convertible Notes is a derivative instrument. As of March 31, 2008, the value of the derivative was determined to be immaterial.

Note 9 – Pension Benefits

The Company has a non-contributory pension plan covering substantially all employees who meet age and service requirements (the "Qualified Pension Plan"). The Company also has a supplemental non-contributory pension plan covering certain management employees (the "Nonqualified Pension Plan").

Components of Net Periodic Benefit Cost

The following table presents the components of the net periodic cost for both the Qualified Pension Plan and the Nonqualified Pension Plan:

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Service cost	\$ 460	\$ 478
Interest cost	222	198
Expected return on plan assets	(168)	(135)
Amortization of net actuarial loss	40	55
Net periodic benefit cost	<u>\$ 554</u>	<u>\$ 596</u>

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of ten percent of the greater of the benefit obligation or the market-related value of assets are amortized over the average remaining service period of active participants.

Contributions

St. Mary previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute approximately \$2.9 million to the pension plans in 2008. Presently, the Company still believes it will contribute this amount during 2008.

Note 10 - Asset Retirement Obligations

The Company recognizes an estimated liability for future costs associated with the abandonment of its oil and gas properties. A liability for the fair value of an asset retirement obligation and a corresponding increase to the carrying value of the related long-lived asset are recorded at the time a well is completed or acquired. The increase in carrying value is included in proved oil and gas properties in the accompanying consolidated balance sheets. The Company depletes the amount added to proved oil and gas property costs and recognizes expense in connection with the accretion of the discounted liability over the remaining estimated economic lives of the respective oil and gas properties. Cash paid to settle asset retirement obligations is included in the operating section of the Company's accompanying consolidated statements of cash flows.

The Company's estimated asset retirement obligation liability is based on historical experience in abandoning wells, estimated economic lives, estimates as to the cost to abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate estimated at the time the liability is incurred or revised. The credit-adjusted risk-free rates used to discount the Company's abandonment liabilities range from 6.50 percent to 7.25 percent. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells.

A reconciliation of the Company's asset retirement obligation liability is as follows:

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Beginning asset retirement obligation	\$ 108,284	\$ 77,242
Liabilities incurred	4,029	1,594
Liabilities settled	(10,597)	(788)
Accretion expense	1,665	1,352
Revision to estimated cash flow	600	7,119
Ending asset retirement obligation	<u>\$ 103,981</u>	<u>\$ 86,519</u>

Asset retirement obligation of \$1.1 million related to properties classified as oil and gas properties held for sale as of March 31, 2008. There was no asset retirement obligation related to oil and gas properties held for sale as of March 31, 2007.

Accounts payable and accrued expenses contain \$2.7 million and \$9.3 million related to the Company's asset retirement obligation liability for the periods ended March 31, 2008, and 2007, respectively. The amount relates to the estimated plugging and abandonment costs associated with one off-shore platform that was destroyed during Hurricane Rita. Plugging and abandonment of the platform is expected to be completed during the second quarter of 2008. Please refer to Note 13 – Insurance Settlement for additional details.

Note 11 – Fair Value Measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157") for all financial assets and liabilities measured at fair value on a recurring basis. The statement establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The statement establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The statement establishes a hierarchy for grouping these assets and liabilities, based on the significance level of the following inputs:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable
- Level 3 – Significant inputs to the valuation model are unobservable.

The following is a listing of our liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of March 31, 2008 (in thousands):

	Level 1	Level 2	Level 3
Liabilities			
Net accrued derivative liability	\$ --	\$ 389,215	\$ -
Net Profits Plan	-	-	225,032
Total	<u>\$ -</u>	<u>\$ 389,215</u>	<u>\$ 225,032</u>

A financial asset or liability is categorized within the hierarchy based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used by the Company as well as the general classification of such instruments pursuant to the hierarchy.

Derivatives

Below is a general description of the Company's valuation methodologies for derivative financial assets and liabilities, which are measured at fair value and are included in the accompanying consolidated balance sheets. The Company uses Level 2 inputs to measure the fair value of oil and gas hedges and the interest rate swap. Fair values are based upon interpolated data. The Company derives internal valuation estimates taking into consideration the counterparties' credit rating, the Company's credit rating, and the time value of money and then compares that to the counterparties' mark-to-market statements. The considered factors result in an estimated exit-price for each asset or liability under a marketplace participant's view. Management believes that this approach provides a reasonable, non-biased, verifiable, and consistent methodology for valuing derivative instruments.

Counterparty credit valuation adjustments are necessary when the market price of an instrument is not indicative of the fair value due to the credit quality of the counterparty. Generally, market quotes assume that all counterparties have near zero, or low, default rates and have equal credit quality. Therefore, an adjustment may be necessary to reflect the credit quality of a specific counterparty to determine the fair value of the instrument. The Company monitors the counterparties' credit ratings and may ask counterparties to post collateral if their ratings deteriorate. In some instances the Company will attempt to novate the trade with a more stable counterparty.

Valuation adjustments are necessary to reflect the effect of the Company's credit quality on the fair value of any net liability position with a counterparty. This adjustment takes into account any credit enhancements, such as collateral margin that the Company may have posted with a counterparty, as well as any letters of credit between the parties. The methodology to determine this adjustment is consistent with how we evaluate counterparty credit risk, taking into account the Company's credit rating, current credit spreads, as well as any change in such spreads since the last measurement date. The majority of the Company's derivative counterparties are members of St. Mary's secured bank syndicate. We are currently in a net liability position with our counterparties.

The methods described above may result in a fair value estimate that may not be indicative of net realizable value or may not be reflective of future fair values and cash flows. While the Company believes that the valuation methods utilized are appropriate and consistent with the requirements of SFAS No. 157 and with other marketplace participants, the Company recognizes that third parties may use different methodologies or assumptions to determine the fair value of certain financial instruments that could result in a different estimate of fair value at the reporting date.

Commodity Derivative Assets and Liabilities - The Company has a variety of derivatives including commodity swaps and collars for the sale of oil, natural gas and natural gas liquids. Standard oil and gas activities expose the Company to varying degrees of commodity price risk. To mitigate a portion of this risk, the Company may enter into natural gas, crude oil and natural gas liquid derivatives to lock in a specific margin in conjunction with acquisition decisions or when market conditions are favorable. The Company values these derivatives using index prices, mark-to-market statements received from counterparties, and the Company's credit adjusted borrowing rate, and also factors in the time value of money. As the value is derived from numerous factors, all of the Company's commodity trading derivatives are classified as having Level 2 inputs.

Interest Rate Derivative Assets and Liabilities – The Company has one interest rate swap agreement in place for a notional amount of \$75 million. This instrument effectively causes a portion of the Company’s floating rate debt to become fixed rate debt and is held with a major financial institution, which is expected to, and is expecting the Company to, fully perform under the terms of the agreement. A mark-to-market valuation that takes into consideration anticipated cash flows from the transaction using quoted market prices, other economic data and assumptions, and pricing indications used by other market participants is used to value the swap. Given the degree of varying assumptions used to value the swap, it is deemed to be a Level 2 instrument.

Net Profits Plan

The Net Profits Plan is a standalone liability for which there is no available market price, principal market or market participants. The inputs available for this instrument are unobservable, and are therefore classified as Level 3 inputs. The Company employs the income approach, which converts future amounts to a single present value amount. This technique uses the estimate of future cash payments, expectations of possible variations in the amount and/or timing of cash flows, the time value of money, the risk premium, and nonperformance risk to calculate the fair value. There is a direct correlation between performance and the Net Profits Plan pool liability. If performance is substandard, the liability is reduced or eliminated.

The Company records the estimated fair value of the long-term liability for estimated future payments under the Net Profits Plan based on the discounted value of estimated future payments associated with each individual pool. The calculation of this liability is a significant management estimate. For a predominate number of the pools, a discount rate of 12 percent is used to calculate this liability and is intended to represent the best estimate of the present value of expected future payments under the Net Profits Plan.

The Company’s estimate of its liability is highly dependent on commodity price and cost assumptions and the discount rates used in the calculations. The commodity price assumptions are formulated by applying a price that is derived from a rolling average of actual prices realized over the prior 24 months together with adjusted NYMEX strip prices for the ensuing 12 months. This average price is adjusted to include the effect of hedge prices for the percentage of forecasted production hedged in the relevant periods. The forecasted non-cash expense associated with this significant management estimate is highly volatile from period to period due to fluctuations that occur in the crude oil and natural gas commodity markets. Higher commodity prices experienced in recent years have moved more pools into payout status. The Company continually evaluates the assumptions used in this calculation in order to consider the current market environment for oil and gas prices, costs, discount rates, and overall market conditions.

As noted above, the calculation of the estimated liability for the Net Profits Plan is also highly sensitive to price estimates and discount rate assumptions. For example, if the commodity prices used in the calculation changed by five percent, the liability recorded at March 31, 2008, would differ by approximately \$21 million. A one percentage point decrease in the discount rate would result in an increase to the liability of approximately \$14 million, while a one percentage point increase in the discount rate would result in a decrease to the liability of approximately \$13 million. Actual cash payments to be made to participants in future periods are dependent on realized actual production, prices, and costs associated with the properties in each individual pool of the Net Profits Plan. Consequently, actual cash payments may be inherently different from the amounts estimated.

No published market quotes exist on which to base the Company's estimate of fair value of the Net Profits Plan. As such, the recorded fair value is based entirely on the management estimates that are described within this footnote. While some inputs to the Company's calculation of the fair value of the Net Profits Plan's future payments are from published sources, others, such as the discount rate and the expected future cash flows, are derived from the Company's own calculations and estimates.

The following table reflects the activity for the liabilities measured at fair value using Level 3 inputs for the quarter ended March 31, 2008, (in thousands):

	Net Profits Plan Liability
Balance at December 31, 2007	\$ 211,406
Net increase (decrease) in liability ^(a)	35,156
Net settlements ^{(a) (b)}	(21,530)
Transfers in (out) of Level 3	-
Balance at March 31, 2008	<u>\$ 225,032</u>

(a) Net changes in the Net Profits Plan liability are shown in the Change in Net Profits Plan liability line item of the accompanying consolidated statements of operations.

(b) Settlements represent cash payments made or accrued for and recognized as compensation expense.

See Note 8 - Derivative Financial Instruments, and Note 5 - Compensation Plans, for more information regarding the Company's hedging instruments and the Net Profits Plan, respectively.

Note 12 – Repurchase and Retirement of Common Stock

Stock Repurchase Program

During the first quarter of 2008 St. Mary repurchased 2,135,600 shares of its outstanding common stock in the open market at a weighted-average price of \$36.13 per share, including commissions, for a total of \$77.1 million. As of the date of this filing, the Company has Board authorization to repurchase up to 3,072,184 additional shares of common stock. The shares may be repurchased from time to time in open market transactions or in privately negotiated transactions, subject to market conditions and other factors, including certain provisions of St. Mary's existing credit facility agreement and compliance with securities laws. Stock repurchases may be funded with existing cash balances, internal cash flow, and borrowings under the revolving credit facility. Additionally, in March 2008, the Company's Board of Directors approved a resolution to retire 2,945,212 shares of treasury stock.

St. Mary did not repurchase any shares of common stock under the program during the quarter ended March 31, 2007.

Note 13 – Insurance Settlement

In April 2007 the Company reached a global insurance settlement for reimbursement of damages sustained during Hurricane Rita. St. Mary's net amount of the final settlement was approximately \$33 million. The Company has experienced significant weather-related delays in its plug and abandonment efforts and consequently accrued an additional \$600,000 of plug and abandonment costs for one offshore platform during the first quarter of 2008, bringing the total plug and abandonment costs accrued for the platform to \$12.7 million. As of March 31, 2008, the Company has spent \$10.0 million for plug and abandonment costs associated with this platform. Any significant variation between actual and estimated plugging and abandonment and outside-operated damage repair costs will impact the final determination of the gain associated with the insurance settlement. The Company expects adjustments to the gain to be completed by the second quarter of 2008.

Note 14 – Recent Accounting Pronouncements

In September 2006 the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Where applicable, this statement simplifies and codifies fair value related guidance previously issued within generally accepted accounting principles. SFAS No. 157 was effective for the Company on January 1, 2008. The Company partially adopted SFAS No. 157 pursuant to FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. FAS 157-2"), which delayed the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP No. FAS 157-2 states that a measurement is recurring if it happens at least annually and defines nonfinancial assets and nonfinancial liabilities as all assets and liabilities other than those meeting the definition of a financial asset or financial liability in Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). The statement also notes that if SFAS No. 157 is not applied in its entirety, the Company must disclose (1) that it has only partially adopted SFAS No. 157 and (2) the categories of assets and liabilities recorded or disclosed at fair value to which the statement was not applied.

The Company adopted FSP No. FAS 157-2 as of January 1, 2008, and elected to partially adopt SFAS No. 157. The Company did not apply SFAS No. 157 to nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities, including nonfinancial long-lived assets measured at fair value for an impairment assessment under Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", and asset retirement obligations initially measured at fair value under Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations". The Company is still required to apply SFAS No. 157 to recurring financial and non-financial instruments, which affects the fair value disclosure of our financial derivatives within the scope of SFAS No. 133. The partial adoption of SFAS No. 157 did not have a material impact on the Company's consolidated financial statements. Please see Note 11 – Fair Value Measurements.

In February 2007 the FASB issued SFAS No. 159, which expands the use of fair value accounting but does not affect existing standards that require assets or liabilities to be carried at fair value. SFAS No. 159 allows entities to choose, at specified election dates, to use fair value to measure eligible financial assets and liabilities that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS No. 159 also establishes presentation and disclosure requirements designed to draw comparisons between entities that elect different measurement attributes for similar assets and liabilities. SFAS No. 159 was effective for the Company on January 1, 2008. The Company did not elect the fair value option. There was no impact on the Company's consolidated financial statements.

In December 2007 the FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which requires the acquiring entity in a business combination to recognize and measure all assets and liabilities assumed in the transaction and any non-controlling interest in the acquiree at fair value as of the acquisition date. The statement also establishes guidance for the measurement of the acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting treatment for pre-acquisition gain and loss contingencies, the treatment of acquisition related transaction costs, and the recognition of changes in the acquirer's income tax valuation allowance and deferred taxes. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, and is to be applied prospectively as of the beginning of the fiscal year in which the statement is applied. Early adoption is not permitted. SFAS No. 141(R) will be effective for the Company beginning with the 2009 fiscal year. The Company is currently evaluating the potential impact of SFAS No. 141(R) on its consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms, and size of the acquisitions the Company consummates after the effective date.

In December 2007 the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("SFAS No. 160"), which establishes accounting and reporting standards that require noncontrolling interests to be reported as a component of equity. The statement also requires that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions and that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, and is to be applied prospectively as of the beginning of the fiscal year in which the statement is applied. The Company will be required to adopt SFAS No. 160 beginning with its 2009 fiscal year. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 160 on its accompanying consolidated financial statements when effective.

In March 2008 the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("SFAS No. 161"), which requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The statement requires fair value disclosures of derivative instruments and their gains and losses to be in tabular format, potential effect on the entity's liquidity from the credit-risk-related contingent features to be disclosed, and cross-referencing within the footnotes. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company will be required to adopt SFAS No. 161 beginning with its 2009 fiscal year. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 161 on its accompanying consolidated financial statements when effective.

In March 2008 the FASB affirmed the staff's proposed position paper on convertible debt instruments, likely to be called FASB Staff Position APB 14-a, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (including Partial Cash Settlement)" ("FSP APB 14-a"), which establishes bifurcation accounting for cash option settlement bonds. The position states that bonds would be valued without the conversion feature and would be classified as debt and that the remaining proceeds would be recorded as equity to represent the cash settlement option. Amortization of the bond discount will result in increased interest expense on the statement of operations. The position would also yield lower earnings per share dilution than typical convertible bonds. FSP APB 14-a is effective at the start of years beginning after December 15, 2008. The Company will be required to adopt FSP APB 14-a beginning with its 2009 fiscal year. FSP APB 14-a must be applied retrospectively; existing bonds will not be grandfathered. The Company is currently evaluating the potential impact on its financial statements of the adoption of FSP APB 14-a, which the Company currently expects will apply to the 3.50% Senior Convertible Notes, but as of the date of filing of this Form 10-Q the final position paper for FSP 14-a has not yet been issued.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion contains forward-looking statements. Please refer to "Cautionary Information about Forward-Looking Statements" at the end of this item for an explanation of these types of statements.

Overview of the Company

General Overview

We are an independent energy company focused on the exploration, exploitation, development, acquisition, and production of natural gas and crude oil in the United States. Our recurring revenues and cash flows are generated almost entirely from the sale of produced natural gas and crude oil. Our oil and gas reserves and operations are concentrated primarily in the following areas:

- Various Rocky Mountain basins, including the Williston, Big Horn, Wind River, Powder River, and Greater Green River basins
- The Anadarko and Arkoma basins of the Mid-Continent
- The Permian Basin
- The productive reservoirs of East Texas and North Louisiana
- The producing formations in the greater Maverick Basin in South Texas
- The onshore Gulf Coast and offshore Gulf of Mexico.

We have developed a balanced and diverse portfolio of proved reserves, development drilling opportunities, and unconventional resource projects.

Our primary objective is growing net asset value per share. Over the long term we believe that growing net asset value per share leads to superior stock price performance. A focus on net asset value per share provides us the flexibility to pursue a variety of projects that we believe will create value. We believe that our regional diversity and the balance between oil and natural gas in our reserves are advantages we can leverage while building value for our stockholders.

First Quarter 2008 Highlights

On January 31, 2008, we completed the divestiture of certain non-strategic oil and gas properties located primarily in the Rocky Mountain and Mid-Continent regions to Abraxas Petroleum Corporation and Abraxas Operating, LLC. The cash received at closing was \$129.6 million, net of commission costs and customary closing adjustments. The Company used the proceeds to pay down outstanding bank borrowings under its revolving credit facility. The economics of the transaction were further enhanced by utilizing a tax-advantaged exchange structure that will allow us to defer most, if not all, of the gain on the sale. Primarily due to the divestiture, we recorded a \$56.0 million gain on sale of proved properties during the first quarter of 2008.

On March 21, 2008, we closed on the acquisition of predominantly natural gas properties located in the Carthage Field in Panola County, Texas. Total cash paid for the acquisition was \$49.7 million, net of customary closing adjustments. The acquisition was funded with cash on hand and borrowings under our existing revolving credit facility. Some portion or all of this acquisition may be included in a tax-

advantaged exchange structure in 2008. We have initially estimated proved reserves associated with this acquisition of approximately 25 BCFE.

On March 21, 2008, David W. Honeyfield, Senior Vice President-Chief Financial Officer and Secretary, resigned as an officer of the Company to pursue a professional opportunity in the mining industry. As of the date of this filing, an external search is underway for his replacement.

Throughout the first quarter of 2008 we repurchased a total of 2,135,600 shares of outstanding common stock in the open market. The shares were repurchased at a weighted-average cost of \$36.13 per share, including commissions, using cash on hand and borrowings under our revolving credit facility. We repurchased the shares under our existing Board-authorized stock repurchase program. As of the date of this filing, we are authorized to repurchase 3,072,184 additional shares under this program. Consistent with our view of treating large share repurchases as acquisitions, we have hedged production volumes equal to the amount of reserves represented by the repurchased shares in proportion to the total number of shares outstanding. Our management continues to evaluate opportunities to repurchase common stock as a part of our business plan.

On March 28, 2008, the Board of Directors approved an amended 2006 Equity Plan to, among other things, increase the number of shares of our common stock available for issuance under this plan and to specifically provide for the new PSP award program discussed in Note 5 under Part I, Item 1 of this report. This amended plan is subject to stockholder approval at our 2008 annual stockholders meeting to be held on May 21, 2008, and is more fully described in our proxy statement for that meeting.

Our net income for the quarter ended March 31, 2008, was \$96.0 million or \$1.50 per diluted share compared to 2007 results of \$40.0 million or \$0.63 per diluted share. This included the \$56.0 million gain on sale of proved properties related to the divestiture of non-core properties that occurred on January 31, 2008. Production for the quarter was 28.3 BCFE which represents an 11 percent increase from the same period a year ago and a one percent decrease from the previous quarter. The sequential decrease in production is due to the divestiture of non-strategic assets mentioned above. Per MCFE lease operating expense decreased year over year \$0.10 to \$1.24 per MCFE as a result of a decrease in workover activity in the Rocky Mountain region. Additionally, the operating cost structure of the assets divested of in January 2008 was significantly higher than that of our retained property base. Per MCFE transportation decreased \$0.03 to \$0.14 per MCFE from the same period a year ago, which was driven by changes related to the sales measurement point in the Rocky Mountain region. Per MCFE production taxes increased \$0.18 from the previous year's first quarter to \$0.72 per MCFE due primarily to an increase in realized prices. DD&A, including ARO liability accretion expense, increased \$0.56 to \$2.48 per MCFE, which is a reflection of the higher cost of drilling and acquisitions over the last several years. These higher cost properties have become a larger part of our production base. We discuss these financial results and trends in more detail below.

The table below provides information regarding selected production and financial information for the quarter ended March 31, 2008, and the immediately preceding three quarters. Additional details of per MCFE costs are presented later in this section.

	For the Three Months Ended			
	March 31,	December 31,	September 30,	June 30,
	2008	2007	2007	2007
	(In millions, except production sales data)			
Production (BCFE)	28.3	28.5	27.5	26.0
Oil and gas production revenue, excluding the effects of hedging	\$ 310.4	\$ 273.7	\$ 228.5	\$ 216.2
Lease operating expense	\$ 35.1	\$ 37.8	\$ 36.9	\$ 31.6
Transportation costs	\$ 3.9	\$ 3.8	\$ 3.2	\$ 4.2
Production taxes	\$ 20.5	\$ 19.1	\$ 14.9	\$ 14.5
DD&A	\$ 70.4	\$ 64.8	\$ 59.1	\$ 54.7
Exploration	\$ 14.3	\$ 16.0	\$ 12.6	\$ 11.1
General and administrative expense	\$ 21.1	\$ 15.1	\$ 15.8	\$ 16.3
Net income	\$ 96.0	\$ 32.8	\$ 57.7	\$ 59.2

Percentage change from previous quarter:

Production (BCFE)	(1)% ⁽¹⁾	4%	6%	2%
Oil and gas production revenues, excluding the effects of hedging	13%	20%	6%	12%
Lease operating expense	(7)%	2%	17%	(7)%
Transportation costs	3%	19%	(24)%	(5)%
Production taxes	7%	28%	3%	6%
DD&A	8%	10%	8%	12%
Exploration	(11)%	27%	14%	(42)%
General and administrative expense	39%	(4)%	(3)%	26%
Net income	192%	(43)%	(3)%	48%

(1) 2% increase in production, net of divested properties

The table below details the regional breakdown of our first quarter 2008 production.

	ArkLaTex	Mid-Continent	Gulf Coast	Permian	Rocky Mountain	Total ⁽¹⁾
First Quarter 2008 Production:						
Oil (MBbl)	36.7	103.4	68.3	418.1	1,040.8	1,667.4
Gas (MMcf)	4,266.1	7,516.0	3,410.0	717.4	2,433.0	18,342.4
Equivalent (MMCFE)	4,486.4	8,136.2	3,820.0	3,226.2	8,678.0	28,346.8
Avg. Daily Equivalents (MMCFE/d)	49.3	89.4	42.0	35.5	95.4	311.5
Relative percentage	16%	29%	13%	11%	31%	100%

(1) Totals may not add due to rounding

Outlook for the Remainder of 2008

Commodity prices and oil and gas drilling and well completion service costs are the most significant drivers of our business. Natural gas and crude oil futures prices for the remainder of the year are currently higher than those used to prepare our 2008 budget. The last several years have seen a dramatic increase in the costs for drilling and completing oil and natural gas wells, although those increases have moderated somewhat in recent quarters. Over this time period we have generally been able to access the rigs and services required to carry out our drilling program due in large part to our longstanding relationships with contractors and suppliers. While we have not seen any signs that would indicate a change in the availability of rigs and services, strong commodity prices and a general increase in capital investment throughout the exploration and production segment cause us some concern about another round of cost increases for these services.

- *Mid-Continent* – Our plans for the remainder of 2008 in the Mid-Continent region include accelerating activity in our operated program in the Woodford Shale in the Arkoma Basin, and continuing our development and exploration activities in the Anadarko Basin. In our horizontal Woodford Shale program, we have seen improved results from our most recent wells in the program with industry leading drilling performance and a doubling of the estimated per well recovery. In the Anadarko Basin, we continue to be active in the Mayfield development area and our emphasis has shifted to the Granite Wash formation where a more limited and selective fracture stimulation technique has shown positive results. We also plan to continue working on our exploration program targeting the deeper formations of the Anadarko Basin.
- *ArkLaTex* – Activity in the ArkLaTex for 2008 is centered on programs that target the Cotton Valley and the James Lime formations. Throughout the region, we plan to operate two horizontal rigs for the remainder of the year and utilize several vertical rigs for certain programs. Our remaining program for the year in the Cotton Valley at Carthage includes six horizontal wells and 14 vertical wells. The ramp up in activity at Carthage is the result of a successful initial horizontal test well and bolt-on acquisition in the area. Also in the Cotton Valley, we continue to participate with our operating partners in the Elm Grove and Terryville programs. At Elm Grove, results from recent horizontal well tests have been very encouraging and we continue to monitor developments in the play to determine whether future development of the area should be done with horizontal drilling. In our operated James Lime program, we plan to continue drilling horizontal wells throughout the 75 mile long prospective trend we have identified.
- *Permian Basin* – Our programs in the Permian for the remainder of 2008 are focused primarily on two tight oil programs that target the Wolfberry section of the basin. In the operated Sweetie Peck program, we currently have five rigs running and anticipate drilling roughly 40 wells this year. We plan to drill wells in three 40-acre infill pilot areas to test the downspacing potential of the Wolfberry at Sweetie Peck this year, which have the potential to add meaningful reserves if successful. We expect approximately 25 wells to be drilled in the partner operated Half East program this year.
- *Gulf Coast* – Our 2008 activity in the Gulf Coast region will continue to focus on development of the Olmos shallow gas formation in the southern Maverick Basin of South Texas. The current emphasis is on a new well drilling program where we plan to operate two to three rigs in the play for the remainder of the year. We plan to continue evaluating our existing 3D seismic data over the properties, and are currently in the process of acquiring 71 square miles of additional 3D data to further our geologic understanding of the play and enhance our drilling results.

Also in the Maverick Basin, we recently entered into an arrangement to participate in a drill-to-earn program targeting the Pearsall and Eagleford shales. We will participate in four commitment wells during 2008 that, if successful, would expose St. Mary to additional significant acreage and reserve potential in the basin. While our operations in the Gulf Coast region have been focused onshore since our acquisitions of the Olmos properties in 2007, we will continue to have an operating footprint throughout the Gulf Coast, both onshore and offshore.

Non-strategic assets in South Louisiana are currently being marketed for sale, and if successful, we plan to utilize a tax-advantaged exchange structure to defer the anticipated gain and improve the economics of the sale.

Rockies - Industry attention in the Williston Basin has been most recently focused on activity targeting the Bakken formation in North Dakota, east of the Nesson Anticline. Results in the play have been very encouraging and we have seen progression of the play move toward areas where we have acreage. We have recently permitted a number of wells in North Dakota and plan to reallocate capital within our existing budget to drill several horizontal wells targeting the Bakken formation this year. We have planned drilling activity in oil fields of the Powder River, Big Horn, and Wind River basins of Wyoming, and we continue to participate with operating partners in various projects throughout the Rocky Mountain region. Lastly, we continue to look at ways to optimize our Rocky Mountain portfolio. To that end, we are currently marketing for sale a package of primarily partner operated assets that are located in the Greater Green River Basin. If successful we plan to utilize a tax-advantaged exchange structure to defer the anticipated gain and improve the economics of the sale.

Our planned drilling program described above is dynamic and there are a number of factors that could impact our decisions to invest capital in one or all of these regions. Commodity prices, well costs, and program performance are a few factors that individually or in combination could change the scale or relative allocation of our drilling budget.

We continue to evaluate a large number of acquisition opportunities, both in our regional offices and at our corporate headquarters. We have a strong track record of identifying and executing economic acquisitions. As acquisitions have become more competitive from a valuation standpoint in recent years, we have grown our inventory of drilling prospects so that we are less dependent on acquisitions to grow. Our strong balance sheet gives us the ability to move quickly when we find an acquisition target. In 2008 we will continue to evaluate acquisition opportunities. We plan to add business development personnel and resources this year to pursue acquisitions in our current operating regions and to evaluate opportunities in other regions where we currently do not operate in order to leverage our existing technical knowledge to gain a foothold.

Performance Share Plan

During the fourth quarter of 2007 we decided to grant PSP awards in place of RSUs as the primary form of long-term equity incentive compensation for certain of our employees. Subject to stockholder approval, our Board of Directors approved an amendment and restatement of the 2006 Equity Incentive Compensation Plan on March 28, 2008. Pending stockholder approval we plan to grant the first award of performance shares on July 1, 2008. To cover the period from the beginning of the year through the date of the first performance share grant, we intend to make a transitional grant of RSUs on or about June 30, 2008. These RSUs will vest equally over three years beginning on December 15, 2008. PSPs are more common among our peer companies and will provide for target awards that are earned over a three-year performance period. We believe this new plan will provide more visible, more marketable, and more widely understood long-term incentive compensation. Target awards will be made

at the beginning of the performance measurement period, and will have a back-end weighted vesting schedule and a multiplier factor based on total stockholder return. At the conclusion of the three-year measurement period, our TSR will be measured and compared against a pre-established performance index consisting of companies similar to us. Depending on the results of our TSR measurements compared to pre-established performance criteria, the actual award made to a participant will be between zero and two times the target award. There is no market or performance condition that results in an early payout determination, other than a change of control. This plan and the cash bonus plan will be widely utilized within the organization, ensuring that the performance of all eligible employees and executives is measured against consistent performance conditions. We do not anticipate there will be a significant increase in the number of individuals that will be designated to participate in and be eligible to receive awards under the amended 2006 Equity Plan as compared to prior plan years, although the number of shares of common stock that underlie such awards will depend on our performance.

Oil and Gas Production and Operating Margins

Our production in the first quarter of 2008 dipped slightly on a sequential basis to 28.3 BCFE as a result of properties that were divested on January 31, 2008. Adjusting for the volumes related to divested properties, production increased sequentially roughly two percent in the first quarter of 2008 as a result of the ongoing success of our drilling operations. Growth of production from quarter to quarter is impacted by the timing of drilling operations, completions, workovers, other operational issues, and acquisitions and divestitures as well as the overall production decline rate of our existing asset base. We believe that an important metric for measuring success of oil and gas production companies is the ability to grow reserves on an economic basis, which then provides a base for growth in production that will positively affect net asset value.

We continue to generate very strong operating margins, inclusive of general and administrative costs. Commodity prices in the first quarter of 2008, particularly for oil, were stronger than we had budgeted. With approximately 35 percent of our quarterly production being crude oil, we are benefiting from the significant run up in crude prices during 2008. Our operating margin for the first quarter of 2008 was \$7.26 per MCFE, an increase of 26 percent from the same period a year ago.

Oil and Gas Prices

Results of our operations and financial condition are significantly affected by oil and natural gas commodity prices, which can fluctuate dramatically. We sell the majority of our natural gas on contracts that use first of the month index pricing, which means gas produced in that month is sold at the first of the month price regardless of the spot price on the day the gas is produced. Our crude oil is sold using contracts that pay us the average of the NYMEX West Texas Intermediate daily settlement or the average of the posted prices for the period in which the crude oil is produced, adjusted for market quality, transportation, and location differentials.

	<u>For the Three Months Ended March 31, 2008</u>	
<u>Crude Oil (per Bbl) :</u>		
NYMEX price	\$	97.90
Net realized price	\$	92.33
Net realized price, including the effects of hedging	\$	76.24
<u>Natural Gas (per Mcf) :</u>		
NYMEX price	\$	8.07
Net realized price	\$	8.53
Net realized price, including the effects of hedging	\$	8.69

The three-month average bid week natural gas price at Henry Hub increased by 15 percent and the average NYMEX WTI spot price increased eight percent between the fourth quarter of 2007 and first quarter of 2008. Year over year, the quarterly average bid week price for natural gas increased 16 percent. The 36-month forward strip price for natural gas at the beginning of 2008 was \$8.66 per MMBtu. At the end of the first quarter of 2008, the 36-month forward contract had increased three percent to \$8.89 per MMBtu.

Average quarterly crude oil prices increased eight percent from the fourth quarter of 2007 to the first quarter of 2008. In the fourth quarter of 2007, NYMEX WTI crude averaged \$90.68 per barrel. In the first quarter of 2008, the price averaged \$97.90 per barrel. The price of crude oil has increased significantly as the value of the U.S. dollar has declined against other major currencies in recent months. The 36-month forward strip price for crude oil at the end of 2007 was \$88.08 per barrel. At the end of the first quarter of 2008, the 36-month forward contract had increased seven percent to \$93.99 per barrel.

While changes in quoted NYMEX oil and Henry Hub natural gas prices are generally used as a basis for comparison within our industry, the price we receive for oil and natural gas is affected by quality, energy content, location, and transportation differentials for these products. We refer to this price as our realized price, which excludes the effects of hedging. Our realized price is further impacted by the result of our hedging contracts that have settled in the respective periods. We refer to this price as our net realized price. Our natural gas price realizations for the three months ended March 31, 2008, were improved by \$2.9 million of realized hedging gains while our oil price realization was negatively impacted by \$26.8 million of realized hedging losses. On a percentage basis, we have hedged more forecasted crude oil production than forecasted natural gas production. Furthermore, a significant portion of our anticipated crude oil production is hedged using swap prices that are below the current NYMEX strip prices, reducing the benefit that could be gained from the increase in oil prices.

Hedging Activities

We have a hedging program that is built primarily on hedging related to acquisitions in which we hedge the first two to five years of an acquisition's risked production. We also occasionally hedge a portion of our existing forecasted production. In October 2005 we hedged a significant portion of anticipated future production from our then existing producing properties using zero-cost collars. We also used swap contracts to hedge a portion of our specific forecasted natural gas production for 2006, 2007, and 2008 from properties we owned at the time. Taking into account all oil and gas production hedge contracts in place through April 25, 2008, we have hedged approximately 11 million Bbls of oil, 80 million MMBtu of natural gas, and 1 million Bbls of natural gas liquids through the year 2011. We believe we have established an economic base for our future operations. Please see Note 8 – Derivative Financial Instruments in Part I, Item 1 of this report for additional information regarding our oil and gas hedges, and see the caption, *Summary of Oil and Gas Production Hedges in Place*, later in this section.

Net Profits Plan

Payments made or accrued for current year cash distributions under the Net Profits Plan are recorded as either general and administrative expense or exploration expense. These payments totaled \$21.5 million for the three-month period ended March 31, 2008. These 2008 payments are higher than originally budgeted due to an increase in oil and gas commodity prices. The actual cash payments we make are dependent on actual production, realized prices, and operating and capital costs associated with the properties in each individual pool. Actual cash payments will be inherently different from the estimated long-term liability amount. Additional discussion is included in the analysis in the *Comparison of Financial Results and Trends* sections below. An increasing percentage of the costs associated with the payments for the Net Profits Plan are recorded as general and administrative expense compared to exploration expense. This is a function of the normal departure of employees who previously contributed to exploration efforts. We determined that all of the payments to individuals no longer employed by St. Mary should be recorded as general and administrative expense beginning in 2007.

With respect to the accounting estimate of the liability associated with future estimated payments from our Net Profits Plan, we have recorded \$13.6 million of net expense for the three-month period ended March 31, 2008, thereby increasing the long-term liability associated with this item to \$225.0 million. This increase is related to an increase in the estimated future net revenues used to calculate the liability driven by overall commodity price increases, the accretion of the discount used for the calculation, and the addition of the 2007 pool. We expect approximately \$52 million of cash payments to be made or accrued in 2008, however it is not possible to predict this with certainty due to the impact that commodity prices and reserve estimates have on this estimate. The Company will not be adding new Net Profits Plan pools prospectively as this benefit has been replaced with a different long-term incentive compensation program, which is described in Note 5 of Part I, Item 1 of this report. Beginning in 2008 regular annual grants from the restricted stock units program and the Net Profits Plan are being replaced with grants of market-based performance shares under our 2006 Equity Plan. The Company will continue to make payments from the existing Net Profits Plan pools and will continue to make prospective adjustments to the long-term liability as necessary.

The calculation of the estimated liability associated with the Net Profits Plan requires management to prepare an estimate of future amounts payable from the plan. On a monthly basis, we calculate estimates of the payments to be made for each individual pool. The underlying principal factors for our estimates are forecasted oil and gas production from the properties that comprise each individual pool, price assumptions, cost assumptions, and discount rate. In most cases, the cash flow streams used in these calculations will span more than 20 years. Commodity prices impact the calculated cash flows during periods after payout and can dramatically affect the timing of the estimated date of payout of the individual pools. Our commodity price assumptions are currently determined from an average of actual prices realized over the prior 24 months together with adjusted NYMEX strip prices for the ensuing 12 months for a total of 36 months of data. This average is supplemented by including the effect of anticipated hedge prices for the percentage of forecasted hedged production in the relevant period.

The calculation of the estimated liability for the Net Profits Plan is highly sensitive to our price estimates and discount rate assumptions. For example, if we changed the commodity prices in our calculation by five percent, the liability recorded on the balance sheet at March 31, 2008, would differ by approximately \$21 million. A one percentage point decrease in the discount rate would result in an increase to the liability of approximately \$14 million, while a one percentage point increase in the discount rate would result in a decrease to the liability of approximately \$13 million. We frequently re-evaluate the assumptions used in our calculations and consider the possible impacts stemming from the current market environment including current and future oil and gas prices, discount rates, and overall market conditions.

A quarter-to-quarter overview of selected production and financial information, including trends:

Selected Operations Data (in thousands, except sales price, volume, and per MCFE amounts)

	For the Three Months Ended March 31,		% Change Between Periods
	2008	2007	
Net production volumes			
Oil (MBbl)	1,667	1,709	(2)%
Natural gas (MMcf)	18,342	15,220	21%
MMCFE (6:1)	28,347	25,476	11%
Average daily production			
Oil (Bbl per day)	18,323	18,992	(4)%
Natural gas (Mcf per day)	201,565	169,112	19%
MCFE per day (6:1)	311,503	283,063	10%
Oil & gas production revenues⁽¹⁾			
Oil production revenue	\$ 127,127	\$ 89,950	41%
Gas production revenue	159,355	122,440	30%
Total	<u>\$ 286,482</u>	<u>\$ 212,390</u>	35%
Oil & gas production expense			
Lease operating expenses	\$ 35,105	\$ 34,125	3%
Transportation costs	3,877	4,447	(13)%
Production taxes	20,494	13,748	49%
Total	<u>\$ 59,476</u>	<u>\$ 52,320</u>	14%
Average realized sales price⁽¹⁾			
Oil (per Bbl)	\$ 76.24	\$ 52.62	45%
Natural gas (per Mcf)	\$ 8.69	\$ 8.04	8%
Per MCFE Data:			
Average net realized price ⁽¹⁾	\$ 10.11	\$ 8.34	21%
Lease operating expenses	(1.24)	(1.34)	(7)%
Transportation costs	(0.14)	(0.17)	(18)%
Production taxes	(0.72)	(0.54)	33%
General and administrative	(0.75)	(0.51)	47%
Operating profit	<u>\$ 7.26</u>	<u>\$ 5.78</u>	26%
Depletion, depreciation, amortization, and asset retirement obligation liability accretion			
	\$ 2.48	\$ 1.92	29%

(1) Includes the effects of our hedging activities

Financial Information (in thousands, except per share amounts):

	March 31, 2008	December 31, 2007	% Change Between Periods
Working deficit	\$ (160,584)	\$ (92,604)	73%
Long-term debt	\$ 564,000	\$ 572,500	(1)%
Stockholders' equity	\$ 803,496	\$ 863,345	(7)%

	For the Three Months Ended March 31,		% Change Between Periods
	2008	2007	
Basic net income per common share	\$ 1.53	\$ 0.70	119%
Diluted net income per common share	\$ 1.50	\$ 0.63	138%
Basic weighted-average shares outstanding	62,861	57,011	10%
Diluted weighted-average shares outstanding	64,045	64,908	(1)%

We present this table as a summary of information relating to key indicators of financial condition and operating performance that we believe are important.

Changes in production volumes, oil and gas production revenues, and costs generally reflect the cyclical and highly volatile nature of our industry. Production taxes are largely dependent on the prices we receive for oil and natural gas, which we are not able to predict. We present per MCFE information because we use this information to evaluate our performance relative to our peers and to identify and measure trends that we believe require analysis. We are anticipating oil and gas production expenses to be pressured upward throughout the remainder of 2008. Sustained strong commodity prices have the potential to increase the demand for services needed to produce oil and gas, particularly services with a significant labor component. Oil properties are generally more labor intensive and we have a significant amount of oil assets in our property mix. Costs related to fuel surcharges for trucking and disposal of saltwater are examples of areas in our business where we are seeing cost pressure. Production taxes are largely dependent on the prices we receive for oil and natural gas, which we are not able to predict. Depreciation, depletion, and amortization will generally be pressured upward as production related to higher cost properties acquired or developed in recent years become a larger percentage of our production mix. Our general and administrative expense will be impacted by cash payments made from the Net Profits Plan, which are impacted by realized prices. Additionally, competition for personnel in the exploration and production industry remains highly competitive and we have seen the cost to hire and retain personnel increase significantly.

We have in-the-money stock options and unvested RSUs that are considered potentially dilutive securities. These dilutive securities affect our earnings per share. Consequently, both basic and diluted earnings per share are presented in the table above. We account for our 3.50% Senior Convertible Notes under the treasury stock method. As a result, there is no impact on the diluted share calculation at the current time since the Company's stock price is not above the conversion price for the issuance. The 3.50% Senior Convertible Notes were issued April 4, 2007, and have not been dilutive at any point since their issuance. A detailed explanation is presented in Note 4 – Earnings Per Share, in Part I, Item 1 of this report. Basic and diluted weighted-average common shares outstanding used in our earnings per share calculations for the three-month periods ended March 31, 2008, and 2007, reflect an increase in outstanding shares related to stock option exercises. We issued 27,376 and 64,880 shares of common stock during the three-month periods ended March 31, 2008, and 2007, respectively, as a result of stock option exercises. Additionally, during the first quarter of 2008, we issued 408,829 shares of common stock as a result of

converting RSUs to common stock in accordance with the terms of the RSU grants and we repurchased 2.1 million shares of outstanding common stock. The remaining information in the table relates to information we have provided in our operations update press releases and is intended to supplement the discussion above.

Overview of Liquidity and Capital Resources

We believe that we have sufficient liquidity and capital resources to execute our business plans for the foreseeable future.

Sources of cash

Based on our current forecast, we project that our 2008 cash flows from operations will exceed our planned capital investment budget for exploration and development resulting in free cash flow that will be available for additional drilling opportunities, acquisitions, share repurchases, or repayment of debt. Accordingly, we do not expect to access the capital markets in 2008. On January 31, 2008, we closed on the sale of our previously announced divestiture of non-core oil and gas properties. Net proceeds from this transaction were \$129.6 million. We anticipate that we will continue to evaluate our property base for divestiture candidates that we consider non-core.

Our primary sources of liquidity are the cash provided by operating activities, debt financing, sales of non-core properties, and access to capital markets. All of these sources can be impacted by the general condition of our industry and by significant fluctuations in oil and gas prices, operating costs, and volumes produced. We have no control over the market prices for oil and natural gas, although we are able to influence the amount of our net realized revenues related to oil and gas sales through the use of derivative contracts. A decrease in oil and gas prices would reduce expected cash flow from operating activities and could reduce the borrowing base of our credit facility as well as the value of non-strategic properties we might consider selling. Historically, decreases in market prices have limited our industry's access to the capital markets. The public debt markets for energy companies continue to be available to us, although they are less favorable than this time a year earlier. Credit spreads have increased materially, and the volume of transactions being placed in the market is down dramatically. The overall credit markets have seen a significant contraction as a result of credit tightening caused by the widely reported sub-prime and leveraged loan market issues. However, after a challenging first quarter, the public debt market has shown some improvements in recent weeks. Energy credit spreads have tightened since mid-March. Equity and convertible debt financings are still an available alternative and are somewhat favorable to energy companies that operate in the exploration and production sector of the oil and gas industry. This is a result of strong commodity prices and the general strength of the balance sheets of the companies in this industry as well as the historically low credit defaults of energy companies. We do not, however, anticipate any need to raise either public debt or equity financing in the foreseeable future. We intend to rely on our current revolving credit facility for borrowings. However, a significant transaction could necessitate the need to raise additional public debt or equity financing.

Our current credit facility

We have a five-year, \$500 million revolving credit facility agreement with Wachovia Bank, Wells Fargo Bank, and nine other participating banks. As of the date of this filing our credit facility has a borrowing base of \$1.4 billion. We have elected a commitment amount of \$500 million. We believe this commitment level is adequate for our near-term liquidity requirements. The credit agreement has a maturity date of April 7, 2010. We are in compliance with all financial and non-financial covenants under this credit facility. As of April 25, 2008, we had \$230.0 million of available borrowing capacity under this facility. Interest and commitment fees are accrued based on the borrowing base utilization percentage. Euro-dollar loans accrue interest at LIBOR plus the applicable margin from the utilization table located in Note 7 - Long-term Debt of Part I, Item 1 of this report, and Alternate Base Rate loans accrue interest at Prime plus the

applicable margin from the utilization table. This reduces the amount available under the commitment amount on a dollar-for-dollar basis. Borrowings under the new facility are secured by mortgages on the majority of our oil and gas properties and a pledge of the common stock of any material subsidiary companies.

Commitment fees are accrued on the unused portion of the aggregate commitment amount and are included in interest expense in the consolidated statements of operations. We had an outstanding loan balance of \$276.5 million as of March 31, 2008.

Our weighted-average interest rate paid in the first three months of 2008 was 5.2 percent and included fees paid on the unused portion of the credit facility's aggregate commitment amount and amortization of deferred financing costs associated with the 3.50% Senior Convertible Notes.

Uses of cash

We use cash for the acquisition, exploration, and development of oil and gas properties and for the payment of debt obligations, trade payables, income taxes, common stock repurchases, and stockholder dividends. In the first three months of 2008 we spent \$161.3 million for capital development and \$53.0 million for property acquisitions. These cash outflows were funded using cash inflows from operations and available borrowing capacity under our revolving credit facility.

Expenditures for exploration and development of oil and gas properties and acquisitions are the primary use of our capital resources. We anticipate spending approximately \$661 million for development and exploration expenditures in 2008. The amount and allocation of future capital expenditures will depend upon a number of factors including the number and size of available economic acquisitions and drilling opportunities, our cash flows from operating and financing activities, and our ability to assimilate acquisitions. In addition, the impact of oil and gas prices on investment opportunities, the availability of capital and borrowing facilities, and the success of our development and exploratory activities could lead to changes in funding requirements for future development. We regularly review our capital investment budget to assess changes in current and projected cash flows, acquisition opportunities, debt requirements, and other factors.

During the first quarter of 2008, we purchased 2,135,600 shares of our common stock in the open market at a weighted-average price of \$36.13, including commissions, for a total of \$77.1 million. As of the date of this filing we have Board authorization to repurchase up to 3,072,184 additional shares of our common stock under our stock repurchase program. Shares may be repurchased from time to time in open market transactions or privately negotiated transactions subject to market conditions and other factors including certain provisions of our existing bank credit facility agreement, compliance with securities laws, and the terms and provisions of our stock repurchase program.

On January 31, 2008, we closed on the sale of our previously announced divestiture of non-core oil and gas properties. The proceeds from this transaction were used to repay debt under our revolving credit facility.

The following table presents amounts and percentage changes in cash flows between the three-month periods ended March 31, 2008, and 2007. The analysis following the table should be read in conjunction with our consolidated statements of cash flows in Part I, Item 1 of this report.

	For the Three Months			
	Ended March 31,			Percent
	2008	2007	Change	Change
	(In thousands)			
Net cash provided by operating activities	\$ 142,459	\$ 126,075	\$ 16,384	13%
Net cash used in investing activities	\$ (93,944)	\$ (136,029)	\$ 42,085	(31)%
Net cash provided by (used in) financing activities	\$ (84,514)	\$ 13,223	\$ (97,737)	(739)%

Analysis of cash flow changes between the three months ended March 31, 2008, and March 31, 2007

Operating activities. Cash received from oil and gas production revenue, net of the realized effects of hedging, increased \$45.4 million to \$262.1 million for the first quarter of 2008, compared with \$216.7 million for the first quarter of 2007. Included in operating revenues as of March 31, 2008, is \$23.9 million of net realized hedging losses. The 35 percent increase in oil and gas production revenue, net of the realized effects of hedging, was the result of an 11 percent increase in production and a 21 percent increase in our net realized price after hedging. Net cash payments made for income taxes in the first quarter of 2008 increased \$3.9 million relative to the same period in 2007.

Investing activities. Total cash outflow for capital expenditures during the first quarter of 2008 for leasehold and drilling activities increased \$26.1 million or 19 percent to \$161.3 million. Proceeds from sale of oil and gas properties for the three-month period ended March 31, 2008, includes \$130.4 million related to the Abraxas divestiture that was completed on January 31, 2008. Other cash flows from investing activities for the first quarter of 2008 include the refunding of a \$10.0 million deposit related to this divestiture. Total cash outflow for the first quarter of 2008 relating to the acquisition of oil and gas properties increased \$51.8 million to \$53.0 million due to the acquisition of assets at Carthage Field.

Financing activities. Net repayments to our credit facility increased \$24.5 million for the quarter ended March 31, 2008, compared with the same period in 2007. Cash flows from financing activities for the first quarter of 2007 included a \$4.5 million repayment of a short-term note payable. We spent \$77.2 million to repurchase shares of our common stock in the three-month period ended March 31, 2008.

Capital Expenditure Forecast

We use our capital resources primarily for the exploration and development of oil and gas properties and for acquisitions. Our 2008 capital expenditures forecast for drilling is approximately \$661 million. This amount excludes non-cash asset retirement obligation capitalized assets. In the first quarter of 2008 we increased our capital investment budget in the Mid-Continent region from \$135 million to \$155 million in order to expand our 2008 operated horizontal Woodford shale program during the second half of the year. We also increased the capital investment budget in the Permian region to reflect increased leasing activity. Anticipated 2008 exploration and development expenditures for each of our regions are presented in the following table. The precise amount to be invested in the 2008 drilling program in each region cannot be predicted but the amounts presented below should be representative.

	Exploration and Development Expenditures	
	(In millions)	
ArkLaTex region	\$	161
Mid-Continent region		155
Permian region		132
Rocky Mountain region		130
Gulf Coast region		83
	\$	<u>661</u>

We regularly review our capital expenditure budget to reflect changes in current and projected cash flows, acquisition opportunities, drilling opportunities, debt requirements, regional cost inflation, and other factors. We project that our exploration and development budget will be within anticipated operating cash flows for 2008.

The following table sets forth certain historical information regarding the costs incurred by us in our oil and gas activities. Amounts presented include capitalized costs associated with asset retirement obligations.

	For the Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Development costs	\$ 156,482	\$ 132,078
Exploration costs	32,619	37,147
Acquisitions:		
Proved	31,261	(443)
Unproved	22,196	(743)
Leasing activity	3,739	7,812
Total, including asset retirement obligation	\$ 246,297	\$ 175,851

Costs incurred for capital and exploration activities during the first three months of 2008 increased \$70.4 million or 40 percent compared to the same quarter in 2007. Excluding acquisitions, our development and exploration spending increased \$19.9 million compared to the same period in the prior year. This increase was a result of our drilling efforts progressing at a faster pace in the first quarter of 2008 compared with the first quarter of 2007. The \$50.6 million increase in acquisitions is primarily attributable to the acquisition of oil and gas properties located in the Carthage Field. We have experienced significant capital cost inflation over the past three years. These cost increases explain a portion of the year-over-year increase in development and exploration costs. Costs to drill and complete wells have flattened in recent quarters as new rig and service capacity have entered the market, however strong commodity prices for a prolonged period could pressure these costs higher. Additionally, increases in steel prices that are being widely reported could also cause an increase in our costs.

We believe internally generated cash flows together with the cash available under our credit facility will be sufficient to fund our planned operating, drilling, and acquisition expenditures for the foreseeable future. The amount and allocation of future capital and exploration expenditures will depend

upon a number of factors including the number and size of available economic acquisition and drilling opportunities, our cash flows from operating and financing activities, and our ability to assimilate acquisitions. In addition, the impact of oil and gas prices on investment opportunities, the availability of capital and borrowing facilities, and the success of our development and exploratory activities may lead to changes in funding requirements for future development.

Financing alternatives

The debt and equity capital markets continue to be available to energy companies that operate in the exploration and production segment of the oil and gas industry. This is a result of strong commodity prices and the general strength reflected in the balance sheets of the companies in this segment.

Commodity Price Risk and Interest Rate Risk

We are exposed to market risk, including the effects of changes in oil and gas commodity prices and changes in interest rates as discussed below. Since we produce and sell crude oil, natural gas and natural gas liquids, our financial results are affected when prices for these commodities fluctuate. In order to reduce the impact of fluctuations in commodity prices, we enter into hedging transactions. Changes in interest rates can affect the amount of interest we earn on our cash, cash equivalents, and short-term investments and the amount of interest we pay on borrowings under our revolving credit facility. Changes in interest rates do not affect the amount of interest we pay on our fixed rate convertible notes, but do affect the fair value of that debt. We anticipate that all hedge and derivative contract transactions will occur as expected.

There has been no material change to the natural gas and crude oil price sensitivity analysis previously disclosed. Please see the corresponding section under Part II, Item 7 of our Annual Report on Form 10-K/A for the year ended December 31, 2007.

Summary of Oil and Gas Production Hedges in Place

Our oil and natural gas derivative contracts include swap and costless collar arrangements. All contracts are entered into for other-than-trading-purposes.

Our net realized oil and gas prices are impacted by hedges we have placed on forecasted production. We have historically entered into hedges of existing production around the time we make acquisitions of producing oil and gas properties. Our intent has been to lock in a significant portion of an equivalent amount of existing production to the prices we used to evaluate the risk economics of our acquisition. We also hedge a portion of our forecasted production on a discretionary basis. As of March 31, 2008, our hedged positions totaled approximately 11 million Bbls of crude oil, 77 million MMBtu of natural gas, and 1 million Bbls of natural gas liquids anticipated future production through 2011.

In a typical commodity swap agreement, if the agreed-upon published, third-party index price is lower than the swap fixed price, we receive the difference between the index price per unit of production and the contracted swap fixed price. If the index price is higher than the swap fixed price, we pay the difference. For collar agreements, we receive the difference between an agreed upon index and the contracted floor price if the index price is below the floor price. We pay the difference between the contracted ceiling price and the index price only if the index price is above the contracted ceiling price. No amounts are paid or received if the index price is between the contracted floor and ceiling prices.

The following tables describe the volumes, average contract prices, and fair value of contracts we have in place as of March 31, 2008.

Oil Contracts

Oil Swaps

Contract Period	Volumes	Weighted-Average Contract Price	Fair Value at March 31, 2008 Liability
	(Bbl)	(Per Bbl)	(In thousands)
Second quarter 2008			
NYMEX WTI	501,000 \$	71.75 \$	14,516
WCS	45,000 \$	53.69	1,164
Third quarter 2008			
NYMEX WTI	481,000 \$	71.91	13,071
WCS	45,000 \$	54.03	1,074
Fourth quarter 2008			
NYMEX WTI	451,000 \$	71.83	11,616
WCS	15,000 \$	50.42	396
2009			
NYMEX WTI	1,570,000 \$	71.64	36,464
2010			
NYMEX WTI	1,239,000 \$	66.47	31,422
2011			
NYMEX WTI	1,032,000 \$	65.36	25,605
All oil swap contracts	<u>5,379,000</u>		<u>\$ 135,328</u>

Oil Collars

Contract Period	NYMEX WTI Volumes	Weighted-Average Floor Price	Weighted-Average Ceiling Price	Fair Value at March 31, 2008 Liability
	(Bbl)	(Per Bbl)	(Per Bbl)	(In thousands)
Second quarter 2008	415,000 \$	50.00 \$	69.83 \$	12,825
Third quarter 2008	419,000 \$	50.00 \$	69.82	12,338
Fourth quarter 2008	419,000 \$	50.00 \$	69.82	11,879
2009	1,526,000 \$	50.00 \$	67.31	43,697
2010	1,367,500 \$	50.00 \$	64.91	39,102
2011	1,236,000 \$	50.00 \$	63.70	34,841
All oil collars	<u>5,382,500</u>			<u>\$ 154,682</u>

Gas Contracts

Gas Swaps			
Contract Period	Volumes	Weighted-Average Contract Price	Fair Value at March 31, 2008
	(MMBtu)	(per MMBtu)	Liability (In thousands)
Second quarter 2008 -			
IF CIG	930,000	\$ 7.12	\$ 1,050
IF PEPL	1,420,000	\$ 7.22	2,059
IF NGPL	240,000	\$ 6.41	545
IF ANR OK	690,000	\$ 7.64	802
IF EL PASO	260,000	\$ 6.72	603
IF HSC	1,430,000	\$ 7.88	2,633
NYMEX Henry Hub	180,000	\$ 9.19	212
Third quarter 2008 -			
IF CIG	930,000	\$ 6.91	1,386
IF PEPL	1,460,000	\$ 7.48	2,269
IF NGPL	190,000	\$ 6.69	457
IF ANR OK	640,000	\$ 7.92	712
IF EL PASO	280,000	\$ 7.16	659
IF HSC	1,460,000	\$ 8.16	2,876
NYMEX Henry Hub	270,000	\$ 9.38	244
Fourth quarter 2008 -			
IF CIG	930,000	\$ 7.45	1,039
IF PEPL	1,490,000	\$ 8.32	1,230
IF NGPL	160,000	\$ 7.10	329
IF ANR OK	610,000	\$ 8.22	548
IF EL PASO	300,000	\$ 7.20	673
IF HSC	2,050,000	\$ 8.71	3,025
NYMEX Henry Hub	270,000	\$ 9.72	250
2009 -			
IF CIG	2,310,000	\$ 7.72	278
IF PEPL	3,360,000	\$ 8.06	2,234
IF NGPL	440,000	\$ 7.11	677
IF ANR OK	1,340,000	\$ 8.09	1,143
IF EL PASO	1,200,000	\$ 7.11	1,931
IF HSC	10,000,000	\$ 8.49	9,132
NYMEX Henry Hub	1,280,000	\$ 9.03	854

Gas Swaps (continued)

Contract Period	Volumes (MMBtu)	Weighted- Average Contract Price (per MMBtu)	Fair Value at March 31, 2008 Liability (In thousands)
2010 -			
IF NGPL	60,000	\$ 7.60	82
IF ANR OK	60,000	\$ 7.98	63
IF EL PASO	1,090,000	\$ 6.79	1,449
IF HSC	5,720,000	\$ 8.32	2,983
NYMEX Henry Hub	1,440,000	\$ 8.66	499
2011 -			
IF EL PASO	880,000	\$ 6.34	1,294
IF HSC	320,000	\$ 8.89	84
All gas swap contracts	<u>45,690,000</u>		<u>\$ 46,304</u>

Gas Collars				
Contract Period	Volumes	Weighted-Average Floor Price	Weighted-Average Ceiling Price	Fair Value at March 31, 2008 Liability
	(MMBtu)	(per MMBtu)	(per MMBtu)	(In thousands)
Second quarter 2008 -				
IF CIG	720,000	\$ 5.60	\$ 8.72	\$ 161
IF PEPL	1,642,500	\$ 6.28	\$ 9.42	\$ 303
IF HSC	240,000	\$ 6.57	\$ 9.70	\$ 102
NYMEX Henry Hub	120,000	\$ 7.00	\$ 10.57	\$ 26
Third quarter 2008 -				
IF CIG	720,000	\$ 5.60	\$ 8.72	\$ 456
IF PEPL	1,657,500	\$ 6.28	\$ 9.42	\$ 1,080
IF HSC	240,000	\$ 6.57	\$ 9.70	\$ 267
NYMEX Henry Hub	120,000	\$ 7.00	\$ 10.57	\$ 94
Fourth quarter 2008 -				
IF CIG	720,000	\$ 5.60	\$ 8.72	\$ 704
IF PEPL	1,657,500	\$ 6.28	\$ 9.42	\$ 1,593
IF HSC	240,000	\$ 6.57	\$ 9.70	\$ 341
NYMEX Henry Hub	120,000	\$ 7.00	\$ 10.57	\$ 153
2009 -				
IF CIG	2,400,000	\$ 4.75	\$ 8.82	\$ 1,652
IF PEPL	5,510,000	\$ 5.30	\$ 9.25	\$ 5,145
IF HSC	840,000	\$ 5.57	\$ 9.49	\$ 1,068
NYMEX Henry Hub	360,000	\$ 6.00	\$ 10.35	\$ 392
2010 -				
IF CIG	2,040,000	\$ 4.85	\$ 7.08	\$ 1,334
IF PEPL	4,945,000	\$ 5.31	\$ 7.61	\$ 5,585
IF HSC	600,000	\$ 5.57	\$ 7.88	\$ 912
NYMEX Henry Hub	240,000	\$ 6.00	\$ 8.38	\$ 334
2011 -				
IF CIG	1,800,000	\$ 5.00	\$ 6.32	\$ 2,058
IF PEPL	4,225,000	\$ 5.31	\$ 6.51	\$ 6,511
IF HSC	480,000	\$ 5.57	\$ 6.77	\$ 889
NYMEX Henry Hub	120,000	\$ 6.00	\$ 7.25	\$ 202
All gas collars	<u>31,757,500</u>			<u>\$ 31,362</u>

Natural Gas Liquid Contracts

Natural Gas Liquid Swaps*

Contract Period	Volumes	Weighted-Average Contract Price	Fair Value at March 31, 2008
	(Bbls)	(per Bbl)	Liability (In thousands)
Second quarter 2008	170,738	\$ 39.53	\$ 3,261
Third quarter 2008	194,694	\$ 39.28	3,585
Fourth quarter 2008	219,004	\$ 38.73	4,137
2009	638,159	\$ 38.77	9,626
2010	8,021	\$ 45.60	22
2011	1,129	\$ 45.15	6
All natural gas liquid swaps	<u>1,231,745</u>		<u>\$ 20,637</u>

*Natural gas liquid swaps are comprised of OPIS Mont. Belvieu TET Propane (34%), OPIS Mont. Belvieu Purity Ethane (32%), OPIS Mont. Belvieu NON-TET Isobutane (15%), OPIS Mont. Belvieu NON-TET Natural Gasoline (14%), and OPIS Mont. Belvieu NON-TET Normal Butane (5%).

Hedge Contracts Entered into After March 31, 2008

The following table includes all hedges entered into subsequent to March 31, 2008, through April 25, 2008.

Oil Collars

Contract Period	NYMEX WTI Volumes	Weighted-Average Floor Price	Weighted-Average Ceiling Price
	(Bbl)	(Per Bbl)	(Per Bbl)
Second quarter 2008	83,000	\$ 92.50	\$ 114.50
Third quarter 2008	95,000	\$ 92.50	\$ 114.50
Fourth quarter 2008	<u>100,000</u>	\$ 92.50	\$ 114.50
All oil collars	<u>278,000</u>		

Gas Collars*

Contract Period	Volumes	Weighted-Average Floor Price	Weighted-Average Ceiling Price
	(MMBtu)	(per MMBtu)	(per MMBtu)
Third quarter 2008 - IF CenterPoint	1,000,000	\$ 8.75	\$ 10.20
Fourth quarter 2008 - IF CenterPoint	1,220,000	\$ 8.75	\$ 10.20
All gas collars	<u>2,220,000</u>		

Please see Note 8 – Derivative Financial Instruments in Part I, Item 1 of this report for additional information regarding our oil and gas hedges.

Off-Balance Sheet Arrangements

We carry no off-balance sheet financing other than operating leases, nor do we have any unconsolidated subsidiaries.

Critical Accounting Policies and Estimates

We refer you to the corresponding section in Part II, Item 7 of our Annual Report on Form 10-K/A for the year ended December 31, 2007, and to the footnote disclosures included in Part I, Item 1 of this report.

Additional Comparative Data in Tabular Form:

	Change Between the Three Months Ended March 31, 2008 and 2007
<u>Oil and gas production revenues</u>	
Increase in oil and gas production revenues, net of hedging (In thousands)	\$ 74,092

Components of Revenue Increases (Decreases):

<u>Oil</u>	
Realized price change per Bbl, including the effects of hedging	\$ 23.62
Realized price percentage change	45%
Production change (MBbl)	(42)
Production percentage change	(2)%
<u>Natural Gas</u>	
Realized price change per Mcf, including the effects of hedging	\$ 0.65
Realized price percentage change	8%
Production change (MMcf)	3,122
Production percentage change	21%

Our Product Mix as a Percentage of Total Oil and Gas Revenue and Production:

	For the Three Months Ended March 31,	
	2008	2007
<u>Revenue</u>		
Oil	44%	42%
Natural gas	56%	58%
<u>Production</u>		
Oil	35%	40%
Natural gas	65%	60%

Information Regarding the Components of Exploration Expense:

	For the Three Months Ended March 31,	
	2008	2007
<u>Summary of Exploration Expense</u>	(In millions)	
Geological and geophysical expenses	\$ 1.8	\$ 2.6
Exploratory dry hole expense	0.7	9.6
Overhead and other expenses	11.8	6.8
Total	<u>\$ 14.3</u>	<u>\$ 19.0</u>

Information Regarding the Effects of Oil and Gas Hedging Activity:

	For the Three Months Ended March 31,	
	2008	2007
<u>Oil Hedging</u>		
Percentage of oil production hedged	57%	65%
Oil volumes hedged (MBbl)	953	1,107
Increase (decrease) in oil revenue	\$ (26.8 million)	\$ 28,000
Average realized oil price per Bbl before hedging	\$ 92.33	\$ 52.61
Average realized oil price per Bbl after hedging	\$ 76.24	\$ 52.62
<u>Natural Gas Hedging</u>		
Percentage of gas production hedged	39%	47%
Natural gas volumes hedged (MMBtu)	\$ 7.5 million	\$ 7.5 million
Increase in gas revenue	\$ 2.9 million	\$ 18.7 million
Average realized gas price per Mcf before hedging	\$ 8.53	\$ 6.82
Average realized gas price per Mcf after hedging	\$ 8.69	\$ 8.04

Comparison of Financial Results and Trends between the Quarters ended March 31, 2008 and 2007

Oil and gas production revenue. Average net daily production increased 10 percent to 311.5 MMCFE per day for the quarter ended March 31, 2008, compared with 283.1 MMCFE per day for the quarter ended March 31, 2007. The following table presents specific components that contributed to the change in revenue between the two quarters:

	Average Net Daily Production Added (Lost)	Oil and Gas Revenue Added (Lost)	Production Costs Added (Lost)
	(MMCFE)	(In millions)	(In millions)
Rockford acquisition and drilling	6.5	\$ 5.7	\$ 2.1
Williston Basin Middle Bakken Play	2.9	4.2	0.4
Elm Grove Field	12.4	9.4	0.7
James Lime formation	2.8	2.5	0.3
Anadarko Basin fields	15.7	12.1	1.0
Woodford shale formation – horizontal wells	8.6	5.3	0.8
Other wells completed in 2008 and 2007	34.8	33.0	2.9
Other acquisitions	2.0	1.7	0.6
Abraxas divestiture	(9.1)	(5.2)	(2.5)
Total	<u>76.6</u>	<u>\$ 68.7</u>	<u>\$ 6.3</u>

The revenue increases in this table also reflect the difference in oil and gas prices received between the comparable periods. The production volume increases are offset by natural declines in production from older properties to result in the net increase in production between the quarters presented. Additional production costs reflect increases resulting from inflation and competition for resources.

Gain on sale of proved properties. We recorded a gain on sale of proved properties of \$56.0 million during the first quarter of 2008 related to the Abraxas divestiture. The final gain on sale of proved properties will be adjusted for normal post-closing adjustments and is expected to be finalized during the second quarter of 2008.

Oil and gas production expense. Total production costs increased \$7.2 million, or 14 percent, to \$59.5 million for the first quarter of 2008 from \$52.3 million in the comparable period of 2007. Total oil and gas production costs per MCFE increased \$0.05 to \$2.10 for 2008, compared with \$2.05 for 2007. This increase is comprised of the following:

- A \$0.03 decrease in overall transportation cost due to a decrease in the Rocky Mountain region resulting from changes related to the sales measurement point offset by a \$0.04 increase in the Gulf Coast due to wells acquired in the Olmos formation during the fourth quarter of 2007, as well as newly drilled wells with higher transportation costs
- An \$0.18 increase in production taxes on a per MCFE basis due to the increase in realized prices between periods, particularly in the oil-weighted Rocky Mountain and Permian regions

- Recurring LOE remained relatively flat
- A \$0.10 overall decrease in LOE relating to workover charges, due to a decrease in workover expenses in the Rocky Mountain region.

Depletion, Depreciation, Amortization, and Asset Retirement Obligation Liability Accretion. DD&A increased \$21.4 million or 44 percent to \$70.4 million for the three-month period ended March 31, 2008, compared with \$49.0 million for the same period in 2007. DD&A expense per MCFE increased 29 percent to \$2.48 for the three-month period ended March 31, 2008, compared to \$1.92 for the same period in 2007. This increase reflects overall upward cost pressure in the industry in recent years and specifically our acquisitions and drilling in 2008 and 2007 that added costs at a higher per unit rate. Additionally, this increase reflects the costs of production facilities in the offshore Gulf Coast that have increased significantly in recent years that are now impacting our DD&A rate as those projects begin production.

Exploration expense. Exploration expense decreased \$4.7 million or 25 percent to \$14.3 million for the three-month period ended March 31, 2008, compared with \$19.0 million for the same period in 2007. This decrease is due to an \$8.9 million decrease in exploratory dry hole expense related to two wells located in the Gulf Coast region and one in the Rockies region that were declared exploratory dry holes in the first quarter of 2007. The decrease in exploratory dry hole expense was offset by a \$5.0 million increase in overhead and other expenses related to an increase in the size of our geological and exploration staff.

General and administrative. General and administrative expense increased \$8.2 million or 64 percent to \$21.1 million for the quarter ended March 31, 2008, compared with \$12.9 million for the comparable period of 2007. G&A increased \$0.24 to \$0.75 per MCFE for the first quarter of 2008 compared to \$0.51 per MCFE for the same three-month period in 2007.

A 20 percent increase in employee count has resulted in an increase in base employee compensation, including taxes and benefits, of approximately \$3.4 million between the first quarter of 2008 and the first quarter of 2007. The \$4.8 million increase in Net Profits Plan payments is the result of increased oil and gas commodity prices, which have triggered additional Net Profits Plan payouts to plan participants. As of the end of the first quarter of 2008, 17 of our 20 pools are currently in payout status. No additional pools are expected to reach payout in 2008.

Cash and RSU bonus expense is \$1.3 million higher than in the prior year, which is primarily caused by the increase in employee count, as well as a slight increase in the accrued cash bonus. The above amounts combined with a net \$2.9 million increase in other G&A expense, which includes charitable contributions and office supplies, were offset by a \$2.7 million increase in the amount of general and administrative expense that was allocated to exploration expense, as well as a \$1.5 million increase in COPAS overhead reimbursements. The increase in the amount of general and administrative expense is due to the increased allocation to G&A related to the aforementioned incentive plan as well as increases in the size of our technical exploration staff. COPAS overhead reimbursements from operations increased due to an increase in our operated well count resulting from our drilling and acquisition programs.

Change in Net Profits Plan Liability. For the quarter ended March 31, 2008, this non-cash expense was \$13.6 million compared to \$5.0 million for the same period in 2007. Oil and gas commodity price increases have triggered additional Net Profits Plan payouts and have increased the amounts payable to plan participants. This liability is a significant management estimate. Adjustments to the liability are subject to estimation and may change dramatically from period to period based on assumptions used for production rates, reserve quantities, commodity pricing, discount rates, tax rates, and production costs.

Income taxes. Income tax expense totaled \$56.5 million for the first quarter of 2008 compared with \$23.6 million for the first quarter of 2007 resulting in effective tax rates of 37.0 percent and 37.1 percent, respectively. The increase in income tax expense is a result of higher prices received for

crude oil and natural gas, and significant net gains from property sales recorded in the first quarter of 2008. The small effective rate change from 2007 reflects changes in other permanent differences including differing estimated effects between years of the domestic production activities deduction and to a lesser extent, changes in the mix of the highest marginal state tax rates as a result of acquisition and drilling activity throughout 2007 and 2008. Our cash tax expenses increased for the first quarter of 2008 compared to the same period of 2007 as a result of higher net income from crude oil and natural gas sales partially offset by additional intangible drilling cost deductions from an increased level of capital spending during the first quarter of 2008. This trend is expected to continue throughout the remainder of 2008 based upon our current projected capital program and commodity price outlook.

Accounting Matters

We refer you to Note 11 – Fair Value Measurements and Note 14 – Recent Accounting Standards under Part I, Item 1 of this report for accounting matters.

Environmental

St. Mary's compliance with applicable environmental regulations has not resulted in any significant capital expenditures or materially adverse effects on our liquidity or results of operations. We believe we are in substantial compliance with environmental regulations and do not currently anticipate that material expenditures will be required in the future. However, we are unable to predict the impact that future compliance with regulations may have on future capital expenditures, liquidity, and results of operations.

Cautionary Information about Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included in this Form 10-Q that address activities, events, or developments that we expect, believe, or anticipate will or may occur in the future are forward-looking statements. The words "anticipate," "assume," "believe," "budget," "estimate," "expect," "forecast," "intend," "plan," "project," "will," and similar expressions are intended to identify forward-looking statements. Forward-looking statements appear in a number of places in this Form 10-Q, and include statements about such matters as:

- The amount and nature of future capital expenditures and the availability of capital resources to fund capital expenditures
- The drilling of wells and other exploration and development plans, as well as possible future acquisitions
- Reserve estimates and the estimates of both future net revenues and the present value of future net revenues that are included in their calculation
- Future oil and gas production estimates
- Our outlook on future oil and gas prices and service costs
- Cash flows, anticipated liquidity, and the future repayment of debt
- Business strategies and other plans and objectives for future operations, including plans for expansion and growth of operations and our outlook on future financial condition or results of operations
- Other similar matters such as those discussed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Form 10-Q.

Our forward-looking statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments, and other factors that we believe are appropriate under the circumstances. These statements are subject to a number of known and unknown risks and uncertainties which may cause our actual results and performance to be materially different from any future results or performance expressed or implied by the forward-looking statements. These risks are described in the "Risk Factors" section of our 2007 Annual Report on Form 10-K/A, and include such factors as:

- The volatility and level of realized oil and natural gas prices
- Our ability to replace reserves and sustain production
- Unexpected drilling conditions and results
- Unsuccessful exploration and development drilling
- The availability of economically attractive exploration, development, and property acquisition opportunities and any necessary financing
- The risks of hedging strategies

- *Lower prices realized on oil and gas sales resulting from our commodity price risk management activities*
- *The uncertain nature of the expected benefits from the acquisitions and divestitures of oil and gas properties, including uncertainties in evaluating oil and natural gas reserves of acquired properties and associated potential liabilities*
- *The imprecise nature of oil and gas reserve estimates*
- *Uncertainties inherent in projecting future rates of production from drilling activities and acquisitions*
- *Drilling and operating service availability*
- *Uncertainties in cash flow*
- *The financial strength of hedge contract counterparties*
- *The negative impact that lower oil and natural gas prices could have on our ability to borrow*
- *The potential effects of increased levels of debt financing*
- *Our ability to compete effectively against other independent and major oil and gas companies and*
- *Litigation, environmental matters, the potential impact of government regulations, and the use of management estimates.*

We caution you that forward-looking statements are not guarantees of future performance and that actual results or developments may be materially different from those expressed or implied in the forward-looking statements. Although we may from time to time voluntarily update our prior forward-looking statements, we disclaim any commitment to do so except as required by securities laws.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is provided under the captions "Commodity Price Risk and Interest Rate Risk" and "Summary of Oil and Gas Production Hedges in Place," in Item 2 above and is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures that are designed to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Acting Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Acting Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Chief Executive Officer and the Acting Principal Financial Officer, concluded that our disclosure controls and procedures are effective for the purposes discussed above as of the end of the period covered by this Quarterly Report on Form 10-Q. There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the effectiveness of our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of the date of this report, no legal proceedings are pending against us that we believe individually or collectively could have a materially adverse effect upon our financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Form 10-K/A for the year ended December 31, 2007, in response to Item 1A of Part I of such Form 10-K/A.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table provides information about purchases by the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the fiscal quarter ended March 31, 2008, of shares of the Company’s common stock, which is the sole class of equity securities registered by the Company pursuant to Section 12 of the Exchange Act.

PURCHASES OF EQUITY SECURITIES BY ISSUER AND AFFILIATED PURCHASERS				
(a)	(b)	(c)	(d)	
Period	Total Number of Shares Purchased ^{(1) (2)}	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program ⁽³⁾
01/01/08 – 01/31/08	658	\$ 37.89	-0-	5,207,784
02/01/08 – 02/29/08	579,214	\$ 37.44	458,400	4,749,384
03/01/08 – 03/31/08	1,729,429	\$ 35.75	1,677,200	3,072,184
Total:	2,309,301	\$ 36.18	2,135,600	3,072,184

- (1) Includes a total of 3,000 shares purchased by Mark D. Mueller, St. Mary’s Senior Vice President and Regional Manager of the Rocky Mountain region, in open market transactions that were not made pursuant to our stock repurchase program.
- (2) Includes 170,701 shares withheld (under the terms of grants under the 2006 Equity Incentive Compensation Plan) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units.
- (3) In July 2006 the Company’s Board of Directors approved an increase in the number of shares that may be repurchased under the original August 1998 authorization to 6,000,000 as of the effective date of the resolution. Accordingly, as of the date of this filing, the Company has Board authorization to repurchase 3,072,184 shares of common stock on a prospective basis. The shares may be repurchased from time to time in open market transactions or privately negotiated transactions, subject to market conditions and other factors, including certain provisions of St. Mary’s existing bank credit facility agreement and compliance with securities laws. Stock repurchases may be funded with existing cash balances, internal cash flow, and borrowings under St. Mary’s bank credit facility. The stock repurchase program may be suspended or discontinued at any time.

The payment of dividends and stock repurchases are subject to covenants in our bank credit facility, including the requirement that we maintain certain levels of stockholders’ equity and the limitation that does not allow our annual dividend rate to exceed \$0.25 per share.

ITEM 5. OTHER INFORMATION

We have elected to include the following information in this Form 10-Q in lieu of reporting it in a separately filed Form 8-K. This information would otherwise have been reported in a Form 8-K under the heading "Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers."

On April 30, 2008, our Board of Directors appointed Mark T. Solomon to serve as Acting Principal Financial Officer of the Company. It is currently expected that Mr. Solomon will serve in such position until a successor Chief Financial Officer of the Company is appointed by our Board of Directors. Mr. Solomon has served as Controller of the Company since January 2007 and he will continue to serve in that capacity. The biographical information relating to Mr. Solomon that was previously reported in Item 4A of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2007, is incorporated herein by reference. Mr. Solomon currently is not and has not previously been a party to any reportable related person transaction with the Company.

ITEM 6. EXHIBITS

The following exhibits are filed or furnished with or incorporated by reference into this report:

Exhibit	Description
2.1	Ratification and Joinder Agreement dated January 31, 2008, to Purchase and Sale Agreement dated December 11, 2007, among St. Mary Land & Exploration Company, Ralph H. Smith, Trustee of the Ralph H. Smith Restated Revocable Trust Dated August 14, 1997, Kent J. Harrell, Trustee of the Kent J. Harrell Revocable Trust Dated January 19, 1995, Abraxas Operating, LLC, and Abraxas Petroleum Corporation (filed as Exhibit 2.2 to the registrant's Current Report on Form 8-K filed on February 1, 2008).
10.1*	Second Amended and Restated Credit Agreement dated April 10, 2008, among St. Mary Land & Exploration Company, Wachovia Bank, National Association as Administrative Agent, and the Lenders party thereto.
10.2	Cash Bonus Plan, as Amended on March 28, 2008 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on April 3, 2008).
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
31.2*	Certification of Acting Principal Financial Officer, pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
32.1**	Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002

* Filed with this report.

** Furnished with this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ST. MARY LAND & EXPLORATION COMPANY

May 2, 2008

By: /s/ ANTHONY J. BEST
Anthony J. Best
President and Chief Executive Officer

May 2, 2008

By: /s/ MARK T. SOLOMON
Mark T. Solomon
Controller and Acting Principal Financial Officer

Second Amended and Restated Credit Agreement

Dated as of

April 10, 2008

among

**St. Mary Land & Exploration Company,
as Borrower,**

**Wachovia Bank, National Association,
as Administrative Agent,**

**Wells Fargo Bank, N.A.,
As Syndication Agent,**

**BNP Paribas,
Comerica Bank,
and
JPMorgan Chase Bank, N.A.,
As Co-Documentation Agents**

and

The Lenders Party Hereto

with

**Wachovia Capital Markets, LLC
As Joint Lead Arranger and
Sole Bookrunner**

**and
Wells Fargo Bank, N.A.,
As Joint Lead Arranger**

**\$500,000,000 Senior Secured
Revolving Credit Facility**

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THIS SECOND AMENDED AND RESTATED CREDIT AGREEMENT dated as of April 10, 2008, is by and among ST. MARY LAND & EXPLORATION COMPANY, a corporation duly formed and existing under the laws of the State of Delaware (the "**Borrower**"); each of the Lenders from time to time party hereto; WACHOVIA BANK, NATIONAL ASSOCIATION (in its individual capacity, "**Wachovia**"), as administrative agent for the Lenders (in such capacity, together with its successors in such capacity, the "**Administrative Agent**"); WELLS FARGO BANK, N.A., as Syndication Agent; and BNP PARIBAS, COMERICA BANK, and JPMORGAN CHASE BANK, N.A., as Co-Documentation Agents.

The parties hereto agree as follows:

RECITALS

A. The Borrower, the Administrative Agent, the lenders from time to time party thereto and the other agents and parties referred to therein entered into that certain Credit Agreement dated as of January 27, 2003 (the "**Original Credit Agreement**"), which was amended and restated by that certain Amended and Restated Credit Agreement dated as of April 7, 2005 among the Borrower, the Administrative Agent, the lenders party thereto and the other agents and parties referred to therein, as amended by that certain First Amendment to Amended and Restated Credit Agreement dated as of March 19, 2007 (the "**First Amendment**"), and such Amended and Restated Credit Agreement, as amended by the First Amendment, the "**Existing Credit Agreement**".

B. The Borrower, the Administrative Agent, the Lenders (as defined below) and the other agents and parties hereto desire to amend and restate the Existing Credit Agreement, such restatement to supplement and replace the Existing Credit Agreement without affecting the requirements thereof with respect to periods occurring, or measured by dates, prior to the effective date of such amendment and restatement.

C. In consideration of the mutual covenants and agreements herein contained and of the loans, extensions of credit and commitments hereinafter referred to, the parties hereto agree as follows, in doing so amending and restating in its entirety the Existing Credit Agreement effective as of the Effective Date without affecting the requirements of the Existing Credit Agreement existing, or measured by dates or periods, prior to the Effective Date, as more fully set forth herein.

ARTICLE I

Definitions and Accounting Matters

Section 1.01 **Terms Defined Above**. As used in this Second Amended and Restated Credit Agreement, each term defined above has the meaning indicated above.

Section 1.02 **Certain Defined Terms**. As used in this Second Amended and Restated Credit Agreement, the following terms have the meanings specified below:

"**ABR**", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"**Additional Lender**" has the meaning assigned to such term in [Section 2.06\(c\)\(i\)](#).

"**Additional Lender Certificate**" has the meaning assigned to such term in [Section 2.06\(c\)\(ii\)F](#).

"**Adjusted LIBO Rate**" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"**Administrative Questionnaire**" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"**Affected Loans**" has the meaning assigned such term in [Section 5.05](#).

"**Affiliate**" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"**Aggregate Commitment**" at any time means the aggregate amount of the Commitments of all the Lenders, as reduced, increased or terminated from time to time pursuant to the terms hereof provided that the Aggregate Commitment shall not at any time exceed the Maximum Credit Amount; and provided further that, the initial Aggregate Commitment hereunder is \$500,000,000 for the period from and including the Effective Date to but excluding the date such amount is reduced, increased or terminated pursuant to the terms hereof.

"**Aggregate Revolving Credit Exposures**" at any time means the aggregate amount of the Revolving Credit Exposures of all of the Lenders.

"**Agreement**" means this Second Amended and Restated Credit Agreement, as the same may from time to time be amended, modified, supplemented or restated.

"**Alternate Base Rate**" means, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day or (b) the Federal Funds Effective Rate in effect on such day plus ½ of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"**Applicable Margin**" means, for any day, with respect to any ABR Loan or Eurodollar Loan, or with respect to any commitment fees payable hereunder, as the case may be, the rate per annum set forth in the Borrowing Base Utilization Grid below based upon the Borrowing Base Utilization Percentage then in effect:

Borrowing Base Utilization Grid				
Borrowing Base	<50%	≥50% <75%	≥75% <90%	≥90%
Utilization Percentage				
Eurodollar Loans	1.00%	1.25%	1.50%	1.75%
ABR Loans	0.000%	0.000%	0.250%	0.500%
Commitment Fee Rate	0.250%	0.300%	0.375%	0.375%

Each change in the Applicable Margin shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change, provided, however, that if at any time the Borrower fails to deliver a Reserve Report pursuant to [Section 8.12\(a\)](#), then until such time as the Reserve Report is delivered the "**Applicable Margin**" means the rate per annum set forth on the grid when the Borrowing Base Utilization Percentage is at its highest level.

"**Applicable Percentage**" means, with respect to any Lender, the percentage of the Aggregate Commitment represented by such Lender's Commitment as such percentage is set forth on Annex I.

"**Approved Counterparty**" means (a) any Lender or any Affiliate of a Lender and (b) any other Person whose long term senior unsecured debt rating is BBB-/Baa1 by S&P or Moody's (or their equivalent) or higher.

"**Approved Fund**" means (a) a CLO and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"**Approved Petroleum Engineers**" means (a) Netherland, Sewell & Associates, Inc., (b) Ryder Scott Company Petroleum Consultants, L.P. and (c) any other independent petroleum engineers reasonably acceptable to the Administrative Agent.

"**Assignment and Assumption**" means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by [Section 12.04\(b\)](#)), and accepted by the Administrative Agent, in the form of Exhibit D or any other form approved by the Administrative Agent.

"**Availability Period**" means the period from and including the Effective Date to but excluding the Termination Date.

"**Board**" means the Board of Governors of the Federal Reserve System of the United States of America or any successor Governmental Authority.

"**Borrowing**" means Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"**Borrowing Base**" means at any time an amount equal to the amount determined in accordance with Section 2.07, as the same may be adjusted from time to time pursuant to Section 8.13(c) [Section 9.12\(a\)](#), Section 9.13 or Section 9.21.

"**Borrowing Base Utilization Percentage**" means, as of any day, the fraction expressed as a percentage, the numerator of which is the Aggregate Revolving Credit Exposures of the Lenders on such day, and the denominator of which is the Borrowing Base in effect on such day.

"**Borrowing Request**" means a request by the Borrower for a Borrowing in accordance with [Section 2.03](#).

"**Business Day**" means any day that is not a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or Houston, Texas are authorized or required by law to remain closed; and if such day relates to a Borrowing or continuation of, a payment or prepayment of principal of or interest on, or a conversion of or into, or the Interest Period for, a Eurodollar Loan or a notice by the Borrower with respect to any such Borrowing or continuation, payment, prepayment, conversion or Interest Period, any day which is also a day on which dealings in dollar deposits are carried out in the London interbank market.

"**Capital Leases**" means, in respect of any Person, all leases which shall have been, or should have been, in accordance with GAAP, recorded as capital leases on the balance sheet of the Person liable (whether contingent or otherwise) for the payment of rent thereunder.

“**Casualty Event**” means any uninsured loss, uninsured casualty or other uninsured damage to, or any nationalization, taking under power of eminent domain or by condemnation or similar proceeding of, any Property of the Borrower or any of its Material Subsidiaries having a fair market value in excess of \$5,000,000.

“**Change in Control**” means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the SEC thereunder as in effect on the date hereof), of Equity Interests representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of the Borrower, (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated or (c) the acquisition of direct or indirect Control of the Borrower by any Person or group.

“**Change in Law**” means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of [Section 5.01\(b\)](#)), by any lending office of such Lender or by such Lender’s or the Issuing Bank’s holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

“**CLO**” means any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender or an Affiliate of such Lender.

“**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

“**Commitment**” means, with respect to each Lender, the commitment of such Lender to make Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Revolving Credit Exposure hereunder, as such commitment may (a) modified from time to time pursuant to [Section 2.06](#) and (b) modified from time to time pursuant to assignments by or to such Lender pursuant to [Section 12.04\(b\)](#). The amount representing each Lender’s Commitment shall at any time be the lesser of such Lender’s Applicable Percentage of the Aggregate Commitment. The amount of each Lender’s initial Commitment is set forth opposite such Lender’s name on Annex I under the caption “Commitment.”

“**Commitment Fee Rate**” has the meaning set forth in the definition of “[Applicable Margin](#)”.

“**Commitment Increase Certificate**” has the meaning assigned to such term in [Section 2.06\(c\)\(ii\)\(E\)](#).

“**Consolidated Net Income**” means with respect to the Borrower and the Consolidated Subsidiaries, for any period, the aggregate of the net income (or loss) of the Borrower and the Consolidated Subsidiaries after allowances for taxes for such period determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded from such net income (to the extent otherwise included therein) the following: (a) the net income of any Person in which the Borrower or any Consolidated Subsidiary has an interest (which interest does not cause the net income of such other Person to be consolidated with the net income of the Borrower and the Consolidated Subsidiaries in accordance with GAAP), except to the extent of the amount of dividends or distributions actually paid in cash during such period by such other Person to the Borrower or to a Consolidated Subsidiary, as the case may be; (b) the net income (but not loss) during such period of any Consolidated Subsidiary to the extent that the declaration or payment of dividends or similar distributions or transfers or loans by that Consolidated Subsidiary is not at the time permitted by operation of the terms of its charter or any agreement, instrument or Governmental Requirement applicable to such Consolidated Subsidiary or is otherwise restricted or prohibited, in each case determined in accordance with GAAP; (c) any non-cash gains or losses during such period; (d) any gains or losses attributable to writeups or writedowns of assets, including impairments of oil and gas properties; (e) mark-to-market adjustments related to the utilization of derivative instruments; and (f) changes in the liability associated with the future payments of amounts under the Net Profits Interest Bonus Plan.

“**Consolidated Subsidiaries**” means each Subsidiary of the Borrower (whether now existing or hereafter created or acquired) the financial statements of which shall be (or should have been) consolidated with the financial statements of the Borrower in accordance with GAAP.

“**Control**” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “**Controlling**” and “**Controlled**” have meanings correlative thereto.

“**Debt**” means, for any Person, the sum of the following (without duplication): (a) all obligations of such Person for borrowed money or evidenced by bonds, bankers’ acceptances, debentures, notes or other similar instruments; (b) all obligations of such Person (whether contingent or otherwise) in respect of letters of credit, surety or other bonds and similar instruments; (c) all accounts payable, accrued expenses, liabilities or other obligations of such Person to pay the deferred purchase price of Property or services; (d) all obligations under Capital Leases; (e) all obligations under Synthetic Leases; (f) all Debt (as defined in the other clauses of this definition) of others secured by a Lien on any Property of such Person, whether or not such Debt is assumed by such Person; (g) all Debt (as defined in the other clauses of this definition) of others guaranteed by such Person or in which such Person otherwise assures a creditor against loss of the Debt (howsoever such assurance shall be made) to the extent of the lesser of the amount of such Debt and the maximum stated amount of such guarantee or assurance against loss; (h) all obligations or undertakings of such Person to maintain or cause to be maintained the financial position or covenants of others or to purchase the Debt or Property of others; (i) obligations to deliver commodities, goods or services, including, without limitation, Hydrocarbons, in consideration of one or more advance payments, other than gas balancing arrangements in the ordinary course of business; (j) obligations to pay for goods or services whether or not such goods or services are actually received or utilized by such Person; (k) any Debt of a partnership for which such Person is liable either by agreement, by operation of law or by a Governmental Requirement but only to the extent of such liability; (l) Disqualified Capital Stock; and (m) the undischarged balance of any production payment created by such Person or for the creation of which such Person directly or indirectly received payment. The Debt of any Person shall include all obligations of such Person of the character described above to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is not included as a liability of such Person under GAAP; provided, however, the contingent obligations of Borrower or any Subsidiary of Borrower pursuant to any purchase and sale agreement, stock purchase agreement, merger agreement or similar agreement shall not constitute “Debt” within this definition so long as none of same contains an obligation to pay money over time. It is hereby understood and agreed that in calculating the amount of Debt in respect of borrowed money, the effect of Financial Accounting Standards Board Statement No. 133 shall be disregarded.

“**Default**” means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“**Disqualified Capital Stock**” means any Equity Interest that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event, matures or is mandatorily redeemable for any consideration other than other Equity Interests (which would not constitute Disqualified Capital Stock), pursuant to a sinking fund obligation or otherwise, or is convertible or exchangeable for Debt or redeemable for any consideration other than other Equity Interests (which would not constitute Disqualified Capital Stock) at the option of the holder thereof, in whole or in part, on or prior to the date that is one year after the earlier of (a) the Maturity Date and (b) the date on which there are no Loans, LC Exposure or other obligations hereunder outstanding and all of the Commitments are terminated.

“**dollars**” or “**\$**” refers to lawful money of the United States of America.

“**EBITDA**” means, for any period, the sum of Consolidated Net Income for such period plus the following expenses or charges to the extent deducted from Consolidated Net Income in such period: interest, taxes, depreciation, depletion, amortization, noncash impairment charges and other noncash charges, minus all noncash income added to Consolidated Net Income. Noncash charges include mark-to-market adjustments related to the utilization of derivative instruments and changes in the liability associated with the future payments of amounts under the Net Profits Interest Bonus Plan.

“**Effective Date**” means the date on which the conditions specified in [Section 6.01](#) are satisfied (or waived in accordance with [Section 12.02](#)).

“**Engineering Reports**” has the meaning assigned such term in [Section 2.07\(c\)\(i\)](#).

“**Environmental Laws**” means any and all Governmental Requirements pertaining in any way to health, safety, the environment or the preservation or reclamation of natural resources, in effect in any and all jurisdictions in which the Borrower or any Subsidiary is conducting or at any time has conducted business, or where any Property of the Borrower or any Subsidiary is located, including without limitation, the Oil Pollution Act of 1990 (“**OPA**”), as amended, the Clean Air Act, as amended, the Comprehensive Environmental, Response, Compensation, and Liability Act of 1980 (“**CERCLA**”), as amended, the Federal Water Pollution Control Act, as amended, the Occupational Safety and Health Act of 1970, as amended, the Resource Conservation and Recovery Act of 1976 (“**RCRA**”), as amended, the Safe Drinking Water Act, as amended, the Toxic Substances Control Act, as amended, the Superfund Amendments and Reauthorization Act of 1986, as amended, the Hazardous Materials Transportation Act, as amended, and other environmental conservation or protection Governmental Requirements. The term “oil” shall have the meaning specified in OPA, the terms “**hazardous substance**” and “**release**” (or “**threatened release**”) have the meanings specified in CERCLA, the terms “**solid waste**” and “**disposal**” (or “**disposed**”) have the meanings specified in RCRA and the term “**oil and gas waste**” shall have the meaning specified in Section 91.1011 of the Texas Natural Resources Code (“**Section 91.1011**”); provided, however, that (a) in the event any of OPA, CERCLA, RCRA or Section 91.1011 is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment and (b) to the extent the laws of the state or other jurisdiction in which any Property of the Borrower or any Subsidiary is located establish a meaning for “**oil**,” “**hazardous substance**,” “**release**,” “**solid waste**,” “**disposal**” or “**oil and gas waste**” which is broader than that specified in either OPA, CERCLA, RCRA or Section 91.1011, such broader meaning shall apply.

“**Equity Interests**” means shares of capital stock, partnership interests, joint venture interest or interests in comparable entities, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such Equity Interest.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute.

“**ERISA Affiliate**” means each trade or business (whether or not incorporated) which together with the Borrower or a Subsidiary would be deemed to be a “single employer” within the meaning of section 4001(b)(1) of ERISA or subsections (b), (c), (m) or (o) of section 414 of the Code.

“**ERISA Event**” means (a) a “Reportable Event” described in section 4043 of ERISA and the regulations issued thereunder, (b) the withdrawal of the Borrower, a Subsidiary or any ERISA Affiliate from a Plan during a plan year in which it was a “substantial employer” as defined in section 4001(a)(2) of ERISA, (c) the filing of a notice of intent to terminate a Plan or the treatment of a Plan amendment as a termination under section 4041 of ERISA, (d) the institution of proceedings to terminate a Plan by the PBGC or (e) any other event or condition which might constitute grounds under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

“**Eurodollar**”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

“**Event of Default**” has the meaning assigned such term in [Section 10.01](#).

“**Excepted Liens**” means: (a) Liens for Taxes, assessments or other governmental charges or levies which are not delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP; (b) Liens in connection with workers’ compensation, unemployment insurance or other social security, old age pension or public liability obligations which are not delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP; (c) statutory landlord’s liens, operators’, vendors’, carriers’, warehousemen’s, repairmen’s, mechanics’, suppliers’, workers’, materialmen’s, construction or other like Liens arising by operation of law in the ordinary course of business or incident to the exploration, development, operation and maintenance of Oil and Gas Properties each of which is in respect of obligations that are not delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP; (d) contractual Liens which arise in the ordinary course of business under operating agreements, joint venture agreements, oil and gas partnership agreements, oil and gas leases, farm-out

agreements, division orders, contracts for the sale, transportation or exchange of oil and natural gas, unitization and pooling declarations and agreements, area of mutual interest agreements, overriding royalty agreements, marketing agreements, processing agreements, net profits agreements, development agreements, gas balancing or deferred production agreements, injection, repressuring and recycling agreements, salt water or other disposal agreements, seismic or other geophysical permits or agreements, and other agreements which are usual and customary in the oil and gas business and are for claims which are not delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP, provided that any such Lien referred to in this clause does not materially impair the use of the Property covered by such Lien for the purposes for which such Property is held by the Borrower or any Subsidiary or materially impair the value of such Property subject thereto; (e) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies and burdening only deposit accounts or other funds maintained with a creditor depository institution, provided that no such deposit account is a dedicated cash collateral account or is subject to restrictions against access by the depositor in excess of those set forth by regulations promulgated by the Board and no such deposit account is intended by Borrower or any of its Subsidiaries to provide collateral to the depository institution; (f) easements, restrictions, servitudes, permits, conditions, covenants, exceptions or reservations in any Property of the Borrower or any Subsidiary for the purpose of roads, pipelines, transmission lines, transportation lines, distribution lines for the removal of gas, oil, coal or other minerals or timber, and other like purposes, or for the joint or common use of real estate, rights of way, facilities and equipment, which in the aggregate do not materially impair the use of such Property for the purposes of which such Property is held by the Borrower or any Subsidiary or materially impair the value of such Property subject thereto; (g) Liens on cash or securities pledged to secure performance of tenders, surety and appeal bonds, government contracts, performance and return of money bonds, bids, trade contracts, leases, statutory obligations, regulatory obligations and other obligations of a like nature incurred in the ordinary course of business; (h) Liens on existing and future cash, U.S. government securities, and letters of credit securing or supporting Swap Agreements permitted pursuant to Section 9.19; and (i) judgment and attachment Liens not giving rise to an Event of Default, provided that any appropriate legal proceedings which may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such proceeding may be initiated shall not have expired and no action to enforce such Lien has been commenced; provided, further that Liens described in clauses (a) through (e) shall remain "Excepted Liens" only for so long as no action to enforce such Lien has been commenced and no intention to subordinate the first priority Lien granted in favor of the Administrative Agent and the Lenders is to be hereby implied or expressed by the permitted existence of such Excepted Liens.

"**Excluded Taxes**" means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower or any Guarantor hereunder or under any other Loan Document, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America or such other jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower or any Guarantor is located and (c) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with [Section 5.03\(e\)](#), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts with respect to such withholding tax pursuant to [Section 5.03\(a\)](#) or [Section 5.03\(c\)](#).

"**Federal Funds Effective Rate**" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"**Financial Officer**" means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

"**Financial Statements**" means the financial statement or statements of the Borrower and its Consolidated Subsidiaries referred to in Section 7.04(a).

"**Foreign Lender**" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"**GAAP**" means generally accepted accounting principles in the United States of America as in effect from time to time subject to the terms and conditions set forth in [Section 1.05](#).

"**Governmental Authority**" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government over the Borrower, any Material Subsidiary, any of their Properties, any Agent, the Issuing Bank or any Lender.

"**Governmental Requirement**" means any law, statute, code, ordinance, order, determination, rule, regulation, judgment, decree, injunction, franchise, permit, certificate, license, authorization or other directive or requirement, whether now or hereinafter in effect, including, without limitation, Environmental Laws, energy regulations and occupational, safety and health standards or controls, of any Governmental Authority.

"**Guarantors**" means the Material Subsidiaries, and each other Subsidiary that guarantees the Indebtedness pursuant to Section 8.14(b).

"**Guaranty Agreement**" means an agreement executed by the Guarantors in substantially the form of Exhibit D-2 to the Existing Credit Agreement, as the same may be amended, modified or supplemented from time to time.

"**Highest Lawful Rate**" means, with respect to each Lender, the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received on the Notes or on other Indebtedness under laws of the State of Texas which are presently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws allow as of the date hereof.

"**Hydrocarbon Interests**" means all rights, titles, interests and estates now or hereafter acquired in and to oil and gas leases, oil, gas and mineral leases, or other liquid or gaseous hydrocarbon leases, mineral fee interests, overriding royalty and royalty interests, net profit interests and production payment interests, including any reserved or residual interests of whatever nature.

"**Hydrocarbons**" means oil, gas, casinghead gas, drip gasoline, natural gasoline, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and all products refined or separated therefrom.

"**Indebtedness**" means any and all amounts owing or to be owing by the Borrower or any Guarantor: (a) to the Administrative Agent, the Issuing Bank or any Lender under any Loan Document; (b) to any Lender or any Affiliate of a Lender under any present or future Swap Agreements entered into between the Borrower or any Guarantor and any Lender or any Affiliate of a Lender, including, without limitation, the Swap Agreements entered into with a Lender or an Affiliate of a Lender and listed on attached Schedule 7.21, and (c) all renewals, extensions and/or rearrangements of any of the above.

"**Indemnified Taxes**" means Taxes other than Excluded Taxes.

"**Information Memorandum**" means the Confidential Information Memorandum dated February, 2005, relating to the Borrower and the Transactions.

"**Initial Reserve Report**" means (a) the report of the Borrower, which includes reserve estimates as prepared by Ryder Scott Company, L.P. and Netherland, Sewell Associates, Inc., dated as of December 31, 2007, with respect to the value of the Oil and Gas Properties of the Borrower and its Material Subsidiaries as of December 31, 2007, and (b) the report of the Manager of Reservoir Engineering of the Borrower dated as of December 31, 2007, with respect to the value of the Oil and Gas Properties of the Borrower and its Material Subsidiaries as of December 31, 2007.

"**Interest Election Request**" means a request by the Borrower to convert or continue a Borrowing in accordance with [Section 2.04](#).

"**Interest Payment Date**" means (a) with respect to any ABR Loan, the last day of each calendar month and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"**Interest Period**" means with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect; provided, that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period pertaining to a Eurodollar Borrowing that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"**Interim Redetermination**" has the meaning assigned such term in [Section 2.07\(b\)](#).

"**Interim Redetermination Date**" means the date on which a Borrowing Base that has been redetermined pursuant to an Interim Redetermination becomes effective as provided in [Section 2.07\(d\)](#).

"**Investment**" means, for any Person: (a) the acquisition (whether for cash, Property, services or securities or otherwise) of Equity Interests of any other Person or any agreement to make any such acquisition (including, without limitation, any "short sale" or any sale of any securities at a time when such securities are not owned by the Person entering into such short sale); (b) the making of any deposit with, or advance, loan or other extension of credit to, any other Person (including the purchase of Property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such Property to such Person, but excluding any such advance, loan or extension of credit having a term not exceeding ninety (90) days representing the purchase price of inventory or supplies sold by such Person in the ordinary course of business) or (c) the entering into of any guarantee (excluding performance guarantees) of, or other contingent obligation (including the deposit of any Equity Interests to be sold) with respect to, Debt or other liability of any other Person and (without duplication) any amount committed to be advanced, lent or extended to such Person.

"**Issuing Bank**" means Wachovia, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in [Section 2.08\(j\)](#). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "**Issuing Bank**" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"**LC Commitment**" at any time means \$50,000,000.

"**LC Disbursement**" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"**LC Exposure**" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

"**Lenders**" means the Persons listed on Annex I, any Person that shall have become a party hereto pursuant to an Assignment and Assumption, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption, and any Person that shall have become a party hereto pursuant to [Section 2.06\(c\)](#).

"Letter of Credit" means any letter of credit issued pursuant to this Agreement, and the outstanding letters of credit issued under the Original Credit Agreement or the Existing Credit Agreement, more particularly described on attached Annex II.

"Letter of Credit Agreements" means all letter of credit applications and other agreements (including any amendments, modifications or supplements thereto) submitted by the Borrower, or entered into by the Borrower, with the Issuing Bank relating to any Letter of Credit.

"LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Dow Jones Market Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and whether such obligation or claim is fixed or contingent, and including but not limited to (a) the lien or security interest arising from a mortgage, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes or (b) production payments and the like payable out of Oil and Gas Properties. The term "Lien" shall include easements, restrictions, servitudes, permits, conditions, covenants, exceptions or reservations. For the purposes of this Agreement, the Borrower and its Subsidiaries shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement, or leases under a financing lease or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person in a transaction intended to create a financing.

"Loan Documents" means this Agreement, the Notes, the Letter of Credit Agreements, the Letters of Credit and the Security Instruments.

"Loans" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

"Majority Lenders" means, at any time while no Loans or LC Exposure is outstanding, Lenders having at least sixty-six and two-thirds percent (66-2/3%) of the Aggregate Commitments; and at any time while any Loans or LC Exposure is outstanding, Lenders holding at least sixty-six and two-thirds percent (66-2/3%) of the outstanding aggregate principal amount of the Loans or participation interests in Letters of Credit (without regard to any sale by a Lender of a participation in any Loan under [Section 12.04\(c\)](#)).

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations, prospects or condition, financial or otherwise, of the Borrower and the Subsidiaries taken as a whole, (b) the ability of the Borrower, any Subsidiary or any Guarantor to perform any of its obligations under any Loan Document or (c) the rights and remedies of or benefits available to the Administrative Agent, the Issuing Bank or any Lender under any Loan Document.

"Material Agreements" means each agreement (whether one or more) described or referred to on Schedule 7.24.

"Material Indebtedness" means Debt (other than the Loans and Letters of Credit), or obligations in respect of one or more Swap Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding \$15,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any Swap Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Swap Agreement were terminated at such time.

"Material Subsidiary" means a Subsidiary of Borrower that owns a Substantial Portion of the Property of Borrower and its Subsidiaries.

"Maturity Date" means April 7, 2010.

"Maximum Credit Amount" means at any time an amount equal to the lesser of (a) the then effective Borrowing Base and (b) \$500,000,000.

"Moody's" means Moody's Investors Service, Inc. and any successor thereto that is a nationally recognized rating agency.

"Mortgaged Property" means any Property owned by the Borrower or any Material Subsidiary which is subject to the Liens existing and to exist under the terms of the Security Instruments.

"Multiemployer Plan" means a Plan which is a multiemployer plan as defined in section 3(37) or 4001 (a)(3) of ERISA.

"New Borrowing Base Notice" has the meaning assigned such term in [Section 2.07\(d\)](#).

"Notes" means the promissory notes of the Borrower described in [Section 2.02\(d\)](#) and being substantially in the form of Exhibit A, together with all amendments, modifications, replacements, extensions and rearrangements thereof.

"Oil and Gas Properties" means (a) Hydrocarbon Interests; (b) the Properties now or hereafter pooled or unitized with Hydrocarbon Interests; (c) all presently existing or future unitization, pooling agreements and declarations of pooled units and the units created thereby (including without limitation all units created under orders, regulations and rules of any Governmental Authority) which may affect all or any portion of the Hydrocarbon Interests; (d) all operating agreements, contracts and other agreements, including production sharing contracts and agreements, which relate to any of the Hydrocarbon Interests or the production, sale, purchase, exchange or processing of Hydrocarbons from or attributable to such Hydrocarbon Interests; (e) all Hydrocarbons in and under and which may be produced and saved or attributable to the Hydrocarbon Interests, including all oil in tanks, and all rents, issues, profits, proceeds, products, revenues and other incomes from or attributable to the Hydrocarbon Interests; (f) all tenements, hereditaments, appurtenances and Properties in any manner appertaining, belonging, affixed or incidental to the Hydrocarbon Interests and (g) all Properties, rights, titles, interests and estates described or referred to above, including any and all Property, real or personal, now owned or hereafter acquired and situated upon, used, held for use or useful in connection with the operating, working or development of any of such Hydrocarbon Interests or Property (excluding drilling rigs, automotive equipment, rental equipment or other personal Property which may be on such premises for the purpose of drilling a well or for other similar temporary uses) and including any and all oil wells, gas wells, injection wells or other wells, buildings, structures, fuel separators, liquid extraction plants, plant compressors, pumps, pumping units, field gathering systems, tanks and tank batteries, fixtures, valves, fittings, machinery and parts, engines, boilers, meters, apparatus, equipment, appliances, tools, implements, cables, wires, towers, casing, tubing and rods, surface leases, rights-of-way, easements and servitudes together with all additions, substitutions, replacements, accessions and attachments to any and all of the foregoing.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or Property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement and any other Loan Document.

"Participant" has the meaning set forth in [Section 12.04\(c\)\(i\)](#).

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permitted Refinancing Debt" means Debt (for purposes of this definition, "new Debt") incurred in exchange for, or proceeds of which are used to refinance, all of any other Debt (the "Refinanced Debt"); provided that (a) such new Debt is in an aggregate principal amount not in excess of the sum of (i) the aggregate principal amount then outstanding of the Refinanced Debt (or, if the Refinanced Debt is exchanged or acquired for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration thereof, such lesser amount) and (ii) an amount necessary to pay any fees and expenses, including premiums, related to such exchange or refinancing; (b) such new Debt has a stated maturity no earlier than the stated maturity of the Refinanced Debt and an average life no shorter than the average life of the Refinanced Debt; (c) such new Debt does not have a stated interest rate in excess of the stated interest rate of the Refinanced Debt; (d) such new Debt does not contain any covenants which are more onerous to the Borrower and its Subsidiaries than those imposed by the Refinanced Debt and (e) such new Debt (and any guarantees thereof) is subordinated in right of payment to the Indebtedness (or, if applicable, the Guaranty Agreement) to at least the same extent as the Refinanced Debt and is otherwise subordinated on terms substantially reasonably satisfactory to the Administrative Agent.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan, as defined in section 3(2) of ERISA, which (a) is currently or hereafter sponsored, maintained or contributed to by the Borrower, a Subsidiary or an ERISA Affiliate or (b) was at any time during the six calendar years preceding the date hereof, sponsored, maintained or contributed to by the Borrower or a Subsidiary or an ERISA Affiliate.

"Pledge - Borrower" means that certain Pledge and Security Agreement from the Borrower in favor of the Administrative Agent, pledging to the Administrative Agent as security for the Indebtedness all equity interests held by the Borrower in the Material Subsidiaries, in substantially the form of Exhibit D-3 to the Existing Credit Agreement, as the same may be amended, modified or supplemented from time to time.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by Wachovia as its prime rate in effect at its principal office in Charlotte, North Carolina; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective. Such rate is set by Wachovia as a general reference rate of interest, taking into account such factors as Wachovia may deem appropriate; it being understood that many of Wachovia's commercial or other loans are priced in relation to such rate, that it is not necessarily the lowest or best rate actually charged to any customer and that Wachovia may make various commercial or other loans at rates of interest having no relationship to such rate.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including, without limitation, cash, securities, accounts and contract rights.

"Proposed Borrowing Base" has the meaning assigned to such term in [Section 2.07\(c\)\(i\)](#).

"Proposed Borrowing Base Notice" has the meaning assigned to such term in [Section 2.07\(c\)\(ii\)](#).

"Reaffirmation Agreement" means that certain Reaffirmation Agreement dated as of April 10, 2008, by the Borrower in favor of the Administrative Agent, in substantially the form of Exhibit G.

"Redemption" means the repurchase, redemption, prepayment, repayment or defeasance (or the segregation of funds with respect to any of the foregoing) of the Material Indebtedness; provided, however, the term Redemption shall not include early termination of a Swap Agreement due to an ISDA "Termination Event" to the extent the amount due at termination exceeds \$15,000,000. "Redeem" has the correlative meaning thereto.

"Redetermination Date" means, with respect to any Scheduled Redetermination or any Interim Redetermination, the date that the redetermined Borrowing Base related thereto becomes effective pursuant to [Section 2.07\(d\)](#).

“**Refinanced Debt**” has the meaning assigned such term in the definition of “Permitted Refinancing Debt”.

“**Register**” has the meaning assigned such term in [Section 12.04\(b\)\(iv\)](#).

“**Regulation D**” means Regulation D of the Board, as the same may be amended, supplemented or replaced from time to time.

“**Related Parties**” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“**Remedial Work**” has the meaning assigned such term in [Section 8.10\(a\)](#).

“**Reserve Report**” means a report, in form and substance reasonably satisfactory to the Administrative Agent, setting forth, as of each December 31st or June 30th (or such other date in the event of an Interim Redetermination) the oil and gas reserves attributable to the Oil and Gas Properties of the Borrower and the Material Subsidiaries, together with a projection of the rate of production and future net income, taxes, operating expenses and capital expenditures with respect thereto as of such date, based upon the pricing assumptions consistent with SEC reporting requirements at the time.

“**Responsible Officer**” means, as to any Person, the Chief Executive Officer, the President, any Financial Officer or any Vice President of such Person. Unless otherwise specified, all references to a Responsible Officer herein shall mean a Responsible Officer of the Borrower.

“**Restricted Payment**” means any dividend or other distribution (whether in cash, securities or other Property) with respect to any Equity Interests in the Borrower, or any payment (whether in cash, securities or other Property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interests in the Borrower or any option, warrant or other right to acquire any such Equity Interests in the Borrower.

“**Revolving Credit Exposure**” means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender’s Loans and its LC Exposure at such time.

“**Scheduled Redetermination**” has the meaning assigned such term in [Section 2.07\(b\)](#).

“**Scheduled Redetermination Date**” means the date on which a Borrowing Base that has been redetermined pursuant to a Scheduled Redetermination becomes effective as provided in [Section 2.07\(d\)](#).

“**SEC**” means the Securities and Exchange Commission or any successor Governmental Authority.

“**Security Instruments**” means any Guaranty Agreement, the Pledge – Borrower, the Reaffirmation Agreement and all assignments, mortgages, deeds of trust, amendments and supplements to mortgages and deeds of trust, and all other agreements, instruments or certificates described or referred to in Exhibit C, and any and all other agreements, instruments or certificates now or hereafter executed and delivered by the Borrower or any other Person (other than Swap Agreements with the Lenders or any Affiliate of a Lender or participation or similar agreements between any Lender and any other lender or creditor with respect to any Indebtedness pursuant to this Agreement) in connection with, or as security for the payment or performance of the Indebtedness, the Notes, this Agreement, or reimbursement obligations under the Letters of Credit, as such agreements may be amended, modified, supplemented or restated from time to time.

“**Senior Convertible Notes**” means those certain senior convertible notes issued and sold by the Borrower in accordance with and pursuant to the terms and provisions of the Senior Convertible Notes indenture, in the aggregate principal amount of \$287,500,000, due on or about April 1, 2027. For purposes of this Agreement, the Senior Convertible Notes shall not be deemed a Swap Agreement subject to the prohibitions of Section 9.19.

“**S&P**” means Standard & Poor’s Ratings Group, a division of The McGraw-Hill Companies, Inc., and any successor thereto that is a nationally recognized rating agency.

“**Statutory Reserve Rate**” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject, with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“**Subsidiary**” means: (a) any Person of which at least a majority of the outstanding Equity Interests having by the terms thereof ordinary voting power to elect a majority of the board of directors, manager or other governing body of such Person (irrespective of whether or not at the time Equity Interests of any other class or classes of such Person shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by the Borrower or one or more of its Subsidiaries and (b) any partnership of which the Borrower or any of its Subsidiaries is a general partner. Unless otherwise indicated herein, each reference to the term “**Subsidiary**” shall mean a Subsidiary of the Borrower.

“**Substantial Portion**” means, with respect to the Property of the Borrower and its Subsidiaries, Property which represents more than 10% of the consolidated assets of the Borrower and its Subsidiaries or property which is responsible for more than 10% of the consolidated net sales or of the consolidated net income of the Borrower and its Subsidiaries, in each case, as would be shown in the consolidated financial statements of the Borrower and its Subsidiaries at the beginning of the twelve-month period ending with the month in which such determination is made (or if financial statements have not been delivered hereunder for that month which begins the twelve-month period, then the financial statements delivered hereunder for the quarter ending immediately prior to that month).

“**Swap Agreement**” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement, whether exchange traded, “over-the-counter” or otherwise, involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or the Subsidiaries shall be a Swap Agreement.

“**Synthetic Leases**” means, in respect of any Person, all leases which shall have been, or should have been, in accordance with GAAP, treated as operating leases on the financial statements of the Person liable (whether contingently or otherwise) for the payment of rent thereunder and which were properly treated as indebtedness for borrowed money for purposes of U.S. federal income taxes, if the lessee in respect thereof is obligated to either purchase for an amount in excess of, or pay upon early termination an amount in excess of, 80% of the residual value of the Property subject to such operating lease upon expiration or early termination of such lease.

“**Taxes**” means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“**Termination Date**” means the earlier of the Maturity Date and the date of termination of the Commitments.

“**Total Debt**” means, at any date, all Debt of the Borrower and the Consolidated Subsidiaries on a consolidated basis, exclusive of all accounts payable, accrued expenses, liabilities or other obligations to pay the deferred purchase price of Property or services to the extent any of same was included in Debt of the Borrower and the Consolidated Subsidiaries on a consolidated basis.

“**Transactions**” means, with respect to (a) the Borrower, the execution, delivery and performance by the Borrower of this Agreement, and each other Loan Document to which it is a party, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder, and the grant of Liens by the Borrower on Mortgaged Properties and other Properties pursuant to the Security Instruments and (b) each Material Subsidiary, the execution, delivery and performance by such Material Subsidiary of each Loan Document to which it is a party, the guaranteeing of the Indebtedness and the other obligations under the Guaranty Agreement by such Material Subsidiary and such Material Subsidiary’s grant of the security interests and provision of collateral thereunder, and the grant of Liens by such Material Subsidiary on Mortgaged Properties and other Properties pursuant to the Security Instruments.

“**Type**”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Alternate Base Rate or the Adjusted LIBO Rate.

“**Wholly-Owned Subsidiary**” means any Subsidiary of which all of the outstanding Equity Interests (other than any directors’ qualifying shares mandated by applicable law), on a fully-diluted basis, are owned by the Borrower or one or more of the Wholly-Owned Subsidiaries.

Section 1.03 Types of Loans and Borrowings. For purposes of this Agreement, Loans and Borrowings, respectively, may be classified and referred to by Type (e.g., a “Eurodollar Loan” or a “Eurodollar Borrowing”).

Section 1.04 Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns (subject to the restrictions contained herein), (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof and (d) all references herein to Articles, Sections, Annexes, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Annexes, Exhibits and Schedules to, this Agreement.

Section 1.05 Accounting Terms and Determinations: GAAP. 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 to the Administrative Agent or the Lenders hereunder shall be prepared, in accordance with GAAP, applied on a basis consistent with the Financial Statements except for changes in which Borrower’s independent certified public accountants concur and which are disclosed to Administrative Agent on the next date on which financial statements are required to be delivered to the Lenders pursuant to [Section 8.01\(a\)](#); provided that, unless the Borrower and the Majority Lenders shall otherwise agree in writing, no such change shall modify or affect the manner in which compliance with the covenants contained herein is computed such that all such computations shall be conducted utilizing financial information presented consistently with prior periods.

ARTICLE II

The Credits

Section 2.01 Commitments. Subject to the terms and conditions set forth herein, each Lender agrees to make Loans to the Borrower during the Availability Period in an aggregate principal amount that will not result in (a) such Lender’s Revolving Credit Exposure exceeding such Lender’s Commitment or (b) the Aggregate Revolving Credit Exposures exceeding the Aggregate Commitments then in effect. Within the foregoing limits and

subject to the terms and conditions set forth herein, the Borrower may borrow, repay and reborrow the Loans.

Section 2.02 Loans and Borrowings.

(a) Borrowings; Several Obligations. Each Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Types of Loans. Subject to [Section 3.03](#), each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) Minimum Amounts; Limitation on Number of Borrowings. At the commencement of each Interest Period for any Eurodollar Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of \$1,000,000 and not less than \$3,000,000. At the time that each ABR Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of \$500,000 and not less than \$1,000,000; provided that an ABR Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by [Section 2.08\(f\)](#). Borrowings of more than one Type may be outstanding at the same time; provided that there shall not at any time be more than a total of six (6) Eurodollar Borrowings outstanding. Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

(d) Notes. The Loans made by each Lender shall be evidenced by a single promissory note of the Borrower in substantially the form of Exhibit A, dated, in the case of (i) any Lender party hereto as of the date of this Agreement, as of the date of this Agreement, (ii) any Lender that becomes a party hereto pursuant to an Assignment and Assumption, as of the effective date of the assignment and assumption, or (iii) any Lender that becomes a party hereto in connection with an increase in the Aggregate Commitment pursuant to [Section 2.06\(c\)](#), as of the effective date of such increase, payable to the order of such Lender in a principal amount equal to its Commitment as in effect on such date, and otherwise duly completed. In the event that any Lender's Commitment increases or decreases for any reason (whether pursuant to [Section 2.06](#), [Section 12.04\(b\)](#) or otherwise), the Borrower shall deliver or cause to be delivered on the effective date of such increase or decrease, a new Note payable to the order of such Lender in a principal amount equal to its Commitment after giving effect to such increase or decrease, and otherwise duly completed. The date, amount, Type, interest rate and, if applicable, Interest Period of each Loan made by each Lender, and all payments made on account of the principal thereof, shall be recorded by such Lender on its books for its Note, and, prior to any transfer, may be endorsed by such Lender on a schedule attached to such Note or any continuation thereof or on any separate record maintained by such Lender. Failure to make any such notation or to attach a schedule shall not affect any Lender's or the Borrower's rights or obligations in respect of such Loans or affect the validity of such transfer by any Lender of its Note.

Section 2.03 Requests for Borrowings. To request a Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 1:00 p.m., Charlotte, North Carolina time, three Business Days before the date of the proposed Borrowing or (b) in the case of a ABR Borrowing, not later than 1:00 p.m., Charlotte, North Carolina time, one Business Day before the date of the proposed Borrowing; provided that any such notice of an ABR Borrowing to finance the reimbursement of an LC Disbursement as contemplated by [Section 2.08\(f\)](#) may be given not later than 11:00 a.m., Charlotte, North Carolina time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with [Section 2.02](#):

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day in the United States;
- (iii) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;
- (iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period";
- (v) the amount of the then effective Borrowing Base, the current Aggregate Revolving Credit Exposures (without regard to the requested Borrowing) and *pro forma* Aggregate Revolving Credit Exposures (giving effect to the requested Borrowing); and
- (vi) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of [Section 2.05](#).

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Each Borrowing Request shall constitute a representation that the amount of the requested Borrowing shall not cause the Aggregate Revolving Credit Exposures to exceed the Aggregate Commitments then in effect.

Promptly following receipt of a Borrowing Request in accordance with this [Section 2.03](#), the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

Section 2.04 Interest Elections.

(a) Conversion and Continuance. Each Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this [Section 2.04](#). The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) Interest Election Requests. To make an election pursuant to this [Section 2.04](#), the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under [Section 2.03](#) if the Borrower were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Information in Interest Election Requests. Each telephonic and written Interest Election Request shall specify the following information in compliance with [Section 2.02](#):

- (i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to [Section 2.04\(c\)\(iii\)](#) and (iv) shall be specified for each resulting Borrowing);
 - (ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;
 - (iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and
 - (iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".
- (d) If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(e) Notice to Lenders by the Administrative Agent. Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(f) Effect of Failure to Deliver Timely Interest Election Request and Events of Default on Interest Election. If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing: (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

Section 2.05 Funding of Borrowings.

(a) Funding by Lenders. Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 2:00 p.m. Charlotte, North Carolina time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in Charlotte, North Carolina and designated by the Borrower in the applicable Borrowing Request; provided that ABR Loans made to finance the reimbursement of an LC Disbursement as provided in [Section 2.08\(f\)](#) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Presumption of Funding by the Lenders. Unless the Administrative Agent shall have received written notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with [Section 2.05\(a\)](#) and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans; provided, however, such demands shall be made first upon the applicable Lender and then upon the Borrower. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

Section 2.06 Termination, Reduction and Increase of Aggregate Commitment.

(a) Scheduled Termination of Commitments. Unless previously terminated, the Commitments shall terminate on the Maturity Date. If at any time the Maximum Credit Amount or the Borrowing Base is terminated or reduced to zero, then the Commitments shall terminate on the effective date of such termination or reduction.

(b) Optional Termination and Reduction of Aggregate Commitment

(i) The Borrower may at any time terminate, or from time to time reduce, the Aggregate Commitment; provided that A. each reduction of the Aggregate Commitment shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000 and B. the Borrower shall not terminate or reduce the Aggregate Commitment if, after giving effect to any concurrent prepayment of the Loans in accordance with [Section 3.04\(c\)](#), the Aggregate Revolving Credit Exposures would exceed the Aggregate Commitments.

(ii) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Aggregate Commitment under [Section 2.06\(b\)\(i\)](#) at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this [Section 2.06\(b\)\(i\)](#) shall be irrevocable. Any termination or reduction of the Aggregate Commitment shall be permanent and may not be reinstated except pursuant to [Section 2.06\(c\)](#). Each reduction of the Aggregate Commitment shall be made ratably among the Lenders in accordance with each Lender's Applicable Percentage.

(c) Optional Increase in Aggregate Commitment

(i) Subject to the conditions set forth in [Section 2.06\(c\)\(ii\)](#), the Borrower may increase the Aggregate Commitment then in effect by increasing the Commitment of a Lender or by causing a Person acceptable to the Administrative Agent that at such time is not a Lender to become a Lender (an "Additional Lender").

(ii) Any increase in the Aggregate Commitment shall be subject to the following additional conditions:

A. such increase shall not be less than \$10,000,000 unless the Administrative Agent otherwise consents;

B. no Default shall have occurred and be continuing at the effective date of such increase;

C. on the effective date of such increase, no Eurodollar Borrowings shall be outstanding (or if any Eurodollar Borrowings are outstanding, then the effective date of such increase shall be the last day of the Interest Period in respect of such Eurodollar Borrowings);

D. each Lender shall have had the option to increase its Commitment by its Applicable Percentage of the amount of such increase; provided that, no Lender's Commitment may be increased without the consent of such Lender;

E. if the Borrower elects to increase the Aggregate Commitment by increasing the Commitment of a Lender, the Borrower and such Lender shall execute and deliver to the Administrative Agent a certificate substantially in the form of Exhibit E (a "Commitment Increase Certificate"), and further, in the event a new Note is required to reflect the increased Commitment of such Lender, then in that case, the Borrower shall deliver a new Note (after presentation of same to Borrower by the Administrative Agent) payable to the order of such Lender in a principal amount equal to its Commitment after giving effect to such increase, and otherwise duly completed, together with a processing and recordation fee of \$3,500 payable by the Borrower to the Administrative Agent and the reimbursement by the Borrower of the reasonable legal fees of counsel to the Administrative Agent;

F. If the Borrower elects to increase the Aggregate Commitment by causing an Additional Lender to become a party to this Agreement, then the Borrower and such Additional Lender shall execute and deliver to the Administrative Agent a certificate substantially in the form of Exhibit F (an "Additional Lender Certificate"), together with an Administrative Questionnaire and a processing and recordation fee of \$3,500 payable by such Additional Lender and the reimbursement by the Borrower of the reasonable legal fees of counsel to the Administrative Agent, and the Borrower shall deliver a Note (after presentation of same to Borrower by the Administrative Agent) payable to the order of such Additional Lender in a principal amount equal to its Commitment, and otherwise duly completed.

(iii) Subject to acceptance and recording thereof pursuant to [Section 2.06\(c\)\(iv\)](#), from and after the effective date specified in the Commitment Increase Certificate or the Additional Lender Certificate (or if any Eurodollar Borrowings are outstanding, then the last day of the Interest Period in respect of such Eurodollar Borrowings): A. the amount of the Aggregate Commitment shall be increased as set forth therein, and B. in the case of an Additional Lender Certificate, any Additional Lender party thereto shall be a party to this Agreement and have the rights and obligations of a Lender under this Agreement and the other Loan Documents. In addition, the Lender or the Additional Lender, as applicable, shall purchase a pro rata portion of the Aggregate Revolving Credit Exposures of each of the other Lenders (and such Lenders hereby agree to sell and to take all such further action to effectuate such sale) such that each Lender (including any Additional Lender, if applicable) shall hold its Applicable Percentage of the Aggregate Revolving Credit Exposures after giving effect to the increase in the Aggregate Commitment;

(iv) Upon its receipt of a duly completed Commitment Increase Certificate or an Additional Lender Certificate, executed by the Borrower and the Lender or the Borrower and the Additional Lender party thereto, as applicable, the processing and recording fee referred to in [Section 2.06\(c\)\(ii\)](#), the Administrative Questionnaire referred to in [Section 2.06\(c\)\(ii\)](#), if applicable, and the written consent of the Administrative Agent to such increase required by [Section 2.06\(c\)\(i\)](#), the Administrative Agent shall accept such Commitment Increase Certificate or Additional Lender Certificate and record the information contained therein in the Register required to be maintained by the Administrative Agent pursuant to [Section 12.04\(b\)\(iv\)](#). No increase in the Aggregate Commitment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this [Section 2.06\(c\)\(iv\)](#); and

G. After giving effect to an increase in the Aggregate Commitment, the Aggregate Commitment shall not exceed the Maximum Credit Amount.

Section 2.07 Borrowing Base.

(a) Initial Borrowing Base. For the period from and including the Effective Date to but excluding the first Redetermination Date, the amount of the Borrowing Base shall be \$1400,000,000. Notwithstanding the foregoing, the Borrowing Base shall be subject to further adjustments from time to time pursuant to this Section 2.07 and [Section 8.13\(c\)](#), [Section 9.12\(a\)](#), [Section 9.13](#) and [Section 9.21](#).

(b) Scheduled and Interim Redeterminations. Subject to [Section 2.07\(d\)](#), the Borrowing Base shall be redetermined (a "Scheduled Redetermination") no later than April 1 and October 1 of each year, commencing October 1, 2008. In addition, the Borrower may, by notifying the Administrative Agent thereof, and the Administrative Agent may, at the direction of the Majority Lenders, by notifying the Borrower thereof, one time during any 12-month period, elect to cause the Borrowing Base to be redetermined between Scheduled Redeterminations (an "Interim Redetermination") in accordance with this [Section 2.07](#).

(c) Scheduled and Interim Redetermination Procedure.

(i) Each Scheduled Redetermination and each Interim Redetermination shall be effectuated as follows: Upon receipt by the Administrative Agent of A. the Reserve Report and the certificate required to be delivered by the Borrower to the Administrative Agent, in the case of a Scheduled Redetermination, pursuant to [Section 8.12\(a\)](#) and (c), and, in the case of an Interim Redetermination, pursuant to [Section 8.12\(b\)](#) and (c), and B. such other reports, data and supplemental information, including, without limitation, the information provided pursuant to [Section 8.12\(c\)](#), as may, from time to time, be reasonably requested by the Majority Lenders (the Reserve Report, such certificate and such other reports, data and supplemental information being the "Engineering Reports"), the Administrative Agent shall evaluate the information contained in the Engineering Reports and shall, in good faith, propose a new Borrowing Base (the "Proposed Borrowing Base") based upon such information and such other information (including, without limitation, the status of title information with respect to the Oil and Gas Properties as described in the Engineering Reports and the existence of any other Debt) as the Administrative Agent deems appropriate and consistent with its normal oil and gas lending criteria as it exists at the particular time.

(ii) The Administrative Agent shall notify the Borrower and the Lenders of the Proposed Borrowing Base (the "Proposed Borrowing Base Notice"):

A. in the case of a Scheduled Redetermination 1. if the Administrative Agent shall have received the Engineering Reports required to be delivered by the Borrower pursuant to [Section 8.12\(a\)](#) and (c) in a timely and complete manner, then on or before March 15th and September 15th of each year following the date of delivery or 2. if the Administrative Agent shall not have received the Engineering Reports required to be delivered by the Borrower pursuant to [Section 8.12\(a\)](#) and (c) in a timely and complete manner, then promptly after the Administrative Agent has received complete Engineering Reports from the Borrower and has had a reasonable opportunity to determine the Proposed Borrowing Base in accordance with [Section 2.07\(c\)\(i\)](#); and

B. in the case of an Interim Redetermination, promptly, and in any event, within fifteen (15) days after the Administrative Agent has received the required Engineering Reports.

(iii) Any Proposed Borrowing Base that would increase the Borrowing Base then in effect must be approved or deemed to have been approved by all of the Lenders as provided in this [Section 2.07\(c\)\(iii\)](#); and any Proposed Borrowing Base that would decrease or maintain the Borrowing Base then in effect must be approved or be deemed to have been approved by the Majority Lenders as provided in this [Section 2.07\(c\)\(iii\)](#). Upon receipt of the Proposed Borrowing Base Notice, each Lender shall have fifteen (15) days to agree with the Proposed Borrowing Base or disagree with the Proposed Borrowing Base by proposing an alternate Borrowing Base. If at the end of such fifteen (15) days, any Lender has not communicated its approval or disapproval in writing to the Administrative Agent, such silence shall be deemed to be an approval of the Proposed Borrowing Base. If, at the end of such 15-day period, all of the Lenders, in the case of a Proposed Borrowing Base that would increase the Borrowing Base then in effect, or the Majority Lenders, in the case of a Proposed Borrowing Base that would decrease or maintain the Borrowing Base then in effect, have approved or deemed to have approved, as aforesaid, then the Proposed Borrowing Base shall become the new Borrowing Base, effective on the date specified in [Section 2.07\(d\)](#). If, however, at the end of such 15-day period, all of the Lenders or the Majority Lenders, as applicable, have not approved or deemed to have approved, as aforesaid, then for purposes of this Section 2.07, the Administrative Agent shall poll the Lenders to ascertain the highest Borrowing Base then acceptable (aa) to the Majority Lenders, if such amount would decrease the Borrowing Base then in effect, or (bb) to all of the Lenders, if such amount would increase the Borrowing Base then in effect, which amount shall become the new Borrowing Base, effective on the date specified in [Section 2.07\(d\)](#).

(iv) If any Lender refuses to approve a Proposed Borrowing Base pursuant to [Section 2.07\(c\)\(iii\)](#), the Borrower shall have the right to cause the Commitment of such dissenting Lender to be replaced pursuant to Section 5.06.

(d) Effectiveness of a Redetermined Borrowing Base. After a redetermined Borrowing Base is approved or is deemed to have been approved by all of the Lenders or Majority Lenders, as applicable, pursuant to [Section 2.07\(c\)\(iii\)](#), the Administrative Agent shall notify the Borrower and the Lenders of the amount of the redetermined Borrowing Base (the "New Borrowing Base Notice"), and such amount shall become the new Borrowing Base, effective and applicable to the Borrower, the Agents, the Issuing Bank and the Lenders:

A. in the case of a Scheduled Redetermination, 1. if the Administrative Agent shall have received the Engineering Reports required to be delivered by the Borrower pursuant to [Section 8.12\(a\)](#) and (c) in a timely and complete manner, then no later than April 1 or October 1, as applicable, following such notice, or 2. if the Administrative Agent shall not have received the Engineering Reports required to be delivered by the Borrower pursuant to [Section 8.12\(a\)](#) and (c) in a timely and complete manner, then on the Business Day next succeeding delivery of such notice; and

B. in the case of an Interim Redetermination, on the Business Day next succeeding delivery of such notice.

C. Such amount shall then become the Borrowing Base until the next Scheduled Redetermination Date, the next Interim Redetermination Date or the next adjustment to the Borrowing Base under [Section 8.13\(c\)](#), [Section 9.12\(a\)](#)

or [Section 9.13](#), whichever occurs first. Notwithstanding the foregoing, no Scheduled Redetermination or Interim Redetermination shall become effective until the New Borrowing Base Notice related thereto is received by the Borrower.

Section 2.08 Letters of Credit

(a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account or for the account of any of its Material Subsidiaries, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (not less than three (3) Business Days in advance of the requested date of issuance, amendment, renewal or extension) a notice:

- (i) requesting the issuance of a Letter of Credit or identifying the Letter of Credit to be amended, renewed or extended;
- (ii) specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day);
- (iii) specifying the date on which such Letter of Credit is to expire (which shall comply with [Section 2.08\(d\)](#));
- (iv) specifying the amount of such Letter of Credit;
- (v) specifying the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit; and

(vi) specifying the amount of the then effective Borrowing Base, the current Aggregate Revolving Credit Exposures (without regard to the requested Letter of Credit or the requested amendment, renewal or extension of an outstanding Letter of Credit) and the *pro forma* Aggregate Revolving Credit Exposures (giving effect to the requested Letter of Credit or the requested amendment, renewal or extension of an outstanding Letter of Credit).

Each notice shall constitute a representation that after giving effect to the requested issuance, amendment, renewal or extension, as applicable, (i) the LC Exposure shall not exceed the LC Commitment and (ii) the Aggregate Revolving Credit Exposures shall not exceed the Aggregate Commitments.

(c) If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit.

(d) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Maturity Date.

(e) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in [Section 2.08\(f\)](#), or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this [Section 2.08\(e\)](#) in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(f) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, Charlotte, North Carolina time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 12:00 noon, Charlotte, North Carolina time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon Charlotte, North Carolina time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 12:00 noon, Charlotte, North Carolina time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that if such LC Disbursement is not less than \$1,000,000, the Borrower may, subject to the conditions to Borrowing set forth herein, request in accordance with [Section 2.03](#) that such payment be financed with an ABR Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Borrowing. If the Borrower makes such a request (and if the Borrower fails to make such a request and has not made the relevant reimbursement, it shall be deemed to have made such a request), the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in [Section 2.05](#) with respect to Loans made by such Lender (and [Section 2.05](#) shall apply, *mutatis mutandis*, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this [Section 2.08\(f\)](#), the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this [Section 2.08\(f\)](#) to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear.

(g) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in [Section 2.08\(f\)](#) shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit, any Letter of Credit Agreement or this Agreement, any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit or any Letter of Credit Agreement, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this [Section 2.08\(g\)](#), constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised all requisite care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(h) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(i) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, until the Borrower shall have reimbursed the Issuing Bank for such LC Disbursement (either with its own funds or a Borrowing under [Section 2.08\(f\)](#)), the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Loans. Interest accrued pursuant to this [Section 2.08\(i\)](#) shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to [Section 2.08\(f\)](#) to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(j) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to [Section 3.05\(b\)](#). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of the Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(k) Cash Collateralization. If (i) any Event of Default shall occur and be continuing and the Borrower receives notice from the Administrative Agent or the Majority Lenders demanding the deposit of cash collateral pursuant to this [Section 2.08\(k\)](#), or (ii) the Borrower is required to pay to the Administrative Agent the excess attributable to an LC Exposure in connection with any prepayment pursuant to [Section 3.04\(c\)](#), then the Borrower shall deposit, in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to, in the case of an Event of Default, the LC Exposure, and in the case of a payment required by [Section 3.04\(c\)](#), the amount of such excess as provided in [Section 3.04\(c\)](#), as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower or any Material Subsidiary described in [Section 10.01\(b\)](#) or [Section 10.01\(i\)](#). The Borrower hereby grants to the Administrative Agent, for the benefit of the Issuing Bank and the Lenders, an exclusive first priority and continuing perfected security interest in and Lien on such account and all cash, checks, drafts, certificates and instruments, if any, from time to time deposited or held in such account, all deposits or wire transfers made thereto, any and all investments purchased with funds deposited in such account, all interest, dividends, cash, instruments, financial assets and other Property from time to time received, receivable or otherwise payable in respect of, or in exchange for, any or all of the foregoing, and all proceeds, products, accessions, rents, profits, income and benefits therefrom, and any substitutions and replacements thereof. The Borrower's obligation to deposit amounts pursuant to this [Section 2.08\(k\)](#) shall be absolute and unconditional, without regard to whether any beneficiary of any such Letter of Credit has attempted to draw down all or a portion of such amount under the terms of a Letter of Credit, and, to the fullest extent permitted by applicable law, shall not be subject to any defense or be affected by a right of set-off, counterclaim or recoupment which the Borrower or any of its Subsidiaries may now or hereafter have against any such beneficiary, the Issuing Bank, the Administrative Agent, the Lenders or any other person for any reason whatsoever. Such deposit shall be held as collateral securing the payment and performance of the Borrower's and the Guarantor's obligations under this Agreement and the other Loan Documents. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the written request and instruction of the Borrower but at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated, be applied to satisfy other obligations of the Borrower and the Guarantor under this Agreement or the other Loan Documents. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, and the Borrower is not otherwise required to pay to the Administrative Agent the excess

attributable to an LC Exposure in connection with any prepayment pursuant to [Section 3.04\(c\)](#), then such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

ARTICLE III

Payments of Principal and Interest; Prepayments; Fees

Section 3.01 Repayment of Loans. The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Loan on the Termination Date.

Section 3.02 Interest.

(a) ABR Loans. The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Margin, but in no event to exceed the Highest Lawful Rate.

(b) Eurodollar Loans. The Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Margin, but in no event to exceed the Highest Lawful Rate.

(c) Post-Default Rate. Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower or any Guarantor hereunder or under any other Loan Document is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to two percent (2%) plus the rate applicable to ABR Loans as provided in [Section 3.02\(a\)](#), but in no event to exceed the Highest Lawful Rate.

(d) Interest Payment Dates. Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and on the Termination Date; provided that (i) interest accrued pursuant to [Section 3.02\(c\)](#) shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than an optional prepayment of an ABR Loan prior to the Termination Date), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment, and (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) Interest Rate Computations. All interest hereunder shall be computed on the basis of a year of 360 days, unless such computation would exceed the Highest Lawful Rate, in which case interest shall be computed on the basis of a year of 365 days (or 366 days in a leap year), except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error, and be binding upon the parties hereto.

Section 3.03 Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Majority Lenders that the Adjusted LIBO Rate or LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or teletype as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective, and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

Section 3.04 Prepayments.

(a) Optional Prepayments. The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to prior notice in accordance with [Section 3.04\(b\)](#).

(b) Notice and Terms of Optional Prepayment. The Borrower shall notify the Administrative Agent by telephone (confirmed by teletype) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 1:00 p.m. Charlotte, North Carolina time, three Business Days before the date of prepayment, or (ii) in the case of prepayment of an ABR Borrowing, not later than 1:00 p.m. Charlotte, North Carolina time, one Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid. Promptly following receipt of any such notice relating to a Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in [Section 2.02](#). Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by [Section 3.02](#).

(c) Mandatory Prepayments.

(i) If, after giving effect to any termination or reduction of the Aggregate Commitment pursuant to [Section 2.06\(b\)](#), the Aggregate Revolving Credit Exposures exceeds the Aggregate Commitments, then the Borrower shall A. prepay the Borrowings in an aggregate principal amount equal to such excess, or add to the Mortgaged Property, Oil and Gas Properties, having value, as determined by the Administrative Agent and the Majority Lenders, equal to or greater than such excess, or a combination thereof and B. if any excess remains after prepaying all of the Borrowings as a result of an LC Exposure, pay to the Administrative Agent on behalf of the Lenders an amount equal to such excess to be held as cash collateral as provided in [Section 2.08\(k\)](#). The Borrower will be obligated to make such prepayment, provide such collateral and/or deposit of cash collateral within ninety (90) days following such termination or reduction of the Aggregate Commitment; provided that all payments required to be made pursuant to this [Section 3.04\(c\)\(i\)](#) must be made on or prior to the Termination Date.

(ii) Upon any redetermination of or adjustment to the amount of the Borrowing Base in accordance with [Section 2.07](#) or [Section 8.13\(c\)](#), if the Aggregate Revolving Credit Exposures exceeds the redetermined or adjusted Borrowing Base, then the Borrower shall A. prepay the Borrowings in an aggregate principal amount equal to such excess, or add to the Mortgaged Property, Oil and Gas Properties, having value, as determined by the Administrative Agent and the Majority Lenders, equal to or greater than such excess, or a combination thereof and B. if any excess remains after prepaying all of the Borrowings as a result of an LC Exposure, pay to the Administrative Agent on behalf of the Lenders an amount equal to such excess to be held as cash collateral as provided in [Section 2.08\(k\)](#). The Borrower shall be obligated to make such prepayment, provide such collateral and/or deposit of cash collateral within ninety (90) days following its receipt of the New Borrowing Base Notice in accordance with [Section 2.07\(d\)](#) or the date the adjustment occurs; provided that all payments required to be made pursuant to this [Section 3.04\(c\)\(ii\)](#) must be made on or prior to the Termination Date.

(iii) Upon any adjustments to the Borrowing Base pursuant to [Section 9.12\(a\)](#), [Section 9.13](#) or [Section 9.21](#), if the Aggregate Revolving Credit Exposures exceeds the Borrowing Base as adjusted, then the Borrower shall A. prepay the Borrowings in an aggregate principal amount equal to such excess, or add to the Mortgaged Property, Oil and Gas Properties, having value, as determined by the Administrative Agent and the Majority Lenders, equal to or greater than such excess, or a combination thereof and B. if any excess remains after prepaying all of the Borrowings as a result of an LC Exposure, pay to the Administrative Agent on behalf of the Lenders an amount equal to such excess to be held as cash collateral as provided in [Section 2.08\(k\)](#). The Borrower shall be obligated to make such prepayment, provide such collateral and/or deposit of cash collateral within ninety (90) days following such adjustment to the Borrowing Base (or, if sooner, on the date the Borrower receives cash proceeds as a result of a disposition pursuant to [Section 9.13](#)); provided that all payments required to be made pursuant to this [Section 3.04\(c\)\(iii\)](#) must be made on or prior to the Termination Date.

(iv) Each prepayment of Borrowings pursuant to this [Section 3.04\(c\)](#) shall be applied, first, ratably to any ABR Borrowings then outstanding, and, second, to any Eurodollar Borrowings then outstanding, and if more than one Eurodollar Borrowing is then outstanding, to each such Eurodollar Borrowing in order of priority beginning with the Eurodollar Borrowing with the least number of days remaining in the Interest Period applicable thereto and ending with the Eurodollar Borrowing with the most number of days remaining in the Interest Period applicable thereto.

(v) Each prepayment of Borrowings pursuant to this [Section 3.04\(c\)](#) shall be applied ratably to the Loans included in the prepaid Borrowings. Prepayments pursuant to this [Section 3.04\(c\)](#) shall be accompanied by accrued interest to the extent required by [Section 3.02](#).

(d) No Premium or Penalty. Prepayments permitted or required under this [Section 3.04](#) shall be without premium or penalty, except as required under [Section 5.02](#).

Section 3.05 Fees.

(a) Commitment Fees. The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee, which shall accrue at the applicable Commitment Fee Rate on the daily unused amount of the Commitment of such Lender during the period from and including the date of this Agreement to but excluding the Termination Date. Accrued commitment fees shall be payable in arrears on the last day of March, June, September and December of each year and on the Termination Date, commencing on the first such date to occur after the date hereof. All commitment fees shall be computed on the basis of a year of 360 days, unless such computation would exceed the Highest Lawful Rate, in which case interest shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) Letter of Credit Fees. The Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Margin used to determine the interest rate applicable to Eurodollar Loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the date of this Agreement to but excluding the later of the date on which such Lender's Commitment terminates and the date on which such Lender ceases to have any LC Exposure, (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the date of this Agreement to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure, provided that in no event shall such fee be less than \$300 during any quarter, and (iii) to the Issuing Bank, for its own account, its standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the date of this Agreement; provided that all such fees shall be payable on the Termination Date and any such fees accruing after the Termination Date shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this [Section 3.05\(b\)](#) shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days, unless such computation would exceed the Highest Lawful Rate, in which case interest shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) Administrative Agent Fees. The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

ARTICLE IV

Payments; Pro Rata Treatment; Sharing of Set-offs.

Section 4.01 Payments Generally; Pro Rata Treatment; Sharing of Set-offs.

(a) Payments by the Borrower. The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under [Section 5.01](#), [Section 5.02](#), [Section 5.03](#) or otherwise) prior to 1:00 p.m. Charlotte, North Carolina time, on the date when due, in immediately available funds, without defense, deduction, recoupment, set-off or counterclaim. Fees, once paid, shall not be refundable under any circumstances. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices specified in [Section 12.01](#), except payments to be made directly to the Issuing Bank as expressly provided herein and except that payments pursuant to [Section 5.01](#), [Section 5.02](#), [Section 5.03](#) and [Section 12.03](#) shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in dollars.

(b) Application of Insufficient Payments. If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) Sharing of Payments by Lenders. If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal or interest on any of its Loans or participations in LC Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and participations in LC Disbursements; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this [Section 4.01\(c\)](#) shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this [Section 4.01\(c\)](#) shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

Section 4.02 Presumption of Payment by the Borrower. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

Section 4.03 Certain Deductions by the Administrative Agent. If any Lender shall fail to make any payment required to be made by it pursuant to [Section 2.05\(b\)](#), [Section 2.08\(e\)](#), [Section 2.08\(f\)](#) or [Section 4.02](#) then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

Section 4.04 Disposition of Proceeds. The Security Instruments contain an assignment by the Borrower and/or the Material Subsidiaries unto and in favor of the Administrative Agent for the benefit of the Lenders of all of the Borrower's or each Material Subsidiary's interest in and to production and all proceeds attributable thereto which may be produced from or allocated to the Mortgaged Property. The Security Instruments further provide in general for the application of such proceeds to the satisfaction of the Indebtedness and other obligations described therein and secured thereby. Notwithstanding the assignment contained in such Security Instruments, until the occurrence of an Event of Default, a. the Administrative Agent and the Lenders agree that they will neither notify the purchaser or purchasers of such production nor take any other action to cause such proceeds to be remitted to the Administrative Agent or the Lenders, but the Lenders will instead permit such proceeds to be paid to the Borrower and its Material Subsidiaries and b. the Lenders hereby authorize the Administrative Agent to take such actions as may be necessary to cause such proceeds to be paid to the Borrower and/or such Material Subsidiaries.

ARTICLE V

Increased Costs; Break Funding Payments; Taxes; Illegality

Section 5.01 Increased Costs.

(a) Eurodollar Changes in Law. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate); or

(ii) impose on any Lender or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to reduce the amount of any sum received or receivable by such Lender (whether of principal, interest or otherwise), then the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) Certificates. A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in [Section 5.01\(a\)](#) or [\(b\)](#) shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Effect of Failure or Delay in Requesting Compensation. Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this [Section 5.01](#) shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation.

Section 5.02 Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan into an ABR Loan other than on the last day of the Interest Period applicable thereto, or (c) the failure to borrow, convert, continue or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market.

A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this [Section 5.02](#) shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

Section 5.03 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower or any Material Subsidiary under any Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this [Section 5.03\(a\)](#)), the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower. The Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this [Section 5.03](#)) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate of the Administrative Agent, a Lender or the Issuing Bank as to the amount of such payment or liability under this [Section 5.03](#) shall be delivered to the Borrower and shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Foreign Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement or any other Loan Document shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

(f) Tax Refunds. If the Administrative Agent or a Lender determines, in its reasonable discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this [Section 5.03](#), it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this [Section 5.03](#) with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. This [Section 5.03](#) shall not be construed to require the Administrative Agent or any Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

Section 5.04 Designation of Different Lending Office. If any Lender requests compensation under [Section 5.01](#), or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to [Section 5.03](#), then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to [Section 5.01](#) or [Section 5.03](#), as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

Section 5.05 Illegality. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or its applicable lending office to honor its obligation to make or maintain Eurodollar Loans either generally or having a particular Interest Period hereunder, then (a) such Lender shall promptly notify the Borrower and the Administrative Agent thereof and such Lender's obligation to make such Eurodollar Loans shall be suspended (the "Affected Loans") until such time as such Lender may again make and maintain such Eurodollar Loans and (b) all Affected Loans which would otherwise be made by such Lender shall be made instead as ABR Loans (and, if such Lender so requests by notice to the Borrower and the Administrative Agent, all Affected Loans of such Lender then outstanding shall be automatically converted into ABR Loans on the date specified by such Lender in such notice) and, to the extent that Affected Loans are so made as (or converted into) ABR Loans, all payments of principal which would otherwise be applied to such Lender's Affected Loans shall be applied instead to its ABR Loans.

Section 5.06 Replacement of Lenders. If any Lender requests compensation under [Section 5.01](#), or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to [Section 5.03](#), or if any Lender defaults in its obligation to fund Loans hereunder, or if any Lender refuses to approve a Proposed Borrowing Base pursuant to [Section 2.07\(c\)\(iii\)](#) and as a result, the Borrower elects to replace such dissenting Lender pursuant to [Section 2.07\(c\)\(iv\)](#), then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in [Section 12.04\(b\)](#)), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent, which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under [Section 5.01](#) or payments required to be made pursuant to [Section 5.03](#), such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

ARTICLE VI

Conditions Precedent

Section 6.01 Effective Date. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with [Section 12.02](#)):

(a) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, without limitation, to the extent invoiced, reimbursement or payment of all of the Administrative Agent's out-of-pocket expenses including, without limitation, the reasonable fees, charges and disbursements of counsel for the Administrative Agent, required to be reimbursed or paid by the Borrower hereunder.

(b) The Administrative Agent shall have received a certificate of the Secretary or an Assistant Secretary of each of the Borrower and each Guarantor setting forth (i) resolutions of its board of directors with respect to the authorization of the Borrower or such Guarantor to execute and deliver the Loan Documents to which it is a party and to enter into the transactions contemplated in those documents, (ii) the officers of the Borrower or such Guarantor (y) who are authorized to sign the Loan Documents to which the Borrower or such Guarantor is a party and (z) who will, until replaced by another officer or officers duly authorized for that purpose, act as its representative for the purposes of signing documents and giving notices and other communications in connection with this Agreement and the transactions contemplated hereby, (iii) specimen signatures of such authorized officers, and (iv) no changes to the articles or certificate of incorporation and bylaws of the Borrower and such Guarantor have occurred since March 19, 2007. The Administrative Agent and the Lenders may conclusively rely on such certificate until the Administrative Agent receives notice in writing from the Borrower to the contrary.

(c) The Administrative Agent shall have received certificates of the appropriate State agencies with respect to the existence, qualification and good standing of the Borrower and each Guarantor.

(d) The Administrative Agent shall have received a compliance certificate which shall be substantially in the form of Exhibit B, duly and properly executed by a Responsible Officer and dated as of the Effective Date certifying compliance (including compliance with [Section 8.12](#)) with the Existing Credit Agreement as of such date.

(e) The Administrative Agent shall have received from each party hereto counterparts (in such number as may be requested by the Administrative Agent) of this Agreement signed on behalf of such party.

(f) The Administrative Agent shall have received from each party thereto duly executed and completed counterparts (in such number as may be requested by the Administrative Agent) of the Reaffirmation Agreement.

(g) The proceeds of the initial Loans shall be used to renew, rearrange, modify and extend the outstanding amounts under the Existing Credit Agreement and all "Commitments" (as defined in the Existing Credit Agreement) thereunder shall have been terminated.

(h) The Administrative Agent shall have received such other documents as the Administrative Agent or special counsel to the Administrative Agent may reasonably request.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to [Section 12.02](#)) at or prior to 3:00 p.m., Charlotte, North Carolina time, on April 10, 2008 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

Section 6.02 Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing (including the initial funding), and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Material Adverse Effect shall have occurred.

(c) The representations and warranties of the Borrower and the Guarantors set forth in this Agreement and in the other Loan Documents shall be true and correct in all material respects on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable, except to the extent any such representations and warranties are expressly limited to an earlier date, in which case, on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable, such representations and warranties shall continue to be true and correct as of such specified earlier date.

(d) The making of such Loan or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, would not conflict with, or cause any Lender or the Issuing Bank to violate or exceed, any applicable Governmental Requirement, and no Change in Law shall have occurred, and no litigation shall be pending or threatened, which does or, with respect to any threatened litigation, seeks to, enjoin, prohibit or restrain, the making or repayment of any Loan, the issuance, amendment, renewal, extension or repayment of any Letter of Credit or any participations therein or the consummation of the transactions contemplated by this Agreement or any other Loan Document.

(e) The receipt by the Administrative Agent of a Borrowing Request in accordance with [Section 2.03](#) or a request for a Letter of Credit in accordance with [Section 2.08\(b\)](#), as applicable.

Each Borrowing and each issuance, amendment, renewal or extension of any Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in [Section 6.02\(a\)](#) through (e).

ARTICLE VII

Representations and Warranties

The Borrower represents and warrants to the Lenders that:

Section 7.01 Organization; Powers. Each of the Borrower and the Material Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite

power and authority, and has all material governmental licenses, authorizations, consents and approvals necessary, to own its assets and to carry on its business as now conducted, and is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required, except where failure to have such power, authority, licenses, authorizations, consents, approvals and qualifications could not reasonably be expected to have a Material Adverse Effect.

Section 7.02 Authority; Enforceability. The Transactions are within the Borrower's and each Guarantor's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder action. Each Loan Document to which the Borrower and each Guarantor is a party has been duly executed and delivered by the Borrower and such Guarantor and constitutes a legal, valid and binding obligation of the Borrower and such Guarantor, as applicable, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 7.03 Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority or any other third Person, nor is any such consent, approval, registration, filing or other action necessary for the validity or enforceability of any Loan Document or the consummation of the transactions contemplated thereby, except such as have been obtained or made and are in full force and effect other than (i) the recording and filing of the Security Instruments as required by this Agreement and (ii) those third party approvals or consents which, if not made or obtained, would not cause a Default hereunder, could not reasonably be expected to have a Material Adverse Effect or do not have an adverse effect on the enforceability of the Loan Documents, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Borrower or any Material Subsidiary or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any Material Subsidiary or its Properties, or give rise to a right thereunder to require any payment to be made by the Borrower or such Material Subsidiary and (d) will not result in the creation or imposition of any Lien on any Property of the Borrower or any Material Subsidiary (other than the Liens created by the Loan Documents).

Section 7.04 Financial Condition; No Material Adverse Change.

(a) The Borrower has heretofore furnished to the Lenders its consolidated balance sheet and statements of income, stockholders equity and cash flows as of and for the fiscal year ended December 31, 2007, reported on by Deloitte & Touche, independent public accountants. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its Consolidated Subsidiaries as of such date and for such period in accordance with GAAP.

(b) Since December 31, 2007, (i) there has been no material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of the Borrower and its Material Subsidiaries, taken as a whole and (ii) the business of the Borrower and its Material Subsidiaries has been conducted only in the ordinary course consistent with past business practices.

(c) Neither the Borrower nor any Material Subsidiary has on the date hereof (i) any material Debt (including Disqualified Capital Stock), except as referred to or reflected or provided for in the Financial Statements, or (ii) any contingent liabilities, off-balance sheet liabilities or partnerships, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, incurred outside the ordinary course of the Borrower's or such Material Subsidiary's business.

Section 7.05 Litigation.

(a) Except as set forth on Schedule 7.05, there are no material actions, suits, investigations or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Material Subsidiary (i) not fully covered by insurance (except for normal deductibles) as to which there is a reasonable possibility of an adverse determination that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, or (ii) that involve any Loan Document or the Transactions.

(b) Since the date of this Agreement, there has been no change in the status of the matters disclosed in Schedule 7.05 that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

Section 7.06 Environmental Matters. Except as could not be reasonably expected to have a Material Adverse Effect (or with respect to (c), (d) and (e) below, where the failure to take such actions could not be reasonably expected to have a Material Adverse Effect):

(a) neither any Property of the Borrower or any Material Subsidiary nor the operations conducted thereon violate any order or requirement of any court or Governmental Authority or any Environmental Laws.

(b) no Property of the Borrower or any Material Subsidiary nor the operations currently conducted thereon or, to the knowledge of the Borrower, by any prior owner or operator of such Property or operation, are in violation of or subject to any existing, pending or threatened action, suit, investigation, inquiry or proceeding by or before any court or Governmental Authority or to any remedial obligations under Environmental Laws.

(c) all notices, permits, licenses, exemptions, approvals or similar authorizations, if any, required to be obtained or filed in connection with the operation or use of any and all Property of the Borrower and each Material Subsidiary, including, without limitation, past or present treatment, storage, disposal or release of a hazardous substance, oil and gas waste or solid waste into the environment, have been duly obtained or filed, and the Borrower and each Material Subsidiary are in compliance with the terms and conditions of all such notices, permits, licenses and similar authorizations.

(d) all hazardous substances, solid waste and oil and gas waste, if any, generated at any and all Property of the Borrower or any Material Subsidiary have in the past been transported, treated and disposed of in accordance with Environmental Laws and so as not to pose an imminent and substantial endangerment to public health or welfare or the environment, and, to the knowledge of the Borrower, all such transport carriers and treatment and disposal facilities have been and are operating in compliance with Environmental Laws and so as not to pose an imminent and substantial endangerment to public health or welfare or the environment, and are not the subject of any existing, pending or threatened action, investigation or inquiry by any Governmental Authority in connection with any Environmental Laws.

(e) the Borrower has taken all steps reasonably necessary to determine and has determined that no oil, hazardous substances, solid waste or oil and gas waste, have been disposed of or otherwise released and there has been no threatened release of any oil, hazardous substances, solid waste or oil and gas waste on or to any Property of the Borrower or any Material Subsidiary except in compliance with Environmental Laws and so as not to pose an imminent and substantial endangerment to public health or welfare or the environment.

(f) to the extent applicable, all Property of the Borrower and each Material Subsidiary currently satisfies all design, operation, and equipment requirements imposed by the OPA, and the Borrower does not have any reason to believe that such Property, to the extent subject to the OPA, will not be able to maintain compliance with the OPA requirements during the term of this Agreement.

(g) neither the Borrower nor any Material Subsidiary has any known contingent liability or Remedial Work in connection with any release or threatened release of any oil, hazardous substance, solid waste or oil and gas waste into the environment.

Section 7.07 Compliance with the Laws and Agreements; No Defaults.

(a) Each of the Borrower and each Material Subsidiary is in compliance with all Governmental Requirements applicable to it or its Property and all agreements and other instruments binding upon it or its Property, and possesses all licenses, permits, franchises, exemptions, approvals and other governmental authorizations necessary for the ownership of its Property and the conduct of its business, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(b) Neither the Borrower nor any Material Subsidiary is in default nor has any event or circumstance occurred which, but for the expiration of any applicable grace period or the giving of notice, or both, would constitute a default or would require the Borrower or a Material Subsidiary to Redeem or make any offer to do any of the foregoing under any indenture, note, credit agreement or instrument pursuant to which any Material Indebtedness is outstanding or by which the Borrower or any Material Subsidiary or any of their Properties is bound.

(c) No Default has occurred and is continuing.

Section 7.08 Investment Company Act. Neither the Borrower nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company," within the meaning of, or subject to regulation under, the Investment Company Act of 1940, as amended.

Section 7.09 Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary is a "holding company," or a "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, or subject to regulation under, the Public Utility Holding Company Act of 1935, as amended.

Section 7.10 Taxes. Each of the Borrower and its Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves in accordance with GAAP or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of Taxes and other governmental charges are, in the reasonable opinion of the Borrower, adequate. No Tax Lien has been filed and, to the knowledge of the Borrower, no claim is being asserted with respect to any such Tax or other such governmental charge.

Section 7.11 ERISA.

(a) The Borrower, the Subsidiaries and each ERISA Affiliate have complied in all material respects with ERISA and, where applicable, the Code regarding each Plan.

(b) Each Plan is, and has been, maintained in substantial compliance with ERISA and, where applicable, the Code.

(c) No act, omission or transaction has occurred which could result in imposition on the Borrower, any Subsidiary or any ERISA Affiliate (whether directly or indirectly) of (i) either a civil penalty assessed pursuant to subsections (c), (i) or (l) of section 502 of ERISA or a tax imposed pursuant to Chapter 43 of Subtitle D of the Code or (ii) breach of fiduciary duty liability damages under section 409 of ERISA.

(d) No Plan (other than a defined contribution plan) or any trust created under any such Plan has been terminated since September 2, 1974. No liability to the PBGC (other than for the payment of current premiums which are not past due) by the Borrower, any Subsidiary or any ERISA Affiliate has been or is expected by the Borrower, any Subsidiary or any ERISA Affiliate to be incurred with respect to any Plan. No ERISA Event with respect to any Plan has occurred.

(e) Full payment when due has been made of all amounts which the Borrower, the Subsidiaries or any ERISA Affiliate is required under the terms of each Plan or applicable law to have paid as contributions to such Plan as of the date hereof, and 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.

(f) The actuarial present value of the benefit liabilities under each Plan which is subject to Title IV of ERISA does not, as of the end of the Borrower's most recently ended fiscal year, exceed the current value

of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities. The term "actuarial present value of the benefit liabilities" shall have the meaning specified in section 4041 of ERISA.

(g) Neither the Borrower, the Subsidiaries nor any ERISA Affiliate sponsors, maintains, or contributes to an employee welfare benefit plan, as defined in section 3(1) of ERISA, including, without limitation, any such plan maintained to provide benefits to former employees of such entities, that may not be terminated by the Borrower, a Subsidiary or any ERISA Affiliate in its sole discretion at any time without any material liability.

(h) Neither the Borrower, the Subsidiaries nor any ERISA Affiliate sponsors, maintains or contributes to, or has at any time in the six-year period preceding the date hereof sponsored, maintained or contributed to, any Multiemployer Plan.

(i) Neither the Borrower, the Subsidiaries nor any ERISA Affiliate is required to provide security under section 401(a)(29) of the Code due to a Plan amendment that results in an increase in current liability for the Plan.

Section 7.12 Disclosure: No Material Misstatements. The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Material Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. Neither the Information Memorandum nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of the Borrower or any Material Subsidiary to the Administrative Agent or any Lender or any of their Affiliates in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or under any other Loan Document (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time. There is no fact peculiar to the Borrower or any Material Subsidiary which could reasonably be expected to have a Material Adverse Effect or in the future is reasonably likely to have a Material Adverse Effect and which has not been set forth in this Agreement or the Loan Documents or the other documents, certificates and statements furnished to the Administrative Agent or the Lenders by or on behalf of the Borrower or any Material Subsidiary prior to, or on, the date hereof in connection with the transactions contemplated hereby. There are no material statements or conclusions in any Reserve Report which are based upon or include misleading information or fail to take into account material information regarding the matters reported therein.

Section 7.13 Insurance. The Borrower has, and has caused all its Material Subsidiaries to have, (a) all insurance policies sufficient for the compliance by each of them with all material Governmental Requirements and all material agreements and (b) insurance coverage in at least amounts and against such risk (including, without limitation, public liability) that are usually insured against by companies similarly situated and engaged in the same or a similar business for the assets and operations of the Borrower and its Material Subsidiaries.

Section 7.14 Restriction on Liens. Neither the Borrower nor any of the Material Subsidiaries is a party to any material agreement or arrangement (other than Capital Leases creating Liens permitted by [Section 9.03\(c\)](#), but then only on the Property subject of such Capital Lease), or subject to any order, judgment, writ or decree, which either restricts or purports to restrict its ability to grant Liens to the Administrative Agent and the Lenders on or in respect of their Properties to secure the Indebtedness and the Loan Documents.

Section 7.15 Subsidiaries. Except as set forth on Schedule 7.15 or as disclosed in writing to the Administrative Agent (which shall promptly furnish a copy to the Lenders), which shall be a supplement to Schedule 7.15, the Borrower has no Subsidiaries. Schedule 7.15 identifies each Subsidiary that is a Material Subsidiary, and each Material Subsidiary on such schedule is a Wholly-Owned Subsidiary.

Section 7.16 Location of Business and Offices. The Borrower's jurisdiction of organization is Delaware; the name of the Borrower as listed in the public records of its jurisdiction of organization is St. Mary Land & Exploration Company; and the organizational identification number of the Borrower in its jurisdiction of organization is 44728. The Borrower's principal place of business and chief executive office are located at the address specified in [Section 12.01](#) (or as set forth in a notice delivered pursuant to [Section 8.01\(m\)](#) and [Section 12.01\(c\)](#)). Each Material Subsidiary's jurisdiction of organization, name as listed in the public records of its jurisdiction of organization, organizational identification number in its jurisdiction of organization, and the location of its principal place of business and chief executive office is stated on Schedule 7.15 (or as set forth in a notice delivered pursuant to [Section 8.01\(m\)](#)).

Section 7.17 Properties; Titles, Etc. Except for matters which could not reasonably be expected to have a Material Adverse Effect:

(a) Each of the Borrower and the Material Subsidiaries has good and defensible title to the Oil and Gas Properties evaluated in the most recently delivered Reserve Report and good title to all its personal Properties, in each case, free and clear of all Liens except Liens permitted by [Section 9.03](#). After giving full effect to the Excepted Liens, the Borrower or the Material Subsidiary specified as the owner owns the net interests in production attributable to the Hydrocarbon Interests as reflected in the most recently delivered Reserve Report, and the ownership of such Properties shall not in any material respect obligate the Borrower or such Material Subsidiary to bear the costs and expenses relating to the maintenance, development and operations of each such Property in an amount in excess of the working interest of each Property set forth in the most recently delivered Reserve Report that is not offset by a corresponding proportionate increase in the Borrower's or such Material Subsidiary's net revenue interest in such Property.

(b) All material leases and agreements necessary for the conduct of the business of the Borrower and the Material Subsidiaries are valid and subsisting, in full force and effect, and there exists no default or event or circumstance which with the giving of notice or the passage of time or both would give rise to a default under any such lease or leases, which would affect in any material respect the conduct of the business of the Borrower and the Material Subsidiaries, taken as a whole.

(c) The rights and Properties presently owned, leased or licensed by the Borrower and the Material Subsidiaries including, without limitation, all easements and rights of way, include all rights and Properties necessary to permit the Borrower and the Material Subsidiaries to conduct their business in all material respects in the same manner as its business has been conducted prior to the date hereof.

(d) All of the Properties of the Borrower and the Material Subsidiaries which are reasonably necessary for the operation of their businesses are in good working condition and are maintained in accordance with prudent business standards.

(e) The Borrower and each Material Subsidiary owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual Property material to its business, and the use thereof by the Borrower and such Material Subsidiary does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. The Borrower and its Material Subsidiaries either own or have valid licenses or other rights to use all databases, geological data, geophysical data, engineering data, seismic data, maps, interpretations and other technical information used in their businesses as presently conducted, subject to the limitations contained in the agreements governing the use of the same, which limitations are customary for companies engaged in the business of the exploration and production of Hydrocarbons, with such exceptions as could not reasonably be expected to have a Material Adverse Effect.

Section 7.18 Maintenance of Properties. Except for such acts or failures to act as could not be reasonably expected to have a Material Adverse Effect, the Oil and Gas Properties (and Properties unitized therewith) have been maintained, operated and developed in a good and workmanlike manner and in conformity with all Government Requirements and in conformity with the provisions of all leases, subleases or other contracts comprising a part of the Hydrocarbon Interests and other contracts and agreements forming a part of the Oil and Gas Properties. Specifically in connection with the foregoing, except for those as could not be reasonably expected to have a Material Adverse Effect, (i) no Oil and Gas Property is subject to having allowable production reduced below the full and regular allowable (including the maximum permissible tolerance) because of any overproduction (whether or not the same was permissible at the time) and (ii) none of the wells comprising a part of the Oil and Gas Properties (or Properties unitized therewith) is deviated from the vertical more than the maximum permitted by Government Requirements, and such wells are, in fact, bottomed under and are producing from, and the well bores are wholly within, the Oil and Gas Properties (or in the case of wells located on Properties unitized therewith, such unitized Properties). All pipelines, wells, gas processing plants, platforms and other material improvements, fixtures and equipment owned in whole or in part by the Borrower or any of its Material Subsidiaries that are necessary to conduct normal operations are being maintained in a state adequate to conduct normal operations, and with respect to such of the foregoing which are operated by the Borrower or any of its Material Subsidiaries, in a manner consistent with the Borrower's or its Material Subsidiaries' past practices (other than those the failure of which to maintain in accordance with this [Section 7.18](#) could not reasonably be expected to have a Material Adverse Effect).

Section 7.19 Gas Imbalances, Prepayments. As of the date hereof, except as set forth on Schedule 7.19 or on the most recent certificate delivered pursuant to [Section 8.12\(c\)](#), on a net basis there are no gas imbalances, take or pay or other prepayments which would require the Borrower or any of its Material Subsidiaries to deliver Hydrocarbons produced from the Oil and Gas Properties at some future time without then or thereafter receiving full payment therefor exceeding three million mcf of gas (on an mcf equivalent basis) in the aggregate.

Section 7.20 Marketing of Production. Except for contracts listed and in effect on the date hereof on Schedule 7.20, and thereafter either disclosed in writing to the Administrative Agent or included in the most recently delivered Reserve Report (with respect to all of which contracts the Borrower represents that it or its Material Subsidiaries are receiving a price for all production sold thereunder which is computed substantially in accordance with the terms of the relevant contract and are not having deliveries curtailed substantially below the subject Property's delivery capacity), no material agreements exist which are not cancelable on 60 days notice or less without penalty or detriment for the sale of production from the Borrower's or its Material Subsidiaries' Hydrocarbons (including, without limitation, calls on or other rights to purchase, production, whether or not the same are currently being exercised) that (a) pertain to the sale of production at a fixed price and (b) have a maturity or expiry date of longer than six (6) months from the date hereof.

Section 7.21 Swap Agreements. Schedule 7.21, as of the date hereof, and after the date hereof, each report required to be delivered by the Borrower pursuant to Section 8.01(d), sets forth, a true and complete list of all Swap Agreements of the Borrower and each Material Subsidiary, the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark to market value thereof, all credit support agreements relating thereto (including any margin required or supplied) and the counterparty to each such agreement.

Section 7.22 Use of Loans and Letters of Credit. The proceeds of the Loans and the Letters of Credit shall be used (a) to provide working capital for exploration, development and production operations, (b) to finance the acquisition of Oil & Gas Properties, (c) to renew, rearrange, modify and extend the Debt under the Existing Credit Agreement, and (d) for general corporate purposes. The Borrower and its Subsidiaries are not engaged principally, or as one of its or their important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying margin stock (within the meaning of Regulation U or X of the Board). No part of the proceeds of any Loan or Letter of Credit will be used for any purpose which violates the provisions of Regulations U or X of the Board.

Section 7.23 Solvency. After giving effect to the transactions contemplated hereby, (a) the aggregate assets (after giving effect to amounts that could reasonably be received by reason of indemnity, offset, insurance or any similar arrangement), at a fair valuation, of the Borrower and the Guarantors, taken as a whole, will exceed the aggregate Debt of the Borrower and the Guarantors on a consolidated basis, as the Debt becomes absolute and matures, (b) each of the Borrower and the Guarantors will not have incurred or intended to incur, and will not believe that it will incur, Debt beyond its ability to pay such Debt (after taking into account the timing and amounts of cash to be received by each of the Borrower and the Guarantors and the amounts to be payable on or in respect of its liabilities, and giving effect to amounts that could reasonably be received by reason of indemnity, offset, insurance or any similar arrangement) as such Debt becomes absolute and matures and (c) each of the Borrower and the Guarantors will not have (and will have no reason to believe that it will have thereafter) unreasonably small capital for the conduct of its business.

Section 7.24 Material Agreements. The Borrower has delivered or caused to be delivered to the Administrative Agent true and correct copies of the Material Agreements. The Material Agreements have not been modified, terminated, assigned or pledged by Borrower or any Material Subsidiary, as applicable, are in full force and effect and no party is in default in the performance of its obligations thereunder in any material respect.

ARTICLE VIII

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder and all other amounts payable under the Loan Documents shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

Section 8.01 Financial Statements; Ratings Change; Other Information. The Borrower will furnish to the Administrative Agent for electronic or other distribution to each Lender:

(a) Annual Financial Statements. Within 90 days after the end of each fiscal year of the Borrower, its audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Deloitte & Touche or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its Consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied.

(b) Quarterly Financial Statements. Within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, its consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its Consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes.

(c) Certificate of Financial Officer -- Compliance. Concurrently with any delivery of financial statements under [Section 8.01\(a\)](#) or [Section 8.01\(b\)](#), a certificate of a Financial Officer in substantially the form of Exhibit B hereto (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with [Section 8.13\(b\)](#) and [Section 9.01](#) and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in [Section 7.04](#) and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate.

(d) Listing of Swap Agreements. Concurrently with any delivery of financial statements under [Section 8.01\(a\)](#) and [Section 8.01\(b\)](#), a true and complete list of all Swap Agreements of the Borrower and each Material Subsidiary as of the last Business Day of such fiscal quarter or fiscal year, which shall depict the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark-to-market value therefor, any new credit support agreements relating thereto not listed on Schedule 7.20, any margin required or supplied under any credit support document, and the counterparty to each such agreement.

(e) Certificate of Insurer -- Insurance Coverage. Concurrently with any delivery of financial statements under [Section 8.01\(a\)](#), a certificate of insurance coverage from each insurer with respect to the insurance required by [Section 8.07](#), in form and substance satisfactory to the Administrative Agent, and, if requested by the Administrative Agent or any Lender, all copies of the applicable policies.

(f) Other Accounting Reports. Promptly upon receipt thereof, a copy of each other report or letter submitted to the Borrower or any of its Subsidiaries by independent accountants in connection with any annual, interim or special audit made by them of the books of the Borrower or any such Subsidiary, and a copy of any response by the Borrower or any such Subsidiary, or the Board of Directors of the Borrower or any such Subsidiary, to such letter or report.

(g) SEC and Other Filings; Reports to Shareholders. Promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any Subsidiary with the SEC, or with any national securities exchange, or distributed by the Borrower to its shareholders generally, as the case may be.

(h) Notices Under Material Instruments. Promptly after the furnishing thereof, copies of any financial statement, report or notice furnished to or by any Person pursuant to the terms of any preferred stock designation, indenture, loan or credit or other similar agreement, other than this Agreement and not otherwise required to be furnished to the Lenders pursuant to any other provision of this [Section 8.01](#).

(i) Lists of Purchasers. Promptly following the written request from the Administrative Agent thereof, a list of all Persons purchasing Hydrocarbons from the Borrower or any Material Subsidiary.

(j) Notice of Sales of Oil and Gas Properties. In the event the Borrower or any Material Subsidiary intends to sell, transfer, assign or otherwise dispose of any Oil or Gas Properties or any Equity Interests in any Subsidiary in accordance with [Section 9.13](#) for consideration in excess of \$15,000,000, prior written notice of such disposition, the price thereof and the anticipated date of closing.

(k) Notice of Casualty Events. Prompt written notice, and in any event within three Business Days, of the occurrence of any Casualty Event or the commencement of any action or proceeding that could reasonably be expected to result in a Casualty Event.

(l) Issuance of Permitted Refinancing Debt. In the event the Borrower intends to refinance any Debt with the proceeds of Permitted Refinancing Debt, prior written notice of such intended offering therefor, the amount thereof and the anticipated date of closing and will furnish a copy of the preliminary offering memorandum (if any) and the final offering memorandum (if any).

(m) Information Regarding Borrower and Guarantors. Prompt written notice (and in any event within thirty (30) days upon becoming aware thereof) of any change (i) in the Borrower or any Guarantor's corporate name or in any trade name used to identify such Person in the conduct of its business or in the ownership of its Properties, (ii) in the location of the Borrower or any Guarantor's chief executive office or principal place of business, (iii) in the Borrower or any Guarantor's identity or corporate structure or in the jurisdiction in which such Person is incorporated or formed, (iv) in the Borrower or any Guarantor's jurisdiction of organization or such Person's organizational identification number in such jurisdiction of organization, and (v) in the Borrower or any Guarantor's federal taxpayer identification number.

(n) Other Requested Information. Promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary (including, without limitation, any Plan or Multiemployer Plan and any reports or other information required to be filed under ERISA), or compliance with the terms of this Agreement or any other Loan Document, as the Administrative Agent or any Lender may reasonably request.

Section 8.02 Notices of Material Events. The Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding \$6,000,000; and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this [Section 8.02](#) shall be accompanied by a statement of a Responsible Officer setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 8.03 Existence; Conduct of Business. The Borrower will, and will cause each Material Subsidiary to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business and maintain, if necessary, its qualification to do business in each other jurisdiction in which its Oil and Gas Properties is located or the ownership of its Properties requires such qualification, except where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under [Section 9.12](#).

Section 8.04 Payment of Obligations. The Borrower will, and will cause each Material Subsidiary to, pay its obligations, including Tax liabilities of the Borrower and all of its Subsidiaries before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Material Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect or result in the seizure or levy of any Property of the Borrower or any Subsidiary.

Section 8.05 Performance of Obligations under Loan Documents. The Borrower will pay the Notes according to the reading, tenor and effect thereof, and the Borrower will and will cause each Material Subsidiary to do and perform every act and discharge all of the obligations to be performed and discharged by them under the Loan Documents, including, without limitation, this Agreement, at the time or times and in the manner specified.

Section 8.06 Operation and Maintenance of Properties. Except for matters that could not reasonably be expected to result in a Material Adverse Effect, the Borrower, at its own expense, will, and will cause each Material Subsidiary to:

(a) operate its Oil and Gas Properties and other material Properties or cause such Oil and Gas Properties and other material Properties to be operated in a careful and efficient manner in accordance with the practices of the industry and in compliance with all applicable contracts and agreements and in compliance with all Governmental Requirements, including, without limitation, applicable pro ration requirements and Environmental Laws, and all applicable laws, rules and regulations of every other Governmental Authority from time to time constituted to regulate the development and operation of its Oil and Gas Properties and the production and sale of Hydrocarbons and other minerals therefrom, except, in each case, where the failure to comply could not reasonably be expected to have a Material Adverse Effect.

(b) keep and maintain all Property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, preserve, maintain and keep in good repair, working order and efficiency (ordinary wear and tear excepted) all of its material Oil and Gas Properties and other material Properties, including, without limitation, all equipment, machinery and facilities.

(c) promptly pay and discharge, or make reasonable and customary efforts to cause to be paid and discharged, all delay rentals, royalties, expenses and indebtedness accruing under the leases or other agreements affecting or pertaining to its Oil and Gas Properties and will do all other things necessary to keep unimpaired their rights with respect thereto and prevent any forfeiture thereof or default thereunder.

(d) promptly perform or make reasonable and customary efforts to cause to be performed, in accordance with industry standards, the obligations required by each and all of the assignments, deeds, leases, sub-leases, contracts and agreements affecting its interests in its Oil and Gas Properties and other material Properties.

(e) operate its Oil and Gas Properties and other material Properties or cause or make reasonable and customary efforts to cause such Oil and Gas Properties and other material Properties to be operated in accordance with the practices of the industry and in material compliance with all applicable contracts and agreements and in compliance in all material respects with all Governmental Requirements.

(f) to the extent the Borrower or a Material Subsidiary is not the operator of any Property, the Borrower shall use reasonable efforts to cause the operator to comply with this [Section 8.06](#).

Section 8.07 Insurance. The Borrower will, and will cause each Material Subsidiary to, maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

Section 8.08 Books and Records; Inspection Rights. The Borrower will, and will cause each Material Subsidiary to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each Material Subsidiary to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its Properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

Section 8.09 Compliance with Laws. The Borrower will, and will cause each Material Subsidiary to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its Property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 8.10 Environmental Matters.

(a) The Borrower shall at its sole expense: (i) comply, and shall cause its Properties and operations and each Subsidiary and each Subsidiary's Properties and operations to comply, with all applicable Environmental Laws, the breach of which could be reasonably expected to have a Material Adverse Effect; (ii) not dispose of or otherwise release, and shall cause each Subsidiary not to dispose of or otherwise release, any oil, oil and gas waste, hazardous substance, or solid waste on, under, about or from any of the Borrower's or its Subsidiaries' Properties or any other Property to the extent caused by the Borrower's or any of its Subsidiaries' operations except in compliance with applicable Environmental Laws, the disposal or release of which could reasonably be expected to have a Material Adverse Effect; (iii) timely obtain or file, and shall cause each Subsidiary to timely obtain or file, all notices, permits, licenses, exemptions, approvals, registrations or other authorizations, if any, required under applicable Environmental Laws to be obtained or filed in connection with the operation or use of the Borrower's or its Subsidiaries' Properties, which failure to obtain or file could reasonably be expected to have a Material Adverse Effect; (iv) promptly commence and diligently prosecute to completion, and shall cause each Subsidiary to promptly commence and diligently prosecute to completion, any assessment, evaluation, investigation, monitoring, containment, cleanup, removal, repair, restoration, remediation or other remedial obligations (collectively, the "Remedial Work") in the event any Remedial Work is required or reasonably necessary under applicable Environmental Laws because of or in connection with the actual or suspected past, present or future disposal or other release of any oil, oil and gas waste, hazardous substance or solid waste on, under, about or from any of the Borrower's or its Subsidiaries' Properties, which failure to commence and diligently prosecute to completion could reasonably be expected to have a Material Adverse Effect; and (v) establish and implement, and shall cause each Subsidiary to establish and implement, such procedures as may be necessary to continuously determine and assure that the Borrower's and its Subsidiaries' obligations under this [Section 8.10\(a\)](#) are timely and fully satisfied, which failure to establish and implement could reasonably be expected to have a Material Adverse Effect.

(b) The Borrower will promptly, but in no event later than five days of the occurrence of a triggering event, notify the Administrative Agent and the Lenders in writing of any threatened action, investigation or inquiry by any Governmental Authority or any threatened demand or lawsuit by any landowner or other third party against the Borrower or its Subsidiaries or their Properties of which the Borrower has knowledge in connection with any Environmental Laws (excluding routine testing and corrective action) if the Borrower reasonably anticipates that such action will result in liability (whether individually or in the aggregate) in excess of \$5,000,000, not fully covered by insurance, subject to normal deductibles.

(c) In connection with any future acquisitions of Oil and Gas Properties or other Properties, the Borrower will and will cause each Subsidiary to provide environmental audits and tests in accordance with American Society of Testing Materials standards upon request by the Administrative Agent and the Lenders, except in circumstances in which the Borrower or any Subsidiary is acquiring an additional interest in an Oil and Gas Property or other Property.

Section 8.11 Further Assurances.

(a) The Borrower at its expense will, and will cause each Material Subsidiary to, promptly execute and deliver to the Administrative Agent all such other documents, agreements and instruments reasonably requested by the Administrative Agent to comply with, cure any defects or accomplish the conditions precedent, covenants and agreements of the Borrower or any Material Subsidiary, as the case may be, in the Loan Documents, including the Notes, or to further evidence and more fully describe the collateral intended as security for the Indebtedness, or to correct any omissions in this Agreement or the Security Instruments, or to state more fully the obligations secured therein, or to perfect, protect or preserve any Liens created pursuant to this Agreement or any of the Security Instruments or the priority thereof, or to make any recordings, file any notices or obtain any consents, all as may be reasonably necessary or appropriate, in the reasonable discretion of the Administrative Agent, in connection therewith.

(b) The Borrower hereby authorizes the Administrative Agent to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Mortgaged Property without the signature of the Borrower or any Material Subsidiary where permitted by law. A carbon, photographic or other reproduction of the Security Instruments or any financing statement covering the Mortgaged Property or any part thereof shall be sufficient as a financing statement where permitted by law. The Administrative Agent will promptly send the Borrower any financing or continuation statements it files without the signature of the Borrower or any other Guarantor and the Administrative Agent will promptly send the Borrower the filing or recordation information with respect thereto.

Section 8.12 Reserve Reports.

(a) On or before February 28th (or February 29th, as applicable) and August 31st of each year, commencing August 31, 2008, the Borrower shall furnish to the Administrative Agent and the Lenders a Reserve Report. The Reserve Report as of December 31 of each year shall have the majority of PV-10 value prepared or audited by one or more Approved Petroleum Engineers, and the Reserve Report as of June 30 of each year shall be prepared by or under the supervision of the Manager of Reservoir Engineering of the Borrower who shall certify such Reserve Report to be true and accurate and to have been prepared in accordance with the procedures used in the immediately preceding December 31 Reserve Report.

(b) In the event of an Interim Redetermination, the Borrower shall furnish to the Administrative Agent and the Lenders a Reserve Report prepared by or under the supervision of the Manager of Reservoir Engineering of the Borrower who shall certify such Reserve Report to be true and accurate and to have been prepared in accordance with the procedures used in the immediately preceding December 31 Reserve Report. For any Interim Redetermination requested by the Administrative Agent or the Borrower pursuant to [Section 2.07\(b\)](#), the Borrower shall provide such Reserve Report with an "as of" date as required by the Administrative Agent as soon as possible, but in any event no later than thirty (30) days following the receipt of such request.

(c) With the delivery of each Reserve Report, the Borrower shall provide to the Administrative Agent and the Lenders a certificate from a Responsible Officer certifying that in all material respects: (i) the information contained in the Reserve Report and any other information delivered in connection therewith is true and correct, (ii) the Borrower or its Material Subsidiaries owns good and defensible title to the Oil and Gas Properties evaluated in such Reserve Report and such Properties are free of all Liens except for Liens permitted by [Section 9.03](#), (iii) except as set forth on an exhibit to the certificate, on a net basis there are no gas imbalances, take or pay or other prepayments in excess of the volume specified in [Section 7.19](#) with respect to its Oil and Gas Properties evaluated in such Reserve Report which would require the Borrower or any Material Subsidiary to deliver Hydrocarbons either generally or produced from such Oil and Gas Properties at some future time without then or thereafter receiving full payment therefor, (iv) none of their Oil and Gas Properties have been sold since the date of the last Borrowing Base determination except as set forth on an exhibit to the certificate, which certificate shall list all of its Oil and Gas Properties sold and in such detail as reasonably required by the Administrative Agent, (v) attached to the certificate is a list of all marketing agreements entered into subsequent to the later of the date hereof or the most recently delivered Reserve Report which the Borrower could reasonably be expected to have been obligated to list on Schedule 7.20 had such agreement been in effect on the date hereof and (vi) attached thereto is a schedule of the Oil and Gas Properties evaluated by such Reserve Report that are Mortgaged Properties and demonstrating the percentage of the Borrowing Base that the value of such Mortgaged Properties represent.

Section 8.13 Title Information.

(a) On or before the delivery to the Administrative Agent and the Lenders of each Reserve Report required by [Section 8.12\(a\)](#), the Borrower will deliver title information in form and substance acceptable to the Administrative Agent covering enough of the Oil and Gas Properties evaluated by such Reserve Report that were not included in the immediately preceding Reserve Report, so that the Administrative Agent shall have received together with title information previously delivered to the Administrative Agent, satisfactory title information on at least 70% of the total value of the Oil and Gas Properties evaluated by such Reserve Report.

(b) If the Borrower has provided title information for additional Properties under [Section 8.13\(a\)](#), the Borrower shall, within 60 days of notice from the Administrative Agent that title defects or exceptions exist with respect to such additional Properties, either (i) cure any such title defects or exceptions (including defects or exceptions as to priority) which are not permitted by [Section 9.03](#) raised by such information, (ii) substitute acceptable Mortgaged Properties with no title defects or exceptions except for Excepted Liens (other than Excepted Liens described in clauses (e), (g) and (h) of such definition) having an equivalent value or (iii) deliver title information in form and substance acceptable to the Administrative Agent so that the Administrative Agent shall have received, together with title information previously delivered to the Administrative Agent, satisfactory title information on at least 70% of the value of the Oil and Gas Properties evaluated by such Reserve Report.

(c) If the Borrower is unable to cure any title defect requested by the Administrative Agent or the Lenders to be cured within the 60-day period or the Borrower does not comply with the requirements to provide acceptable title information covering 70% of the value of the Oil and Gas Properties evaluated in the most recent Reserve Report, such default shall not be a Default, but instead the Administrative Agent and/or the Majority Lenders shall have the right to exercise the following remedy in their sole discretion from time to time, and any failure to so exercise this remedy at any time shall not be a waiver as to future exercise of the remedy by the Administrative Agent or the Lenders. To the extent that the Administrative Agent or the Majority Lenders are not satisfied with title to any Mortgaged Property after the 60-day period has elapsed, such unacceptable Mortgaged Property shall not count towards the 70% requirement, and the Administrative Agent may send a notice to the Borrower and the Lenders that the then outstanding Borrowing Base shall be reduced by an amount as determined by the Majority Lenders to cause the Borrower to be in compliance with the requirement to provide acceptable title information on 70% of the value of the Oil and Gas Properties. This new Borrowing Base shall become effective immediately after receipt of such notice.

Section 8.14 Additional Collateral; Additional Guarantors.

(a) In connection with each redetermination of the Borrowing Base, the Borrower shall review the Reserve Report and the list of current Mortgaged Properties (as described in [Section 8.12\(c\)\(vi\)](#)) to ascertain whether the Mortgaged Properties represent at least 70% of the total value of the Oil and Gas Properties evaluated in the most recently completed Reserve Report after giving effect to exploration and production activities, acquisitions, dispositions and production. In the event that the Mortgaged Properties do not represent at least 70% of such total value, then the Borrower shall, and shall cause its Material Subsidiaries to, grant to the Administrative Agent as security for the Indebtedness a first-priority Lien interest (subject only to Excepted Liens of the type described in clauses (a) to (d) and (f) of the definition thereof, but subject to the provisos at the end of such definition) on additional Oil and Gas Properties not already subject to a Lien of the Security Instruments such that after giving effect thereto, the Mortgaged Properties will represent at least 70% of such total value. All such Liens will be created and perfected by and in accordance with the provisions of deeds of trust, security agreements and financing statements or other Security Instruments, all in form and substance reasonably satisfactory to the Administrative Agent and in sufficient executed (and acknowledged where necessary or appropriate) counterparts for recording purposes. In order to comply with the foregoing, if any Material Subsidiary places a Lien on its Oil and Gas Properties and such Material Subsidiary is not a Guarantor, then it shall become a Guarantor and comply with [Section 8.14\(b\)](#).

(b) In the event that any Subsidiary becomes a Material Subsidiary after the Closing Date, the Borrower shall promptly cause such Subsidiary to guarantee the Indebtedness pursuant to the Guaranty Agreement. In connection with any such guaranty, the Borrower shall, or shall cause such Subsidiary to, A. execute and deliver a supplement to the Guaranty Agreement executed by such Subsidiary, B. pledge all of the Equity Interests of such new Subsidiary (including, without limitation, delivery of original stock certificates evidencing the Equity Interests of such Subsidiary, together with an appropriate undated stock powers for each certificate duly executed in blank by the registered owner thereof) and C. execute and deliver such other additional closing documents, certificates and legal opinions as shall reasonably be requested by the Administrative Agent.

Section 8.15 ERISA Compliance. The Borrower will promptly furnish and will cause the Subsidiaries and any ERISA Affiliate to promptly furnish to the Administrative Agent (i) promptly after the filing thereof with the United States Secretary of Labor, the Internal Revenue Service or the PBGC, copies of each annual and other report with respect to each Plan or any trust created thereunder, (ii) immediately upon becoming aware of the occurrence of any ERISA Event or of any "prohibited transaction," as described in section 406 of ERISA or in section 4975 of the Code, in connection with any Plan or any trust created thereunder, a written notice signed by the President or the principal Financial Officer, the Subsidiary or the ERISA Affiliate, as the case may be, specifying the nature thereof, what action the Borrower, the Subsidiary or the ERISA Affiliate is taking or proposes to take with respect thereto, and, when known, any action taken or proposed by the Internal Revenue Service, the Department of Labor or the PBGC with respect thereto, and (iii) immediately upon receipt thereof, copies of any notice of the PBGC's intention to terminate or to have a trustee appointed to administer any Plan. With respect to each Plan (other than a Multiemployer Plan), the Borrower will, and will cause each Subsidiary and ERISA Affiliate to, (i) satisfy in full and in a timely manner, without incurring any late payment or underpayment charge or penalty and without giving rise to any lien, all of the contribution and funding requirements of section 412 of the Code (determined without regard to subsections (d), (e), (f) and (k) thereof) and of section 302 of ERISA (determined without regard to sections 303, 304 and 306 of ERISA), and (ii) pay, or cause to be paid, to the PBGC in a timely manner, without incurring any late payment or underpayment charge or penalty, all premiums required pursuant to sections 4006 and 4007 of ERISA.

Section 8.16 Performance of Material Agreements. The Borrower will perform and observe, and cause each Material Subsidiary to perform and observe, in all material respects each of the provisions of the Material Agreements to which it is a party on its part to be performed or observed prior to the termination thereof.

ARTICLE IX

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder and all other amounts payable under the Loan Documents have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

Section 9.01 Financial Covenants.

(a) Ratio of Total Debt to EBITDA. The Borrower will not, at any time, permit its ratio of Total Debt as of such time to EBITDA for the four fiscal quarters ending on the last day of the fiscal quarter immediately preceding the date of determination for which financial statements are available to be greater than 3.5 to 1.0.

(b) Current Ratio. The Borrower will not permit, as of the last day of any fiscal quarter, its ratio of (i) consolidated current assets (including the unused amount of the total Commitments) to (ii) consolidated current liabilities (excluding non-cash obligations under FAS 133 and the current portion of the Aggregate Commitment) to be less than 1.0 to 1.0.

Section 9.02 Debt. Neither the Borrower nor any Material Subsidiary will incur, create, assume or suffer to exist any Debt, except:

(a) the Notes or other Indebtedness arising under the Loan Documents or any guaranty of or suretyship arrangement for the Notes or other Indebtedness arising under the Loan Documents.

(b) Debt of the Borrower and its Material Subsidiaries existing on the date hereof that is reflected in the Financial Statements, and any Permitted Refinancing Debt in respect thereof.

(c) accounts payable (for the deferred purchase price of Property or services) from time to time incurred in the ordinary course of business which are not greater than sixty (60) days past the date of invoice or delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP.

(d) Debt under Capital Leases not to exceed \$15,000,000.

(e) Debt associated with bonds or surety obligations required by Governmental Requirements in connection with the operation of the Oil and Gas Properties.

(f) intercompany Debt between the Borrower and any Material Subsidiary or between Material Subsidiaries to the extent permitted by [Section 9.05\(g\)](#); provided that such Debt is not held, assigned, transferred, negotiated or pledged to any Person other than the Borrower or one of its Wholly-Owned Subsidiaries, and, provided further, that any such Debt owed by either the Borrower or a Guarantor shall be subordinated to the Indebtedness on terms set forth in the Guaranty Agreement.

(g) endorsements of negotiable instruments for collection in the ordinary course of business.

(h) non-recourse Debt secured by Property other than Oil and Gas Properties evaluated by the Lenders for purposes of establishing the Borrowing Base not to exceed \$25,000,000 in the aggregate at any one time outstanding.

(i) other Debt not to exceed \$15,000,000 in the aggregate at any one time outstanding.

(j) Debt of the Borrower evidenced by the Senior Convertible Notes, together with any and all refinancings thereof, so long as all of same are either unsecured or expressly subordinated to this Agreement and all of same are scheduled to mature after the Maturity Date under this Agreement.

Section 9.03 Liens. Neither the Borrower nor any Material Subsidiary will create, incur, assume or permit to exist any Lien on any of its Properties (now owned or hereafter acquired), except:

(a) Liens securing the payment of any Indebtedness.

(b) Excepted Liens.

(c) Liens securing Capital Leases permitted by [Section 9.02\(d\)](#) but only on the Property under lease.

(d) Liens securing any Permitted Refinancing Debt provided that any such Permitted Refinancing Debt is not secured by any additional or different Property not securing the Refinanced Debt.

(e) Liens on Property securing non-recourse Debt permitted by [Section 9.02\(h\)](#).

Section 9.04 Dividends, Distributions and Redemptions. The Borrower will not, and will not permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, return any capital to its stockholders or make any distribution of its Property to its Equity Interest holders, except (a) the Borrower may declare and pay dividends with respect to its Equity Interests payable solely in additional shares of its common stock (other than Disqualified Capital Stock), (b) so long as no Event of Default shall have occurred which is continuing, the Borrower may declare and pay annual cash dividends not to exceed \$0.25 per common share on an annual basis, (c) Subsidiaries may declare and pay dividends ratably with respect to their Equity Interests, (d) the Borrower may make Restricted Payments pursuant to and in accordance with restricted stock plans, stock option plans or other benefit plans for management or employees of the Borrower and its Subsidiaries and (e) the Borrower may make interest payments and principal payments on any and all issued and sold Senior Convertible Notes and deliver cash, stock, or any combination thereof, upon payment, settlement upon conversion (whether a general or a net share settlement), or redemption of any and all issued and sold Senior Convertible Notes so long as all such payments, settlements upon conversions, and redemptions are in accordance with the terms of the Senior Convertible Notes indenture and so long as no Default shall exist or be occasioned by such payments, settlements upon conversions, or redemptions.

Section 9.05 Investments, Loans and Advances. Neither the Borrower nor any Material Subsidiary will make or permit to remain outstanding any Investments in or to any Person, except that the foregoing restriction shall not apply to:

(a) Investments reflected in the Financial Statements or which are disclosed to the Lenders in Schedule 9.05(a).

(b) accounts receivable arising in the ordinary course of business.

(c) direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any agency thereof, in each case maturing within one year from the date of creation thereof.

(d) commercial paper maturing within one year from the date of creation thereof rated in the highest grade by S&P or Moody's.

(e) deposits maturing within one year from the date of creation thereof with, including certificates of deposit issued by, any Lender or any office located in the United States of any other bank or trust company which is organized under the laws of the United States or any state thereof, has capital, surplus and undivided profits aggregating at least \$100,000,000 (as of the date of such bank or trust company's most recent financial reports) and has a short term deposit rating of no lower than A2 or P2, as such rating is set forth from time to time, by S&P or Moody's, respectively or, in the case of any Foreign Subsidiary, a bank organized in a jurisdiction in which the Foreign Subsidiary conducts operations having assets in excess of \$500,000,000 (or its equivalent in another currency).

(f) deposits in money market funds investing exclusively in Investments described in [Section 9.05\(c\)](#), [Section 9.05\(d\)](#) or [Section 9.05\(e\)](#).

(g) Investments i. made by the Borrower in or to the Guarantors, and ii. made by a Guarantor in or to the Borrower or any other Guarantor.

(h) subject to the limits in [Section 9.07](#), Investments (including, without limitation, capital contributions) in general or limited partnerships or other types of entities (each a "venture") entered into by the Borrower or a Material Subsidiary with others in the ordinary course of business; provided that i. any such venture is engaged exclusively in oil and gas exploration, development, production, processing and related activities, including transportation, except for existing Investments described or referred to on Schedule 9.05(h) and Investments permitted by [Section 9.05\(i\)](#), ii. the interest in such venture is acquired in the ordinary course of business and on fair and reasonable terms and iii. such venture interests acquired and capital contributions made (valued as of the date such interest was acquired or the contribution made) do not exceed, in the aggregate at any time outstanding an amount equal to \$20,000,000.

(i) subject to the limits in [Section 9.07](#), additional Investments (including, without limitation, capital contributions) in the ventures described or referred to on Schedule 9.05(h) and new Investments (including, without limitation, capital contributions) in ventures entered into by the Borrower or a Material Subsidiary with others in the ordinary course of business; provided that i. any such venture is not engaged exclusively in oil and gas exploration, development, production, processing and related activities, including transportation, ii. the interest in such venture is acquired in the ordinary course of business and on fair and reasonable terms and iii. such venture interests acquired and capital contributions made (valued as of the date such interest was acquired or the contribution made) do not exceed, in the aggregate at any time outstanding an amount equal to \$20,000,000.

(j) subject to the limits in [Section 9.07](#), Investments in direct ownership interests in additional Oil and Gas Properties and gas gathering systems related thereto or related to farm-out, farm-in, joint operating, joint venture or area of mutual interest agreements, gathering systems, pipelines or other similar arrangements which are usual and customary in the oil and gas exploration and production business located within the geographic boundaries of the United States of America.

(k) so long as no Event of Default shall have occurred which is continuing, from and after the date hereof, the Borrower may make repurchases of its stock; provided, however, during any time the Borrower's ratio of Total Debt to consolidated tangible net worth is greater than 2.50 to 1.00, the aggregate amount paid by the Borrower in connection with such repurchases shall not exceed \$50,000,000.

[Section 9.06 Designation of Material Subsidiaries](#). Unless designated as a Non-Material Subsidiary on Schedule 7.15 as of the date hereof or thereafter, assuming compliance with [Section 9.16](#), any Person that becomes a Subsidiary of the Borrower or any of its Material Subsidiaries shall be classified as a Material Subsidiary.

[Section 9.07 Nature of Business: International Operations](#). Neither the Borrower nor any Material Subsidiary will allow any material change to be made in the character of its business as an independent oil and gas exploration and production company. From and after the date hereof, the Borrower and its Subsidiaries will not acquire or make any other expenditure (whether such expenditure is capital, operating or otherwise) in or related to, any Oil and Gas Properties not located within the geographical boundaries of the United States or Canada in excess of \$10,000,000 in the aggregate.

[Section 9.08 Limitation on Leases](#). Neither the Borrower nor any Material Subsidiary will create, incur, assume or suffer to exist any obligation for the payment of rent or hire of Property of any kind whatsoever (real or personal but excluding Capital Leases and leases of Hydrocarbon Interests), under leases or lease agreements which would cause the aggregate amount of all payments made by the Borrower and the Material Subsidiaries pursuant to all such leases or lease agreements, including, without limitation, any residual payments at the end of any lease, to exceed \$7,500,000 in any period of twelve consecutive calendar months during the life of such leases.

[Section 9.09 Proceeds of Notes](#). The Borrower will not permit the proceeds of the Notes to be used for any purpose other than those permitted by [Section 7.22](#). Neither the Borrower nor any Person acting on behalf of the Borrower has taken or will take any action which might cause any of the Loan Documents to violate Regulations U or X or any other regulation of the Board or to violate Section 7 of the Securities Exchange Act of 1934 or any rule or regulation thereunder, in each case as now in effect or as the same may hereinafter be in effect. If requested by the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 or such other form referred to in Regulation U or Regulation X of the Board, as the case may be.

[Section 9.10 ERISA Compliance](#). The Borrower and the Subsidiaries will not at any time:

(a) engage in, or permit any ERISA Affiliate to engage in, any transaction in connection with which the Borrower, a Subsidiary or any ERISA Affiliate could be subjected to either a civil penalty assessed pursuant to subsections (c), (i) or (l) of section 502 of ERISA or a tax imposed by Chapter 43 of Subtitle D of the Code.

(b) terminate, or permit any ERISA Affiliate to terminate, any Plan in a manner, or take any other action with respect to any Plan, which could result in any liability of the Borrower, a Subsidiary or any ERISA Affiliate to the PBGC.

(c) fail to make, or permit any ERISA Affiliate to fail to make, full payment when due of all amounts which, under the provisions of any Plan, agreement relating thereto or applicable law, the Borrower, a Subsidiary or any ERISA Affiliate is required to pay as contributions thereto.

(d) permit to exist, or allow any ERISA Affiliate to permit to exist, any accumulated funding deficiency within the meaning of section 302 of ERISA or section 412 of the Code, whether or not waived, with respect to any Plan.

(e) permit, or allow any ERISA Affiliate to permit, the actuarial present value of the benefit liabilities under any Plan maintained by the Borrower, a Subsidiary or any ERISA Affiliate which is regulated under Title IV of ERISA to exceed the current value of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities. The term "actuarial present value of the benefit liabilities" shall have the meaning specified in section 4041 of ERISA.

(f) contribute to or assume an obligation to contribute to, or permit any ERISA Affiliate to contribute to or assume an obligation to contribute to, any Multiemployer Plan.

(g) acquire, or permit any ERISA Affiliate to acquire, an interest in any Person that causes such Person to become an ERISA Affiliate with respect to the Borrower or a Subsidiary or with respect to any ERISA Affiliate of the Borrower or a Subsidiary if such Person sponsors, maintains or contributes to, or at any time in the six-year period preceding such acquisition has sponsored, maintained, or contributed to, 1. any Multiemployer Plan, or 2. any other Plan that is subject to Title IV of ERISA under which the actuarial present value of the benefit liabilities under such Plan exceeds the current value of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities.

(h) incur, or permit any ERISA Affiliate to incur, a liability to or on account of a Plan under sections 515, 4062, 4063, 4064, 4201 or 4204 of ERISA.

(i) contribute to or assume an obligation to contribute to, or permit any ERISA Affiliate to contribute to or assume an obligation to contribute to, any employee welfare benefit plan, as defined in section 3(1) of ERISA, including, without limitation, any such plan maintained to provide benefits to former employees of such entities, that may not be terminated by such entities in their sole discretion at any time without any material liability.

(j) amend, or permit any ERISA Affiliate to amend, a Plan resulting in an increase in current liability such that the Borrower, a Subsidiary or any ERISA Affiliate is required to provide security to such Plan under section 401(a)(29) of the Code.

[Section 9.11 Sale or Discount of Receivables](#). Except for receivables obtained by the Borrower or any Material Subsidiary out of the ordinary course of business or the settlement of joint interest billing accounts in the ordinary course of business or discounts granted to settle collection of accounts receivable or the sale of defaulted accounts arising in the ordinary course of business in connection with the compromise or collection thereof and not in connection with any financing transaction, neither the Borrower nor any Material Subsidiary will discount or sell (with or without recourse) any of its notes receivable or accounts receivable.

[Section 9.12 Mergers, Etc.](#) Neither the Borrower nor any Material Subsidiary will merge into or with or consolidate with any other Person, or sell, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its Property to any other Person (any such transaction, a "consolidation"); provided that

(a) the Borrower or any Material Subsidiary may participate in a consolidation with any other Person; provided that (i) no Default is continuing, (ii) any such consolidation would not cause a Default hereunder, (iii) if the Borrower consolidates with any Person, the Borrower shall be the surviving Person, (iv) if any Material Subsidiary consolidates with any Person (other than the Borrower or a Material Subsidiary) and such Material Subsidiary is not the surviving Person, such surviving Person shall expressly assume in writing (in form and substance satisfactory to the Administrative Agent) all obligations of such Material Subsidiary under the Loan Documents and (v) the Borrowing Base will be redetermined using the procedures for an Interim Redetermination in accordance with [Section 2.07](#); and

(b) any Material Subsidiary may participate in a consolidation with the Borrower (provided that the Borrower shall be the continuing or surviving corporation) or any other Material Subsidiary and if one of such Material Subsidiaries is a Wholly-Owned Subsidiary, then the surviving Person shall be a Wholly-Owned Subsidiary.

[Section 9.13 Sale of Properties](#). The Borrower will not, and will not permit any Material Subsidiary to, sell, assign, farm-out, convey or otherwise transfer any Property except for (a) the sale of Hydrocarbons in the ordinary course of business; (b) farmouts of undeveloped acreage and assignments in connection with such farmouts; (c) the sale or transfer of equipment that is no longer necessary for the business of the Borrower or such Material Subsidiary or is replaced by equipment of at least comparable value and use; (d) the sale, transfer or other disposition of Equity Interests in non-Material Subsidiaries; (e) sales or other dispositions of Oil and Gas Properties or any interest therein or Material Subsidiaries owning Oil and Gas Properties; provided that (i) if such sales or other dispositions of Oil and Gas Properties or Material Subsidiaries owning Oil and Gas Properties included in the most recently delivered Reserve Report during any period between two successive Scheduled Redetermination Dates has a fair market value in excess of \$30,000,000, individually or in the aggregate, the Borrowing Base shall be reduced, effective immediately upon such sale or disposition, by an amount equal to the value, if any, assigned such Property in the most recently delivered Reserve Report and (ii) if any such sale or other disposition is of a Material Subsidiary owning Oil and Gas Properties, such sale or other disposition shall include all the Equity Interests of such Material Subsidiary; and (f) sales and other dispositions of Properties not regulated by [Section 9.13\(a\)](#) to (e) having a fair market value not to exceed \$30,000,000 during any 12-month period.

[Section 9.14 Environmental Matters](#). Neither the Borrower nor any Material Subsidiary will cause or permit any of its Property to be in violation of, or do anything or permit anything to be done which will subject any such Property to any Remedial Work under any Environmental Laws, assuming disclosure to the applicable Governmental Authority of all relevant facts, conditions and circumstances, if any, pertaining to such Property where such violations or remedial obligations could reasonably be expected to have a Material Adverse Effect.

[Section 9.15 Transactions with Affiliates](#). Neither the Borrower nor any Material Subsidiary will enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of Property or the rendering of any service, with any Affiliate (other than the Guarantors and Wholly-Owned Subsidiaries of the Borrower) unless such transactions are otherwise permitted under this Agreement and are upon fair and reasonable terms no less favorable to it than it would obtain in a comparable arm's length transaction with a Person not an Affiliate.

[Section 9.16 Subsidiaries](#). The Borrower shall not, and shall not permit any Material Subsidiary to, create or acquire any additional Material Subsidiary or redesignate a Subsidiary as a Material Subsidiary unless the Borrower gives written notice to the Administrative Agent of such creation or acquisition and complies with [Section 8.14\(b\)](#). The Borrower shall not, and shall not permit any Material Subsidiary to, sell, assign or otherwise dispose of any Equity Interests in any Material Subsidiary except in compliance with [Section 9.13\(e\)](#).

[Section 9.17 Negative Pledge Agreements; Dividend Restrictions](#). Neither the Borrower nor any Material Subsidiary will create, incur, assume or suffer to exist any contract, agreement or understanding (other than this Agreement, the Security Instruments or Capital Leases creating Liens permitted by [Section 9.03\(c\)](#)) which in any way prohibits or restricts the granting, conveying, creation or imposition of any Lien on any of its Property in favor of the Administrative Agent and the Lenders or restricts any Material Subsidiary from paying dividends or making distributions to the Borrower or any Guarantor, or which requires the consent of or notice to other Persons in connection therewith.

[Section 9.18 Gas Imbalances, Take-or-Pay or Other Prepayments](#). The Borrower will not allow (on a net basis) gas imbalances, take-or-pay or other prepayments with respect to the Oil and Gas Properties of the Borrower or any Material Subsidiary that would require the Borrower or such Material Subsidiary to deliver Hydrocarbons at some future time without then or thereafter receiving full payment therefor to exceed three million mcf of gas (on an mcf equivalent basis) in the aggregate.

[Section 9.19 Swap Agreements](#). Neither the Borrower nor any Material Subsidiary will enter into any Swap Agreements with any Person other than (a) Swap Agreements in respect of commodities (i) with an Approved Counterparty and (ii) the notional volumes for which (when aggregated with other commodity Swap Agreements then in effect) do not exceed, as of the date such Swap Agreement is executed, 75% of the reasonably anticipated projected production from proved, developed, producing Oil and Gas Properties for each month during the period during which such Swap Agreement is in effect, (b) Swap Agreements effectively converting interest rates from floating to fixed (i) with an Approved Counterparty and (ii) the notional amounts of which (when aggregated with other interest rate Swap Agreements then in effect effectively converting interest rates from floating

to fixed) do not exceed 100% of principal amount of the Borrower's floating rate Debt in respect of borrowed money, (c) Swap Agreements effectively converting interest rates from fixed to floating (i) with an Approved Counterparty and (ii) the notional amounts of which (when aggregated with other interest rate Swap Agreements then in effect effectively converting interest rates from fixed to floating) do not exceed 100% of principal amount of the Borrower's fixed rate Debt in respect of borrowed money (including, without limitation, the Borrower's Senior Convertible Notes), and (d) Swap Agreements in respect of currencies (i) with an Approved Counterparty, (ii) such transactions are to hedge actual or expected fluctuations in currencies and are not for speculative purposes and (iii) such transactions do not involve termination or expiry dates longer than six (6) months after the trade date in respect thereof. In no event shall any Swap Agreement contain any requirement, agreement or covenant for the Borrower or any Material Subsidiary to post collateral or margin to secure their obligations under such Swap Agreement or to cover market exposures other than usual and customary requirements to deliver letters of credit or post cash collateral.

Section 9.20 Preservation of Material Agreements. Except for acts which could not reasonably be expected to have a Material Adverse Effect or which are taken in the ordinary course of business, neither the Borrower nor any Material Subsidiary, as the case may be, will agree to any change, modification or amendment to or waiver of any of the terms or provisions of any of the Material Agreements. Neither the Borrower nor any Material Subsidiary, as the case may be, will take any action or permit any action to be taken by others which will release any Person from its obligations or liabilities under any of the Material Agreements.

Section 9.21 Release of Liens. The Borrower shall be entitled to cause Mortgaged Properties having an aggregate fair market value not to exceed \$30,000,000 to be released from the Liens created by and existing under the Security Instruments without the consent of the Lenders; provided that (a) no Event of Default shall have occurred which is continuing, (b) only one such release may be made between Schedule Redeterminations of the Borrowing Base, (c) following any such release, the total value of the remaining Mortgaged Property shall be sufficient to support the Aggregate Commitment in the sole opinion of the Administrative Agent, and (d) following any such release, the Administrative Agent shall adjust the then current Borrowing Base to take into account the release of such Mortgaged Properties and any mandatory prepayment required as a result thereof shall be made at the time of such release.

ARTICLE X

Events of Default; Remedies

Section 10.01 Events of Default. One or more of the following events shall constitute an "Event of Default":

- (a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise.
- (b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in [Section 10.01\(a\)](#)) payable under any Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of three Business Days.
- (c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Material Subsidiary in or in connection with any Loan Document or any amendment or modification of any Loan Document or waiver under such Loan Document, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any respect material to the Borrower's creditworthiness or to the rights or interests of the Lenders when made or deemed made.
- (d) the Borrower or any Material Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in [Section 8.03](#) or in [ARTICLE IX](#).
- (e) the Borrower or any Material Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in [Section 10.01\(a\)](#), [Section 10.01\(b\)](#) or [Section 10.01\(d\)](#)) or any other Loan Document, and such failure shall continue unremedied for a period of 30 days after the earlier to occur of A. notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender) or B. a Responsible Officer of the Borrower or such Material Subsidiary otherwise becoming aware of such default.
- (f) the Borrower or any Material Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable (subject to applicable grace periods), unless such payment is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained.
- (g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the Redemption thereof or any offer to Redeem to be made in respect thereof, prior to its scheduled maturity or require the Borrower or any Material Subsidiary to make an offer in respect thereof; provided, however, early termination of a Swap Agreement (that is Material Indebtedness) due solely to an ISDA "Termination Event" is not an Event of Default hereunder.
- (h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any Material Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Material Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 30 days or an order or decree approving or ordering any of the foregoing shall be entered.
- (i) the Borrower or any Material Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in [Section 10.01\(h\)](#), (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Material Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing.
- (j) the Borrower or any Material Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due.
- (k) one or more judgments for the payment of money in an aggregate amount in excess of \$3,000,000 (to the extent not covered by independent third party insurance provided by insurers of the highest claims paying rating or financial strength as to which the insurer does not dispute coverage and is not subject to an insolvency proceeding) shall be rendered against the Borrower, any Material Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days and for which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Material Subsidiary to enforce any such judgment.
- (l) the Loan Documents after delivery thereof shall for any reason, except to the extent permitted by the terms thereof, cease to be in full force and effect and valid, binding and enforceable in accordance with their terms against the Borrower or a Guarantor party thereto, or cease to create a valid and perfected Lien of the priority required thereby on any of the collateral purported to be covered thereby, except to the extent permitted by the terms of this Agreement, or the Borrower or any Guarantor or any of their Affiliates shall so state in writing.
- (m) an ERISA Event shall have occurred that, in the opinion of the Majority Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect.
- (n) a Change in Control shall occur.
- (o) the Borrower shall fail to pay any mandatory prepayment or provide additional collateral as provided in [Section 3.04\(c\)](#).

Section 10.02 Remedies

- (a) In the case of an Event of Default other than one described in [Section 10.01\(h\)](#), [Section 10.01\(i\)](#) or [Section 10.01\(j\)](#), at any time thereafter during the continuance of such Event of Default, the Administrative Agent may, and at the request of the Majority Lenders, shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Notes and the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower and the Guarantors accrued hereunder and under the Notes and the other Loan Documents (including, without limitation, the payment of cash collateral to secure the LC Exposure as provided in [Section 2.08\(k\)](#)), shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower and each Guarantor; and in case of an Event of Default described in [Section 10.01\(h\)](#), [Section 10.01\(i\)](#) or [Section 10.01\(j\)](#), the Commitments shall automatically terminate and the Notes and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and the other obligations of the Borrower and the Guarantors accrued hereunder and under the Notes and the other Loan Documents (including, without limitation, the payment of cash collateral to secure the LC Exposure as provided in [Section 2.08\(k\)](#)), shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower and each Guarantor.
- (b) In the case of the occurrence of an Event of Default, the Administrative Agent and the Lenders will have all other rights and remedies available at law and equity.
- (c) All proceeds realized from the liquidation or other disposition of collateral or otherwise received after maturity of the Notes, whether by acceleration or otherwise, shall be applied: *first*, to reimbursement of expenses and indemnities provided for in this Agreement and the Security Instruments; *second*, to accrued interest on the Notes; *third*, to fees; *fourth*, *pari passu* to (i) Indebtedness owing to a Lender or an Affiliate of a Lender under any Swap Agreement permitted hereby and (ii) pro rata to principal outstanding on the Notes; *fifth*, to any other Indebtedness; *sixth*, to serve as cash collateral to be held by the Administrative Agent to secure the LC Exposure; and any excess shall be paid to the Borrower or as otherwise required by any Governmental Requirement.

ARTICLE XI

The Administrative Agent

Section 11.01 Appointment; Powers. Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof and the other Loan Documents, together with such actions and powers as are reasonably incidental thereto.

Section 11.02 Duties and Obligations of Administrative Agent. The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except as provided in [Section 11.03](#), and (c) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other

document delivered hereunder or under any other Loan Document or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or in any other Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document, (v) the satisfaction of any condition set forth in [ARTICLE VI](#) or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent, (vi) the existence, value, perfection or priority of any collateral security or the financial or other condition of the Borrower and its Subsidiaries or any other obligor or guarantor, or (vii) any failure by the Borrower or any other Person (other than itself) to perform any of its obligations hereunder or under any other Loan Document or the performance or observance of any covenants, agreements or other terms or conditions set forth herein or therein.

Section 11.03 Action by Administrative Agent. The Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing as directed by the Majority Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in [Section 12.02](#)) and in all cases the Administrative Agent shall be fully justified in failing or refusing to act hereunder or under any other Loan Documents unless it shall (a) receive written instructions from the Majority Lenders or the Lenders, as applicable, (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in [Section 12.02](#)) specifying the action to be taken and (b) be indemnified to its satisfaction by the Lenders against any and all liability and expenses which may be incurred by it by reason of taking or continuing to take any such action. The instructions as aforesaid and any action taken or failure to act pursuant thereto by the Administrative Agent shall be binding on all of the Lenders. If a Default has occurred and is continuing, then the Administrative Agent shall take such action with respect to such Default as shall be directed by the requisite Lenders in the written instructions (with indemnities) described in this [Section 11.03](#), provided that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders. In no event, however, shall the Administrative Agent be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement, the Loan Documents or applicable law. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Majority Lenders or the Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in [Section 12.02](#)), and otherwise shall not be liable for any action taken or not taken by it hereunder or under any other Loan Document or under any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith INCLUDING ITS OWN ORDINARY NEGLIGENCE, except for its own gross negligence or willful misconduct.

Section 11.04 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon and each of the Borrower, the Lenders and the Issuing Bank hereby waives the right to dispute the Administrative Agent's record of such statement, except in the case of gross negligence or willful misconduct by the Administrative Agent. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts. The Administrative Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a written notice of the assignment or transfer thereof permitted hereunder shall have been filed with the Administrative Agent.

Section 11.05 Subagents. The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding Sections of this [ARTICLE XI](#) shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Section 11.06 Resignation or Removal of Administrative Agent. Subject to the appointment and acceptance of a successor Administrative Agent as provided in this [Section 11.06](#), the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower, and the Administrative Agent may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation or removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this [ARTICLE XI](#) and [Section 12.03](#) shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Section 11.07 Administrative Agent as Lenders. Wachovia, serving as Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not Administrative Agent hereunder.

Section 11.08 No Reliance. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and each other Loan Document to which it is a party. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document, any related agreement or any document furnished hereunder or thereunder. The Administrative Agent shall not be required to keep itself informed as to the performance or observance by the Borrower or any of its Subsidiaries of this Agreement, the Loan Documents or any other document referred to or provided for herein or to inspect the Properties or books of the Borrower or its Subsidiaries. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Administrative Agent hereunder or Arranger shall have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of the Borrower (or any of its Affiliates) which may come into the possession of the Administrative Agent or any of its Affiliates. In this regard, each Lender acknowledges that Vinson & Elkins L.L.P. is acting in this transaction as special counsel to the Administrative Agent only, except to the extent otherwise expressly stated in any legal opinion or any Loan Document. Each other party hereto will consult with its own legal counsel to the extent that it deems necessary in connection with the Loan Documents and the matters contemplated therein.

Section 11.09 Authority of Administrative Agent to Release Collateral and Liens. Each Lender and the Issuing Bank hereby authorizes the Administrative Agent to release any collateral that is permitted to be sold or released pursuant to the terms of the Loan Documents. Each Lender and the Issuing Bank hereby authorizes the Administrative Agent to execute and deliver to the Borrower, at the Borrower's sole cost and expense, any and all releases of Liens, termination statements, assignments or other documents reasonably requested by the Borrower in connection with any sale or other disposition of Property to the extent such sale or other disposition is permitted by the terms of [Section 9.13](#) or is otherwise authorized by the terms of the Loan Documents.

Section 11.10 Syndication Agent and Co-Documentation Agents. The Lenders identified in this Agreement as Syndication Agent and as Co-Documentation Agents shall not have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, the Syndication Agent and the Co-Documentation Agents shall not have or be deemed to have a fiduciary relationship with any Lender.

ARTICLE XII

Miscellaneous

Section 12.01 Notices.

(a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to [Section 12.01\(b\)](#)), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

- (i) if to the Borrower, to it at 1776 Lincoln Street, Suite 700, Denver, Colorado 80203, Attention of Matthew J. Purchase (Telecopy No. 303/861-0934);
- (ii) if to the Administrative Agent, to it at 1525 W. WT Harris Blvd., Charlotte, North Carolina 28262, Attention of Syndication Agency Services (Telecopy No. 704/590-3481), with a copy to Wachovia Securities, at 301 South College Street, 15th Floor NC 5562, Charlotte, North Carolina 28288, Attention of Leanne Phillips (Telecopy No. 704/383-6647);
- (iii) if to the Issuing Bank, to it at 1525 W. WT Harris Blvd., Charlotte, North Carolina 28262, Attention of Syndication Agency Services (Telecopy No. 704/590-3481); and
- (iv) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent provided that the foregoing shall not apply to notices pursuant to [ARTICLE II](#), [ARTICLE III](#), [ARTICLE IV](#) and [ARTICLE V](#) unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

(c) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 12.02 Waivers; Amendments.

(a) No failure on the part of the Administrative Agent, the Issuing Bank or any Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege, or any abandonment or discontinuance of steps to enforce such right, power or privilege, under any of the Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any of the Loan Documents preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by [Section 12.02\(b\)](#), and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof nor any Security Instrument nor any provision thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Majority Lenders or by the Borrower and the Administrative Agent with the consent of the Majority Lenders; provided that no such agreement shall (i) increase the Commitment or the Maximum Credit Amount of any Lender without the written consent of such Lender, (ii) increase the Borrowing Base or modify [Section 2.07](#), without the written consent of all of the Lenders, (iii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, or reduce any other Indebtedness hereunder or under any other Loan Document, without the written consent of each Lender affected thereby, (iv) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or any other Indebtedness hereunder or under any other Loan Document, or reduce the amount of, waive or excuse any such payment, or postpone or extend the Termination Date without the written consent of each Lender affected thereby, (v) change [Section 4.01\(b\)](#) or [Section 4.01\(c\)](#) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (vi) change the definition of the term "Material Subsidiary", without the written

consent of each Lender, (vii) release any Guarantor (except as set forth in the Guaranty Agreement), release all or substantially all of the collateral, or reduce the percentage set forth in [Section 8.14](#) to less than 70%, without the written consent of each Lender, or (viii) change any of the provisions of this [Section 12.02\(b\)](#) or the definition of "Majority Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or under any other Loan Documents or make any determination or grant any consent hereunder or any other Loan Documents, without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank hereunder or under any other Loan Document without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be. Notwithstanding the foregoing, any supplement to Schedule 7.15 (Subsidiaries) shall be effective simply by delivering to the Administrative Agent a supplemental schedule clearly marked as such and, upon receipt, the Administrative Agent will promptly deliver a copy thereof to the Lenders.

Section 12.03 Expenses, Indemnity; Damage Waiver.

(a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including, without limitation, the reasonable fees, charges and disbursements of counsel and other outside consultants for the Administrative Agent, the reasonable travel, photocopy, mailing, courier, telephone and other similar expenses, and the cost of environmental audits and surveys and appraisals, in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration (both before and after the execution hereof and including advice of counsel to the Administrative Agent as to the rights and duties of the Administrative Agent and the Lenders with respect thereto) of this Agreement and the other Loan Documents and any amendments, modifications or waivers of or consents related to the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all costs, expenses, Taxes, assessments and other charges incurred by the Administrative Agent or any Lender in connection with any filing, registration, recording or perfection of any security interest contemplated by this Agreement or any Security Instrument or any other document referred to therein, (iii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder, (iv) all out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement or any other Loan Document, including its rights under this [Section 12.03](#), or in connection with the Loans made or Letters of Credit issued hereunder, including, without limitation, all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) THE BORROWER SHALL INDEMNIFY THE ADMINISTRATIVE AGENT, THE ISSUING BANK AND EACH LENDER, AND EACH RELATED PARTY OF ANY OF THE FOREGOING PERSONS (EACH SUCH PERSON BEING CALLED AN "INDEMNITEE") AGAINST, AND HOLD EACH INDEMNITEE HARMLESS FROM, ANY AND ALL LOSSES, CLAIMS, DAMAGES, LIABILITIES AND RELATED EXPENSES, INCLUDING THE REASONABLE FEES, CHARGES AND DISBURSEMENTS OF ANY COUNSEL FOR ANY INDEMNITEE, INCURRED BY OR ASSERTED AGAINST ANY INDEMNITEE DIRECTLY ARISING OUT OF, DIRECTLY IN CONNECTION WITH, OR DIRECTLY AS A RESULT OF (i) THE EXECUTION OR DELIVERY OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ANY AGREEMENT OR INSTRUMENT CONTEMPLATED HEREBY OR THEREBY, THE PERFORMANCE BY THE PARTIES HERETO OR THE PARTIES TO ANY OTHER LOAN DOCUMENT OF THEIR RESPECTIVE OBLIGATIONS HEREUNDER OR THEREUNDER OR THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED HEREBY OR BY ANY OTHER LOAN DOCUMENT, (ii) THE FAILURE OF THE BORROWER OR ANY RESTRICTED SUBSIDIARY TO COMPLY WITH THE TERMS OF ANY LOAN DOCUMENT, INCLUDING THIS AGREEMENT, OR WITH ANY GOVERNMENTAL REQUIREMENT, (iii) ANY INACCURACY OF ANY REPRESENTATION OR ANY BREACH OF ANY WARRANTY OR COVENANT OF THE BORROWER OR ANY GUARANTOR SET FORTH IN ANY OF THE LOAN DOCUMENTS OR ANY INSTRUMENTS, DOCUMENTS OR CERTIFICATIONS DELIVERED IN CONNECTION THEREWITH, (iv) ANY LOAN OR LETTER OF CREDIT OR THE USE OF THE PROCEEDS THEREFROM, INCLUDING, WITHOUT LIMITATION, A. ANY REFUSAL BY THE ISSUING BANK TO HONOR A DEMAND FOR PAYMENT UNDER A LETTER OF CREDIT IF THE DOCUMENTS PRESENTED IN CONNECTION WITH SUCH DEMAND DO NOT STRICTLY COMPLY WITH THE TERMS OF SUCH LETTER OF CREDIT, OR B. THE PAYMENT OF A DRAWING UNDER ANY LETTER OF CREDIT NOTWITHSTANDING THE NON-COMPLIANCE, NON-DELIVERY OR OTHER IMPROPER PRESENTATION OF THE DOCUMENTS PRESENTED IN CONNECTION THEREWITH, (v) ANY OTHER ASPECT OF THE LOAN DOCUMENTS, (vi) THE OPERATIONS OF THE BUSINESS OF THE BORROWER AND ITS SUBSIDIARIES BY THE BORROWER AND ITS SUBSIDIARIES, (vii) ANY ASSERTION THAT THE LENDERS WERE NOT ENTITLED TO RECEIVE THE PROCEEDS RECEIVED PURSUANT TO THE SECURITY INSTRUMENTS, (viii) ANY ENVIRONMENTAL LAW APPLICABLE TO THE BORROWER OR ANY SUBSIDIARY OR ANY OF THEIR PROPERTIES, INCLUDING WITHOUT LIMITATION, THE PRESENCE, GENERATION, STORAGE, RELEASE, THREATENED RELEASE, USE, TRANSPORT, DISPOSAL, ARRANGEMENT OF DISPOSAL OR TREATMENT OF OIL, OIL AND GAS WASTES, SOLID WASTES OR HAZARDOUS SUBSTANCES ON ANY OF THEIR PROPERTIES, (ix) THE BREACH OR NON-COMPLIANCE BY THE BORROWER OR ANY SUBSIDIARY WITH ANY ENVIRONMENTAL LAW APPLICABLE TO THE BORROWER OR ANY SUBSIDIARY, (x) THE PAST OWNERSHIP BY THE BORROWER OR ANY SUBSIDIARY OF ANY OF THEIR PROPERTIES OR PAST ACTIVITY ON ANY OF THEIR PROPERTIES WHICH, THOUGH LAWFUL AND FULLY PERMISSIBLE AT THE TIME, COULD RESULT IN PRESENT LIABILITY, (xi) THE PRESENCE, USE, RELEASE, STORAGE, TREATMENT, DISPOSAL, GENERATION, THREATENED RELEASE, TRANSPORT, ARRANGEMENT FOR TRANSPORT OR ARRANGEMENT FOR DISPOSAL OF OIL, OIL AND GAS WASTES, SOLID WASTES OR HAZARDOUS SUBSTANCES ON OR AT ANY OF THE PROPERTIES OWNED OR OPERATED BY THE BORROWER OR ANY SUBSIDIARY OR ANY ACTUAL OR ALLEGED PRESENCE OR RELEASE OF HAZARDOUS MATERIALS ON OR FROM ANY PROPERTY OWNED OR OPERATED BY THE BORROWER OR ANY OF ITS SUBSIDIARIES, (xii) ANY ENVIRONMENTAL LIABILITY RELATED IN ANY WAY TO THE BORROWER OR ANY OF ITS SUBSIDIARIES, OR (xiii) ANY OTHER ENVIRONMENTAL, HEALTH OR SAFETY CONDITION IN CONNECTION WITH THE LOAN DOCUMENTS, OR (xiv) ANY ACTUAL OR PROSPECTIVE CLAIM, LITIGATION, INVESTIGATION OR PROCEEDING RELATING TO ANY OF THE FOREGOING, WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY AND REGARDLESS OF WHETHER ANY INDEMNITEE IS A PARTY THERETO, AND SUCH INDEMNITY SHALL EXTEND TO EACH INDEMNITEE NOTWITHSTANDING THE SOLE OR CONCURRENT NEGLIGENCE OF EVERY KIND OR CHARACTER WHATSOEVER, WHETHER ACTIVE OR PASSIVE, WHETHER AN AFFIRMATIVE ACT OR AN OMISSION, INCLUDING WITHOUT LIMITATION, ALL TYPES OF NEGLIGENT CONDUCT IDENTIFIED IN THE RESTATEMENT (SECOND) OF TORTS OF ONE OR MORE OF THE INDEMNITEES OR BY REASON OF STRICT LIABILITY IMPOSED WITHOUT FAULT ON ANY ONE OR MORE OF THE INDEMNITEES; PROVIDED THAT SUCH INDEMNITY SHALL NOT, AS TO ANY INDEMNITEE, BE AVAILABLE TO THE EXTENT THAT SUCH LOSSES, CLAIMS, DAMAGES, LIABILITIES OR RELATED EXPENSES ARE DETERMINED BY A COURT OF COMPETENT JURISDICTION BY FINAL AND NONAPPEALABLE JUDGMENT TO HAVE RESULTED FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNITEE.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent or the Issuing Bank under [Section 12.03\(a\)](#) or [\(b\)](#), each Lender severally agrees to pay to the Administrative Agent or the Issuing Bank, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or the Issuing Bank in its capacity as such.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this [Section 12.03](#) shall be payable promptly after written demand therefor.

Section 12.04 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this [Section 12.04](#). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in [Section 12.04\(c\)](#)) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) (i) Subject to the conditions set forth in [Section 12.04\(b\)\(ii\)](#), any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

A. the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund (as defined below) or, if an Event of Default has occurred and is continuing, any other assignee; and

B. the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment to an assignee that is a Lender immediately prior to giving effect to such assignment.

(ii) Assignments shall be subject to the following additional conditions:

A. except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment, the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing;

B. each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement;

C. the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500;

D. the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire; and

E. in the case of an assignment to a CLO, the assigning Lender shall retain the sole right to approve any amendment, modification or waiver of any provision of this Agreement, provided that the Assignment and Assumption between such Lender and such CLO may provide that such Lender will not, without the consent of such CLO, agree to any amendment, modification or waiver described in the first proviso to [Section 12.02](#) that affects such CLO.

(iii) Subject to [Section 12.04\(b\)\(iv\)](#) and the acceptance and recording thereof, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of [Section 5.01](#), [Section 5.02](#), [Section 5.03](#) and [Section 12.03](#)). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this [Section 12.04](#) shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with [Section 12.04\(c\)](#).

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Maximum Credit Amount of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time

and from time to time upon reasonable prior notice. In connection with any changes to the Register, if necessary, the Administrative Agent will reflect the revisions on Annex I and forward a copy of such revised Annex I to the Borrower, the Issuing Bank and each Lender.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in [Section 12.04\(b\)](#) and any written consent to such assignment required by [Section 12.04\(b\)](#), the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this [Section 12.04\(b\)](#).

(c) (i) Any Lender may, without the consent of the Borrower, the Administrative Agent or the Issuing Bank, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the proviso to [Section 12.02](#) that affects such Participant. In addition such agreement must provide that the Participant be bound by the provisions of [Section 12.03](#). Subject to [Section 12.04\(c\)\(ii\)](#), the Borrower agrees that each Participant shall be entitled to the benefits of [Section 5.01](#), [Section 5.02](#) and [Section 5.03](#) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to [Section 12.04\(b\)](#). To the extent permitted by law, each Participant also shall be entitled to the benefits of [Section 12.08](#) as though it were a Lender, provided such Participant agrees to be subject to [Section 4.01\(c\)](#) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under [Section 5.01](#) or [Section 5.03](#) than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of [Section 5.03](#) unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with [Section 5.03\(e\)](#) as though it were a Lender.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this [Section 12.04\(d\)](#) shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

Section 12.05 Survival; Revival; Reinstatement.

(a) All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of [Section 5.01](#), [Section 5.02](#), [Section 5.03](#) and [Section 12.03](#) and [ARTICLE XI](#) shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement, any other Loan Document or any provision hereof or thereof.

(b) To the extent that any payments on the Indebtedness or proceeds of any collateral are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver or other Person under any bankruptcy law, common law or equitable cause, then to such extent, the Indebtedness so satisfied shall be revived and continue as if such payment or proceeds had not been received and the Administrative Agent's and the Lenders' Liens, security interests, rights, powers and remedies under this Agreement and each Loan Document shall continue in full force and effect. In such event, each Loan Document shall be automatically reinstated and the Borrower shall take such action as may be reasonably requested by the Administrative Agent and the Lenders to effect such reinstatement.

Section 12.06 Counterparts; Integration; Effectiveness.

(a) This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract.

(b) This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and thereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof and thereof. This Agreement and the other Loan Documents represent the final agreement among the parties hereto and thereto and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

(c) Except as provided in [Section 6.01](#), this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by teletype shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 12.07 Severability. Any provision of this Agreement or any other Loan Document held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof or thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 12.08 Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations (of whatsoever kind, including, without limitations obligations under Swap Agreements) at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower or any Material Subsidiary against any of and all the obligations of the Borrower or any Material Subsidiary owed to such Lender now or hereafter existing under this Agreement or any other Loan Document, irrespective of whether or not such Lender shall have made any demand under this Agreement or any other Loan Document and although such obligations may be unmaturing. The rights of each Lender under this [Section 12.08](#) are in addition to other rights and remedies (including other rights of setoff) which such Lender or its Affiliates may have.

Section 12.09 GOVERNING LAW; JURISDICTION; CONSENT TO SERVICE OF PROCESS.

(a) THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS EXCEPT TO THE EXTENT THAT UNITED STATES FEDERAL LAW PERMITS ANY LENDER TO CONTRACT FOR, CHARGE, RECEIVE, RESERVE OR TAKE INTEREST AT THE RATE ALLOWED BY THE LAWS OF THE STATE WHERE SUCH LENDER IS LOCATED. CHAPTER 346 OF THE TEXAS FINANCE CODE (WHICH REGULATES CERTAIN REVOLVING CREDIT LOAN ACCOUNTS AND REVOLVING TRI-PARTY ACCOUNTS) SHALL NOT APPLY TO THIS AGREEMENT OR THE NOTES.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THE LOAN DOCUMENTS SHALL BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS OR OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF TEXAS, AND, BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH PARTY HEREBY ACCEPTS FOR ITSELF AND (TO THE EXTENT PERMITTED BY LAW) IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING IN SUCH RESPECTIVE JURISDICTIONS. THIS SUBMISSION TO JURISDICTION IS NON-EXCLUSIVE AND DOES NOT PRECLUDE A PARTY FROM OBTAINING JURISDICTION OVER ANOTHER PARTY IN ANY COURT OTHERWISE HAVING JURISDICTION.

(c) THE BORROWER HEREBY IRREVOCABLY DESIGNATES, APPOINTS AND EMPOWERS AND HEREBY CONFERS AN IRREVOCABLE SPECIAL POWER, AMPLE AND SUFFICIENT, TO CT CORPORATION SYSTEM, WITH OFFICES ON THE DATE HEREOF AT DENVER, COLORADO AS ITS DESIGNEE, APPOINTEE AND AGENT WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING IN TEXAS TO RECEIVE, ACCEPT AND ACKNOWLEDGE FOR AND ON ITS BEHALF, AND IN RESPECT OF ITS PROPERTY, SERVICE OF ANY AND ALL LEGAL PROCESS, SUMMONS, NOTICES AND DOCUMENTS WHICH MAY BE SERVED IN ANY SUCH PROCEEDING AND AGREES THAT THE FAILURE OF SUCH AGENT TO GIVE ANY ADVICE OF ANY SUCH SERVICE OF PROCESS TO THE BORROWER SHALL NOT IMPAIR OR AFFECT THE VALIDITY OF SUCH SERVICE OR OF ANY CLAIM BASED THEREON. IF FOR ANY REASON SUCH DESIGNEE, APPOINTEE AND AGENT SHALL CEASE TO BE AVAILABLE TO ACT AS SUCH, THE BORROWER AGREES TO DESIGNATE A NEW DESIGNEE, APPOINTEE AND AGENT IN TEXAS REASONABLY SATISFACTORY TO THE ADMINISTRATIVE AGENT ON THE TERMS AND FOR THE PURPOSES OF THIS PROVISION. EACH PARTY IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY OF THE AFORESAID COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO IT AT THE ADDRESS SPECIFIED IN [Section 12.01](#) OR SUCH OTHER ADDRESS AS IS SPECIFIED PURSUANT TO [Section 12.01](#) (OR ITS ASSIGNMENT AND ASSUMPTION), SUCH SERVICE TO BECOME EFFECTIVE UPON RECEIPT. NOTHING HEREIN SHALL AFFECT THE RIGHT OF A PARTY OR ANY HOLDER OF A NOTE TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST ANOTHER PARTY IN ANY OTHER JURISDICTION.

(d) EACH PARTY HEREBY (i) IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN; (ii) IRREVOCABLY WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES, OR DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES; (iii) CERTIFIES THAT NO PARTY HERETO NOR ANY REPRESENTATIVE OR AGENT OF COUNSEL FOR ANY PARTY HERETO HAS REPRESENTED, EXPRESSLY OR OTHERWISE, OR IMPLIED THAT SUCH PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS, AND (iv) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT, THE LOAN DOCUMENTS AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS [Section 12.09](#).

Section 12.10 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 12.11 Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement or any other Loan Document, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this [Section 12.11](#), to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any Swap Agreement

relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this [Section 12.11](#) or (ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this [Section 12.11](#), "Information" means all information received from the Borrower or any Material Subsidiary relating to the Borrower or any Material Subsidiary and their businesses, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower or a Material Subsidiary; provided that, in the case of information received from the Borrower or any Material Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this [Section 12.11](#) shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 12.12 Interest Rate Limitation. It is the intention of the parties hereto that each Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated hereby would be usurious as to any Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to such Lender notwithstanding the other provisions of this Agreement), then, in that event, notwithstanding anything to the contrary in any of the Loan Documents or any agreement entered into in connection with or as security for the Notes, it is agreed as follows: (i) the aggregate of all consideration which constitutes interest under law applicable to any Lender that is contracted for, taken, reserved, charged or received by such Lender under any of the Loan Documents or agreements or otherwise in connection with the Notes shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be canceled automatically and if theretofore paid shall be credited by such Lender on the principal amount of the Indebtedness (or, to the extent that the principal amount of the Indebtedness shall have been or would thereby be paid in full, refunded by such Lender to the Borrower); and (ii) in the event that the maturity of the Notes is accelerated by reason of an election of the holder thereof resulting from any Event of Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration that constitutes interest under law applicable to any Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in this Agreement or otherwise shall be canceled automatically by such Lender as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited by such Lender on the principal amount of the Indebtedness (or, to the extent that the principal amount of the Indebtedness shall have been or would thereby be paid in full, refunded by such Lender to the Borrower). All sums paid or agreed to be paid to any Lender for the use, forbearance or detention of sums due hereunder shall, to the extent permitted by law applicable to such Lender, be amortized, prorated, allocated and spread throughout the stated term of the Loans evidenced by the Notes until payment in full so that the rate or amount of interest on account of any Loans hereunder does not exceed the maximum amount allowed by such applicable law. If at any time and from time to time (i) the amount of interest payable to any Lender on any date shall be computed at the Highest Lawful Rate applicable to such Lender pursuant to this [Section 12.12](#) and (ii) in respect of any subsequent interest computation period the amount of interest otherwise payable to such Lender would be less than the amount of interest payable to such Lender computed at the Highest Lawful Rate applicable to such Lender, then the amount of interest payable to such Lender in respect of such subsequent interest computation period shall continue to be computed at the Highest Lawful Rate applicable to such Lender until the total amount of interest payable to such Lender shall equal the total amount of interest which would have been payable to such Lender if the total amount of interest had been computed without giving effect to this [Section 12.12](#). To the extent that Chapter 303 of the Texas Finance Code is relevant for the purpose of determining the Highest Lawful Rate applicable to a Lender, such Lender elects to determine the applicable rate ceiling under such Chapter by the weekly ceiling from time to time in effect. Chapter 346 of the Texas Finance Code does not apply to the Borrower's obligations hereunder.

Section 12.13 EXCULPATION PROVISIONS. EACH OF THE PARTIES HERETO SPECIFICALLY AGREES THAT IT HAS A DUTY TO READ THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND AGREES THAT IT IS CHARGED WITH NOTICE AND KNOWLEDGE OF THE TERMS OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS; THAT IT HAS IN FACT READ THIS AGREEMENT AND IS FULLY INFORMED AND HAS FULL NOTICE AND KNOWLEDGE OF THE TERMS, CONDITIONS AND EFFECTS OF THIS AGREEMENT; THAT IT HAS BEEN REPRESENTED BY INDEPENDENT LEGAL COUNSEL OF ITS CHOICE THROUGHOUT THE NEGOTIATIONS PRECEDING ITS EXECUTION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS; AND HAS RECEIVED THE ADVICE OF ITS ATTORNEY IN ENTERING INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS; AND THAT IT RECOGNIZES THAT CERTAIN OF THE TERMS OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS RESULT IN ONE PARTY ASSUMING THE LIABILITY INHERENT IN SOME ASPECTS OF THE TRANSACTION AND RELIEVING THE OTHER PARTY OF ITS RESPONSIBILITY FOR SUCH LIABILITY. EACH PARTY HERETO AGREES AND COVENANTS THAT IT WILL NOT CONTEST THE VALIDITY OR ENFORCEABILITY OF ANY EXCULPATORY PROVISION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS ON THE BASIS THAT THE PARTY HAD NO NOTICE OR KNOWLEDGE OF SUCH PROVISION OR THAT THE PROVISION IS NOT "CONSPICUOUS."

Section 12.14 Existing Credit Agreement. On the Effective Date, the Existing Credit Agreement shall be amended and restated in its entirety by this Agreement, and the Existing Credit Agreement shall be replaced hereby; provided that the Borrower, the Administrative Agent and the Lenders agree that (i) on the date of the initial funding of Loans hereunder, the loans and other Debt of the Borrower under the Existing Credit Agreement shall be renewed, rearranged, modified and extended with the proceeds of the initial funding and the "Commitments" of the lenders under the Existing Credit Agreement shall be superseded by this Agreement and terminated (except as otherwise expressly provided in Section 12.05(a) of the Existing Credit Agreement with respect to the survival of certain covenants and agreements made by the Borrower in the Existing Credit Agreement), (ii) the Existing Credit Agreement shall continue to evidence the representations and warranties made by the Borrower prior to the Effective Date, (iii) except as expressly stated herein or amended, the other Loan Documents are ratified and confirmed as remaining unmodified and in full force and effect with respect to all Indebtedness, (iv) the Existing Credit Agreement shall continue to evidence and govern any action or omission performed, required to be performed or approved pursuant to the Existing Credit Agreement prior to the Effective Date (including, without limitation, any failure, prior to the Effective Date, to comply with the covenants contained in the Existing Credit Agreement and any permitted releases of collateral) and any act, omission or event to occur or measured by any date or period of time commencing on, or including any date or period prior to, the Effective Date and (v) the terms and provisions of the Existing Credit Agreement shall continue in full force and effect to the extent provided in clause (d) of this Section 12.14. The amendments and restatements set forth herein shall not cure any breach thereof or any "Default" or "Event of Default" under and as defined in the Existing Credit Agreement existing prior to the Effective Date. This Agreement is not in any way intended to constitute a novation of the obligations and liabilities existing under the Existing Credit Agreement or evidence payment of all or any portion of such obligations and liabilities.

(b) The terms and conditions of this Agreement and the Administrative Agent's, the Lenders' and the Issuing Banks' rights and remedies under this Agreement and the other Loan Documents shall apply to all of the Indebtedness incurred under the Existing Credit Agreement and the Letters of Credit issued thereunder.

(c) On and after the Effective Date, (i) all references to the Existing Credit Agreement (or to any amendment or any amendment and restatement thereof) in the Loan Documents (other than this Agreement) shall be deemed to refer to the Existing Credit Agreement, as amended and restated hereby, (ii) all references to any section (or subsection) of the Existing Credit Agreement or in any Loan Document (but not herein) shall be amended to become, *mutatis mutandis*, references to the corresponding provisions of this Agreement and (iii) except as the context otherwise provides, on or after the Effective Date, all references to this Agreement herein (including for purposes of indemnification and reimbursement of fees) shall be deemed to be references to the Existing Credit Agreement, as amended and restated hereby.

(d) This amendment and restatement is limited as written and is not a consent to any other amendment, restatement or waiver, whether or not similar and, except as expressly provided herein or in any other Loan Document, all terms and conditions of the Loan Documents remain in full force and effect unless specifically amended hereby or by any other Loan Document.

(e) The undersigned waive any right to receive any notice of such termination and any right to receive any notice of prepayment of amounts owed under the Existing Credit Agreement. Each Lender that was a party to the Existing Credit Agreement hereby agrees to return to the Borrower, with reasonable promptness, any promissory note delivered by the Borrower to such Lender in connection with the Existing Credit Agreement.

Section 12.15 USA Patriot Act Notice. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

The parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

BORROWER:

ST MARY LAND & EXPLORATION COMPANY

By: /s/ MATTHEW J. PURCHASE
Name: Matthew J. Purchase
Title: Treasurer and Budget & Planning Director

AGENTS AND LENDERS:

WACHOVIA BANK, NATIONAL ASSOCIATION, Individually and as Administrative Agent

By: /s/ LEANNE PHILLIPS
Name: Leanne Phillips
Title: Director

WELLS FARGO BANK, N.A., Individually and as Syndication Agent

By: /s/ TIM GREEN
Name: Tim Green
Title: Assistant Vice President

JPMORGAN CHASE BANK, N.A., Individually and as Co-Documentation Agent

By: /s/ BRIAN ORLANDO
Name: Brian Orlando
Title: Vice President

COMERICA BANK, Individually and as Co-Documentation Agent

By: /s/ GREGORY D. SMITH
Name: Gregory D. Smith
Title: Vice President

BNP PARIBAS, Individually and as Co-Documentation Agent

By: /s/ BETSY JOCHER
Name: Betsy Jocher
Title: Director

By: /s/ POLLY SCHOTT
Name: Polly Schott
Title: Director

ROYAL BANK OF CANADA

By: /s/ DON J. MCKINNERNEY
Name: Don J. McKinnerney
Title: Authorized Signatory

BANK OF SCOTLAND PLC

By: /s/ KAREN WEICH
Name: Karen Weich
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION

By: /s/ DARIA M. MAHONEY
Name: Daria M. Mahoney
Title: Vice President

KEY BANK

By: /s/ THOMAS RAJAN
Name: Thomas Rajan
Title: Managing Director

BANK OF OKLAHOMA

By: /s/ MICHAEL M. LOGAN
Name: Michael M. Logan
Title: Senior Vice President

CAPITAL ONE, NATIONAL ASSOCIATION

By: /s/ STAN G. WEISER JR.
Name: Stan G. Weiser Jr.
Title: Vice President

ANNEX I

LIST OF COMMITMENTS

Name of Lender	Applicable Percentage	Commitment
Wachovia Bank, National Association	11.05%	\$55,250,000
Wells Fargo Bank, N.A.	11.05%	\$55,250,000
BNP Paribas	10.80%	\$54,000,000
Comerica Bank	10.80%	\$54,000,000
JPMorgan Chase Bank, N.A.	10.80%	\$54,000,000
U.S. Bank National Association	10.00%	\$50,000,000
Bank of Scotland	8.75%	\$43,750,000
Royal Bank of Canada	8.75%	\$43,750,000
Key Bank	8.00%	\$40,000,000
Bank of Oklahoma	5.00%	\$25,000,000
Capital One, National Association	5.00%	\$25,000,000
TOTAL	100.00%	\$500,000,000

ANNEX II
EXISTING LETTERS OF CREDIT

None.

EXHIBIT A
[FORM OF] NOTE

[\$ _____]

[_____] , 200[__]

FOR VALUE RECEIVED, St. Mary Land & Exploration Company, a Delaware corporation (the "**Borrower**") hereby promises to pay to the order of [_____] (the "**Lender**"), at the principal office of Wachovia Bank, National Association (the "**Administrative Agent**"), at [_____] , the principal sum of [_____] Dollars (\$[_____]) (or such lesser amount as shall equal the aggregate unpaid principal amount of the Loans made by the Lender to the Borrower under the Credit Agreement, as hereinafter defined), in lawful money of the United States of America and in immediately available funds, on the dates and in the principal amounts provided in the Credit Agreement, and to pay interest on the unpaid principal amount of each such Loan, at such office, in like money and funds, for the period commencing on the date of such Loan until such Loan shall be paid in full, at the rates per annum and on the dates provided in the Credit Agreement.

The date, amount, Type, interest rate, Interest Period and maturity of each Loan made by the Lender to the Borrower, and each payment made on account of the principal thereof, shall be recorded by the Lender on its books and, prior to any transfer of this Note, may be endorsed by the Lender on the schedules attached hereto or any continuation thereof or on any separate record maintained by the Lender. Failure to make any such notation or to attach a schedule shall not affect any Lender's or the Borrower's rights or obligations in respect of such Loans or affect the validity of such transfer by any Lender of this Note.

This Note is one of the Notes referred to in the Second Amended and Restated Credit Agreement dated as of April 10, 2008 among the Borrower, the Administrative Agent, and the other agents and lenders signatory thereto (including the Lender), and evidences Loans made by the Lender thereunder (such Credit Agreement as the same may be amended, supplemented or restated from time to time, the "**Credit Agreement**"). Capitalized terms used in this Note have the respective meanings assigned to them in the Credit Agreement.

This Note is issued pursuant to the Credit Agreement and is entitled to the benefits provided for in the Credit Agreement and the other Loan Documents. The Credit Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events, for prepayments of Loans upon the terms and conditions specified therein and other provisions relevant to this Note.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS.

ST. MARY LAND & EXPLORATION COMPANY

By:
Name:
Title:

EXHIBIT B

[FORM OF]

COMPLIANCE CERTIFICATE

The undersigned hereby certifies that he/she is the [] of St. Mary Land & Exploration Company, a Delaware corporation (the "**Borrower**"), and that as such he/she is authorized to execute this certificate in the foregoing capacity and on behalf of the Borrower. With reference to the Second Amended and Restated Credit Agreement dated as of April 10, 2008 (together with all amendments, supplements or restatements thereto being the "**Agreement**") among the Borrower, Wachovia Bank, National Association, as Administrative Agent, and the other agents and lenders (the "**Lenders**") which are or become a party thereto, and such Lenders, the undersigned represents and warrants as follows (each capitalized term used herein having the same meaning given to it in the Agreement unless otherwise specified):

(a) The representations and warranties of the Borrower contained in Article VII of the Agreement and in the Loan Documents and otherwise made in writing by or on behalf of the Borrower pursuant to the Agreement and the Loan Documents were true and correct when made, and are repeated at and as of the time of delivery hereof and are true and correct in all material respects at and as of the time of delivery hereof, except to the extent such representations and warranties are expressly limited to an earlier date or the Majority Lenders have expressly consented in writing to the contrary.

(b) The Borrower has performed and complied in all material respects with all agreements and conditions contained in the Agreement and in the Loan Documents required to be performed or complied with by it prior to or at the time of delivery hereof or specify default and describe.

(c) Since [], 200[], no change has occurred, either in any case or in the aggregate, in the condition, financial or otherwise, of the Borrower or any Material Subsidiary which could reasonably be expected to have a Material Adverse Effect [or specify event].

(d) There exists no Default or Event of Default [or specify Default and describe].

(e) Attached hereto are the detailed computations necessary to determine whether the Borrower is in compliance with [Section 9.01](#) and [Section 8.14](#) as of the end of the [fiscal quarter][fiscal year] ending[].

EXECUTED AND DELIVERED this [] day of [].

ST. MARY LAND & EXPLORATION COMPANY

By:
Name:
Title:

EXHIBIT C

SECURITY INSTRUMENTS

1. Amended and Restated Pledge and Security Agreement dated as of April 7, 2005, executed by the Borrower in favor of the Administrative Agent, covering the stock of the Material Subsidiaries.
 2. Financing Statements and continuations thereof in respect of item 1, by the Borrower.
 3. Stock Powers delivered in respect of item 1.
 4. Supplement and Amendment to Deed of Trust, Mortgage, Line of Credit Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement dated as of April 7, 2005, from the Borrower and the Guarantors, adding additional properties.
 5. Deed of Trust, Mortgage, Line of Credit Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement dated as of April 7, 2005, from the Borrower and the Guarantors, adding additional properties.
 6. Reaffirmation Agreement dated as of April 10, 2008, by the Borrower in favor of the Administrative Agent.
-

EXHIBIT D

FORM OF ASSIGNMENT AND ASSUMPTION

Reference is made to the Amended and Restated Credit Agreement dated as of April 10, 2008 (as the same may from time to time be amended, modified, supplemented or restated, the "Credit Agreement"), among St. Mary Land & Exploration Company, the Lenders named therein and Wachovia Bank, National Association, as Administrative Agent for the Lenders. Terms defined in the Credit Agreement are used herein with the same meanings.

The Assignor named on the reverse hereof hereby sells and assigns, without recourse, to the Assignee named on the reverse hereof, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Assignment Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth on the reverse hereof in the Commitment of the Assignor on the Assignment Date and Loans owing to the Assignor which are outstanding on the Assignment Date, together with the participations in Letters of Credit and LC Disbursements held by the Assignor on the Assignment Date, but excluding accrued interest and fees to and excluding the Assignment Date. The Assignee hereby acknowledges receipt of a copy of the Credit Agreement. From and after the Assignment Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the Assigned Interest, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent of the Assigned Interest, relinquish its rights and be released from its obligations under the Credit Agreement.

This Assignment and Assumption is being delivered to the Administrative Agent together with (i) if the Assignee is a Foreign Lender, any documentation required to be delivered by the Assignee pursuant to Section 5.03(e) of the Credit Agreement, duly completed and executed by the Assignee, and (ii) if the Assignee is not already a Lender under the Credit Agreement, an Administrative Questionnaire in the form supplied by the Administrative Agent, duly completed by the Assignee. The Assignor shall pay the fee payable to the Administrative Agent pursuant to Section 12.04(b) of the Credit Agreement.

This Assignment and Assumption shall be governed by and construed in accordance with the laws of the State of Texas.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment

("Assignment Date"):

Facility	Principal Amount Assigned	Percentage Assigned of Facility/Commitment (set forth, to at least 8 decimals, as a percentage of the Facility and the aggregate Commitments of all Lenders thereunder)
Commitment Assigned:	\$	%
Loans:		

The terms set forth above and on the reverse side hereof are hereby agreed to:

[Name of Assignor], as Assignor

By: _____
Name:
Title:

[Name of Assignee], as Assignee

By: _____
Name:
Title:

The undersigned hereby consent to the within assignment.¹

St. Mary Land & Exploration Company

By: _____
Name:
Title:

Wachovia Bank, National Association, as Administrative Agent

By: _____
Name:
Title:

¹ Consents to be included to the extent required by Section 9.04(b) of the Credit Agreement.

EXHIBIT E

FORM OF COMMITMENT INCREASE CERTIFICATE

[], 200[]

To: Wachovia Bank, National Association,
as Administrative Agent

The Borrower, the Administrative Agent and the other Agents and certain Lenders have heretofore entered into a Second Amended and Restated Credit Agreement, dated as of April 10, 2008, as amended from time to time (the "Credit Agreement"). Capitalized terms not otherwise defined herein shall have the meaning given to such terms in the Credit Agreement.

This Commitment Increase Certificate is being delivered pursuant to [Section 2.06\(c\)](#) of the Credit Agreement.

Please be advised that the undersigned has agreed to increase its Commitment under the Credit Agreement effective [], 200[] from \$[] to \$[] and (b) that it shall continue to be a party in all respect to the Credit Agreement and the other Loan Documents.

The [Borrower/Lender] shall pay the fee payable to the Administrative Agent pursuant to [Section 2.06\(c\)\(ii\)](#) of the Credit Agreement.

Very truly yours,

[]

By: _____
Name:
Title:

Accepted and Agreed:

Wachovia Bank, National Association, as Administrative Agent

By:
Name:
Title:

Accepted and Agreed:

St. Mary Land & Exploration Company

By:
Name:
Title:

EXHIBIT F

FORM OF ADDITIONAL LENDER CERTIFICATE

[], 200[]

To: Wachovia Bank, National Association
as Administrative Agent

The Borrower, the Administrative Agent and the other Agents and certain Lenders have heretofore entered into a Second Amended and Restated Credit Agreement, dated as of April 10, 2008, as amended from time to time (the "Credit Agreement"). Capitalized terms not otherwise defined herein shall have the meaning given to such terms in the Credit Agreement.

This Additional Lender Certificate is being delivered pursuant to [Section 2.06\(c\)](#) of the Credit Agreement.

Please be advised that the undersigned has agreed (a) to become a Lender under the Credit Agreement effective [], 200[] with a Commitment of \$[] and (b) that it shall be a party in all respect to the Credit Agreement and the other Loan Documents.

This Additional Lender Certificate is being delivered to the Administrative Agent together with (i) if the Additional Lender is a Foreign Lender, any documentation required to be delivered by such Additional Lender pursuant to [Section 5.03\(c\)](#) of the Credit Agreement, duly completed and executed by the Additional Lender, and (ii) an Administrative Questionnaire in the form supplied by the Administrative Agent, duly completed by the Additional Lender. The [Borrower/Additional Lender] shall pay the fee payable to the Administrative Agent pursuant to [Section 2.06\(c\)\(ii\)](#) of the Credit Agreement.

Very truly yours,

[]

By: _____
Name:
Title:

Accepted and Agreed:

Wachovia Bank, National Association, as Administrative Agent

By:
Name:
Title:

Accepted and Agreed:

St. Mary Land & Exploration Company

By:
Name:
Title:

EXHIBIT G

REAFFIRMATION AGREEMENT

1. This Reaffirmation Agreement (this "Reaffirmation") dated as of April 10, 2008, is made (a) in connection with, and as a condition to, that certain Second Amended and Restated Credit Agreement dated of even date herewith (as may be amended, restated or otherwise modified from time to time, the "Credit Agreement") among ST. MARY LAND & EXPLORATION COMPANY, a Delaware corporation (the "Borrower"); each of the Lenders from time to time party thereto; WACHOVIA BANK, NATIONAL ASSOCIATION (in its individual capacity, "Wachovia"), as administrative agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent"); and the other parties and agents signatory thereto and (b) for the benefit of the respective secured parties and beneficiaries described in the Security Instruments (as defined below). Capitalized terms used herein but not defined herein shall have the meanings ascribed to them in the Credit Agreement.
2. The Borrower has executed certain Loan Documents to secure the Indebtedness, including, without limitation, that certain Amended and Restated Pledge and Security Agreement dated as of April 7, 2005, by the Borrower in favor of the Administrative Agent (as the same may be amended, supplemented, restated or otherwise modified from time to time, the "Pledge Agreement"), that certain Deed of Trust, Mortgage, Line of Credit Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement dated as of April 7, 2005, from the Borrower to Jay Chernosky, as Trustee ("Trustee"), and to the Administrative Agent (the "Deed of Trust") and that certain Supplement and Amendment to Deed of Trust, Mortgage, Line of Credit Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement dated as of April 7, 2005, by the Borrower to the Trustee, for the benefit of the Administrative Agent (the "Deed of Trust Supplement").
3. The Borrower (a) has reviewed the Credit Agreement, (b) agrees that according to its terms its obligations (and the security interests granted by it) under the Pledge Agreement, Deed of Trust, Deed of Trust Supplement and each such other Loan Document to which the Borrower is a party (collectively, the "Security Instruments") will continue in full force and effect to secure the Indebtedness, and, as the same may be amended, supplemented, or otherwise modified, and such other amounts in accordance with the terms of the Security Instruments, (c) acknowledges, represents, warrants and agrees that the liens and security interests created by it pursuant to the Pledge Agreement, Deed of Trust, Deed of Trust Supplement and each other Security Instrument are valid and subsisting and create a first priority perfected security interest to secure the Indebtedness, (d) ratifies and affirms its obligations under, and acknowledges, renews and extends its continued liability under, the Pledge Agreement, Deed of Trust, Deed of Trust Supplement and each other Security Instrument to which it is a party and agrees that the Pledge Agreement, Deed of Trust, Deed of Trust Supplement and each other Security Instrument to which it is a party remain in full force and effect, and (e) represents and warrants to the Lenders that as of the date hereof: (i) all of the representations and warranties contained in the Pledge Agreement, Deed of Trust, Deed of Trust Supplement and each other Security Instrument to which it is a party are true and correct, except (x) to the extent any such representations and warranties are expressly limited to an earlier date, in which case, such representations and warranties shall continue to be true and correct as of such specified earlier date and (y) except for any changes in the facts or circumstances represented thereby not prohibited by the Pledge Agreement, Deed of Trust, Deed of Trust Supplement, each other Security Instrument or the Existing Credit Agreement, (ii) no Default has occurred and is continuing (iii) since the Effective Date, there has been no event, development or circumstance that has had or could reasonably be expected to have a Material Adverse Effect.
4. Each of the Pledge Agreement, Deed of Trust, Deed of Trust Supplement and each other Security Instrument remains in full force and effect as executed by the parties hereto, and nothing herein shall act as a waiver of any of the Administrative Agent's or other Secured Parties' rights under the Pledge Agreement, Deed of Trust, Deed of Trust Supplement or any other Security Instrument.
5. This Reaffirmation is a Loan Document for the purposes of the provisions of the other Loan Documents.
6. This Reaffirmation is a Security Instrument for the purposes of the provisions of the other Security Instruments
7. This Reaffirmation shall be governed by and construed and enforced in accordance with the laws of the State of Texas.
8. This Reaffirmation may be signed in any number of counterparts, each of which shall be an original. Delivery of an executed signature page to this Reaffirmation by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Reaffirmation.
9. **THIS REAFFIRMATION AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.**
10. **THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.**

[The rest of this page has been left blank intentionally]

The Borrower has caused this Reaffirmation to be duly executed as of the date first above written.

BORROWER

ST MARY LAND & EXPLORATION COMPANY

By: _____
Name: Matthew J. Purchase
Title: Treasurer and Budget & Planning Director

Accepted by:

WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent

By: _____
Name: Leanne Phillips
Title: Director

**SCHEDULE 7.05
LITIGATION**

NONE

SCHEDULE 7.15

SUBSIDIARIES AND PARTNERSHIPS; NON-MATERIAL SUBSIDIARIES

Material Subsidiaries	Jurisdiction of Organization	Organizational Identification Number	Principal Place of Business and Chief Executive Office	Owner	Percentage Owned
None.					
<u>Non-Material Subsidiaries</u>					
Belring Company, Ltd.	Texas			Belring GP LLC	1%
				Borrower	99%
Belring GP LLC	Delaware			Borrower	100%
Box Church Gas Gathering LLC	Colorado			Borrower	58.6754%
Energy Leasing, Inc.	Oklahoma			Borrower	100%
Four Winds Marketing LLC	Colorado			Borrower	100%
Hilltop Investments	Colorado			Borrower	50%
SMT Texas LLC	Colorado			Borrower	100%
St. Mary Land & Exploration Acquisition, LLC	Delaware			Borrower	100%
St. Mary Energy Louisiana LLC	Delaware			Borrower	100%
St. Mary Land East Texas L.P.	Texas			SMT Texas LLC	99%
				Borrower	1%
Sycamore Gas System	Oklahoma			Borrower	3.11%
Trinity River Services LLC	Texas			Borrower	25%

**SCHEDULE 7.19
GAS IMBALANCES**

NONE

**SCHEDULE 7.20
MARKETING CONTRACTS**

NONE

**SCHEDULE 7.21
SWAP AGREEMENTS**

St. Mary Land & Exploration Company
Hedges "In-Place"
As of April 9, 2008

Hedge Relationship ID	CounterParty	Contract Date	Contract #	Price Index	Purpose	Area	Contract Start	Contract End	Monthly Volumes	Remaining Yearly Volumes	% of Hedges	Fixed Price	MtM Value at 4/9/08
GAS SWAPS													
###-##-####	BNP Paribas	06/02/06	108979	IF HSC	Arrowhead/Stk buyback	Arklatex	01/01/08	05/31/08	35,000	70,000		\$7.45	(146,433)
	BNP Paribas	02/29/08	172761	IF CIG	Stk buyback	Rockies	04/01/08	12/31/08	50,000	1,000,000		\$8.04	1,571
									<u>85,000</u>	<u>1,070,000</u>	7.08%		
###-##-####	Comerica	07/30/07	ESWP253	IF HSC	Rockford acq.	Gulf Coast	04/01/08	12/31/08	100,000	800,000		\$8.18	(1,267,071)
									<u>100,000</u>	<u>800,000</u>	5.29%		
###-##-####	J Aron & Co	07/30/07	737564622	IF HSC	Rockford acq.	Gulf Coast	10/01/08	12/31/08	110,000	330,000		\$8.57	(419,384)
###-##-####	J Aron & Co	05/19/06	886126894	IF PEPL	Stk buyback	MidCon	01/01/08	12/31/08	140,000	1,120,000		\$7.91	(844,418)
###-##-####	J Aron & Co	06/15/06	886819898	IF CIG	Stk buyback	Rockies	01/01/08	12/31/08	110,000	880,000		\$6.98	(926,175)
###-##-####	J Aron & Co	12/22/06	892369629	IF NGPL	Atoka Drilling	MidCon	01/01/08	12/31/08	62,500	500,000		\$6.73	(983,107)
###-##-####	J Aron & Co	03/03/08	904120535	IF HSC	Sendero	ArkLaTex	04/01/08	12/31/08	35,000	280,000		\$9.44	(95,238)
									<u>259,167</u>	<u>3,110,000</u>	20.58%		
###-##-####	JPMorgan	05/19/06	2594706	IF PEPL	Stk buyback	MidCon	01/01/08	12/31/08	180,000	1,440,000		\$8.17	(708,515)
###-##-####	JPMorgan	06/20/06	2715473	IF CIG	Stk buyback	Rockies	01/01/08	12/31/08	150,000	1,200,000		\$6.80	(1,474,887)
###-##-####	JPMorgan	11/01/06	4430129	IF El Paso Permian	Sweetie Peck Acq	Permian	01/01/08	12/31/08	95,000	760,000		\$7.07	(1,489,032)
###-##-####	JPMorgan	01/09/07	4962486	IF ANR OK	Atoka	MidCon	01/01/08	12/31/08	62,500	500,000		\$6.88	(897,976)
###-##-####	JPMorgan	02/07/07	5419954	IF HSC	BlackBrush Acq	Gulf	01/01/08	12/31/08	80,000	640,000		\$7.57	(1,398,953)
###-##-####	JPMorgan	07/30/07	9673554	IF HSC	Rockford acq.	Gulf Coast	01/01/08	12/31/08	160,000	1,280,000		\$8.20	(1,993,264)
###-##-####	JPMorgan	02/26/08	13531195	IF ANR OK	Stk buyback	MidCon	04/01/08	12/31/08	150,000	1,200,000		\$8.42	(333,967)
									<u>585,000</u>	<u>7,020,000</u>	46.46%		
###-##-####	Key Bank	07/30/07	183268	IF HSC	Rockford acq.	Gulf Coast	01/01/08	12/31/08	37,143	260,000		\$8.12	(435,972)
###-##-####	Key Bank	08/10/07	184037	IF PEPL	Stk Repurchase	MidCon	01/01/08	12/31/08	167,500	1,340,000		\$7.11	(2,081,580)
									<u>533,333</u>	<u>1,600,000</u>	10.59%		
	Wells Fargo	02/20/08	314016	IF HSC	Stk buyback	MidCon	04/01/08	12/31/08	98,750	790,000		\$9.11	(571,624)
	Wells Fargo	03/17/08	323740	NYMEX HH	Stk buyback	Gulf Coast	04/01/08	12/31/08	90,000	720,000		\$9.46	(402,342)
									<u>632,083</u>	<u>1,510,000</u>	9.99%		
Total GAS SWAPS - 2008									1,259,167	15,110,000	100.00%	\$6.40	(16,468,367)
###-##-####	BNP Paribas	02/29/08	172761	IF CIG	Stk buyback	Rockies	01/01/09	12/31/09	50,000	600,000		\$7.53	149,476
									<u>50,000</u>	<u>600,000</u>	3.01%		
###-##-####	Comerica	07/30/07	ESWP253	IF HSC	Rockford acq.	Gulf Coast	01/01/09	12/31/09	100,000	1,200,000		\$8.44	(948,666)
									<u>100,000</u>	<u>1,200,000</u>	6.02%		
###-##-####	J Aron & Co	07/30/07	737564622	IF HSC	Rockford acq.	Gulf Coast	01/01/09	12/31/09	110,000	1,320,000		\$8.49	(980,683)
###-##-####	J Aron & Co	05/19/06	886126894	IF PEPL	Stk buyback	MidCon	01/01/09	06/30/09	140,000	840,000		\$8.33	(247,071)
###-##-####	J Aron & Co	06/15/06	886819898	IF CIG	Stk buyback	Rockies	01/01/09	06/30/09	110,000	660,000		\$7.51	(100,040)
###-##-####	J Aron & Co	12/22/06	892369629	IF NGPL	Atoka Drilling	MidCon	01/01/09	12/31/09	36,667	440,000		\$7.11	(593,375)
###-##-####	J Aron & Co	03/03/08	904120535	IF HSC	Sendero	ArkLaTex	04/01/08	12/31/08	50,833	610,000		\$9.02	(110,668)
									<u>322,500</u>	<u>3,870,000</u>	19.42%		
###-##-####	JPMorgan	05/19/06	2594706	IF PEPL	Stk buyback	MidCon	01/01/09	06/30/09	180,000	1,080,000		\$8.37	(280,122)
###-##-####	JPMorgan	06/20/06	2715473	IF CIG	Stk buyback	Rockies	01/01/09	07/31/09	150,000	1,050,000		\$7.96	497,013
###-##-####	JPMorgan	11/01/06	4430129	IF El Paso Permian	Sweetie Peck Acq	Permian	01/01/09	12/31/09	100,000	1,200,000		\$7.11	(1,706,833)
###-##-####	JPMorgan	01/09/07	4962486	IF ANR OK	Atoka	MidCon	01/01/09	12/31/09	36,667	440,000		\$7.37	(485,743)
###-##-####	JPMorgan	02/07/07	5419954	IF HSC	BlackBrush Acq	Gulf	01/01/09	02/28/09	80,000	160,000		\$8.42	(301,737)
###-##-####	JPMorgan	07/30/07	9673554	IF HSC	Rockford acq.	Gulf Coast	01/01/09	12/31/09	160,000	1,920,000		\$8.51	(1,387,619)
###-##-####	JPMorgan	02/26/08	13531195	IF ANR OK	Stk buyback	MidCon	01/01/09	06/30/09	150,000	900,000		\$8.43	(358,286)
									<u>562,500</u>	<u>6,750,000</u>	33.87%		
###-##-####	Key Bank	07/30/07	183268	IF HSC	Rockford acq.	Gulf Coast	01/01/08	07/31/08	62,857	440,000		\$8.37	(392,340)
###-##-####	Key Bank	08/10/07	184037	IF PEPL	Stk Repurchase	MidCon	01/01/08	08/31/08	180,000	1,440,000		\$7.68	(1,115,158)
									<u>235,000</u>	<u>1,880,000</u>	9.43%		
###-##-####	Wachovia	03/07/07	N151732	IF HSC	BlackBrush Acq	Gulf	03/01/09	12/31/09	78,000	780,000		\$7.58	(1,096,145)
									<u>78,000</u>	<u>780,000</u>	3.91%		
###-##-####	Wells Fargo	07/31/07	207849	IF HSC	Rockford acq.	Gulf Coast	08/01/09	12/31/09	100,000	500,000		\$8.35	(317,632)
###-##-####	Wells Fargo	02/20/08	314016	IF HSC	Stk buyback	MidCon	01/01/09	12/31/09	255,833	3,070,000		\$8.65	(1,754,191)
###-##-####	Wells Fargo	03/17/08	323740	NYMEX HH	Stk buyback	Gulf Coast	01/01/09	12/31/09	106,667	1,280,000		\$9.03	(610,294)
									<u>970,000</u>	<u>4,850,000</u>	24.34%		
Total GAS SWAPS - 2009									1,660,833	19,930,000	100.00%	\$7.41	(12,140,114)
###-##-####	Comerica	07/30/07	ESWP253	IF HSC	Rockford acq.	Gulf Coast	01/01/10	08/31/10	100,000	800,000		\$8.16	(450,610)
									<u>66,667</u>	<u>800,000</u>	9.56%		
###-##-####	J Aron & Co	07/30/07	737564622	IF HSC	Rockford acq.	Gulf Coast	01/01/10	04/30/10	110,000	440,000		\$8.67	(209,556)
###-##-####	J Aron & Co	12/22/06	892369629	IF NGPL	Atoka Drilling	MidCon	01/01/10	02/28/10	30,000	60,000		\$7.60	(78,128)
									<u>125,000</u>	<u>500,000</u>	5.97%		
###-##-####	JPMorgan	11/01/06	4430129	IF El Paso Permian	Sweetie Peck Acq	Permian	01/01/10	12/31/10	90,833	1,090,000		\$6.79	(1,380,739)
###-##-####	JPMorgan	01/09/07	4962486	IF ANR OK	Atoka	MidCon	01/01/10	02/28/10	30,000	60,000		\$7.98	(57,260)
###-##-####	JPMorgan	07/30/07	9673554	IF HSC	Rockford acq.	Gulf Coast	01/01/10	08/31/10	160,000	1,280,000		\$8.23	(633,274)
									<u>120,833</u>	<u>2,430,000</u>	29.03%		
###-##-####	Wachovia	03/07/07	N151732	IF HSC	BlackBrush Acq	Gulf	01/01/10	02/28/10	70,000	140,000		\$8.37	(154,364)
									<u>70,000</u>	<u>140,000</u>	1.67%		
###-##-####	Wells Fargo	07/31/07	207849	IF HSC	Rockford acq.	Gulf Coast	01/01/10	08/31/10	100,000	800,000		\$8.12	(480,879)

	Wells Fargo	02/20/08	314016	IF HSC	Stk buyback	MidCon	01/01/10	12/31/10	188,333	2,260,000	\$8.42	(669,626)	
	Wells Fargo	03/17/08	323740	NYMEX HH	Stk buyback	Gulf Coast	01/01/10	12/31/10	120,000	1,440,000	\$8.66	(411,866)	
									<u>562,500</u>	<u>4,500,000</u>	53.76%		
	Total GAS SWAPS - 2010								697,500	8,370,000	100.00%	\$6.68	(4,526,302)
###-###-####	JPMorgan	11/01/06	4430129	IF El Paso Permian	Sweetie Peck Acq	Permian	01/01/11	10/31/11	88,000	880,000	\$6.34	(1,331,711)	
									<u>88,000</u>	<u>880,000</u>	100.00%		
	Wells Fargo	02/20/08	314016	IF HSC	Stk buyback	MidCon	01/01/10	12/31/10	160,000	320,000	\$8.89	(77,573)	
									<u>160,000</u>	<u>320,000</u>	36.36%		
	Total GAS SWAPS - 2011								88,000	880,000	136.36%	\$9.57	(1,409,284)
GAS COLLARS													
###-###-####	BNP Paribas	10/11/05	93593 (FLOOR)	PEPL	Bulk	MidCon	01/01/08	12/31/08	153,125	1,225,000	\$6.290	131,845	
###-###-####	BNP Paribas	10/11/05	93593 (CAP)	PEPL	Bulk	MidCon	01/01/08	12/31/08	(153,125)	(1,225,000)	\$9.290	(817,305)	
									<u>153,125</u>	<u>1,225,000</u>	16.79%		
###-###-####	Comerica	10/11/05	ECAP0219 (FLOOR)	HSC	Bulk	Arklatex	01/01/08	12/31/08	80,000	640,000	\$6.570	46,665	
###-###-####	Comerica	10/11/05	ECAP0219 (CAP)	HSC	Bulk	Arklatex	01/01/08	12/31/08	(80,000)	(640,000)	\$9.700	(648,793)	
									<u>80,000</u>	<u>640,000</u>	8.77%		
###-###-####	JP Morgan	10/10/05	1568645 (FLOOR)	CIG	Bulk	Rockies	01/01/08	12/31/08	240,000	1,920,000	\$5.60	160,336	
###-###-####	JP Morgan	10/10/05	1568645 (CAP)	CIG	Bulk	Rockies	01/01/08	12/31/08	(240,000)	(1,920,000)	\$8.72	(1,116,102)	
###-###-####	JP Morgan	10/12/05	1588809 (FLOOR)	PEPL	Bulk	MidCon	01/01/08	12/31/08	153,125	1,225,000	\$6.28	130,468	
###-###-####	JP Morgan	10/12/05	1588809 (CAP)	PEPL	Bulk	MidCon	01/01/08	12/31/08	(153,125)	(1,225,000)	\$9.42	(773,974)	
###-###-####	JP Morgan	10/12/05	1589333 (FLOOR)	NYMEX HH	Bulk	Gulf Coast	01/01/08	12/31/08	40,000	320,000	\$7.00	22,916	
###-###-####	JP Morgan	10/12/05	1589333 (CAP)	NYMEX HH	Bulk	Gulf Coast	01/01/08	12/31/08	(40,000)	(320,000)	\$10.57	(300,982)	
									<u>433,125</u>	<u>3,465,000</u>	47.50%		
###-###-####	Wachovia	10/13/05	1258098 (FLOOR)	PEPL	Bulk	MidCon	01/01/08	12/31/08	92,500	740,000	\$6.280	78,950	
###-###-####	Wachovia	10/13/05	1258098 (CAP)	PEPL	Bulk	MidCon	01/01/08	12/31/08	(92,500)	(740,000)	\$9.520	(448,335)	
									<u>92,500</u>	<u>740,000</u>	10.14%		
###-###-####	Wells Fargo	10/12/05	COP2505 (FLOOR)	PEPL	Bulk	MidCon	01/01/08	12/31/08	153,125	1,225,000	\$6.280	130,468	
###-###-####	Wells Fargo	10/12/05	COP2505 (CAP)	PEPL	Bulk	MidCon	01/01/08	12/31/08	(153,125)	(1,225,000)	\$9.480	(754,769)	
									<u>153,125</u>	<u>1,225,000</u>	16.79%		
	Total GAS COLLARS - 2008								607,917	7,295,000	100.00%	(4,158,612)	
###-###-####	BNP Paribas	10/12/05	93594 (FLOOR)	PEPL	Bulk	MidCon	01/01/09	12/31/09	152,083	1,825,000	\$5.30	257,448	
###-###-####	BNP Paribas	10/12/05	93594 (CAP)	PEPL	Bulk	MidCon	01/01/09	12/31/09	(152,083)	(1,825,000)	\$9.20	(1,873,488)	
									<u>152,083</u>	<u>1,825,000</u>	20.03%		
###-###-####	Comerica	10/13/05	ECAP0220 (FLOOR)	PEPL	Bulk	MidCon	01/01/09	12/31/09	155,000	1,860,000	\$5.300	262,004	
###-###-####	Comerica	10/13/05	ECAP0220 (CAP)	PEPL	Bulk	MidCon	01/01/09	12/31/09	(155,000)	(1,860,000)	\$9.390	(1,817,150)	
									<u>155,000</u>	<u>1,860,000</u>	20.42%		
###-###-####	JP Morgan	10/10/05	1568646 (FLOOR)	CIG	Bulk	Rockies	01/01/09	12/31/09	200,000	2,400,000	\$4.75	401,111	
###-###-####	JP Morgan	10/10/05	1568646 (CAP)	CIG	Bulk	Rockies	01/01/09	12/31/09	(200,000)	(2,400,000)	\$8.82	(1,763,327)	
###-###-####	JP Morgan	10/12/05	1589334 (FLOOR)	NYMEX HH	Bulk	Gulf Coast	01/01/09	12/31/09	30,000	360,000	\$6.00	51,704	
###-###-####	JP Morgan	10/12/05	1589334 (CAP)	NYMEX HH	Bulk	Gulf Coast	01/01/09	12/31/09	(30,000)	(360,000)	\$10.35	(454,051)	
									<u>230,000</u>	<u>2,760,000</u>	30.30%		
###-###-####	Wachovia	10/11/05	1258100 (FLOOR)	PEPL	Bulk	MidCon	01/01/09	12/31/09	152,083	1,825,000	\$5.300	257,448	
###-###-####	Wachovia	10/11/05	1258100 (CAP)	PEPL	Bulk	MidCon	01/01/09	12/31/09	(152,083)	(1,825,000)	\$9.170	(1,889,184)	
									<u>152,083</u>	<u>1,825,000</u>	20.03%		
###-###-####	Wells Fargo	10/12/05	COP2506 (FLOOR)	HSC	Bulk	Arklatex	01/01/09	12/31/09	70,000	840,000	\$5.570	100,052	
###-###-####	Wells Fargo	10/12/05	COP2506 (CAP)	HSC	Bulk	Arklatex	01/01/09	12/31/09	(70,000)	(840,000)	\$9.490	(1,109,372)	
									<u>70,000</u>	<u>840,000</u>	9.22%		
	Total GAS COLLARS - 2009								759,167	9,110,000	100.00%	(7,576,805)	
###-###-####	Comerica	10/12/05	ECAP0222 (FLOOR)	PEPL	Bulk	MidCon	01/01/10	12/31/10	100,000	1,200,000	\$5.31	246,119	
###-###-####	Comerica	10/12/05	ECAP0222 (CAP)	PEPL	Bulk	MidCon	01/01/10	12/31/10	(100,000)	(1,200,000)	\$7.60	(1,620,882)	
###-###-####	Comerica	10/12/05	ECAP0221 (FLOOR)	NYMEX HH	Bulk	Gulf Coast	01/01/10	12/31/10	20,000	240,000	\$6.00	52,014	
###-###-####	Comerica	10/12/05	ECAP0221 (CAP)	NYMEX HH	Bulk	Gulf Coast	01/01/10	12/31/10	(20,000)	(240,000)	\$8.38	(398,940)	
									<u>120,000</u>	<u>1,440,000</u>	18.40%		
###-###-####	JP Morgan	10/10/05	1568647 (FLOOR)	CIG	Bulk	Rockies	01/01/10	12/31/10	170,000	2,040,000	\$4.85	586,231	
###-###-####	JP Morgan	10/10/05	1568647 (CAP)	CIG	Bulk	Rockies	01/01/10	12/31/10	(170,000)	(2,040,000)	\$7.08	(1,881,744)	
###-###-####	JP Morgan	10/13/05	1591124 (FLOOR)	PEPL	Bulk	MidCon	01/01/10	12/31/10	160,000	1,920,000	\$5.31	393,791	
###-###-####	JP Morgan	10/13/05	1591124 (CAP)	PEPL	Bulk	MidCon	01/01/10	12/31/10	(160,000)	(1,920,000)	\$7.69	(2,524,417)	
									<u>330,000</u>	<u>3,960,000</u>	50.61%		
###-###-####	Wachovia	10/12/05	1266587 (FLOOR)	HSC	Bulk	Arklatex	01/01/10	12/31/10	50,000	600,000	\$5.570	104,385	
###-###-####	Wachovia	10/12/05	1266587 (CAP)	HSC	Bulk	Arklatex	01/01/10	12/31/10	(50,000)	(600,000)	\$7.880	(1,009,148)	
									<u>50,000</u>	<u>600,000</u>	7.67%		
###-###-####	Wells Fargo	10/11/05	COP2507 (FLOOR)	PEPL	Bulk	MidCon	01/01/10	12/31/10	152,083	1,825,000	\$5.300	371,105	
###-###-####	Wells Fargo	10/11/05	COP2507 (CAP)	PEPL	Bulk	MidCon	01/01/10	12/31/10	(152,083)	(1,825,000)	\$7.540	(2,504,579)	
									<u>152,083</u>	<u>1,825,000</u>	23.32%		
	Total GAS COLLARS - 2010								652,083	7,825,000	100.00%	(8,186,065)	
###-###-####	BNP	10/10/05	93595 (FLOOR)	CIG	Bulk	Rockies	01/01/11	12/31/11	150,000	1,800,000	\$5.00	459,650	
###-###-####	BNP	10/10/05	93595 (CAP)	CIG	Bulk	Rockies	01/01/11	12/31/11	(150,000)	(1,800,000)	\$6.32	(2,478,997)	
									<u>150,000</u>	<u>1,800,000</u>	27.17%		
###-###-####	Comerica	10/12/05	ECAP0223 (FLOOR)	NYMEX HH	Bulk	Gulf Coast	01/01/11	12/31/11	10,000	120,000	\$6.00	30,068	
###-###-####	Comerica	10/12/05	ECAP0223 (CAP)	NYMEX HH	Bulk	Gulf Coast	01/01/11	12/31/11	(10,000)	(120,000)	\$7.25	(246,833)	
									<u>10,000</u>	<u>120,000</u>	1.81%		
###-###-####	JP Morgan	10/13/05	1591128 (FLOOR)	PEPL	Bulk	MidCon	01/01/11	12/31/11	200,000	2,400,000	\$5.31	95,168	
###-###-####	JP Morgan	10/13/05	1591128 (CAP)	PEPL	Bulk	MidCon	01/01/11	12/31/11	(200,000)	(2,400,000)	\$6.58	(1,016,909)	
###-###-####	JP Morgan	10/12/05	1589331 (FLOOR)	HSC	Bulk	Arklatex	01/01/11	12/31/11	40,000	480,000	\$5.57	497,849	
###-###-####	JP Morgan	10/12/05	1589331 (CAP)	HSC	Bulk	Arklatex	01/01/11	12/31/11	(40,000)	(480,000)	\$6.77	(4,411,072)	

									240,000	2,880,000	43.47%		
###-##-####	Wachovia	10/11/05	1258101 (FLOOR)	PEPL	Bulk	MidCon	01/01/11	12/31/11	152,083	1,825,000	\$5.30		375,252
###-##-####	Wachovia	10/12/2005	1258101 (CAP)	PEPL	Bulk	MidCon	01/01/11	12/31/11	(152,083)	(1,825,000)	\$6.42		(3,509,543)
									152,083	1,825,000	27.55%		
Total GAS COLLARS - 2011									552,083	6,625,000	100.00%		(10,205,367)
Oil SWAPS													
###-##-####	BNP Paribas	10/12/06	118518	NYMEX	Henry Drilling	Permian	01/01/08	12/31/08	1,929	17,364	\$66.880		(689,769)
###-##-####	BNP Paribas	10/26/06	119702	NYMEX	Sweetie Peck Acq	Permian	01/01/08	12/31/08	19,293	173,636	\$67.30		(6,833,786)
###-##-####	BNP Paribas	12/21/06	124753	NYMEX	Half East Drilling	Permian	01/01/08	12/31/08	2,338	21,045	\$68.42		(817,901)
###-##-####	BNP Paribas	10/27/06	119812	NYMEX	Sweetie Peck Acq	Permian	06/01/08	12/31/08	10,000	70,000	\$68.56		(2,528,784)
									23,504	282,045	20.94%		
###-##-####	Comerica	8/3/2006	ESWP237	NYMEX	EXL Acq.	Permian	01/01/08	12/31/08	1,929	17,364	\$76.34		(522,293)
###-##-####	Comerica	11/6/2006	ESWP247	NYMEX	Sweetie Peck Acq	Permian	01/01/08	12/31/08	17,364	156,273	\$67.99		(6,044,205)
									14,470	173,637	12.89%		
###-##-####	J Aron & Co	09/25/06	88969056	NYMEX	Henry Drilling	Permian	01/01/08	12/31/08	1,929	17,364	\$66.39		(699,813)
###-##-####	J Aron & Co	09/21/07	900789521	WCS	General Rockies	Williston	01/01/08	10/31/08	15,000	90,000	\$53.36		(4,720,345)
###-##-####	J Aron & Co	6/15/2005	WNP2HG	NYMEX	Wold	Williston	01/01/08	07/31/08	4,602	18,409	\$56.55		(1,005,159)
									10,481	125,773	9.34%		
###-##-####	JPMorgan	10/27/2006	4389629	NYMEX	Sweetie Peck Acq	Permian	01/01/08	12/31/08	12,540	112,864	\$68.62		(4,292,669)
###-##-####	JPMorgan	5/21/2007	7085414	NYMEX	General	Permian	01/01/08	12/31/08	19,293	173,636	\$71.54		(6,085,263)
									23,875	286,500	21.28%		
###-##-####	Key Bank	10/27/2006	168437	NYMEX	Sweetie Peck Acq	Permian	01/01/08	12/31/08	22,187	199,682	\$68.34		(7,650,949)
									16,640	199,682	14.83%		
###-##-####	Wachovia	10/27/2006	1618348	NYMEX	Sweetie Peck Acq	Permian	02/01/08	12/31/08	11,727	105,545	\$68.36		(4,049,360)
###-##-####	Wachovia	6/21/2007	N220968	NYMEX	Half East Drilling	Permian	01/01/08	12/31/08	4,677	42,091	\$72.00		(1,477,464)
###-##-####	Wachovia	07/13/07	N229520	NYMEX WTI	General	Permian	04/01/08	08/31/08	18,727	93,636	\$73.53		(3,306,326)
									20,106	241,272	17.92%		
###-##-####	Wells Fargo	10/27/06	137532	NYMEX	Sweetie peck Acq	Permian	01/01/08	12/31/08	4,192	37,727	\$68.43		(1,327,392)
									3,144	37,727	2.80%		
Total OIL SWAPS - 2008									112,220	1,346,636	100.00%	\$67.99	(52,051,478)
###-##-####	BNP Paribas	10/12/06	118518	NYMEX	Henry Drilling	Permian	01/01/09	09/30/09	1,222	11,000	\$66.570		(378,263)
###-##-####	BNP Paribas	10/26/06	119702	NYMEX	Sweetie Peck Acq	Permian	01/01/09	12/31/09	20,000	240,000	\$67.44		(7,871,889)
###-##-####	BNP Paribas	12/21/06	124753	NYMEX	Half East Drilling	Permian	01/01/09	12/31/09	2,000	24,000	\$68.13		(771,196)
###-##-####	BNP Paribas	10/27/06	119812	NYMEX	Sweetie Peck Acq	Permian	01/01/09	12/31/09	10,000	120,000	\$67.71		(3,905,076)
									33,222	395,000	28.98%		
###-##-####	Comerica	8/3/2006	ESWP237	NYMEX	EXL Acq.	Permian	01/01/09	09/30/09	2,000	18,000	\$74.76		(471,461)
###-##-####	Comerica	11/6/2006	ESWP247	NYMEX	Sweetie Peck Acq	Permian	01/01/09	12/31/09	18,000	216,000	\$67.37		(7,100,813)
									20,000	234,000	17.17%		
###-##-####	J Aron & Co	09/25/06	88969056	NYMEX	Henry Drilling	Permian	01/01/09	09/30/09	2,000	18,000	\$65.24		(637,852)
###-##-####	J Aron & Co	10/27/06	890618018	NYMEX	Sweetie Peck Acq	Permian	01/01/09	12/31/09	23,000	276,000	\$67.65		(8,998,238)
									25,000	294,000	21.57%		
###-##-####	JPMorgan	10/27/2006	4389629	NYMEX	Sweetie Peck Acq	Permian	01/01/09	12/31/09	8,000	96,000	\$67.91		(3,105,792)
									8,000	96,000	7.04%		
###-##-####	Key Bank	10/27/2006	168462	NYMEX	Sweetie Peck Acq	Permian	01/01/09	12/31/09	10,000	120,000	\$67.60		(3,917,212)
									10,000	120,000	8.80%		
###-##-####	Wachovia	10/27/2006	1618348	NYMEX	Sweetie Peck Acq	Permian	01/01/09	12/31/09	14,333	172,000	\$67.65		(5,645,959)
###-##-####	Wachovia	6/21/2007	N220968	NYMEX	Half East Drilling	Permian	01/01/09	07/31/09	4,000	28,000	\$72.09		(815,907)
									18,333	200,000	14.67%		
###-##-####	Wells Fargo	10/27/06	137532	NYMEX	Sweetie peck Acq	Permian	01/01/09	12/31/09	2,000	24,000	\$67.77		(779,552)
									2,000	24,000	1.76%		
Total OIL SWAPS - 2009									113,583	1,363,000	100.00%	\$67.74	(44,399,210)
###-##-####	BNP Paribas	10/26/06	119702	NYMEX	Sweetie Peck Acq	Permian	01/01/10	12/31/10	20,000	240,000	\$66.57		(7,295,417)
###-##-####	BNP Paribas	12/21/06	124753	NYMEX	Half East Drilling	Permian	01/01/10	12/31/10	2,000	24,000	\$67.54		(707,677)
###-##-####	BNP Paribas	10/27/06	119812	NYMEX	Sweetie Peck Acq	Permian	01/01/10	12/31/10	10,000	120,000	\$66.85		(3,615,950)
									32,000	384,000	30.99%		
###-##-####	Comerica	11/6/2006	ESWP247	NYMEX	Sweetie Peck Acq	Permian	01/01/10	12/31/10	18,000	216,000	\$66.24		(6,631,831)
									18,000	216,000	17.43%		
###-##-####	J Aron & Co	10/27/06	890618018	NYMEX	Sweetie Peck Acq	Permian	01/01/10	12/31/10	23,000	276,000	\$66.42		(8,427,857)
									23,000	276,000	22.28%		
###-##-####	JPMorgan	10/27/2006	4389629	NYMEX	Sweetie Peck Acq	Permian	01/01/10	12/31/10	5,000	60,000	\$66.60		(1,823,671)
									5,000	60,000	4.84%		
###-##-####	Key Bank	10/27/2006	168462	NYMEX	Sweetie Peck Acq	Permian	01/01/10	12/31/10	10,000	120,000	\$66.35		(3,672,072)
									10,000	120,000	9.69%		
###-##-####	Wachovia	10/27/2006	1618348	NYMEX	Sweetie Peck Acq	Permian	01/01/10	12/31/10	14,250	171,000	\$66.33		(5,239,068)
									14,250	171,000	13.80%		
###-##-####	Wells Fargo	10/27/06	137532	NYMEX	Sweetie peck Acq	Permian	01/01/10	12/31/10	1,000	12,000	\$66.56		(364,856)
									1,000	12,000	0.97%		
Total OIL SWAPS - 2010									103,250	1,239,000	100.00%	\$66.47	(37,778,399)
###-##-####	BNP Paribas	10/26/06	119702	NYMEX	Sweetie Peck Acq	Permian	01/01/11	11/30/11	20,000	220,000	\$65.47		(6,466,600)
###-##-####	BNP Paribas	12/21/06	124753	NYMEX	Half East Drilling	Permian	01/01/11	01/31/11	2,000	2,000	\$67.21		(57,194)
###-##-####	BNP Paribas	10/27/06	119812	NYMEX	Sweetie Peck Acq	Permian	01/01/11	11/30/11	10,000	110,000	\$65.98		(3,181,942)
									32,000	332,000	32.17%		

###-##-####	Comerica	11/6/2006	ESWP247	NYMEX	Sweetie Peck Acq	Permian	01/01/11	11/30/11	18,000	198,000	\$65.02	(5,899,981)	
									<u>18,000</u>	<u>198,000</u>	19.19%		
###-##-####	J Aron & Co	10/27/06	890618018	NYMEX	Sweetie Peck Acq	Permian	01/01/11	11/30/11	23,000	253,000	\$65.29	(7,478,422)	
									<u>23,000</u>	<u>253,000</u>	24.52%		
###-##-####	JPMorgan	10/27/2006	4389629	NYMEX	Sweetie Peck Acq	Permian	01/01/11	11/30/11	4,000	44,000	\$65.33	(1,298,687)	
									<u>4,000</u>	<u>44,000</u>	4.26%		
###-##-####	Key Bank	10/27/2006	168462	NYMEX	Sweetie Peck Acq	Permian	01/01/11	11/30/11	10,000	110,000	\$65.20	(3,259,401)	
									<u>10,000</u>	<u>110,000</u>	10.66%		
###-##-####	Wachovia	10/27/2006	1618348	NYMEX	Sweetie Peck Acq	Permian	01/01/11	10/30/11	8,400	84,000	\$65.42	(2,502,752)	
									<u>8,400</u>	<u>84,000</u>	8.14%		
###-##-####	Wells Fargo	10/27/06	137532	NYMEX	Sweetie peck Acq	Permian	01/01/11	11/30/11	1,000	11,000	\$65.33	(324,734)	
									<u>1,000</u>	<u>11,000</u>	1.07%		
Total OIL SWAPS - 2011									86,000	1,032,000	100.00%	\$65.36	(30,469,713)

Oil COLLARS

###-##-####	BNP Paribas	10/12/05	93576 (FLOOR)	NYMEX	Bulk	Williston	01/01/08	12/31/08	14,747	132,727	\$50.00	418
###-##-####	BNP Paribas	10/12/05	93576 (CAP)	NYMEX	Bulk	Williston	01/01/08	12/31/08	(15,250)	(132,727)	\$72.15	(4,599,796)
###-##-####	BNP Paribas	10/13/05	93577 (FLOOR)	NYMEX	Bulk	Williston	01/01/08	12/31/08	16,399	147,591	\$50.00	463
###-##-####	BNP Paribas	10/13/05	93577 (CAP)	NYMEX	Bulk	Williston	01/01/08	12/31/08	(16,399)	(147,591)	\$70.45	(5,367,842)
									<u>31,146</u>	<u>280,318</u>	23.18%	
###-##-####	Comerica	10/11/05	ECAP0207 (FLOOR)	NYMEX	Bulk	Williston	01/01/08	12/31/08	14,747	132,727	\$50.00	418
###-##-####	Comerica	10/11/05	ECAP0207 (CAP)	NYMEX	Bulk	Williston	01/01/08	12/31/08	(14,747)	(132,727)	\$70.50	(4,816,979)
									<u>14,747</u>	<u>132,727</u>	10.97%	
###-##-####	JP Morgan	10/10/05	1568305/07 (FLOOR)	NYMEX	Bulk	Williston	01/01/08	12/31/08	29,495	265,455	\$50.00	835
###-##-####	JP Morgan	10/10/05	1568305/07 (CAP)	NYMEX	Bulk	Williston	01/01/08	12/31/08	(29,495)	(265,455)	\$66.75	(10,629,450)
									<u>29,495</u>	<u>265,455</u>	21.95%	
###-##-####	Key Bank	04/03/08	210600 (FLOOR)	NYMEX	Bulk	Williston	01/01/08	12/31/08	34,750	278,000	\$92.50	0
###-##-####	Key Bank	04/03/08	210600 (CAP)	NYMEX	Bulk	Williston	01/01/08	12/31/08	(34,750)	(278,000)	\$114.50	0
									<u>34,750</u>	<u>278,000</u>	22.99%	
###-##-####	RBC	10/12/05	26590 (FLOOR)	NYMEX	Bulk	Williston	01/01/08	12/31/08	14,747	132,727	\$50.00	418
###-##-####	RBC	10/12/05	26590 (CAP)	NYMEX	Bulk	Williston	01/01/08	12/31/08	(14,747)	(132,727)	\$72.20	(4,593,236)
###-##-####	RBC	10/11/05	26592 (FLOOR)	NYMEX	Bulk	Williston	01/01/08	12/31/08	14,747	132,727	\$50.00	418
###-##-####	RBC	10/11/05	26592 (CAP)	NYMEX	Bulk	Williston	01/01/08	12/31/08	(14,747)	(132,727)	\$70.90	(4,764,220)
									<u>29,495</u>	<u>265,454</u>	21.95%	
###-##-####	Wachovia	10/10/05	1258088 (FLOOR)	NYMEX	Bulk	Williston	01/01/08	12/31/08	14,747	132,727	\$50.00	418
###-##-####	Wachovia	10/10/05	1258088 (CAP)	NYMEX	Bulk	Williston	01/01/08	12/31/08	(14,747)	(132,727)	\$67.80	(5,174,815)
									<u>14,747</u>	<u>132,727</u>	10.97%	
###-##-####	Wells Fargo	10/11/05	COP2496 (FLOOR)	NYMEX	Bulk	Williston	01/01/08	12/31/08	14,747	132,727	\$50.00	418
###-##-####	Wells Fargo	10/11/05	COP2496 (CAP)	NYMEX	Bulk	Williston	01/01/08	12/31/08	(14,747)	(132,727)	\$70.85	(4,770,816)
									<u>14,747</u>	<u>132,727</u>	10.97%	
Total OIL Collars - 2008									100,784	1,209,408	100.00%	(44,713,348)

###-##-####	BNP Paribas	10/12/05	93578 (FLOOR)	NYMEX	Bulk	Williston	01/01/09	12/31/09	15,208	182,500	\$50.00	32,243
###-##-####	BNP Paribas	10/12/05	93578 (CAP)	NYMEX	Bulk	Williston	01/01/09	12/31/09	(15,208)	(182,500)	\$69.15	(5,965,525)
									<u>15,208</u>	<u>182,500</u>	11.96%	
###-##-####	Comerica	10/11/05	ECAP0208 (FLOOR)	NYMEX	Bulk	Williston	01/01/09	12/31/09	15,208	182,500	\$50.00	32,243
###-##-####	Comerica	10/11/05	ECAP0208 (CAP)	NYMEX	Bulk	Williston	01/01/09	12/31/09	(15,208)	(182,500)	\$67.65	(6,196,721)
###-##-####	Comerica	10/13/05	ECAP0209 (FLOOR)	NYMEX	Bulk	Williston	01/01/09	12/31/09	5,500	66,000	\$50.00	11,607
###-##-####	Comerica	10/13/05	ECAP0209 (CAP)	NYMEX	Bulk	Williston	01/01/09	12/31/09	(5,500)	(66,000)	\$67.350	(2,258,248)
									<u>20,708</u>	<u>248,500</u>	16.28%	
###-##-####	JP Morgan	10/10/05	1567755/56 (FLOOR)	NYMEX	Bulk	Williston	01/01/09	12/31/09	45,625	547,500	\$50.00	96,726
###-##-####	JP Morgan	10/10/05	1567755/56 (CAP)	NYMEX	Bulk	Williston	01/01/09	12/31/09	(45,625)	(547,500)	\$65.75	(19,481,672)
									<u>45,625</u>	<u>547,500</u>	35.88%	
###-##-####	RBC	10/12/05	26597 (FLOOR)	NYMEX	Bulk	Williston	01/01/09	12/31/09	15,208	182,500	\$50.00	32,243
###-##-####	RBC	10/12/05	26597 (CAP)	NYMEX	Bulk	Williston	01/01/09	12/31/09	(15,208)	(182,500)	\$69.10	(5,973,182)
									<u>15,208</u>	<u>182,500</u>	11.96%	
###-##-####	Wachovia	10/11/05	1258089 (FLOOR)	NYMEX	Bulk	Williston	01/01/09	12/31/09	15,208	182,500	\$50.00	32,243
###-##-####	Wachovia	10/11/05	1258089 (CAP)	NYMEX	Bulk	Williston	01/01/09	12/31/09	(15,208)	(182,500)	\$68.00	(6,142,501)
									<u>15,208</u>	<u>182,500</u>	11.96%	
###-##-####	Wells Fargo	10/11/05	COP2497 (FLOOR)	NYMEX	Bulk	Williston	01/01/09	12/31/09	15,208	182,500	\$50.00	32,243
###-##-####	Wells Fargo	10/11/05	COP2497 (CAP)	NYMEX	Bulk	Williston	01/01/09	12/31/09	(15,208)	(182,500)	\$67.35	(6,243,325)
									<u>15,208</u>	<u>182,500</u>	11.96%	
Total OIL Collars - 2009									127,167	1,526,000	100.00%	(51,991,626)

###-##-####	BNP Paribas	10/12/05	93579 (FLOOR)	NYMEX	Bulk	Williston	01/01/10	12/31/10	15,208	182,500	\$50.00	114,949
###-##-####	BNP Paribas	10/12/05	93579 (CAP)	NYMEX	Bulk	Williston	01/01/10	12/31/10	(15,208)	(182,500)	\$67.00	(5,961,543)
									<u>15,208</u>	<u>182,500</u>	13.35%	
###-##-####	Comerica	10/11/05	ECAP0210 (FLOOR)	NYMEX	Bulk	Williston	01/01/10	12/31/10	15,208	182,500	\$50.00	114,949
###-##-####	Comerica	10/11/05	ECAP0210 (CAP)	NYMEX	Bulk	Williston	01/01/10	12/31/10	(15,208)	(182,500)	\$65.50	(6,170,651)
###-##-####	Comerica	10/13/05	ECAP0211 (FLOOR)	NYMEX	Bulk	Williston	01/01/10	12/31/10	7,500	90,000	\$50.00	56,593
###-##-####	Comerica	10/13/05	ECAP0211 (CAP)	NYMEX	Bulk	Williston	01/01/10	12/31/10	(7,500)	(90,000)	\$65.15	(3,067,673)
									<u>22,708</u>	<u>272,500</u>	19.93%	
###-##-####	JP Morgan	10/10/05	1568315/16 (FLOOR)	NYMEX	Bulk	Williston	01/01/10	12/31/10	30,417	365,000	\$50.00	229,899
###-##-####	JP Morgan	10/10/05	1568315/16 (CAP)	NYMEX	Bulk	Williston	01/01/10	12/31/10	(30,417)	(365,000)	\$62.95	(13,067,025)
									<u>30,417</u>	<u>365,000</u>	26.69%	
###-##-####	RBC	10/11/05	26595 (FLOOR)	NYMEX	Bulk	Williston	01/01/10	12/31/10	15,208	182,500	\$50.00	114,949
###-##-####	RBC	10/11/05	26595 (CAP)	NYMEX	Bulk	Williston	01/01/10	12/31/10	(15,208)	(182,500)	\$65.70	(6,142,579)
									<u>15,208</u>	<u>182,500</u>	13.35%	

###-###-####	Wachovia	10/10/05	1258090 (FLOOR)	NYMEX	Bulk	Williston	01/01/10	12/31/10	15,208	182,500	\$50.00	114,949
###-###-####	Wachovia	10/10/05	1258090 (CAP)	NYMEX	Bulk	Williston	01/01/10	12/31/10	(15,208)	(182,500)	\$64.00	(6,383,027)
									15,208	182,500	13.35%	
###-###-####	Wells Fargo	10/11/05	COP2498 (FLOOR)	NYMEX	Bulk	Williston	01/01/10	12/31/10	15,208	182,500	\$50.00	114,949
###-###-####	Wells Fargo	10/11/05	COP2498 (CAP)	NYMEX	Bulk	Williston	01/01/10	12/31/10	(15,208)	(182,500)	\$66.15	(6,079,630)
									15,208	182,500	13.35%	
Total OIL Collars - 2010									113,958	1,367,500	100.00%	(46,010,891)
###-###-####	BNP Paribas	10/13/05	93580 (FLOOR)	NYMEX	Bulk	Williston	01/01/11	12/31/11	11,750	141,000	\$50.00	195,493
###-###-####	BNP Paribas	10/13/05	93580 (CAP)	NYMEX	Bulk	Williston	01/01/11	12/31/11	(11,750)	(141,000)	\$64.25	(4,779,204)
									11,750	141,000	11.41%	
###-###-####	Comerica	10/11/05	ECAP0212 (FLOOR)	NYMEX	Bulk	Williston	01/01/11	12/31/11	15,208	182,500	\$50.00	253,509
###-###-####	Comerica	10/11/05	ECAP0212 (CAP)	NYMEX	Bulk	Williston	01/01/11	12/31/11	(15,208)	(182,500)	\$64.60	(6,140,349)
									15,208	182,500	14.77%	
###-###-####	JP Morgan	10/10/05	1568321/29 (FLOOR)	NYMEX	Bulk	Williston	01/01/11	12/31/11	30,417	365,000	\$50.00	507,016
###-###-####	JP Morgan	10/10/05	1568321/29 (CAP)	NYMEX	Bulk	Williston	01/01/11	12/31/11	(30,417)	(365,000)	\$62.05	(12,949,399)
									30,417	365,000	29.53%	
###-###-####	RBC	10/11/05	26594 (FLOOR)	NYMEX	Bulk	Williston	01/01/11	12/31/11	15,208	182,500	\$50.00	253,509
###-###-####	RBC	10/11/05	26594 (CAP)	NYMEX	Bulk	Williston	01/01/11	12/31/11	(15,208)	(182,500)	\$64.75	(6,120,924)
									15,208	182,500	14.77%	
###-###-####	Wachovia	10/10/05	1258091 (FLOOR)	NYMEX	Bulk	Williston	01/01/11	12/31/11	15,208	182,500	\$50.00	253,509
###-###-####	Wachovia	10/10/05	1258091 (CAP)	NYMEX	Bulk	Williston	01/01/11	12/31/11	(15,208)	(182,500)	\$63.10	(6,336,079)
									15,208	182,500	14.77%	
###-###-####	Wells Fargo	10/11/05	COP2499 (FLOOR)	NYMEX	Bulk	Williston	01/01/11	12/31/11	15,208	182,500	\$50.00	253,509
###-###-####	Wells Fargo	10/11/05	COP2499 (CAP)	NYMEX	Bulk	Williston	01/01/11	12/31/11	(15,208)	(182,500)	\$65.25	(6,056,382)
									15,208	182,500	14.77%	
Total OIL Collars - 2011									103,000	1,236,000	100.00%	(40,665,792)
Natural Gas Liquid Swaps												
###-###-####	J Aron & Co	07/31/07	737594627	OPIS	Rockford Acq	Gulf Coast	01/01/08	08/31/08	1,084,373	5,421,867	\$1.02	(1,994,445)
###-###-####	J Aron & Co	11/08/06	891043169	OPIS	Sweetie Peck Acq	Permian	11/01/08	12/31/08	1,218,000	2,436,000	\$0.86	(1,596,448)
###-###-####	J Aron & Co	02/07/07	894008579	OPIS	BlackBrush Acq	Permian	03/01/08	12/31/08	278,084	2,502,759	\$0.89	(1,613,946)
###-###-####	J Aron & Co	09/17/07	900695221	OPIS	Rockford Acq	Gulf Coast	09/01/08	12/31/08	1,508,500	6,034,000	\$0.97	(2,369,745)
###-###-####	J Aron & Co	02/21/08	903761692	OPIS	Sendero Acq	ArkLaTex	04/01/08	12/31/08	13,746	123,718	\$1.21	(14,629)
									1,496,084	16,518,344	69.37%	
###-###-####	Morgan Stanley	10/31/06	5735706	OPIS	Sweetie Peck Acq	Permian	01/01/08	10/31/08	1,042,091	7,294,636	\$0.87	(4,826,191)
									1,042,091	7,294,636	30.63%	
NGL Swaps - 2008									1,984,415	23,812,980	100.00%	(12,415,404)
###-###-####	J Aron & Co	11/08/06	891043169	OPIS	Sweetie Peck Acq	Permian	01/01/09	10/31/09	1,171,800	11,718,000	\$0.86	(6,493,368)
###-###-####	J Aron & Co	02/07/07	894008579	OPIS	BlackBrush Acq	Permian	01/01/09	02/28/09	277,250	554,500	\$0.89	(333,268)
###-###-####	J Aron & Co	09/17/07	900695221	OPIS	Rockford Acq	Gulf Coast	01/01/09	08/31/09	1,758,625	14,069,003	\$0.97	(4,336,123)
###-###-####	J Aron & Co	02/21/08	903761692	OPIS	Sendero Acq	ArkLaTex	01/01/09	02/29/09	36,064	72,128	\$1.21	(6,976)
###-###-####	J Aron & Co	02/21/08	903761699	OPIS	Sendero Acq	ArkLaTex	03/01/09	12/31/09	38,906	389,058	\$1.13	(34,518)
									2,680,269	26,802,689	100.00%	
NGL Swaps - 2009									2,233,557	26,802,689	100.00%	(11,204,253)
J Aron & Co	02/21/08	903761394	OPIS	Sendero Acq	ArkLaTex	03/01/10	12/31/10	27,400	274,000	\$1.080	(32,774)	
J Aron & Co	02/21/08	903761699	OPIS	Sendero Acq	ArkLaTex	01/01/10	02/28/10	31,443	62,885	\$1.13	(3,574)	
								33,689	336,885	100.00%		
NGL Swaps - 2010									28,074	336,885	100.00%	(36,348)
J Aron & Co	02/21/08	903761394	OPIS	Sendero Acq	ArkLaTex	01/01/11	02/28/11	23,703	47,405	\$1.080	(8,404)	
								4,741	47,405	100.00%		
NGL Swaps - 2011									3,950	47,405	100.00%	(8,404)
											\$ (436,415,782.00)	

SCHEDULE 7.24
MATERIAL AGREEMENTS

1. Senior Convertible Notes indenture, in the aggregate principal amount of \$287,500,000, due on or about April 1, 2027.
 2. And the agreements set forth on the exhibit list to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, as material contracts included as exhibits 10.1 through 10.34.
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**SCHEDULE 9.05(a)
INVESTMENTS**

NONE

SCHEDULE 9.05(h)
EXISTING INVESTMENTS (NON-OIL AND GAS)

1. 50% general partnership interest in Hilltop Investments holding approximately 41 acres of undeveloped land in Jefferson County at C-470 and Quincy.
 2. Residual net profits interest in land located in Grand Junction, Colorado if reclaimed by gravel operator and sold as lots in Mid-America Business Park, a rail served industrial park.
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CERTIFICATION

I, Anthony J. Best certify that:

1. I have reviewed this quarterly report on Form 10-Q of St. Mary Land & Exploration Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2008

/s/ ANTHONY J. BEST
Anthony J. Best
President and Chief Executive Officer

CERTIFICATION

I, Mark T. Solomon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of St. Mary Land & Exploration Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2008

/s/ MARK T. SOLOMON

Mark T. Solomon

Controller and Acting Principal Financial Officer

**CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of St. Mary Land & Exploration Company (the "Company") for the quarterly period ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Anthony J. Best, as President and Chief Executive Officer of the Company, and Mark T. Solomon, as Controller and Acting Principal Financial Officer of the Company, each hereby certifies, pursuant to and solely for the purpose of 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge and belief, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ANTHONY J. BEST

Anthony J. Best
President and Chief Executive Officer
May 2, 2008

/s/ MARK T. SOLOMON

Mark T. Solomon
Controller and Acting Principal Financial Officer
May 2, 2008
