UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[x] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2002
or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission file number 001-31539

ST. MARY LAND & EXPLORATION COMPANY
(Exact name of registrant as specified in its charter)

Delaware	41-0518430
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1776 Lincoln Street, Suite 700, Denver, Colorado 80203
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12-6-2 of the Act). Yes [x] No [ ]

The aggregate market value of 27,152,051 shares of voting stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on June 28, 2002, the last business day of the registrant's most recently completed second fiscal quarter, of $24.06 per share as reported on the Nasdaq National Market System, on which St. Mary's common stock was traded at the time, was $653,278,347. Shares of common stock held by each director and executive officer and by each person who owns 10% or more of the outstanding common stock or who is otherwise believed by the Company to be in a control position have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 3, 2003, the registrant had 31,433,900 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 10, 11, 12 and 13 of Part III is incorporated by reference from portions of the registrant's definitive proxy statement relating to its 2003 annual meeting of stockholders to be filed within 120 days from December 31, 2002.

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PART I

When we use the terms "St. Mary," "we," "us" or "our," we are referring to St. Mary Land & Exploration Company and its subsidiaries, unless the context otherwise requires. We have included technical terms important to an understanding of our business under "Glossary". Throughout this document we make statements that are classified as "forward-looking". Please refer to the "Cautionary Statement about Forward-Looking Statements" section of this document for an explanation of these types of assertions.

ITEM 1. BUSINESS

Background

St. Mary Land & Exploration Company is an independent energy company engaged in the exploration, development, acquisition and production of natural gas and crude oil. St. Mary was founded in 1908 and incorporated in Delaware in 1915. Our operations are focused in the following five core operating areas in the United States:

- the Mid-Continent region in Oklahoma and northern Texas;
- the ArkLaTex region that spans northern Louisiana and portions of Arkansas, Mississippi and eastern Texas;
- the onshore Gulf Coast and offshore Gulf of Mexico;
- the Rocky Mountain region consisting of the Williston Basin in eastern Montana and western North Dakota and the Powder River, Green River and Wind River Basins in Wyoming; and
- the Permian Basin in eastern New Mexico and western Texas.

As of December 31, 2002, we had estimated proved reserves of approximately 36.1 MMBbls of oil and 274.2 Bcf of natural gas, or a total of 490.9 BCFE, 88% of which were proved developed and 56% of which were natural gas, with a PV-10 value of $824.8 million. For the year ended December 31, 2002, we produced 55.1 BCFE representing average daily production of 150.8 MMCFE per day.

We focus our resources in selected domestic basins where we believe that our expertise in geology, geophysics and drilling and completion techniques provides us with competitive advantages. We have assembled a balanced program of low-to-medium-risk development and exploitation projects to provide the foundation for steady growth. In addition, we have a portfolio of higher-potential exploration projects and non-conventional gas plays in the Rocky Mountain region that we believe could significantly increase our reserves and production. We measure and rank our investment decisions based on their risk-adjusted impact on per share net asset value. In the past, we have sold selected assets when we believed attractive prices were available, and we will continue to evaluate such opportunities in the future.

We seek to develop our existing property base and acquire acreage with additional potential in our core areas. From January 1, 2000, through December 31, 2002, we participated in the drilling or recompletion of 623 gross wells with an average success rate of 82%. During that same period we added estimated

proved reserves of 347 BCFE at an average finding cost of $1.44 per MCFE. Our average annual production replacement was 214% during this three-year period, and our production has grown at an average rate of 21% per year over the same time period.

As of December 31, 2002, we had an acreage position of 1,145,507 gross (542,736 net) acres of which 504,873 gross (325,290 net) acres were undeveloped. For 2003 we have budgeted capital expenditures of $135 million for ongoing development, exploitation and exploration programs in our core operating areas and $90 million for acquisitions of oil and gas properties.

Our principal offices are located at 1776 Lincoln Street, Suite 700, Denver, Colorado 80203, and our telephone number is (303) 861-8140.

Business Strategy

Our objective is to build stockholder value through consistent economic growth in reserves and production that increase net asset value per share, cash flow per share and earnings per share. The principal elements of our strategy are as follows:

- Maintain Focused Geographic Operations. We focus on exploration, development and acquisition activities in five core operating areas where we have built a balanced portfolio of proved reserves, development drilling opportunities and higher-potential exploration and non-conventional gas prospects. We believe that our leasehold position is a strategic asset. Our senior technical managers, each possessing over 20 years of experience, head up regional technical offices supported by centralized administration in our Denver office. We believe that our long-standing presence, our established networks of local industry relationships and our acreage holdings in our core operating areas provide us with a competitive advantage. In addition, we believe that we can continue to expand our operations without the need to proportionately increase the number of employees.
- Continue Exploitation and Development of Existing Properties.

We use our comprehensive base of geological, geophysical, engineering and production experience in each of our core operating areas to source prospects for our ongoing low-to-medium-risk development and exploitation programs. We conduct detailed geologic studies and use an array of technologies and tools including 2-D and 3-D seismic imaging, hydraulic fracturing and reservoir stimulation techniques, and specialized logging tools to enhance the potential of our existing properties. In 2002 we participated in the drilling or recompletion of 168 gross wells with a 79% success rate.

- Pursue Higher-Risk Higher-Potential Exploration Projects. We have allocated approximately 7% of our 2003 drilling and exploration capital expenditures budget to higher-potential exploration and unconventional gas projects. Our strategy is to test several of these prospects each year that in total have the potential to significantly increase our reserves. We seek to invest in a diversified mix of projects and generally limit our capital exposure by participating with other experienced industry partners. We plan to test projects in the Mid-Continent region and Rocky Mountain area during 2003.

- Make Selective Acquisitions. We seek to make selective niche acquisitions of oil and gas properties that complement our existing operations, offer economies of scale and provide

further development, exploitation and exploration opportunities based on proprietary geologic concepts. We believe that the focus on smaller, negotiated transactions where we have specialized geologic knowledge or operating experience has enabled us to acquire attractively priced and under-exploited properties. In addition, we will pursue corporate acquisitions that we believe will be accretive. Examples of this type of acquisition include our 1999 Nance Petroleum Corporation and King Ranch Energy, Inc. acquisitions, both of which were acquired with our common stock. We have budgeted $90.0 million for acquisitions in 2003, of which $74.0 million closed in January 2003, including the acquisition of properties from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. in exchange for the issuance of 3,380,818 restricted shares of St. Mary common stock.

- Control Operations. We believe it is important to control geologic and operational decisions as well as the timing of those decisions. At December 31, 2002, we operated 31% of our properties on a volume basis and 66% on a PV-10 value basis. We are the operator of properties representing approximately 81% of our 2003 capital budget.

- Maintain Financial Flexibility. Conservative use of financial leverage has long been a critical element of our strategy. We believe that maintaining a strong balance sheet is a significant competitive advantage that enables us to pursue acquisition and other opportunities, especially in weaker price environments. It also provides us with the financial resources to weather periods of volatile commodity prices or escalating costs.

Significant Developments Since December 31, 2001

- 2002 Acquisitions of Oil and Gas Properties. In December 2002 St. Mary completed a $69.5 million acquisition of properties in the Williston Basin from Burlington Resources Oil & Gas Company LP. The properties are located in Montana and North Dakota and produce approximately 3,100 barrels of oil and 3,300 Mcf of gas per day. Smaller acquisitions during 2002 included the $7.5 million Mid-Continent acquisition from Merchant Resources LP, the $4.9 million acquisition in the Huxley Field located in east Texas and $5.8 million in various other properties. We used cash from our March 2002 senior convertible note placement and borrowings under our bank credit facility to fund these acquisitions.

- 2003 Acquisition of Oil and Gas Properties. In January 2003 St. Mary issued 3,380,818 shares of its restricted common stock valued at $71.6 million to acquire Rocky Mountain properties from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. This acquisition included properties located in the Williston, Powder River and Green River Basins with 66.9 BCFE of proved reserves and production of approximately 2,100 barrels of oil and 8,200 Mcf of gas per day. We also received a net amount of $2.8 million in cash for normal purchase price adjustments. In addition, St. Mary made a non-recourse loan to Flying J and Big West of $71.6 million at LIBOR plus 2% for up to a 39-month period. The loan is secured by a pledge of the shares of St. Mary stock issued to Flying J and Big West. The loan was funded through borrowings under our bank credit facility.

- Increase in 2002 Year-End Reserves. Proved reserves increased 28% from December 31, 2001 to 490.9 BCFE as of December 31, 2002. We added 101.6 BCFE through acquisitions for cash and 40.3 BCFE from drilling activities. There were net upward revisions of previous reserves totaling 26.4 BCFE. This upward revision was the result of a 33.9 BCFE increase from price revisions, which was partially offset by 7.5 BCFE in negative performance revisions.

- New York Stock Exchange Listing. On November 20, 2002 St. Mary Land & Exploration Company's common stock began trading on the New York Stock Exchange. The Company believes the NYSE will improve visibility with investors and the auction market structure will help reduce intra-day volatility and increase the liquidity in St. Mary's stock. Prior to November 20, 2002 St. Mary's common stock was traded on the Nasdaq National Market System.

- Senior Convertible Notes. In March 2002 we issued in a private placement a total of $100.0 million of our 5.75% senior convertible notes due 2022 with a1/2% contingent interest provision. We received net proceeds of $96.7 million after deducting the initial purchasers' discount and offering expenses paid by us. The notes are general unsecured obligations and rank on a parity in right of payment with all our existing and future senior indebtedness and other general unsecured obligations. They are senior in right of payment to all our future subordinated indebtedness. The notes are convertible into our common stock at a conversion price of $26.00 per share, subject to adjustment. We can redeem the notes with cash in whole or in part at a repurchase price of 100% of the principal amount plus accrued and unpaid interest beginning on March 20, 2007. The note holders have the option of requiring us to repurchase the notes for cash at 100% of the principal amount plus accrued and unpaid interest (including contingent interest) upon (1) a change in control of St. Mary or (2) on March 20, 2007, March 15, 2012 and March 15, 2017. On March 20, 2007, we may pay the repurchase price with cash, shares of our common stock or any combination of cash and our common stock. We are not restricted from paying

dividends, incurring debt, or issuing or repurchasing our securities under the indenture for the notes. There are no financial covenants in the indenture. We used a portion of the net proceeds from the notes to repay our credit facility balance and used the remaining net proceeds to fund a portion of our 2002 capital expenditures.

- Revolving Credit Agreement. In January 2003 we entered into a new long-term revolving credit agreement with nine banks. The maximum loan amount is $300 million with a calculated borrowing base of $250 million. We have reduced the commitment amount to $150 million to meet our projected needs. The maturity date is January 27, 2006. Interest is accrued based on the borrowing base utilization and is currently LIBOR plus 1.25%.

Major Customers

During 2002 there were no sales to individual customers that accounted for more than 10% of our total oil and gas production revenue. During 2001 sales to Transok Gas Company accounted for 12.0% and sales to BP Amoco accounted for 11.3% of our total oil and gas production revenue. During 2000 sales to BP Amoco accounted for 22.3% of our total oil and gas production revenue.

Employees and Office Space

As of December 31, 2002, St. Mary had 185 full-time employees. None of our employees are subject to a collective bargaining agreement. We consider our relations with our employees to be good. We lease approximately 42,660 square feet of office space in Denver, Colorado for our executive and administrative offices, of which 9,479 square feet is subleased. We also lease approximately 14,990 square feet of office space in Tulsa, Oklahoma; approximately 11,740 square feet in Shreveport, Louisiana; approximately 7,500 square feet in Lafayette, Louisiana; and approximately 15,830 square feet in Billings, Montana.

Title to Properties

Substantially all of our working interests are held pursuant to leases from third parties. A title opinion is usually obtained prior to the commencement of drilling operations on properties. We have obtained title opinions or conducted a thorough title review on substantially all of our producing properties and believe that we have satisfactory title to such properties in accordance with standards generally accepted in the oil and gas industry. Our properties are subject to a mortgage under our credit facility, customary royalty interests, liens for current taxes, and other burdens that we believe do not materially interfere with the use of or affect the value of such properties. We perform only a minimal title investigation before acquiring undeveloped properties.

Competition

The oil and gas industry is intensely competitive. Competition is particularly intense in the acquisition of prospective oil and natural gas properties and oil and gas reserves. Our competitive position depends on our geological, geophysical and engineering expertise, our financial resources, and our ability to select, acquire and develop proved reserves. We believe that the locations of our leasehold acreage, our exploration, drilling and production capabilities and the experience of our management and that of our industry partners generally enable us to compete effectively in our core operating areas. However, we compete with a substantial number of major and independent oil and gas companies that have larger technical staffs and greater financial and operational resources than we do. Many of these companies not only engage in the acquisition, exploration, development and production of oil and natural gas reserves, but also have refining operations, market refined products and generate electricity. We also compete with other oil and natural gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Drilling equipment may be in short supply from time to time.

Government Regulations

Our business is subject to various federal, state and local laws and governmental regulations that may be changed from time to time in response to economic or political conditions. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties, taxation and environmental protection. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas.

St. Mary's operations could result in liability for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. We could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be

incurred, and the payment of such liabilities could have a material adverse effect on our financial condition and results of operations. We maintain insurance coverage for our operations, including limited coverage for sudden environmental damages, but we do not believe that insurance coverage for environmental damage that occurs over time is available at a reasonable cost. Moreover, we do not believe that insurance coverage for the full potential liability that could be caused by sudden environmental damages is available at a reasonable cost. Accordingly, we may be subject to liability or may lose substantial portions of our properties in the event of certain environmental damages. St. Mary could incur substantial costs to comply with environmental laws and regulations.

Energy Regulations. With respect to federal energy regulation, the transportation and sale for resale of natural gas in interstate commerce have historically been regulated pursuant to several laws enacted by Congress and regulations promulgated under these laws by the Federal Energy Regulatory Commission and its predecessor. In the past the federal government has regulated the prices at which gas could be sold. Congress removed all price and non-price controls affecting wellhead sales of natural gas effective January 1, 1993. However, Congress could reenact price controls in the future.

Our sales of natural gas are affected by the availability, terms and cost of transportation. The price and terms of access to pipeline transportation are subject to extensive federal and state regulation. From 1985 to the present, several major regulatory changes have been implemented by Congress and the FERC that affect the economics of natural gas production, transportation and sales. In addition, the FERC is continually proposing and implementing new rules and regulations affecting those segments of the natural gas industry that remain subject to the FERC's jurisdiction, most notably interstate natural gas transmission companies. These initiatives may also affect the intrastate transportation of gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry, and these initiatives generally reflect more light-handed regulation.

The ultimate impact of the complex rules and regulations issued by the FERC since 1985 cannot be predicted. In addition, many aspects of these regulatory developments have not become final but are still pending judicial and final FERC decisions. We cannot predict what further action the FERC will take on these matters. Some of the FERC's more recent proposals may, however, adversely affect the availability and reliability of interruptible

transportation service on interstate pipelines. Additional proposals and proceedings that might affect the natural gas industry are pending before Congress and the courts. The natural gas industry historically has been very heavily regulated; therefore, there is no assurance that the less stringent regulatory approach recently pursued by the FERC and Congress will continue. We do not believe that we will be affected by any action taken that differs materially from other natural gas producers and marketers with whom we compete.

Our sales of crude oil, condensate and natural gas liquids are currently not regulated and are made at market prices. However, in a number of instances the ability to transport and sell such products are dependent on pipelines whose rates, terms and conditions of service are subject to FERC jurisdiction under the Interstate Commerce Act. Certain regulations implemented by the FERC in recent years could result in an increase in the cost of transportation service on certain petroleum product pipelines. We do not believe that these regulations affect us any differently than other producers of these products.

Certain operations we conduct are on federal oil and gas leases that the Minerals Management Service administers. The MMS issues such leases through

competitive bidding. These leases contain relatively standardized terms and require compliance with detailed MMS regulations and, for offshore leases, orders pursuant to the Outer Continental Shelf Lands Act, which are subject to change by the MMS. For offshore operations, lessees must obtain MMS approval for exploration plans and development and production plans prior to the commencement of such operations. In addition to permits required from other agencies such as the Coast Guard, the Army Corps of Engineers and the Environmental Protection Agency, lessees must obtain a permit from the MMS prior to the commencement of drilling. Lessees must also comply with detailed MMS regulations governing, among other things:

- engineering and construction specifications for offshore production facilities;
- safety procedures;
- flaring of production;
- plugging and abandonment of Outer Continental Shelf or OCS wells;
- calculation of royalty payments and the valuation of production for this purpose; and
- removal of facilities.

To cover the various obligations of lessees on the OCS, the MMS generally requires that lessees post substantial bonds or other acceptable assurances that such obligations will be met. The cost of such bonds or other surety can be substantial, and we cannot assure that we can continue to obtain bonds or other surety in all cases. Under certain circumstances the MMS may require our operations on federal leases to be suspended or terminated.

Many of the states in which we conduct our oil and gas drilling and production activities regulate such activities by requiring, among other things, drilling permits and bonds and reports concerning operations. The laws of these states also govern a number of environmental and conservation matters, including the handling and disposing of waste material, plugging and abandonment of wells, restoration requirements, unitization and pooling of natural gas and oil properties and establishment of maximum rates of production from natural gas and oil wells. Some states prorate production to the market demand for oil and natural gas.

Environmental Regulations. Our operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and impose substantial liabilities for any pollution resulting from our operations.

Public interest in the protection of the environment has increased dramatically in recent years. Onshore and offshore drilling in some areas has been opposed by environmental groups and, in some areas, has been restricted. Legislation has also been proposed in Congress from time to time that would reclassify certain oil and gas exploration and production wastes as "hazardous wastes," which would make the reclassified wastes subject to much more stringent handling, disposal and clean-up requirements. To the extent laws are enacted or other governmental actions are taken that prohibit or restrict offshore drilling

or impose environmental protection requirements that result in increased costs to the natural gas and oil industry (both onshore and offshore), our business and prospects could be adversely affected. We believe that we are in substantial compliance with current applicable environmental laws and regulations and that continued compliance with existing requirements would not have a material adverse impact on us.

Violation of environmental laws and regulations can lead to the imposition of administrative, civil or criminal penalties; remedial obligations; and in some instances injunctive relief. In addition, violations of environmental laws or the discharge of hazardous materials or oil could result in liability for personal injuries, property damage, remediation and cleanup costs, and other environmental damages. As a result, substantial liabilities to third parties or governmental entities may be incurred, and the payment of such liabilities could have a material adverse effect on our financial condition and results of operations.

The Oil Pollution Act and regulations thereunder impose a variety of regulations on "responsible parties" related to the prevention of oil spills and liability for damages resulting from such spills in United States waters. A "responsible party" includes the owner or operator of an onshore facility, pipeline or vessel, or the lessee or permittee of the area in which an offshore facility is located. The OPA assigns liability to each responsible party for oil cleanup costs and a variety of public and private damages. While liability limits apply in some circumstances, a party cannot take advantage of liability limits if the spill was caused by gross negligence or willful misconduct or resulted from violation of a federal safety, construction or operating regulation. Likewise, if the party fails to report a spill or to cooperate fully in the cleanup, liability limits do not apply. Even if applicable, the liability limits for offshore facilities require the responsible party to pay all removal costs, plus up to $75 million in other damages. Few defenses exist to the liability imposed by the OPA.

The OPA imposes ongoing requirements on a responsible party, including the preparation of oil spill response plans and proof of financial responsibility to cover environmental cleanup and restoration costs that could be incurred in connection with an oil spill. As amended by the Coast Guard Authorization Act of 1996, the OPA requires responsible parties for covered offshore facilities that have a worst case oil spill of more than 1,000 barrels to demonstrate financial responsibility in amounts ranging from at least $10 million in specified state waters to at least $35 million in federal outer continental shelf waters, with higher amounts of up to $150 million if a formal risk assessment indicates that a higher amount should be required based on specific risks posed by the operations or if the worst case oil spill discharge volume possible at the facility may exceed the applicable threshold volumes

specified under the final rule of the MMS implementing these financial responsibility requirements as enacted in August 1998. We do not anticipate that we will experience any difficulty in continuing to satisfy the MMS requirements for demonstrating financial responsibility under the OPA.

The Federal Water Pollution Control Act, also known as the Clean Water Act, imposes restrictions and strict controls regarding the discharge of produced waters and other oil and gas wastes into navigable waters. Permits must be obtained to discharge pollutants into waters and to conduct construction activities in waters and wetlands. The FWPCA and similar state laws provide for civil, criminal and administrative penalties for any unauthorized discharges of pollutants and unauthorized discharges of reportable quantities of oil and other hazardous substances. Many state discharge regulations and the general permits from the Federal National Pollutant Discharge Elimination System prohibit the discharge of produced water and sand, drilling fluids, drill cuttings and certain other substances related to the oil and gas industry into coastal waters. Although the costs to comply with zero discharge mandates under federal or state law may be significant, the entire industry is expected to experience similar costs, and we believe that these costs will not have a material adverse

impact on our results of operations or financial position. The United States Environmental Protection Agency has adopted regulations requiring certain oil and gas exploration and production facilities to obtain permits for storm water discharges. Costs may be associated with the treatment of wastewater or developing and implementing storm water pollution prevention plans.

The Comprehensive Environmental Response, Compensation, and Liability Act, also known as the "Superfund" law, imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons that are considered to be responsible for the release of a "hazardous substance" into the environment. These persons, including the owner or operator of the disposal site or sites where the release occurred and companies that transported or disposed or arranged for the transport or disposal of the hazardous substances under CERCLA, may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

We generate both hazardous and nonhazardous solid wastes which are subject to requirements of the Federal Resource Conservation and Recovery Act and comparable state statutes. From time to time, the EPA has considered making changes in nonhazardous waste standards that would result in stricter disposal requirements for these wastes. Furthermore, it is possible that some wastes that we generate that are currently classified as nonhazardous may be in the future be designated as "hazardous wastes," resulting in the wastes being subject to more rigorous and costly disposal requirements. Changes in applicable regulations may result in an increase in our capital expenditures or operating expenses.

We currently own or lease, and have in the past owned or leased, onshore properties that for many years have been utilized for or associated with the exploration and production of oil and gas. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where such wastes have been taken for disposal. These properties and the wastes disposed thereon may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate previously disposed wastes (including waste disposed of or released by prior owners or operators) or property contamination (including groundwater contamination by prior owners or operators), or to perform remedial plugging or closure operations to prevent future contamination.

Our operations are also subject to the Federal Clean Air Act and comparable state statutes. Amendments to the Clean Air Act adopted in 1990 contain provisions that may result in the imposition of increasingly stringent pollution control requirements with respect to air emissions from the operations of stationary and mobile source equipment. Such air pollution control requirements may include specific equipment or technologies, permits with emissions and operational limitations, pre-approval of new or modified projects or facilities producing air emissions, and similar measures. Failure to comply with applicable air statutes or regulations may lead to the assessment of administrative, civil or criminal penalties, and/or result in the limitation or cessation of construction or operation of certain air emission sources.

Risk Factors

Risks Related to Our Business

In addition to the other information set forth elsewhere in this Form 10-K, the following factors should be carefully considered when evaluating St. Mary.

Oil and natural gas prices are volatile, and an extended decline in prices would hurt our profitability and financial condition.

Our revenues, operating results, profitability, future rate of growth and the carrying value of our oil and gas properties depend heavily on prevailing market prices for oil and gas. We expect the markets for oil and gas to continue to be volatile. Any substantial or extended decline in the price of oil or gas would have a material adverse effect on our financial condition and results of operations. It could reduce our cash flow and borrowing capacity, as well as the value and the amount of our oil and gas reserves. Lower prices may also reduce the amount of oil and gas that we can economically produce.

Historically, the markets for oil and gas have been volatile, and they are likely to continue to be volatile. Wide fluctuations in oil and gas prices may result from relatively minor changes in the supply of and demand for oil and gas, market uncertainty and other factors that are beyond our control, including:

- worldwide and domestic supplies of oil and natural gas;
- the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- political instability or armed conflict in oil or gas producing regions;
- the price and level of foreign imports;
- worldwide economic conditions;
- marketability of production;
- the level of consumer demand;
- the price, availability and acceptance of alternative fuels;
- the availability of pipeline capacity;
- weather conditions; and
- actions of federal, state, local and foreign authorities.

These external factors and the volatile nature of the energy markets

make it difficult to estimate future prices of oil and natural gas. Declines in oil and gas prices would reduce our revenue and could also reduce the amount of oil and gas that we can produce economically and, as a result, could have a material adverse effect on our financial condition, results of operations and reserves. Further, oil and gas prices do not necessarily move in tandem. Because

approximately 56% of our proved reserves were natural gas reserves as of December 31, 2002, our financial results are slightly more affected by changes in natural gas prices.

A material portion of our production, revenues and cash flows are derived from one field.

Production from the Judge Digby Field accounted for approximately 10% of our total oil and gas production volumes during 2002. If the level of production from this field substantially declines other than through normal depletion over the expected reserve life, it could have a material adverse impact on our overall production levels and our revenues.

Our future success depends on our ability to replace reserves that we produce.

Our future success depends on our ability to find, develop and acquire oil and gas reserves that are economically recoverable. As of December 31, 2002 our proved reserves would last approximately 8.9 years if produced constantly at the 2002 rate of production. In order to maintain current production rates we must locate and develop or acquire new oil and gas reserves to replace those being depleted by production. We may do this even during periods of low oil and gas prices. Without successful exploration or acquisition activities, our reserves, production and revenues will decline rapidly. In addition, approximately 12% of our total estimated proved reserves at December 31, 2002, were undeveloped. By their nature, undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. We cannot assure you that we will be able to find and develop or acquire additional reserves at an acceptable cost.

Our producing property acquisitions carry significant risks.

Our recent growth is due in part to, and our growth strategy relies in part on, acquisitions of producing properties and exploration and production companies. Successful acquisitions require an assessment of a number of factors beyond our control. These factors include recoverable reserves, future oil and gas prices, operating costs and potential environmental and other liabilities. These assessments are inexact and their accuracy is inherently uncertain. In connection with these assessments, we perform a review of the subject properties that we believe is generally consistent with industry practices. However, such a review will not reveal all existing or potential problems. In addition, our review may not permit us to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. We do not inspect every well. Even when we do inspect a well, we may not always discover structural, subsurface or environmental problems that may exist or arise.

In connection with our acquisitions, we may not be entitled to contractual indemnification for preclosing liabilities, including environmental liabilities. Normally, we acquire interests in properties on an "as is" basis with limited remedies for breaches of representations and warranties. In addition, competition for producing oil and gas properties is intense and many of our competitors have financial and other resources substantially greater than those available to us. Therefore, we cannot assure you that we will be able to acquire oil and gas properties that contain economically recoverable reserves or that we will acquire such properties at acceptable prices.

Additionally, significant acquisitions can change the nature of our operations and business depending upon the character of the acquired properties, which may have substantially different operating and geological characteristics or be in different geographic locations than our existing properties. While it

is our current intention to continue to concentrate on acquiring properties with development, exploitation and exploration potential located in our five core operating areas, we cannot assure you that in the future we will not decide to pursue acquisitions of properties located in other geographic regions. To the extent that such acquired properties are substantially different than our existing properties, our ability to efficiently realize the expected economic benefits of such transactions may be limited.

We may not be able to successfully integrate future property or corporate acquisitions.

We seek to make selective niche acquisitions of oil and gas properties, and we will pursue corporate acquisitions that we believe will be accretive. However, integrating acquired properties and businesses involves a number of special risks. These risks include the possibility that management may be distracted from normal business concerns by the need to integrate operations and systems and in retaining and assimilating additional employees. Any of these or other similar risks could lead to potentially adverse short-term or long-term effects on our operating results. We cannot assure you that we will be able to obtain adequate funds for future property or corporate acquisitions, successfully integrate our future property or corporate acquisitions or that we will realize any of the anticipated benefits of the acquisitions.

Substantial capital is required to replace and grow reserves.

We make, and will continue to make, substantial expenditures to find, acquire, develop and produce oil and natural gas reserves. Our capital expenditures for oil and gas properties were $193.0 million for 2002 and $182.9 million during 2001. We have budgeted total capital expenditures of $225.0 million in 2003. With the cash provided by operating activities and borrowings under our credit facility, we believe we will have sufficient cash to fund budgeted capital expenditures in 2003. If additional development or attractive acquisition opportunities arise, we may consider other forms of financing, including the public offering or private placement of equity or debt securities. However, if oil and gas prices decrease or we encounter operating difficulties that result in our cash flow from operations being less than expected, we may have to reduce the capital we can spend in future years unless we raise additional funds through debt or equity financing. We cannot assure you that debt or equity financing, cash generated by operations or borrowing capacity will be available to us on acceptable terms to meet these requirements.

Future cash flows and the availability of financing will be subject to a number of variables, such as:

- our success in locating and producing new reserves;
- the level of production from existing wells;
- prices of oil and natural gas;
- lease operating expense, including workovers and taxes; and
- administrative expense.

Issuing equity securities to satisfy our financing requirements could cause substantial dilution to existing stockholders. Debt financing could lead to:

- a substantial portion of our operating cash flow being dedicated to the payment of principal and interest;

- us being more vulnerable to competitive pressures and economic downturns; and

- restrictions on our operations.

If our revenues were to decrease due to lower oil and natural gas prices, decreased production or other reasons, and if we could not obtain capital through our credit facility or otherwise, our ability to execute our development plans, replace our reserves or maintain production levels could be greatly limited.

We may not obtain a bank credit facility borrowing base redetermination that adequately meets our anticipated financing needs.

We closed a new long-term revolving credit facility in January 2003 with a 9-bank group led by Wachovia Bank. Under the facility, the maximum loan amount is $300.0 million. The amount actually available from time to time depends on a borrowing base that the lenders periodically redetermine based on the value of our oil and gas properties and other assets. The stated total borrowing base is $215.0 million and will be increased to $250.0 million after sufficient mortgage collateral has been provided to the banks. Since we pay commitment fees based on the unused portion of the borrowing base, we have reduced the commitment that we have accepted under the borrowing base to $150.0 million to correspond with our projected funding requirements.

Our next borrowing base redetermination date is scheduled to occur on or about April 15, 2003. We cannot assure you that the banks will agree to a borrowing base redetermination that is adequate for our anticipated financing needs.

If oil and gas prices decrease or exploration efforts are unsuccessful, we may be required to take additional writedowns.

There is a risk that we will be required to write down the carrying value of our oil and gas properties. This could occur when oil and gas prices are low or if we have substantial downward adjustments to our estimated proved reserves, increases in our estimates of development costs or deterioration in our exploration results.

We follow the successful efforts accounting method. All property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending the determination of whether proved reserves have been discovered. If proved reserves are not discovered with an exploratory well, the costs of drilling the well are expensed. All geological and geophysical costs on exploratory prospects are expensed as incurred. The capitalized costs of our oil and gas properties, on a field-by-field basis, may not exceed the estimated future net cash flows of that field. If capitalized costs exceed future net revenues we write down the costs of each such field to our estimate of fair market value. Unproved properties are evaluated at the lower of cost or fair market value. This type of charge will not affect our cash flow from operating activities, but it will reduce the book value of our stockholders' equity. We review the carrying value of our properties quarterly, based on prices in effect as of the end of each quarter or as of the time of reporting our results. Once incurred, a writedown of oil and gas properties is not reversible at a later

date even if oil or gas prices increase. St. Mary incurred impairment and abandonment charges on proved and unproved properties of $2.4 million, $4.7 million and $6.3 million in 2002, 2001 and 2000, respectively.

Information concerning our reserves and future net revenue estimates is uncertain.

There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves and their values, including many factors beyond our control. Estimates of proved undeveloped reserves, which comprise a significant portion of our reserves, are by their nature uncertain. The reserve data included in this Annual Report on Form 10-K is estimated. Although we believe these estimates are reasonable, actual production, revenues and reserve expenditures will likely vary from estimates, and these variances may be material.

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves. Actual production, revenues and expenditures with respect to our reserves will likely vary from estimates, and such variances may be material. See "Business and Properties--Reserves."

In addition, you should not construe PV-10 value as the current market value of the estimated oil and natural gas reserves attributable to our properties. We have based the PV-10 value on prices and costs as of the date of the estimate, in accordance with applicable regulations, whereas actual future prices and costs may be materially higher or lower. For example, values of our reserves at December 31, 2002 were estimated starting with a calculated weighted average sales price of $31.20 per barrel of oil (NYMEX) and $4.74 per MMBtu of gas (Gulf Coast spot price), then adjusted for transportation, quality and basis differentials. During 2002 our monthly average realized gas prices were as high as $3.99 per Mcf and as low as $2.24 per Mcf. For the same period our monthly average realized oil prices were as high as $27.66 per Bbl and as low as $17.72 per Bbl. Many factors will affect actual future net cash flows, including:

- the amount and timing of actual production;

- supply and demand for oil and natural gas;

- curtailments or increases in consumption by natural gas purchasers; and

- changes in governmental regulations or taxation.

The timing of the production of oil and natural gas properties and of the related expenses affect the timing of actual future net cash flows from proved reserves and, thus, their actual present value. In addition, the 10% discount factor, which we are required to use to calculate PV-10 value for reporting purposes, is not necessarily the most appropriate discount factor given actual interest rates and risks to which our business or the oil and natural gas industry in general are subject. As a result, our actual future net cash flows could be materially different from the estimates included in this Annual Report on Form 10-K.

Our industry is highly competitive.

Major oil companies, independent producers, and institutional and individual investors are actively seeking oil and gas properties throughout the world, along with the equipment, labor and materials required to operate properties. Many of our competitors have financial and technological resources vastly exceeding those available to us. Many oil and gas properties are sold in a competitive bidding process in which we may lack technological information or expertise available to other bidders. We cannot be sure that we will be successful in acquiring and developing profitable properties in the face of this competition.

Exploration and development drilling may not result in commercially productive reserves.

Oil and gas drilling and production activities are subject to numerous risks, including the risk that no commercially productive oil or natural gas will be found. The cost of drilling and completing wells is often uncertain, and oil and gas drilling and production activities may be shortened, delayed or canceled as a result of a variety of factors, many of which are beyond our control. These factors include:

- unexpected drilling conditions;
- pressure or irregularities in formations;
- equipment failures or accidents;
- adverse weather conditions;
- shortages in experienced labor;
- compliance with governmental requirements; and
- shortages or delays in the availability of drilling rigs and the delivery of equipment.

The prevailing prices of oil and gas also affect the cost of and the demand for drilling rigs, production equipment and related services.

We cannot assure you that the wells we drill will be productive or that we will recover all or any portion of our investment in such wells. The seismic data and other technologies we use do not allow us to know conclusively prior to drilling a well that oil or gas is present or may be produced economically. The cost of drilling, completing and operating a well is often uncertain, and cost factors can adversely affect the economics of a project. Drilling activities can result in dry wells or wells that are productive but do not produce sufficient net revenues after operating and other costs to cover initial drilling costs.

Our future drilling activities may not be successful, nor can we be sure that our overall drilling success rate or our drilling success rate for activity within a particular area will not decline. Unsuccessful drilling activities could have a material adverse effect on our results of operations and financial condition. Also, we may not be able to obtain any options or lease rights in potential drilling locations that we identify. Although we have identified numerous potential drilling locations, we cannot be sure that we will ever drill them or that we will produce oil or natural gas from them or any other potential drilling locations.

Our business is subject to operating hazards that could result in substantial losses.

Oil and gas operations are subject to many risks, including well blowouts, craterings, explosions, uncontrollable flows of oil, natural gas or well fluids, fires, formations with abnormal pressures, pipeline ruptures or spills, pollution, releases of toxic gas and other environmental hazards and risks. If any of these hazards occurs, we could sustain substantial losses as a result of:

- injury or loss of life;
- severe damage to or destruction of property, natural resources and equipment;
- pollution or other environmental damage;
- clean-up responsibilities;
- regulatory investigations and penalties; and/or
- suspension of operations.

In addition, we may be liable for environmental damage caused by previous owners of property we own or lease. As a result, we may face substantial liabilities to third parties or governmental entities, which could reduce or eliminate funds available for exploration, development or acquisitions or cause us to incur losses. An event that is not fully covered by insurance could have a material adverse effect on our financial condition and results of operations.

We maintain insurance against some, but not all, of these potential risks and losses. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, it could adversely affect us.

Other independent oil and gas companies' limited access to capital may change our exploration and development plans.

Many independent oil and gas companies have limited access to the capital necessary to finance their activities. As a result, some of the other working interest owners of our wells may be unwilling or unable to pay their share of the costs of projects as they become due. These problems could cause us to change, suspend or terminate our drilling and development plans with respect to the affected project.

Hedging transactions may limit our potential gains and involve other risks.

To manage our exposure to price risks in the marketing of our oil and natural gas, we enter into commodity price risk management arrangements from time to time with respect to a portion of our current or future production. While intended to reduce the effects of volatile oil and natural gas prices, these transactions may limit our potential gains if oil or natural gas prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose us to the risk of financial loss in certain circumstances, including instances in which:

- our production is less than expected;
- the counterparties to our futures contracts fail to perform under the contracts; or
- a sudden, unexpected event materially impacts oil or natural gas prices.

The terms of our hedging agreements may also require that we furnish cash collateral, letters of credit or other forms of performance assurance in the event that mark-to-market calculations result in settlement obligations by us to the counterparties, which would encumber our liquidity and capital resources.

Our industry is heavily regulated.

Federal, state and local authorities extensively regulate the oil and gas industry. Legislation and regulations affecting the industry are under constant review for amendment or expansion, raising the possibility of changes that may affect, among other things, the pricing or marketing of oil and gas production. Noncompliance with statutes and regulations may lead to substantial penalties, and the overall regulatory burden on the industry increases the cost of doing business and, in turn, decreases profitability. State and local authorities regulate various aspects of oil and gas drilling and production activities, including the drilling of wells (through permit and bonding requirements), the spacing of wells, the unitization or pooling of oil and gas properties, environmental matters, safety standards, the sharing of markets, production limitations, plugging and abandonment, and restoration. Federal authorities regulate many of these same activities for our drilling and production operations in federal offshore waters. To cover the various obligations of leaseholders in federal waters, federal authorities generally require that leaseholders have substantial net worth or post bonds or other acceptable assurances that such obligations will be met. The cost of these bonds or other surety can be substantial, and we cannot assure you that we will be able to obtain bonds or other surety in all cases. Under some circumstances, federal authorities may require any of our operations on federal leases be suspended or terminated. Any such suspension or termination could materially adversely affect our financial condition and results of operations.

We must comply with complex environmental regulations.

Our operations are subject to complex and constantly changing environmental laws and regulations adopted by federal, state and local governmental authorities where we are engaged in exploration or production operations. New laws or regulations, or changes to current requirements, could have a material adverse effect on our business. We will continue to be subject to uncertainty associated with new regulatory interpretations and inconsistent interpretations between state and federal agencies. We could face significant liabilities to the government and third parties for discharges of oil, natural gas or other pollutants into the air, soil or water, and we could have to spend substantial amounts on investigations, litigation and remediation. We cannot be sure that existing environmental laws or regulations, as currently interpreted

or enforced, or as they may be interpreted, enforced or altered in the future, will not materially adversely affect our results of operations and financial condition. As a result, we may face material indemnity claims with respect to properties we own or have owned.

Our business depends on transportation facilities owned by others.

The marketability of our oil and gas production depends in part on the availability, proximity and capacity of pipeline systems owned by third parties. The unavailability of or lack of available capacity on these systems and facilities could result in the shut-in of producing wells or the delay or discontinuance of development plans for properties. Although we have some contractual control over the transportation of our product, material changes in these business relationships could materially affect our operations. Federal and state regulation of oil and gas production and transportation, tax and energy policies, changes in supply and demand, pipeline pressures, damage to or destruction of pipelines and general economic conditions could adversely affect our ability to produce, gather and transport oil and natural gas.

We depend on key personnel.

Our success will continue to depend on the continued services of our executive officers and a limited number of other senior management and technical personnel with extensive experience and expertise in evaluating and analyzing producing oil and gas properties and drilling prospects, maximizing production from oil and gas properties and marketing oil and gas production. Loss of the services of any of these people could have a material adverse effect on our operations. We currently do not have employment agreements with our executive officers other than Mark Hellerstein, our Chief Executive Officer. We do not carry any key person life insurance policies.

Ownership of working interests, royalty interests and other interests by some of our officers and directors may create conflicts of interest.

As a result of their prior employment with another company with which St. Mary engaged in a number of transactions, Ronald D. Boone, the Executive Vice President and Chief Operating Officer and a director of St. Mary, and two other vice presidents of St. Mary own royalty interests in many of St. Mary's properties, which were earned as part of the prior employer's employee benefit programs. One vice president also owns certain working interests through participation in acquisitions made by his former employer. Those persons have no royalty participation in any new St. Mary properties.

Mr. Boone also owns 25% of Princeton Resources LLC, which owns the oil and gas working interests that he acquired as a result of his prior employment. Although Mr. Boone does not manage this entity, he may participate in any investment decisions made by them.

As a result of these transactions and relationships, conflicts of interest may exist between these persons and us. Although these persons owe fiduciary duties to our stockholders and to us, we cannot assure you that conflicts of interest will always be resolved in our favor.

Risks Related to Our Common Stock

Our certificate of incorporation and bylaws have provisions that discourage corporate takeovers and could prevent shareholders from realizing a premium on their investment.

Our certificate of incorporation and bylaws contain provisions that may have the effect of delaying or preventing a change of control. These provisions, among other things, provide for noncumulative voting in the election of the board of directors and impose procedural requirements on stockholders who wish to make nominations for the election of directors or propose other actions at stockholders' meetings. These provisions, alone or in combination with each other and with the rights plan described below, may discourage transactions involving actual or potential changes of control, including transactions that otherwise could involve payment of a premium over prevailing market prices to shareholders for their common stock

On July 15, 1999, our board of directors adopted a stockholder rights plan. The plan is designed to enhance the board's ability to prevent an acquirer from depriving stockholders of the long-term value of their investment and to protect stockholders against attempts to acquire us by means of unfair or abusive takeover tactics. If the board of directors decides in accordance with its fiduciary obligations that the terms of a potential acquisition do not reflect the long-term value of St. Mary, under the plan the board of directors could allow the holder of each outstanding share of our common stock other than those held by the potential acquirer to purchase one additional share of our common stock with a market value of twice the exercise price. This prospective dilution to a potential acquirer would make the acquisition impracticable unless the terms were improved to the satisfaction of the board of directors. However, the existence of the plan may impede a takeover not supported by our board, including a takeover that may be desired by a majority of our stockholders or involving a premium over the prevailing stock price.

Our shares that are eligible for future sale may have an adverse effect on the price of our common stock.

At February 28, 2003, we had 31,433,900 shares of common stock

outstanding. Of the shares outstanding, approximately 27,405,059 shares were freely tradable without substantial restriction or the requirement of future registration under the Securities Act. Also as of that date, options to purchase 3,025,007 shares of our common stock were outstanding, of which 1,911,398 were exercisable. These options are exercisable at prices ranging from $9.25 to $33.3125 per share. Sales of substantial amounts of common stock, or a perception that such sales could occur, and the existence of options or warrants to purchase shares of commons stock at prices that may be below the then - current market price of the common stock could adversely affect the market price of the common stock and could impair our ability to raise capital through the sale of our equity securities.

Our Former Chairman of the Board and his extended family may be able to control us.

Thomas E. Congdon, a director and our former Chairman of the Board, and members of his extended family owned approximately 16% of the outstanding shares of our common stock as of February 28, 2003. While no formal arrangements exist, these extended family members may be inclined to act in concert with Mr. Congdon on matters related to control of St. Mary, including for example the election of directors or response to an unsolicited bid to acquire St. Mary. Accordingly, Mr. Congdon and his family may be able to control or influence matters presented to our stockholders.

We may not always pay dividends on our common stock.

Although we have paid cash dividends to stockholders every year since 1940 and we expect that our practice of paying dividends will continue, the payment of future dividends remains in the discretion of the board of directors

and will continue to depend on our earnings, capital requirements, financial condition and other factors. In addition, the payment of dividends is subject to covenants in our bank credit facility, including the requirement that we maintain certain levels of stockholder's equity. The board of directors may determine in the future to reduce the current annual dividend rate of $0.10 per share or discontinue the payment of dividends altogether.

Cautionary Statement about Forward-Looking Statements

This Annual Report on Form 10-K includes certain statements that may be deemed to be "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-K that address activities, events or developments that St. Mary's management expects, believes or anticipates will or may occur in the future are forward looking statements. Examples of forward-looking statements may include discussion of such matters as:

- The amount and nature of future capital, development and exploration expenditures;
- The drilling of wells;
- 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;
- Repayment of debt;
- Business strategies;
- Expansion and growth of operations; and
- Other similar matters such as those discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations.

These statements are based on certain 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 we believe are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, including such factors as the volatility and level of oil and natural gas prices, uncertainties in cash flow, expected acquisition benefits, production rates and reserve replacement, reserve estimates, drilling and operating risks, competition, litigation, environmental matters, the potential impact of government regulations, and other matters discussed under the caption "Risk Factors", many of which are beyond our control. Readers are cautioned that forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those expressed or implied in the forward-looking statements.

Available Information

Our Internet website address is www.stmaryland.com. We make available free of charge through our website's financial information section our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed with or furnished to the SEC under applicable securities laws as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. Our web site information is not incorporated by reference into this Annual Report on Form 10-K.

Glossary

The terms defined in this section are used throughout this Annual Report on Form 10-K.

2-D seismic or 2-D data. Seismic data that are acquired and processed to yield a two-dimensional cross-section of the subsurface.

3-D seismic or 3-D data. Seismic data that are acquired and processed to yield a three-dimensional picture of the subsurface.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used herein in reference to oil or other liquid hydrocarbons.

Bcf. Billion cubic feet, used herein in reference to natural gas.

BCFE. Billion cubic feet of gas equivalent. Gas equivalents are determined using the ratio of six Mcf of gas (including gas liquids) to one Bbl of oil.

Behind pipe reserves. Estimated net proved reserves in a formation in which production casing has already been set in the wellbore but has not been perforated and production tested.

BOE. Barrels of oil equivalent. Oil equivalents are determined using the ratio of six Mcf of gas (including gas liquids) to one Bbl of oil.

Development well. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive in an attempt to recover proved undeveloped reserves.

Dry hole. A well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

Estimated net proved reserves. The estimated quantities of oil, gas and gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Exploratory well. A well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir.

Fee land. The most extensive interest that can be owned in land, including surface and mineral (including oil and gas) rights.

Finding cost. Expressed in dollars per BOE or MCFE. Finding costs are calculated by dividing the amount of total capital expenditures for oil and gas activities by the amount of estimated net proved reserves added during the same period (including the effect on proved reserves of reserve revisions).

Gross acres. An acre in which a working interest is owned.

Gross well. A well in which a working interest is owned.

Hydraulic fracturing. A procedure to stimulate production by forcing a mixture of fluid and proppant (usually sand) into the formation under high pressure. This creates artificial fractures in the reservoir rock, which increases permeability and porosity.

MBbl. One thousand barrels of oil or other liquid hydrocarbons.

MMBbl. One million barrels of oil or other liquid hydrocarbons.

MBOE. One thousand barrels of oil equivalent.

MMBOE. One million barrels of oil equivalent.

Mcf. One thousand cubic feet.

MCFE. One thousand cubic feet of gas equivalent. Gas equivalents are determined using the ratio of six Mcf of gas (including gas liquids) to one Bbl of oil.

MMcf. One million cubic feet.

MMCFE. One million cubic feet of gas equivalent. Gas equivalents are determined using the ratio of six Mcf of gas (including gas liquids) to one Bbl of oil.

MMBtu. One million British Thermal Units. A British Thermal Unit is the heat required to raise the temperature of a one-pound mass of water one degree Fahrenheit.

Net acres or net wells. The sum of the fractional working interests owned in gross acres or gross wells.

Net asset value per share. The result of the fair market value of total assets less total liabilities, divided by the total number of outstanding shares of common stock.

PV-10 value. The present value of estimated future gross revenue to be generated from the production of estimated net proved reserves, net of estimated production and future development costs, using prices and costs in effect as of the date indicated (unless such prices or costs are subject to change pursuant to contractual provisions), without giving effect to non-property related expenses such as general and administrative expenses, debt service and future income tax expenses or to depreciation, depletion and amortization, discounted using an annual discount rate of 10%.

Productive well. A well that is producing oil or gas or that is capable of production.

Proved developed reserves. Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved undeveloped reserves. Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

Recompletion. The completion for production of an existing wellbore in another formation from that in which the well has previously been completed.

Reserve life. Expressed in years, represents the estimated net proved reserves at a specified date divided by forecasted production for the preceding 12-month period.

Royalty. The interest paid to the owner of mineral rights expressed as a percentage of gross income from oil and gas produced and sold unencumbered by expenses.

Royalty interest. An interest in an oil and gas property entitling the owner to shares of oil and gas production free of costs of exploration, development and production. Royalty interests are approximate and are subject to adjustment.

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas, regardless of whether such acreage contains estimated net proved reserves.

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and to share in the production.

ITEM 2. PROPERTIES

Operations

St. Mary's exploration, development and acquisition activities are focused in five core operating areas: the Mid-Continent region; onshore Gulf Coast and offshore Gulf of Mexico; the ArkLaTex region; the Rocky Mountain region in Montana, North Dakota and Wyoming; and the Permian Basin in west Texas and New Mexico. Information concerning each of our major areas of operations, based on our estimated proved reserves as of December 31, 2002, is shown below.

	Estimated Proved Reserves					
			MMCFE		PV-10 Value	
	Oil (MBbls)	Gas (MMcf)	Amount	Percent	(In thousands)	Percent
Mid-Continent Region	1,315	140,840	148,731	30.3%	$ 278,685	33.8%
ArkLaTex Region	1,350	47,464	55,566	11.3%	91,458	11.1%
Gulf Coast and Gulf of Mexico	400	37,505	39,906	8.1%	103,128	12.5%
Rocky Mountain Region	27,422	35,568	200,096	40.8%	284,482	34.5%
Permian Basin	5,632	12,795	46,588	9.5%	67,055	8.1%
Total	36,119	274,172	490,887	100.0%	$ 824,808	100.0%

Mid-Continent Region. Since 1973 St. Mary has been active in the Mid-Continent region, where operations are managed by our 32-person Tulsa, Oklahoma office. We have ongoing exploration and development programs in the Anadarko and Arkoma Basins of Oklahoma and Texas. The Mid-Continent region accounted for 30% of our estimated proved reserves as of December 31, 2002, or

148.7 BCFE, 84% of which were proved developed and 95% of which were natural gas. We participated in drilling 50 gross wells in this region in 2002, including 26 wells operated by us, 88% of which were completed as producers.

St. Mary's development and exploration budget in the Mid-Continent region for 2003 totals $45.0 million. We plan to operate 36 drilling wells in the Mid-Continent region during 2003 and to utilize three to four drilling rigs throughout the year. Our 2003 budget also reflects participation in an additional 10 to 30 wells to be operated by other entities.

Anadarko Basin. Our long history of operations and proprietary geologic knowledge enables us to sustain economic development and exploration programs despite periods of adverse industry conditions. We are applying state of the art technology in hydraulic fracturing and innovative well completion techniques to accelerate production and associated cash flow from the region's tight gas reservoirs. We also continue to benefit from the continuing consolidation of operators in the basin as we pursue attractive opportunities to acquire properties.

Approximately 55% of the drilling activities for 2003 will be focused on low-to-medium-risk development in the Cromwell, Granite Wash, Osborne, Red Fork and Spiro formations. In addition, approximately 45% of our 2003 Mid-Continent capital budget is allocated to deeper, higher-potential wells in the Morrow and Atoka formations at the NE Mayfield Field in Oklahoma and in various other fields within the Morrow and Springer formations at depths up to 22,000 feet.

Carrier Prospect. Within its inventory of higher-risk higher-potential exploration prospects, St. Mary holds an aggregate 42% working interest in 5,700 acres in Leon County, Texas. Our Carrier Prospect acreage relates to a platform reef prospect located near the industry's prolific Cotton Valley pinnacle reef discovery and targets potentially larger platform reefs that we believe developed in the deeper waters of the basin during the Jurassic period. We plan to seek industry participation for an initial test well in 2003.

Arkoma Basin. In February 2002 we expanded our Arkoma Basin holdings with the acquisition of oil and gas properties and an 89-mile gas gathering system from Merchant Resources #1 L.P. of Houston, Texas for $7.5 million. The properties include undrilled locations and are expected to complement our existing properties in the area. In 2002, we spud 11 wells in this area with an 82% success rate. The primary producing formations in this area include the Booch, Hartshorne, Wapanucka and the Cromwell. Our average working interest for these wells is 91%, and we anticipate drilling at least ten gross wells in this area in 2002. Initial production rates from the wells have varied from approximately 500 Mcf per day to 1,250 Mcf per day. Since the Merchant acquisition we have increased production in this area from two MMcf per day to nearly eight MMcf per day.

Gulf Coast and Gulf of Mexico Region. St. Mary's presence in south Louisiana dates to the early 1900's when our founders acquired a franchise property in St. Mary Parish on the shoreline of the Gulf of Mexico. These 24,900 acres of fee lands yielded $2.9 million of gross oil and gas royalty revenue in 2002. Our onshore Gulf Coast and Gulf of Mexico presence increased significantly in 1999 with the acquisition of King Ranch Energy. This acquisition included 260,000 gross undeveloped acres (81,000 net acres) and a large 3-D seismic database. The Gulf Coast and Gulf of Mexico region accounted for 8% of our estimated proved reserves as of December 31, 2002, or 39.9 BCFE, 95% of which were proved developed and 94% of which were natural gas.

St. Mary's diverse activities in the onshore Gulf Coast and Gulf of Mexico are managed by our 13-person regional office in Lafayette, Louisiana and include ongoing development and exploitation programs in multiple basins onshore south Louisiana as well as several offshore shallow-water Gulf of Mexico blocks. Advanced 3-D seismic imaging and interpretation techniques and extensive subsurface geological interpretations are revitalizing exploration and development activities in the Miocene trend along the Gulf Coast. Our exploration and development budget in the Gulf Coast and Gulf of Mexico region for 2003 is $17.0 million.

The Judge Digby Field is the largest field acquired in the King Ranch Energy acquisition and is located outside Baton Rouge, Louisiana in Point Coupee Parish. We have interests ranging from 10% to 20% in eleven wells that are producing a total of 180 MMcf per day on a gross basis as of February 2003. This ultra deep field produces from multiple Tuscaloosa reservoirs between 19,000 and 24,000 feet. The wells are characterized by high producing rates such as the Parlange #11 completed in 2000 at an initial rate of 92,000 Mcf per day. We believe this well had the highest initial production rate for a well ever completed onshore Louisiana. New drilling in this field is continuing with the completion of the J. Wuertele #3 in August 2002 with producing rates up to 60,000 Mcf per day. The Majors #4 was drilled to 22,962 feet and completed in December 2002 in the C-3 and C-4 Tuscaloosa sands producing at initial rates up to 36,000 Mcf per day. Two new wells and two sidetrack wells are planned for 2003 along with several recompletions in this multi-pay geologically complex field.

In December 2002 we acquired additional interests in the High Island Field where we drilled the successful Miami Corp T-1 well in 2001. This well is currently producing 8,500 Mcf per day and we plan to drill an offset well in 2003.

Fee Lands. St. Mary owns 24,900 acres of fee lands and associated mineral rights in St. Mary Parish located approximately 85 miles southwest of New Orleans, Louisiana. Since the initial discovery on our fee lands in 1938, our cumulative oil and gas revenues, primarily landowner's royalties, from the Bayou Sale, Horseshoe Bayou and Belle Isle fields have exceeded $235 million. We currently lease 9,945 acres and have granted a seismic option to Seismic Exchange, Inc. on the remaining 14,969 acres. The survey is underway and will cover the entire fee properties. SEI estimates the acquisition of the data to be completed by mid-October. Under the terms of the agreement, we are entitled to receive a copy of the processed data and have been granted the right to utilize the data for our purpose or for purposes of showing the data to current lessees and prospective lessees. Upon completion of the processing of the survey data, we are hopeful this will encourage development drilling by our lessees, facilitate the origination of new prospects and stimulate exploration interest in deeper, untested horizons. Our principal operators on the fee properties are BP Amoco, Cabot and Amerada Hess

ArkLaTex Region. St. Mary's operations in the ArkLaTex region are managed by our 18-person office in Shreveport, Louisiana. The ArkLaTex region accounted for 11% of our estimated proved reserves as of December 31, 2002, or 55.6 BCFE, 75% of which were proved developed and 85% of which were natural gas. In 1992, we acquired oil and gas properties and rights to over 6,000 square miles of proprietary 2-D seismic data in the region. Much of the Shreveport office's successful exploration and development programs have derived from niche acquisitions completed since 1992 totaling $23.2 million. These acquisitions have provided access to strategic holdings of undeveloped acreage and proprietary packages of geologic and seismic data, resulting in an active program of additional development and exploration.

Our holdings in the ArkLaTex region are comprised of interests in approximately 701 producing gross wells, including 117 wells operated by us; interests in leases totaling approximately 77,158 gross acres; and mineral

servitudes totaling approximately 14,600 gross acres. Activities in the ArkLaTex region during 2002 focused on the search for new opportunities and potential analog fields as well as final development of several important field

discoveries made by our geoscientists since 1994. We completed two acquisitions totaling $4.9 million for primarily undeveloped properties in the Huxley Field, part of the James Lime Horizontal Trend. Our initial well, the USA N No. 2-H was completed in early 2003 at a rate of 3,800 Mcf per day. We have six additional wells planned in the Huxley Field in 2003.

In 2003 we will continue to focus on the search for new opportunities and potential analog fields in which to apply our proprietary geologic models and production techniques. We anticipate participating in 35 gross wells in the ArkLaTex region and are the operator of properties representing approximately 85% of our 2003 ArkLaTex region capital expenditures budget.

Rocky Mountain Region. Nance Petroleum Corporation, a wholly owned subsidiary of St. Mary, has conducted operations in the Williston Basin in eastern Montana and western North Dakota on our behalf since 1991, initially under a joint venture arrangement and subsequently as a wholly owned subsidiary. This area has expanded into the Green River Basin with properties acquired from Choctaw and Flying J and the Powder River Basin with our coal-bed methane pilot project and additional properties acquired from Flying J in 2003. The Rocky Mountain region accounted for 41% of our estimated proved reserves as of December 31, 2002, or 200.1 BCFE, 96% of which were proved developed and 82% of which were oil.

Our office in Billings, Montana includes a 35-person staff. A significant portion of the exploration and development in the Rocky Mountain Region is based on the interpretation of 3-D seismic data. We have successfully used 3-D seismic imaging to delineate structure and porosity development in the Red River formation. Since 1991 we have successfully completed 34 out of 38 gross wells drilled and operated. Our prospect inventory continues to expand as results from current activity lead to additional areas to conduct 3-D seismic surveys. Ten additional 3-D surveys are planned for 2003.

St. Mary spent $17 million on exploration and development in the Williston Basin in 2002. In December 2002 we completed a $69.5 million acquisition of Williston Basin properties from Burlington Resources. These properties currently produce approximately 3,100 barrels of oil and 3,300 Mcf of gas per day. Our 2003 Rocky Mountain Region exploration and development capital budget is $33.0 million. We plan to drill seventeen operated wells with working interests ranging from 48% to 100%. We are the operator of properties representing approximately 86% of our Rocky Mountain Region capital budget in 2003.

In January 2003 St. Mary issued 3,380,818 shares of its restricted common stock valued at $71.6 million to acquire Rocky Mountain properties from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. This acquisition included properties located in the Williston, Powder River and Green River Basins with 66.9 BCFE of proved reserves and production of approximately 2,100 barrels of oil and 8,200 Mcf of gas per day. We also received a net amount of $2.8 million in cash for normal purchase price adjustments. In addition, St. Mary made a non-recourse loan to Flying J and Big West of $71.6 million at LIBOR plus 2% for up to a 39-month period, which is secured by a pledge of the shares of St. Mary stock issued to Flying J and Big West. The loan was funded through borrowings under our bank credit facility.

Permian Basin Region. The Permian Basin area covers a significant portion of eastern New Mexico and western Texas and is one of the major producing basins in the United States. The basin includes hundreds of oil fields

undergoing secondary and enhanced oil recovery projects. 3-D seismic imaging of existing fields and advanced secondary recovery programs are substantially increasing oil recoveries in the Permian Basin. Our holdings in the Permian Basin resulted from a series of niche property acquisitions since 1995, which total $22.1 million. We believe that our Permian Basin operations provide us with a solid base of long-lived oil reserves, promising longer-term exploration and development prospects and the potential for secondary recovery projects. The Permian Basin region accounted for 9.5% of our estimated proved reserves as of December 31, 2002, or 46.6 BCFE, of which 73% were proved developed and 73% were oil.

St. Mary participated in drilling 15 gross wells in 2002 with an 80% success rate. The East Shugart Delaware Unit waterflood project was initiated in 2000 with a 5-well pilot project. Production flattened out in 2002 and the initial response from the water injection is anticipated in 2003. We are hopeful the East Shugart waterflood will be an analog to our successful Parkway Delaware Unit waterflood that increased production from 325 Bbl per day in 1996 when the property was acquired to 1,200 Bbl per day in 2002.

Our Permian Basin capital budget for 2002 is $12.0 million. In addition to drilling four injection wells in the East Shugart Delaware waterflood, two wells are planned at our Samboca prospect, six in-fill wells are planned at Ft. Chadbourne and three wells in the Parkway and HJSA fields.

Other Areas. We have acquired leases covering 145,000 gross acres in which we own an average 90% working interest in the Hanging Woman Basin of Montana and Wyoming for prospective coalbed methane development. We have drilled an 18-well pilot program and are evaluating its results. We are also currently investigating permitting and environmental issues related to these prospects. We will be unable to determine the future potential of these prospects until we have completed the evaluation of our pilot program and have resolved all such permitting and environmental issues. An environmental public interest group has filed a lawsuit against the federal Bureau of Land Management seeking to cancel certain federal leases related to coalbed methane development in Montana, which could affect 48,000 of our 145,000 gross leased acres. We will monitor this lawsuit as part of our investigation of environmental issues related to these prospects. See "Legal Proceedings" for a discussion of this lawsuit.

On April 26, 2002, the Interior Board of Land Appeals of the U.S. Department of the Interior issued an order that reversed a decision by the Bureau of Land Management dismissing a protest by the Wyoming Outdoor Council and Powder River Basin Resource Council of the offer for sale in February 2000 of three oil and gas leases in the Powder River Basin in Wyoming. The Board held that the BLM determination to allow the offer for sale of the three particular leases did not comply with environmental laws since the environmental analysis used by the BLM in making that determination did not contain a discussion of the unique potential impacts associated with coalbed methane extraction and development or consider reasonable alternatives relevant to a pre-leasing environmental analysis. On October 15, 2002, the Board refused to reconsider this lease holding. The order addressed only three particular leases covering approximately 2,600 acres that are not included in our Hanging Woman Basin project. However, we cannot assure you that other leases, including issued leases that we hold in the Hanging Woman Basin, will not be challenged on a similar basis.

Coalbed methane production is similar to our traditional natural gas production as to the physical producing facilities and the product produced. However, the subsurface mechanisms that allow the gas to move to the wellbore and the producing characteristics of coalbed methane wells are very different from traditional natural gas production. Unlike conventional gas wells, which

require a porous and permeable reservoir, hydrocarbon migration and a natural structural and/or stratigraphic trap, the coalbed methane gas is trapped in the molecular structure of the coal itself until released by pressure changes resulting from the removal of in situ water. Frequently, coalbeds are partly or completely saturated with water. As the water is removed, internal pressures on the coal are decreased, allowing the gas to desorb from the coal and flow to the wellbore. Unlike traditional gas wells, new coalbed methane wells often produce water for several months and then, as the water production decreases, natural gas production increases as the coal seams de-water.

Coalbed methane gas production in the Hanging Woman Basin requires

state permits for the use of well-site pits and evaporation ponds for the disposal of produced water. However, groundwater produced from the coal seams can generally be discharged into arroyos, surface waters, well-site pits and evaporation ponds without a permit if it does not exceed surface discharge permit levels, and if it meets state and federal primary drinking water standards. All of these disposal options require an extensive third-party water sampling and laboratory analysis program to ensure compliance with state permit standards. Where water of lesser quality is involved or the wells produce water in excess of the applicable volumetric permit limits, additional disposal wells would have to be drilled to re-inject the produced water back into deep underground rock formations.

Duchesne Deep. In 2002 we acquired over 12,000 acres in the Uinta Basin of Utah to drill a basin centered gas test in the Mesaverde formation at depths up to 16,000 feet. Using current technology and our experience drilling and completing tight gas sand formations, our objective is to economically produce gas from the tight Mesaverde sand. The first well was spud in September 2002 and reached total depth in early 2003. The well will undergo extensive testing and if successful, $4.8 million is budgeted in 2003 for additional acreage and to drill two additional wells.

Acquisitions

In December 2002 we completed a $69.5 million acquisition of Williston Basin properties from Burlington Resources Oil and Gas Company LP. Other acquisitions in 2002 totaled $18.2 million including the $7.5 million acquisition of Arkoma Basin, Oklahoma properties from Merchant Resources LP and the $4.9 Huxley Field acquisition in east Texas. In November 2001, we completed a $40.5 million acquisition from Choctaw II Oil & Gas, Ltd. of oil and gas properties located in our Williston Basin core area and the Green River Basin in Wyoming. During the last five years we have completed over $232 million of acquisitions. For 2003 we have budgeted $90.0 million for property acquisitions. However, we have the financial capacity to commit substantially greater resources to purchases should additional opportunities be identified. In January 2003 we closed a $68.8 million acquisition of Rocky Mountain properties from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc., after purchase price adjustments. This acquisition included 66.9 BCFE of proved reserves located in the Williston, Powder River and Green River Basins. In January 2003 we also closed a $5.2 million acquisition of interests in our Ft. Chadbourne field in west Texas.

Reserves

The following table presents summary information with respect to the estimates of our proved oil and gas reserves for each of the years in the three-year period ended December 31, 2002, as prepared by both Ryder Scott Company, independent petroleum engineers, and us. For the periods presented, Ryder Scott Company evaluated properties representing approximately 80% of our

total PV-10 value while we evaluated the remainder. The PV-10 values shown in the following table are not intended to represent the current market value of the estimated proved oil and gas reserves owned by St. Mary. Neither prices nor costs have been escalated, but prices include the effects of hedging contracts. You should read the following table along with the sections entitled "Risk Factors - Risks Related to Our Business - Information concerning our reserves and future net revenue estimates is uncertain".

	As of December 31,		
	2002	2001	2000
Proved Reserves Data:			
Oil (MBbls)	36,119	23,669	20,950
Gas (MMcf)	274,172	241,231	225,975
MMCFE	490,887	383,247	351,673
PV-10 value (in thousands) (1)	$ 824,808	$ 363,795	$ 1,153,663
Proved Developed Reserves	88%	86%	87%
Production Replacement	306%	166%	168%
Reserve Life (years) (2)	8.9	7.1	6.7

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(1) PV-10 value as of December 31, 2002, was calculated using prices in effect at December 31, 2002, of $31.20 per barrel of oil (NYMEX) and $4.74 per MMBtu of gas (Gulf Coast spot price). Both of these prices were then adjusted for transportation, quality and basis differentials. These prices were 57% and 79% higher, respectively, than prices used to calculate PV-10 value as of December 31, 2001. The PV-10 value includes a deficit totaling $23,398,000 attributable to price hedging contracts.

(2) Reserve life represents the estimated proved reserves at the dates indicated divided by actual production for the preceding 12-month period.

Production

The following table summarizes the average volumes of oil and gas produced from properties in which St. Mary held an interest during the periods indicated:

	Years Ended December 31,		
	2002	2001	2000
Operating Data:			
Net production:			
Oil (MBbls)	2,815	2,434	2,398
Gas (MMcf)	38,164	39,491	38,346
MMCFE	55,055	54,093	52,731
Average net daily production:			
Oil (Bbls)	7,713	6,667	6,551
Gas (Mcf)	104,558	108,195	104,769
MCFE	150,836	148,199	144,075
Average sales price (1):			
Oil (per Bbl)	$ 25.34	$ 23.29	$ 23.53
Gas (per Mcf)	$ 3.00	$ 3.73	$ 3.44
Additional per MCFE data:			
Lease operating expense	$ 0.66	$ 0.75	$ 0.48
Transportation costs	$ 0.06	$ 0.04	$ 0.04
Production taxes	$ 0.20	$ 0.23	$ 0.21
General and administrative	$ 0.26	$ 0.22	$ 0.21
Depreciation, depletion and amortization	$ 0.99	$ 0.95	$ 0.76

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(1) Includes the effects of St. Mary's hedging activities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Productive Wells

As of December 31, 2002, we had interests in 1,256 gross (558 net) productive oil wells and 1,457 gross (334 net) productive gas wells. Productive wells are either producing wells or wells capable of commercial production although currently shut in. One or more completions in the same wellbore are counted as one well. A well is categorized under state reporting regulations as an oil well or a gas well based upon the ratio of gas to oil produced when it first commenced production, and such designation may not be indicative of current production.

Drilling Activity

The following table sets forth the wells drilled and recompleted in which St. Mary participated during each of the three years indicated:

	Years Ended December 31,					
	2002		2001		2000	
	Gross	Net	Gross	Net	Gross	Net
Development:						
Oil	26	11.52	48	14.49	40	17.37
Gas	103	38.89	154	33.28	107	24.94
Non-productive	27	14.42	31	7.13	31	9.38
	156	64.83	233	54.90	178	51.69
Exploratory:						
Oil	3	1.22	3	1.55	6	4.17
Gas	1	.10	9	1.84	11	3.63
Non-productive	8	2.64	7	2.56	8	4.32
	12	3.96	19	5.95	25	12.12
Farmout or non-consent	8	-	9	-	8	-
Total (1)	176	68.79	261	60.85	211	63.81

(1) Does not include 14, 12 and 12 gross wells completed on St. Mary's fee lands during 2002, 2001 and 2000, respectively, in which we have only a royalty interest.

All of our drilling activities are conducted on a contract basis with independent drilling contractors. We do not own any drilling equipment.

Acreage

The following table sets forth the gross and net acres of developed and undeveloped oil and gas leases, fee properties, mineral servitudes and lease options held by St. Mary as of December 31, 2002. Undeveloped acreage includes leasehold interests that may already have been classified as containing proved undeveloped reserves.

	Developed Acres (1)		Undeveloped Acres (2)		Total	
	Gross	Net	Gross	Net	Gross	Net
Arkansas	2,256	399	166	28	2,422	427
Louisiana	90,574	33,075	25,709	10,381	116,283	43,456
Montana	57,732	28,630	174,923	139,410	232,655	168,040
New Mexico	7,160	2,151	1,320	920	8,480	3,071
North Dakota	93,362	36,780	95,999	61,064	189,361	97,844
Oklahoma	231,147	60,633	43,661	20,163	274,808	80,796
Texas	138,304	49,155	92,941	35,735	231,245	84,890
Wyoming	17,598	6,277	56,689	48,942	74,287	55,219
Other (3)	2,501	346	13,465	8,647	15,966	8,993
	640,634	217,446	504,873	325,290	1,145,507	542,736
Louisiana Fee Properties	10,337	10,337	14,577	14,577	24,914	24,914
Louisiana Mineral Servitudes	9,785	5,346	4,768	4,255	14,553	9,601
	20,122	15,683	19,345	18,832	39,467	34,515
Total	660,756	233,129	524,218	344,122	1,184,974	577,251

(1) Developed acreage is acreage assigned to producing wells for the spacing unit of the producing formation. Developed acreage in certain of St. Mary's properties that include multiple formations with different well spacing requirements may be considered undeveloped for certain formations, but have only been included as developed acreage in the presentation above.
(2) Undeveloped acreage is lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether such acreage contains estimated proved reserves.
(3) Includes interests in Alabama, Colorado, Kansas, Mississippi, South Dakota, Utah and Washington. St. Mary also holds an overriding royalty interest in an additional 43,108 gross acres in Utah.

ITEM 3. 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 this date, no legal proceedings are pending against us that individually or collectively could have a material adverse effect upon our financial condition or results of operations.

On March 27, 2002, Nance Petroleum Corporation, a wholly owned subsidiary, was named along with several other leaseholders and interested parties as an additional co-defendant in a lawsuit that was originally filed in the U.S. District Court for the District of Montana on June 12, 2001. The plaintiff, the Northern Plains Resource Council, Inc. ("NPRC"), an environmental public interest group, sued the U.S. Bureau of Land Management, the U.S. Secretary of the Interior, the Montana BLM State Director and Fidelity Exploration & Production Company. The lawsuit, which was reported in our 2001 Form 10-K and our 2002 Form 10-Qs, seeks the cancellation of all federal leases related to coalbed methane development in Montana issued by the BLM since January 1, 1997. This cancellation is sought primarily on the grounds of an alleged failure of the BLM to comply with federal environmental laws. NPRC alleges that the environmental impacts of coalbed methane development were not properly analyzed before the challenged leases were issued. The Montana portion of our Hanging Woman Basin coalbed methane project contains approximately 71,000 total net acres. The lawsuit potentially affects the approximately 47,000 net acres that are subject to federal leases. Based on information presently available, we believe that the BLM complied with the applicable environmental laws. Nevertheless, there is no assurance as to the outcome of the lawsuit, and therefore, there is no assurance that it will not adversely affect our coalbed methane project. Even if the federal leases in Montana become unavailable, we anticipate continuing with the Hanging Woman Basin project in Wyoming, and obtaining additional non-federal leases in Montana. See "Properties - Other Areas" for a discussion of other recent coalbed methane legal developments.

As previously reported in our 2002 Quarterly Reports on Form 10-Q, GNK Acquisition Corp., a recently acquired wholly owned subsidiary, was served in a lawsuit on May 1, 2002, that had been filed earlier in 2002 in the District Court in Shelby County, Texas. This suit was filed by Samson Lone Star Limited Partnership against GNK Acquisition Corp. and GNK, Inc., the previous owner of GNK Acquisition Corp. This suit was settled and dismissed in February 2003 with no material effect on our financial position or results of operations.

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

There were no matters submitted to a vote of security holders during the fourth quarter of 2002.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the names, ages and positions held by St. Mary's executive officers as of January 31, 2003.

Name	Age	Position
Mark A. Hellerstein	50	Chairman of the Board, President and Chief Executive Officer
Ronald D. Boone	55	Executive Vice President and Chief Operating Officer
Robert L. Nance	66	Senior Vice President, and President of Nance Petroleum Corporation, a wholly-owned subsidiary of St. Mary since 1999
Robert T. Hanley	56	Vice President - Business Development
Richard C. Norris	47	Vice President - Finance, Secretary and Treasurer
Milam Randolph Pharo	50	Vice President - Land and Legal
Garry A. Wilkening	52	Vice President - Administration and Controller
Douglas W. York	41	Vice President - Acquisitions and Engineering

Each of the executive officers has held the above positions for the past five years, with the exception of the following:

Mark A. Hellerstein was appointed Chairman of the Board in September 2002.

Robert L. Nance has served as Senior Vice President of St. Mary since 2001.

Robert T. Hanley has served as Vice President - Business Development since 2000. Mr. Hanley was Chief Financial Officer of Nance Petroleum Corporation from 1999 to 2000 and Chief Financial Officer of Panterra Petroleum, a partnership between St. Mary and Nance Petroleum Corporation, from 1992 to 1999.

Richard C. Norris has served as Vice President - Finance and Secretary since 1999. Mr. Norris was appointed Treasurer in 1991, and from 1991 to 1999 he was also Vice President - Accounting and Administration. Mr. Norris joined St. Mary in 1982 as Corporate Controller.

Milam Randolph Pharo has served as Vice President - Land and Legal since 1998. Mr. Pharo joined St. Mary in 1996 as Vice President - Land and was previously in private practice as an attorney specializing in oil and gas matters since 1977.

Garry A. Wilkening has served as Vice President - Administration since 1999. Mr. Wilkening joined St. Mary in 1993 as Corporate Controller.

The executive officers of the Company serve at the pleasure of the board of directors and do not have fixed terms. Executive officers generally are elected at the regular meeting of the board immediately following the annual stockholders meeting. Any officer or agent elected or appointed by the board may

be removed by the board whenever in its judgement the best interests of the Company will be served thereby without prejudice, subject however, to contractual rights, if any, of the person so removed. Messrs. Hellerstein, Boone and Nance are members of the board of directors.

There are no family relationships, first cousin or closer, between any executive officer and director. There are no arrangements or understandings between any officer and any other person pursuant to which that officer was elected.

PART II

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

Market Information. St. Mary's common stock is currently traded on the New York Stock Exchange under the symbol SM after transferring from the Nasdaq on November 20, 2002. The range of high and low sales prices for the quarterly periods in 2002 and 2001, as reported by the New York Stock Exchange after November 19, 2002, and the Nasdaq National Market System before November 20, 2002, is set forth below:

Quarter Ended	High	Low
December 31, 2002	$27.35	$23.16
September 30, 2002	24.71	19.00
June 30, 2002	25.05	21.00
March 31, 2002	23.25	18.75
December 31, 2001	$22.20	$14.65
September 30, 2001	21.81	14.58
June 30, 2001	25.24	19.25
March 31, 2001	35.00	20.63

Holders. As of February 28, 2003, the number of record holders of St. Mary's common stock was 173. Management believes, after inquiry, that the number of beneficial owners of our common stock is in excess of 3,700.

Dividends. St. Mary has paid cash dividends to stockholders every year since 1940. Annual dividends of $0.10 per share were paid in each of the years 1998 through 2002. We expect that our practice of paying dividends on our common stock will continue, although the payment of future dividends on our common stock will continue to depend on our earnings, capital requirements, financial condition and other factors. In addition, the payment of dividends is subject to covenants in our bank credit facility, including the requirement that we maintain certain levels of stockholders' equity. Dividends are currently paid on a semi-annual basis. Dividends paid totaled $2,787,000 in 2002 and $2,795,000 in 2001.

Restricted Shares. On January 29, 2003, St. Mary issued 3,380,818 restricted shares of our common stock in connection with the acquisition of oil and gas properties from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. The shares are subject to contractual restrictions on transfer for a period of two years and St. Mary will be required to file a registration statement for the resale of the shares and have it declared effective upon the expiration of the two-year period.

Equity Compensation Plans. St. Mary has a stock option plan, an incentive stock option plan and an employee stock purchase plan under which options and shares of St. Mary common stock are authorized for grant or issuance as compensation to eligible employees, consultants and members of the board of directors. Each of these plans has been approved by our stockholders. See Note 7 of the Notes to Consolidated Financial Statements included in this report for further information about the material terms of these plans. The following table

is a summary of the shares of common stock authorized for issuance under our equity compensation plans as of December 31, 2002:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	3,061,566	$21.34	1,118,588(1)
Equity compensation plans not approved by security holders	-	-	-
Total	3,061,566	$21.34	1,118,588

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(1) Includes 870,073 shares which are authorized for issuance under our employee stock purchase plan.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for St. Mary as of the dates and for the periods indicated. The financial data for each of the five years presented were derived from the consolidated financial statements of St. Mary. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," which includes a discussion of factors materially affecting the comparability of the information presented, and in conjunction with St. Mary's consolidated financial statements included elsewhere in this report.

	Years Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands, except per share data)				
Income Statement Data:					
Operating revenues:					
Oil and gas production	$ 185,670	$ 203,973	$ 188,407	$ 73,387	$ 71,413
Gas marketing revenue	8,399	420	-	-	-
Gain (loss) on sale of proved properties	(2,633)	367	3,404	(55)	7,685
Derivative gain	3,188	-	-	-	-
Other	1,770	2,709	3,855	1,582	411
Total operating revenues	196,394	207,469	195,666	74,914	79,509
Operating expenses:					
Oil and gas production	50,839	55,000	38,461	19,574	17,770
Depletion, depreciation & amortization	54,432	51,346	40,129	22,574	24,912
Exploration	19,501	19,518	9,633	11,593	11,705
Impairment of proved properties	-	820	4,449	3,982	17,483
Abandonment and impairment of unproved properties	2,446	3,865	1,841	6,616	4,457
General and administrative	14,299	11,762	11,166	9,172	7,097
Gas marketing expense	7,982	420	-	-	-
Derivative loss	-	1573	-	-	-
Other	1,206	1,253	1,437	1,802	9,304
Total operating expenses	150,705	145,557	107,116	75,313	92,728
Income (loss) from operations	45,689	61,912	88,550	(399)	(13,219)
Non-operating (expense) income	(3,110)	376	737	75	(1,027)
Income tax (expense) benefit	(15,019)	(21,829)	(33,667)	406	5,415
Income (loss) from continuing operations	27,560	40,459	55,620	82	(8,831)
Gain on sale of discontinued operations, net of income taxes	-	-	-	-	34
Net income (loss)	$ 27,560	$ 40,459	$ 55,620	$ 82	$ (8,797)
Basic net income (loss) per common share	$ 0.99	$ 1.45	$ 2.00	$ -	$ (0.40)
Diluted net income (loss) per common share	$ 0.97	$ 1.42	$ 1.97	$ -	$ (0.40)
Cash dividends per share	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Basic weighted average common shares outstanding	27,856	27,973	27,781	22,198	21,874
Diluted weighted average common shares outstanding	28,391	28,555	28,271	22,329	21,874

	Years Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands, except per share data)				
Balance Sheet Data (end of period):					
Working capital	$ 2,050	$ 34,000	$ 40,639	$ 13,440	$ 9,785
Net property and equipment	471,939	358,930	252,411	180,664	143,825
Total assets	537,139	436,989	321,895	230,438	184,497
Long-term obligations	113,601	64,000	22,000	13,000	19,398
Total stockholders' equity	299,513	286,117	250,136	188,772	134,742
Other Data:					
Discretionary cash flow (1)	$ 118,762	$ 141,278	$ 132,947	$ 43,984	$ 44,332
Net Cash provided by (used in):					
Operating activities	141,709	127,492	92,267	40,755	45,386
Investing activities	(180,931)	(159,075)	(112,868)	(22,243)	(36,982)
Financing activities	46,260	29,080	13,025	(12,138)	(7,695)
Capital and exploration expenditures, cash and noncash	192,988	182,863	125,184	91,184	57,855

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(1) Discretionary cash flow is calculated as net income plus depreciation and amortization expense, exploration expense, deferred tax expense and unrealized derivative loss minus deferred tax benefit and unrealized derivative gain. Discretionary cash flow is presented since it is a financial measure widely used for St. Mary's industry, and management believes that it provides useful additional information for analysis of St. Mary's ability to satisfy capital expenditure expectations and debt service and working capital requirements. Discretionary cash flow should not be considered in isolation or as a substitute for net income, income from operations, cash flow provided by operating activities or other income or cash flow data prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity. As discretionary cash flow excludes some, but not all, items that affect net income and may vary

among companies, the discretionary cash flow presented above may not be comparable to similarly titled measures of other companies. The following table provides a reconciliation of discretionary cash flow to net cash provided by operating activities for the periods presented.

Following is a reconciliation of discretionary cash flow to cash provided by operations:

	Years Ended December 31,				
	2002	2001	2000	1999	1998
Discretionary cash flow	$ 118,762	$ 141,278	$ 132,947	$ 43,984	$ 44,332
Writedown of investments	-	-	-	-	8,502
Loss (gain) on sales	1,797	(367)	(5,560)	55	(7,685)
Non-exploratory dry hole exploration expense	(11,824)	(10,490)	(8,844)	(6,602)	(6,813)
Minority interest & other	40	(1,327)	1,260	29	1,039
Changes in working capital	32,934	(1,602)	(27,536)	3,289	6,011
Cash Flow from Operations	$ 141,709	$ 127,492	$ 92,267	$ 40,755	$ 45,386

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Overview

During the year ended December 31, 2002, the financial markets were characterized by instability. At the same time some stability returned to the oil and gas industry. The NYMEX gas price averaged $3.25 per MMBtu and oil prices averaged $26.06 per barrel. Rig costs and operating costs decreased slightly with after-hedge price realizations down 11%, cash costs plus DD&A flat on an MCFE basis, production relatively flat and a $2.6 million pre-tax loss on property sales compared to a $367,000 pre-tax gain in 2001, net income decreased $14.2 million to $26.7 million. We replaced 305% of our 2002 production at a finding cost of $1.15 per MCFE. This success was led by excellent drilling results at the NE Mayfield field in Oklahoma. In December 2002 we acquired the Williston Basin properties of Burlington Resources Oil & Gas Company LP for $69.5 million in cash. In March 2002 we completed a private placement of $100.0 million of senior convertible notes.

The industry enters 2003 with less than average gas in storage, cold weather in the eastern half of the United States, a continuing petroleum industry strike in Venezuela and the possibility of escalating conflict in the Middle East. Rig and other service costs have remained moderate, and the rig count has not increased to the extent predicted. Our financial condition is excellent, and we have an outstanding inventory of prospects to be drilled. We caution that higher gas prices may cause rig rates and operating costs to increase in future months. Subject to uncertainties specified in our cautionary statement about forward-looking statements, we project that results of operations for 2003 should reflect higher revenues and higher net income.

Critical Accounting Policies and Estimates

Our discussion of financial condition and results of operation is based upon the information reported in our consolidated financial statements. The preparation of these consolidated financial statements requires us to make assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities at the date of our financial statements. We base our decisions on historical experience and various other sources that are believed to be reasonable under the circumstances. Actual results may differ from the estimates we calculated due to changing business conditions or unexpected circumstances. Policies we believe are critical to understanding our business operations and results of operations are detailed below. For additional information on our significant accounting policies you should see Note 1 - Summary of Significant Accounting Policies and Note 11 - Disclosures About Oil and Gas Producing Activities in our accompanying consolidated financial statements.

Revenue recognition - We are engaged in the exploration, development, acquisition and production of natural gas and crude oil. Our revenue recognition policy is significant because revenue is a key component of our results of operations and our forward-looking statements contained in Liquidity and Capital Resources. We derive our revenue primarily from the sale of produced natural gas and crude oil. Revenue is recorded in the month our production is delivered to the purchaser, but payment is generally received between 30 and 90 days after the date of production. At the end of each month we make estimates of the amount of production delivered to the purchaser and the price we will receive. We use our knowledge of our properties, their historical performance, the anticipated effect of weather conditions during the month of production, NYMEX and local spot market prices and other factors as the

basis for these estimates. Variances between our estimates and the actual amounts received are recorded in the month payment is received.

Crude oil and Natural Gas Hedging - Generally, our crude oil and natural gas hedging contracts will qualify for cash flow hedge accounting under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This policy is significant because it affects the timing of revenue recognition in our statements of operations and is discussed prominently in our forward looking statements contained in Liquidity and Capital Resources. Under this accounting pronouncement a majority of the gain or loss from a contract qualifying as a cash flow hedge is recorded in the month the contract settles with the counterparty. We include this gain or loss in oil and gas production revenues. If our natural gas and crude oil hedge contracts did not qualify for hedge accounting treatment or we chose not to use this hedge accounting methodology, our periodic statements of operations could include significant changes in the estimate of non-cash derivative gain or loss due to swings in the value of these contracts. Consequently we would report a different amount for oil and gas production revenues in our statement of operations. These fluctuations could be especially significant in a volatile pricing environment such as we have encountered over the last three years.

Oil and gas reserve quantities - Estimated reserve quantities and the related estimates of future net cash flows affect our periodic calculations of depletion, depreciation and impairment for our proved oil and gas properties. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future periods from known reservoirs under existing economic and operating conditions. Future cash inflows and future production and development costs are determined by applying benchmark prices and costs, including transportation, quality and basis differentials, in effect at the end of each period to the estimated quantities of oil and gas remaining to be produced at the end of that period. Expected cash flows are reduced to present value using a

discount rate that depends upon the purpose for which the reserve estimates will be used. Reserve estimates are inherently imprecise, and estimates of new discoveries are more imprecise than those of proved producing oil and gas properties. We expect that periodic reserve estimates will change in the future as additional information becomes available or as oil and gas prices and operating and capital costs change. Changes in depletion, depreciation or impairment calculations caused by changes in reserve quantities or net cash flows are recorded in the period that the reserve estimates changed.

Valuation of long-lived and intangible assets - Our property and equipment is recorded at cost. An impairment allowance is provided on unproved property when we determine that the property will not be developed. We evaluate the realizability of our proved producing and other long-lived assets whenever events or changes in circumstances indicate that an impairment may have occurred. Our impairment test compares the expected undiscounted future net revenues from a property, using escalated pricing with the related net capitalized costs of the property at the end of each period. When the net capitalized costs exceed the undiscounted future net revenue of a property, the cost of the property is written down to our estimate of fair value, which is determined by applying a 15% discount rate to future net revenues. Other companies have their own criteria for acceptable internal rates of return, which may differ from our criteria. Additionally, our criteria for an acceptable internal rate of return are subject to change over time. Different pricing assumptions or discount rates could result in a different calculated impairment.

Income taxes - We provide for deferred income taxes on the difference between the tax basis of an asset or liability and its carrying amount in our financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." This difference will result in taxable income or deductions in future years when the reported amount of the asset or liability is recovered or settled, respectively. Considerable judgment is required in determining when these events may occur and whether recovery of an asset is more likely than not. Additionally, our federal and state income tax returns are generally not filed before the consolidated financial statements are prepared, therefore we estimate the tax basis of our assets and liabilities at the end of each period as well as the effects of tax rate changes, tax credits and net operating loss carryforwards. Adjustments related to differences between the estimates we used and actual amounts we reported are recorded in the period in which we file our income tax returns. These adjustments and changes in our estimates of asset recovery could have a material impact on our results of operations.

The remaining portion of Management's Discussion and Analysis contains additional discussion of management and accounting policies that are relevant to specific disclosures.

Results of Operations

The following table sets forth selected operating data for the periods indicated:

	Years Ended December 31,		
	2002	2001	2000
	(In thousands, except per volume data)		
Oil and gas production revenues:			
Gas production	$ 114,334	$ 147,292	$ 131,979
Oil production	71,336	56,681	56,428
Total	$ 185,670	$ 203,973	$ 188,407
Net production:			
Gas (MMcf)	38,164	39,491	38,346
Oil (MBbls)	2,815	2,434	2,398
MMCFE	55,055	54,093	52,731
Average sales price (1):			
Gas (per Mcf)	$ 3.00	$ 3.73	$ 3.44
Oil (per Bbl)	$ 25.34	$ 23.29	$ 23.53
Oil and gas production costs:			
Lease operating expenses	$36,472	$ 40,505	$ 25,567
Transportation costs	3,184	2,321	1,817
Production taxes	11,183	12,174	11,077
Total	$ 50,839	$ 55,000	$ 38,461
Additional per MCFE data:			
Sales price (see Discussion under Accounting Matters)	$ 3.37	$ 3.77	$ 3.57
Lease operating expenses	(0.66)	(0.75)	(0.48)
Transportation costs	(0.06)	(0.04)	(0.04)
Production taxes	(0.20)	(0.23)	(0.21)
Operating margin	$ 2.45	$ 2.75	$ 2.84
Depletion, depreciation and amortization	$ 0.99	$ 0.95	$ 0.76
Impairment of proved properties	$ 0.00	$ 0.02	$ 0.08
General and administrative	$ 0.26	$ 0.22	$ 0.21

(1) Includes the effects of the Company's hedging activities.

2002 to 2001 Comparison

Oil and Gas Production Revenues. Oil and gas production revenues decreased $18.3 million, or 9% to $185.7 million in 2002 compared to $204.0 million in 2001. The following table presents the components of increases or (decreases) between 2002 and 2001:

		Production % Change	Price $ Change	Price % Change
o	Natural Gas	(3%)	($0.73)/Mcf	(20%)
o	Oil	16%	$2.05/Bbl	9%

Projections of pricing for oil and gas lead us to believe that our average realized price for both natural gas and oil will increase in 2003. We also expect our acquisitions in late 2002 and early 2003 to cause a significant increase in oil production in 2003. Average net daily production increased to a new annual record of 150.8 MMCFE in 2002 compared to 148.2 MMCFE in 2001. Our November 2001 acquisition from Choctaw II Oil & Gas, Ltd. added $13.7 million of revenue and average daily production of 11.2 MMCFE in 2002. Wells completed in 2002 and our acquisitions added average net daily production of 19.7 MMCFE. These increases offset declines in average daily production from older properties that include an average 5.8 MMCFE/day decline from the Judge Digby field.

St. Mary hedged approximately 53.9% or 1,518 MBbls of its oil production for 2002 and realized a $1.9 million increase in oil revenue attributable to hedging compared to a $1.9 million decrease in 2001. Without these contracts we would have received an average price of $24.67 per Bbl in 2002 compared to $24.08 per Bbl in 2001. We also hedged 44.9% of our 2002 gas production or 18.9 million MMBtu and realized a $4.1 million decrease in gas revenue attributable to hedging compared to a $19.2 million decrease in gas revenues in 2001. Without these contracts we would have received an average price of $3.10 per Mcf for 2002 compared to $4.22 per Mcf in 2001. With the contracts we currently have in place and the December 31, 2002, projections of pricing for natural gas and crude oil in 2003, we project that we will record decreases in both oil and gas revenues attributable to hedging in 2003.

Gain (loss) on sale of proved properties. In December we closed the sale of our Flour Bluff field in Texas and recognized a $2.6 million loss.

Marketed Gas Revenue and Expense. For the year ended December 31, 2002, we received $8.4 million from the sale of marketed natural gas produced by third parties. Costs associated with these revenues totaled $8.0 million and resulted in gross margin to us of $417,000. Due to pipeline imbalances, cost inflation, and fluctuations in natural gas prices we may not always have a positive gross margin from gas marketing activities.

Oil and Gas Production Expenses. Oil and gas production expenses consist of lease operating expenses, production taxes and transportation expenses. Total production expenses decreased $4.2 million, or 8% in 2002 to $50.8 million compared with $55.0 million in 2001. In the second quarter of 2002 our Gulf Coast region experienced a $2.7 million decrease in LOE that was comprised of a decrease in workover expense and an adjustment due to the issuance of a revised Authorization for Expenditure by the operator at Judge Digby. This AFE indicated that workover LOE we previously expensed under the original AFE should have been capitalized and recorded as property, plant and equipment. Our total workover expense decreased $5.1 million from 2001 to 2002. Other decreases in LOE attributable to our efforts to reduce LOE in total and on a per MCFE basis were offset by $7.3 million of LOE incurred on properties

acquired since November 2001, wells completed in 2002 and the $863,000 increase in transportation costs. The $991,000 decrease in production taxes reflects the decrease in revenue discussed above.

Total production costs per MCFE decreased 10% to $0.92 for 2002 compared with $1.02 in 2001. This decrease is comprised of the following:

- A $0.03 per MCFE decrease in production taxes due to lower per MCFE prices.
- A $0.09 per MCFE decrease in LOE, net of general inflation increases, due to our efforts to decrease LOE in total and on a per MCFE basis.
- A $0.10 per MCFE decrease in LOE attributable to the decrease in total workover expense in excess of general cost inflation increases.
- A $0.03 per MCFE increase in LOE and transportation costs attributable to property acquisitions and 2002 well additions outside of the Williston Basin.
- A $0.09 per MCFE increase in LOE and transportation costs attributable to increased activity in the higher cost Williston Basin.

Although we continue to monitor these costs, we believe that the trend of decreases in LOE on an absolute basis and on a per MCFE basis will not continue into the future. New workover activity is always a possibility in our Gulf Coast region, and it is likely that our acquisitions of producing properties in the higher-cost, oil-based Williston Basin will cause a general increase in LOE and will lead to additional workover activities as we attempt to enhance the performance and lengthen the lives of those properties.

Depreciation, Depletion, Amortization and Impairment. DD&A increased $3.1 million or 6% to $54.4 million in 2002 compared with $51.3 million in 2001. This increase reflects both the increase in production between the respective periods for 2002 and 2001 and acquisitions and drilling results from both years that caused DD&A per MCFE to increase by 4% to $0.99 in 2002 compared with $0.95 in 2001.

Abandonment and impairment of unproved properties decreased $1.4 million or 37% to $2.4 million in 2002 compared to $3.9 million in 2001. This decrease is due to a decrease in abandonment of expired leases in 2002. It is not likely that this trend will continue into the future due to our increased investment in unproved properties from our acquisitions in late 2002 and early 2003.

Exploration. Exploration expense for 2002 remained constant at $19.5 million. Percentages of total exploration expense are as follows:

	2002	2001
o Geological and geophysical expenses	13%	19%
o Exploratory dry holes	39%	47%
o Overhead and other expenses	48%	34%

In 2003 we have budgeted for geological and geophysical expenses and expect to incur overhead and other expenses in the pursuit of exploration. However, oil and gas exploration is imprecise, and success can be affected by numerous factors. Not every likely geological structure contains oil or natural gas. Even when oil or natural gas is discovered there are no guarantees that sufficient quantities can be produced to justify the completion of an exploratory well.

General and Administrative. General and administrative expenses increased $2.5 million or 22% to $14.3 million in 2002 compared to $11.8 million in 2001. On a per MCFE basis these costs increased 18% to $0.26 in 2002 from $0.22 in 2001. We experienced an increase in non-compensation general expenses of $1.0 million due primarily to increased personnel and general cost inflation. This amount plus a $3.7 million increase in compensation expense associated with increased personnel and our incentive plans were partially offset by a $2.2 million increase in COPAS overhead reimbursement from operations and costs allocated to exploration expense. As we continue to grow in size and number of personnel we expect that general and administrative expenses will also grow. However, we anticipate that these expenses will decrease on a per MCFE basis in 2003.

Interest Expense. Interest expense increased to $3.9 million in 2002. This amount reflects accrued interest on our senior convertible notes. The amount we accrued and paid in 2002 was affected by a fixed-rate to floating-rate interest rate swap we entered into in March 2002 and closed at a net gain in December 2002. Without this swap, interest expense for the period ending December 31, 2002, would have been $4.6 million. We anticipate that interest expense in 2003 will be significantly higher than the 2002 amount due to termination of the interest rate swap and increased borrowing from our credit facility.

Income Taxes. Income tax expense totaled $15.0 million in 2002 resulting in an effective tax rate of 35.3% compared to $21.8 million in 2001 at an effective tax rate of 35.0%. The effective rate change from 2001 reflects increased accrued state income taxes from marginal rate adjustments offset by adjustments to valuation allowances against state net operating loss carryovers. We adjusted the valuation allowance after we considered a number of factors, including our prior utilization of net operating losses and carryovers, tax planning strategies for utilizing both federal and state net operating loss and

capital loss carryovers and projections of future taxable income. We also took into account the reversal of prior temporary timing differences and the effect that recent acquisitions will have on anticipated expenditures for intangible drilling costs. Based on the weight of positive and negative evidence regarding the recoverability of our net deferred tax assets, we concluded that only a partial valuation allowance was required. Future effective tax rates could be adversely affected if our taxable income increases to the point of being taxed at the highest federal marginal rate, increased revenues in states with higher statutory rates, unfavorable changes in tax laws and regulations, and by changes in our opinion of our ability to absorb our deferred tax assets due to changes in economic conditions.

Net Income. Net income decreased to $27.6 million for 2002 compared to $40.5 million for 2001. A 20% decrease in gas prices and a 3% decrease in gas production partially offset by a 16% increase in oil production and a 9% increase in oil price resulted in an $18.3 million decrease in oil and gas production revenue between the two periods. Other large items causing a decrease in net income were a $3.0 million decrease in gain from property sales, a $3.1 million increase in DD&A, a $2.5 million increase in G&A and a $3.5 million increase in interest expense. The decreases were partially offset by a $4.8 million increase in derivative gains, a $4.2 million decrease in production costs, and a $1.4 million decrease in unproved property impairment. The net result of the changes caused a $6.8 million decrease in income tax expense.

2001 to 2000 Comparison

Oil and Gas Production Revenues. Oil and gas production revenues increased $15.6 million, or 8% to a record $204.0 million in 2001 compared to $188.4 million in 2000. Revenue from gas production increased $15.3 million or 12%. This increase was a result of a gas production volume increase of 3% and an 8% increase in the average realized gas price to $3.73 per Mcf in 2001. Revenue

from oil production increased $253,000. This increase resulted from an oil production volume increase of 1% offset by a 1% decrease in the average realized oil price to $23.29 per Bbl in 2001. Our share of revenue from wells completed in 2001 added $27.5 million of revenue and our December 2000 acquisition of JN Exploration properties added $11.5 million of revenue and average daily production of 7.4 MMCFE in 2001. Average net daily production increased to a new annual record of 148.2 MMCFE in 2001 compared to 144.1 MMCFE in 2000. Wells completed in 2001 offset 22.3 MMCFE of decline in average daily production from older properties.

St. Mary hedged approximately 34.6% or 841 MBbls of its oil production for 2001 and realized a $1.9 million decrease in oil revenue attributable to hedging compared to a $13.2 million decrease in 2000. Without these contracts we would have received an average price of $24.08 per Bbl in 2001 compared to $29.01 per Bbl in 2000. We also hedged 40.6% of our 2001 gas production or 17.6 million MMBtu and realized a $19.2 million decrease in gas revenue attributable to hedging compared to a $20.5 million decrease in gas revenues in 2000. Without these contracts we would have received an average price of $4.22 per Mcf for 2001 compared to $3.97 per Mcf in 2000.

Oil and Gas Production Expenses. Total production expenses increased $16.5 million, or 43% in 2001 to $55.0 million compared with $38.5 million in 2000. During 2001 we experienced a $4.9 million increase in workover expense, most of which related to activity in the Williston Basin and the Gulf Coast Region. Williston Basin acquisitions in the last half of 2000 and in 2001 added $1.7 million of LOE. Recurring LOE from our JN Exploration acquisition properties represented $1.1 million of the increase and wells completed in 2001 added another $1.1 million. We experienced higher recurring LOE from wells completed in the Williston Basin, the Permian Basin and the Gulf Coast/Gulf of Mexico as a result of increased competition for limited availability of services and general cost inflation. Higher production taxes and transportation expenses resulting from higher oil and gas revenues account for $1.6 million of the increase. Total production costs per MCFE increased 40% to $1.02 for 2001 compared with $0.73 in 2000. An $0.18 per MCFE increase was due to the increase in workover expense, plus LOE from acquisitions and wells completed in 2001. Another $0.02 per MCFE increase was due to increased production taxes and transportation expenses. The remaining increase is due to general cost inflation.

Depreciation, Depletion, Amortization and Impairment. DD&A increased $11.2 million or 28% to $51.3 million in 2001 compared with $40.1 million in 2000. DD&A expense per MCFE increased 25% to $0.95 in 2001 compared to $0.76 in 2000. This increase reflects acquisitions and drilling results in 2000 and 2001 that added costs at a higher per unit rate. The DD&A per MCFE rate was further affected by downward adjustments to reserves due to pricing differences between December 31, 2001 and December 31, 2000.

St. Mary recorded an $820,000 impairment of proved oil and gas properties in 2001 compared with $4.4 million in 2000. Impairments in 2001 include a declining performance adjustment of $520,000 from the Thornton South prospect in Texas and various marginal well impairments.

Abandonment and impairment of unproved properties increased $2.0 million or 110% to $3.9 million in 2001 compared to $1.8 million in 2000. This increase is due to an increase in abandonment of expired leases in 2001 and the impairment of leasehold costs related to several exploratory dry holes.

Exploration. Exploration expense for 2001 increased $9.9 million or 103% to $19.5 million compared with $9.6 million in 2000. Percentages of total exploration expense are as follows:

		2001	2000
o	Geological and geophysical expenses	19%	24%
o	Exploratory dry holes	47%	21%
o	Overhead and other expenses	34%	55%

General and Administrative. General and administrative expenses increased $596,000 or 5% to $11.8 million in 2001 compared to $11.2 million in 2000. Increases in compensation expense associated with increased personnel, our incentive plans and general cost inflation were offset by a $4.3 million increase in COPAS overhead reimbursements from operations and costs allocated to exploration expense

Income Taxes. Income tax expense totaled $21.8 million in 2001 resulting in an effective tax rate of 35.0% compared to $33.7 million in 2000 with an effective tax rate of 37.7%. The effective rate change from 2000 reflects decreased accrued state income taxes from marginal rate adjustments and a decrease in deferred federal income tax due to a 1% rate decrease from the highest federal marginal rate.

Net Income. Net income decreased to $40.5 million for 2001 compared to $55.6 million for 2000. An 8% increase in gas prices and a 3% increase in production volumes resulted in a $15.6 million increase in oil and gas production revenue. Increases in oil and gas production costs and DD&A of $27.8 million, a $5.2 million decrease from gains on sale of proved property and KMOC stock and a $9.9 million increase in exploration expense offset the increase in revenue and an $11.8 million decrease in income tax expense.

Liquidity and Capital Resources

Our primary sources of liquidity are the cash provided by operating activities, debt financing, sales of non-strategic properties and access to the capital markets. All of these sources can be impacted by significant fluctuations in oil and gas prices. An unexpected decrease in prices would reduce expected cash flow from operating activities, might reduce the borrowing base on our credit facility, could reduce the value of our non-strategic

properties and historically has limited our industry's access to the capital markets.

We use cash for the acquisition, exploration and development of oil and gas properties and for the payment of debt obligations, trade payables and stockholder dividends. Exploration and development programs are generally financed from internally generated cash flow, debt financing and cash and cash equivalents on hand. In the event of an unexpected decrease in oil and gas prices, cash uses such as the acquisition of oil and gas properties and the payment of stockholder dividends are discretionary and can be reduced or eliminated. At any given point in time, we may be obligated to pay for commitments to explore for or develop oil and gas properties or incur trade payables. However, future obligations can be reduced or eliminated when necessary. We are currently only required to make interest payments on our debt obligations. An unexpected increase in oil and gas prices provides flexibility to modify our uses of cash flow.

We continually review our capital expenditure budget to reflect changes in current and projected cash flow, acquisition opportunities, debt requirements and other factors.

Cash Flow. St. Mary's net cash provided by operating activities increased $14.2 million or 11% to $141.7 million in 2002 compared to $127.5 million in 2001. The increase reflects a change between years of $29.3 million in other current assets relating to the collection of receivables, payment of prepaid items and collection of refundable income taxes. We also had a change between years of $5.2 million from increased accounts payable. These items increasing cash flow from operations were offset by a decrease in net income of $13.1 million and a $7.1 million decrease in the effect of non-cash items between the periods. We anticipate significantly increased cash flow from operations in 2003 as a result of expected higher oil and gas prices in 2003 and increased production attributable to our property acquisitions in late 2002 and early 2003.

St. Mary's net cash provided by operating activities increased $35.2 million or 40% to $127.5 million in 2001 compared to $92.3 million in 2000. The increase reflects a change between years of $22.5 million from the collection of receivables and a change between years of $15.4 million from increased accounts payable.

Net cash used in investing activities increased $21.8 million in 2002 to $180.9 million compared to $159.1 million in 2001. Total 2002 capital expenditures for cash, including acquisitions of oil and gas properties, increased $14.2 million or 8% to $184.7 million in 2002 compared to $170.5 million in 2001 due to an increase in acquisition activity in 2002 offset by our planned decrease in cash expended on drilling activities.

Net cash used in investing activities increased $46.2 million in 2001 to $159.1 million compared to $112.9 million in 2000. Total 2001 capital expenditures for cash, including acquisitions of oil and gas properties, increased $53.2 million or 45% to $170.5 million in 2001 compared to $117.3 million in 2000 due to an increase in drilling activity in 2001 offset by a decrease in cash expended for oil and gas property purchases.

Net cash provided by financing activities increased $17.2 million to $46.3 million in 2002 compared to $29.1 million in 2001. This increase reflects our March 2002 private placement of $100.0 million of 5.75% senior convertible notes due 2022. A portion of the net proceeds of $96.7 million was used to repay the balance due on our credit facility at that time. By year end we had borrowed $14.0 million on our credit facility, and subsequent to year end we borrowed an additional $56.0 million to finance acquisitions that closed in early 2003. We did not repurchase any of our common stock during 2002.

Net cash provided by financing activities increased $16.1 million to $29.1 million in 2001 compared to $13.0 million in 2000. The increase is due to a net $42.0 million increase in long-term debt during 2001 compared to a $9.0 million increase in 2000 offset by a $4.4 million decrease in proceeds received from the sale of common stock related to our stock option programs. We also repurchased $12.9 million of our common stock during 2001. We used our credit facility to fund the acquisition of properties from Choctaw and finance current operations.

St. Mary had $11.2 million in cash and cash equivalents and had working capital of $2.1 million as of December 31, 2002 compared to $4.1 million in cash and cash equivalents and working capital of $34.2 million as of December 31, 2001.

Pension Benefits. Substantially all of our employees who meet age and service requirements participate in a non-contributory pension plan. At December 31, 2002, we have recorded a $1.2 million pre-tax loss in accumulated other comprehensive income related to this plan. We believe this obligation will be funded from future cash flow from operating activities. For purposes of calculating our obligation under the plan, we have used an expected return on

plan assets of 8%. We think this rate of return is appropriate over the long-term given the 60% equity and 40% debt securities mix of investment for plan assets and the historical rate of return provided by equity and debt securities since the 1920s. Our actual rate of return for 2002 was a negative 10.0% and was a negative 0.7% for 2001. The difference in investment income using our projected rate of return compared to our actual rates of return for the past two years was not material and will not have a material effect on statements of operation or cash flow from operating activities in future years.

For the 2002 plan year, a 0.75% decrease in the discount rate combined with a 0.25% decrease in the rate of future compensation increases caused a $195,000 increase in the projected benefit obligation of the plan. We do not believe this change was material and project that it will not have a material effect on the results of operations or on cash flow from operating activities in future periods.

We also have a supplemental non-contributory pension plan that covers certain management employees. There are no plan assets for this plan. For the 2002 plan year, a 0.75% decrease in the discount rate combined with a 0.25% decrease in the rate of future compensation increases caused a $91,000 increase in the projected benefit obligation for this plan. This plan's accumulated benefit obligation was $853,000 at December 31, 2002, and was $685,000 at December 31, 2001. We believe this obligation will be funded from future cash flow from operating activities.

Senior Convertible Notes. In March 2002 we issued in a private placement a total of $100.0 million of our 5.75% senior convertible notes due 2022 with a 0.5% contingent interest provision. The contingent interest provision did not apply to our first interest payment on September 15, 2002, but it will apply to the payment due on March 15, 2003. Interest payments on the notes will be made on March 15 and September 15 in subsequent years. We received net proceeds of $96.7 million after deducting the initial purchasers' discount and offering expenses paid by us. The notes are general unsecured obligations and rank on a parity in right of payment with all our existing and future senior indebtedness and other general unsecured obligations, and are senior in right of payment with all our future subordinated indebtedness. The notes are convertible into our common stock at a conversion price of $26.00 per share, subject to adjustment. We can redeem the notes with cash in whole or in part at a repurchase price of 100% of the principal amount plus accrued and unpaid interest beginning on March 20, 2007. The note holders have the option of requiring us to repurchase the notes for cash at 100% of the principal amount plus accrued and unpaid interest upon (1) a change in control of St. Mary or (2) on March 20, 2007, March 15, 2012 and March 15, 2017. If the note holders require repurchase on March 20, 2007, we may pay the repurchase price with cash, shares of our common stock valued at a discount to the market price at the time

of repurchase or any combination of cash and our discounted common stock. We are not restricted from paying dividends, incurring debt, or issuing or repurchasing our securities under the indenture for the notes. There are no financial covenants in the indenture. We used a portion of the net proceeds from the notes to repay our credit facility balance and used the remaining net proceeds to fund a portion of our 2002 capital expenditures. On March 25, 2002, we entered into a five-year fixed-rate to floating-rate interest rate swap on $50.0 million of the notes. The floating rate was determined as LIBOR plus 0.36%. We elected to terminate this swap on December 3, 2002, and received proceeds of $4.0 million.

Credit Facility. At December 31, 2002, we had an unsecured long-term revolving credit facility with a bank group consisting of Bank of America, Comerica Bank-Texas and Wells Fargo Bank West. Under this facility, the maximum loan amount was $200.0 million. The amount actually available depended upon a borrowing base that the lenders periodically redetermined based on the value of

our oil and gas properties and other assets. As of December 31, 2002, the stated total possible borrowing base was $160.0 million. However, since we pay commitment fees based on the unused portion of the borrowing base we limited the borrowing base that we accepted to correspond with our actual funding requirements. The accepted borrowing base was $40.0 million at December 31, 2002. The facility had a maturity date of December 31, 2006, and included a revolving period that matured on June 30, 2003, at which time all outstanding borrowings would convert to a term loan payable in quarterly installments through the facility maturity date. We were required to comply with certain covenants including maintenance of stockholders' equity at a specified level, as well as restrictions on additional indebtedness, sales of oil and gas properties, activities outside our ordinary course of business and certain merger transactions. Borrowings under the facility were secured by a pledge of collateral in favor of the banks and guarantees by subsidiaries. Such collateral consisted of security interests in the oil and gas properties of St. Mary and its subsidiaries.

As of December 31, 2002 and 2001, $14.0 million and $64.0 million, respectively, was outstanding under this credit agreement. These outstanding balances accrued interest at rates determined by St. Mary's debt to total capitalization ratio at our option of either:

Debt to Capitalization Ratio	<30%	=>30%<40%	=>40%<50%	>50%
Option (1)				
LIBOR plus	1.000%	1.250%	1.375%	1.625%
Option (2) - The higher of:				
Federal funds rate plus	0.50%	0.50%	0.50%	0.50%
Prime rate plus	-	-	-	0.25%

At December 31, 2002 our debt to capitalization ratio as defined under the credit agreement was 27.5%.

On January 29, 2003, St. Mary entered into a new $300.0 million credit facility with Wachovia Bank as Administrative Agent and eight other participating banks. This new credit facility replaced our previous $200.0 million credit facility. The initial calculated borrowing base included properties we acquired from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. The borrowing base is currently at $215.0 million and will increase to $250.0 million when we provide the remaining collateral. St. Mary has accepted an initial commitment of $150.0 million under this facility. The credit agreement has a maturity date of January 27, 2006. We are required to comply with certain covenants that include a current ratio of 1.0 to 1.0, maintenance of ERISA compliance, and restrictions on additional indebtedness, sales of oil and gas properties, activities outside our ordinary course of business and certain merger transactions. Interest is accrued based on the borrowing base utilization percentage as LIBOR or the Alternate Base Rate (Prime), plus the following:

Borrowing Base Utilization Percentage	<50%	=>50%<75%	=>75%<90%	=>90%
Eurodollar Loans	1.250%	1.500%	1.750%	2.000%
ABR Loans	0.000%	0.250%	0.500%	0.750%
Commitment Fee Rate	0.300%	0.375%	0.375%	0.500%

On the date we entered into this credit facility our loan balance accrued interest at LIBOR plus 1.25%.

Schedule of Contractual Obligations. The following table summarizes our future estimated principal payments and minimum lease payments for the periods specified (in millions):

	Long-Term Debt	Operating Leases	Total Cash Obligation
Less than 1 year	$ -	$ 1.6	$ 1.6
1-3 years	-	2.5	2.5
4-5 years	14.0	1.9	15.9
After 5 years	100.0	3.7	103.7
Total	$ 114.0	$ 9.7	$ 123.7

In the next three years, we have two leases of office space for our regional offices that will expire. A third lease for office space will expire in year 4. Estimated costs to replace these leases are not included in the table above. For purposes of the table we assume that the holders of our senior convertible notes will not exercise the conversion feature.

Common Stock. At the annual stockholders meeting on May 23, 2001 the stockholders of St. Mary voted to increase the amount of authorized common shares to 100,000,000.

In August 1998 our board of directors authorized a stock repurchase program whereby we may purchase from time-to-time, in open market transactions or negotiated sales, up to two million of our common shares. Through March 12, 2003 we had repurchased a total of 1,009,900 shares of St. Mary common stock under the program for $16.2 million at a weighted average price of $15.86 per share, net of put option sale premiums received. We anticipate that additional purchases of shares may occur as market conditions warrant. Any future purchases will be funded with internal cash flow and borrowings under our credit facility.

On January 29, 2003, we issued a total of 3,380,818 restricted shares of our common stock valued at $71.6 million to Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. for the acquisition of oil and gas properties, and we made a non-recourse loan to Flying J and Big West in the amount of $71.6 million at LIBOR plus 2% for up to a 39-month period. The loan is secured by a pledge of the 3,380,818 shares and during the 39-month loan period Flying J and Big West can elect to sell these shares to St. Mary for $71.6 million plus accrued interest on the loan for up to the first 30 months, and we can elect to repurchase the shares for $97.4 million with the proceeds applied to repayment of the loan. The shares are subject to contractual restrictions on transfer for a period of two years. Flying J and Big West cannot increase their ownership percentage in St. Mary for a period of 30 months.

Capital and Exploration Expenditures. Expenditures for exploration and development of oil and gas properties and acquisitions are the primary use of our capital resources. The following table sets forth certain information

regarding the costs incurred by us in our oil and gas activities during the periods indicated.

	Capital and Exploration Expenditures		
	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Development	$ 74,376	$ 98,617	$ 48,996
Exploration	22,778	24,506	17,012
Acquisitions:			
Proved	87,706	41,188	53,482
Unproved	8,128	18,552	5,694
Total	$192,988	$182,863	$ 125,184

We continuously evaluate opportunities in the marketplace for oil and gas properties and, accordingly, may be a buyer or a seller of properties at various times. We will continue to emphasize smaller niche acquisitions utilizing our technical expertise, financial flexibility and structuring experience. In addition, we are also actively seeking larger acquisitions of assets or companies that would afford opportunities to expand our existing core areas, to acquire additional geoscientists and/or engineers, or gain a significant acreage and production foothold in a new basin.

St. Mary's total costs incurred for capital and exploration activities in 2002 increased $10.1 million or 6% compared to 2001. We spent $112.8 million in 2002 for unproved property acquisitions and domestic exploration and development compared to $141.7 million for the comparable period in 2001. This decrease was a result of planned decreases in the drilling activity budget and a $2.9 million decrease in unproved property acquisition activity. Well testing continues on our two coalbed methane pilot programs located in the Hanging Woman Basin. All pilot wells in the Antelope Draw field are currently shut-in while we evaluate the data from dewatering. Prior to shut-in, production from the Anderson coal averaged 250 Mcf/day. We are continuing to produce and test wells at the Nest Prong field project. During the year, one of our partners exercised their right to participate in a leasehold acquisition bringing our total to 145,000 gross acres in the project. We are subject to an environmental public interest group lawsuit on 48,000 of these acres. See "Legal Proceedings" for a discussion of this lawsuit.

In November 2001 we purchased oil and gas properties from Choctaw II Oil & Gas, Ltd. for $40.5 million in cash. We used a portion of our credit facility for this acquisition. The properties are primarily located in the Williston Basin of Montana and North Dakota and in the Green River Basin of Wyoming.

In December 2002 we purchased oil and gas properties from Burlington Resources Oil & Gas Company LP for $69.5 million in cash. The properties are located in the Williston Basin of Montana and North Dakota with extensive overlap of ownership interest. Most of the properties will be operated by our Nance subsidiary and are very concentrated in a manageable well count with high ownership percentages in high quality long-lived properties. We financed this acquisition using cash on hand and a portion of our bank credit facility. At the time of acquisition, these properties were producing an estimated 3,100 Bbls of oil per day and 3,300 Mcf of natural gas per day.

Capital Expenditure Budget. We anticipate spending approximately $225 million for capital and exploration expenditures in 2003 with $90 million allocated for acquisitions of producing properties. Anticipated ongoing exploration and development expenditures for each of our core areas is as follows (in millions):

o Mid-Continent region	$ 45
o Williston Basin and Rockies region	$ 33
o ArkLaTex region	$ 19
o Gulf Coast and Gulf of Mexico region	$ 17
o Permian Basin	$ 12
o Other	$ 9
Total	$135

We believe that the amount not funded from our internally generated cash flow in 2003 can be funded from our existing cash and our bank credit facility. The amount and allocation of future capital and exploration expenditures will depend upon a number of factors including the number and size of available acquisition opportunities and our ability to assimilate these acquisitions. Also, the impact of oil and gas prices on investment opportunities, the availability of capital and borrowing capability and the success of our development and exploratory activity could lead to funding requirements for further development. If additional development or attractive acquisition opportunities arise, we may consider other forms of financing, including the public offering or private placement of equity or debt securities.

In January 2003 we utilized our common stock, cash on hand and a portion of our new credit facility to acquire $74.0 million of oil and gas properties. On January 29, 2003, we closed a $71.6 million acquisition with restricted shares of our common stock that included 66.9 BCFE or proved reserves for $68.8 million of oil and gas properties and $2.8 million of cash for net purchase price adjustments from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. See the Common Stock section above for additional details. Half of the value of the properties acquired is located in the Williston Basin. The remaining value is split between the Powder River, Wind River and Green River Basins of Wyoming and represents a significant increase of our presence in these areas.

We seek to protect our rate of return on acquisitions of producing properties by hedging cash flow when the economic criteria from our evaluation and pricing model indicate it would be appropriate. Management's strategy is to hedge cash flows from investments currently requiring a gas price in excess of $3.25 per Mcf and an oil price in excess of $22.50 per Bbl in order to meet minimum rate-of-return criteria. Management reviews these hedging parameters on a quarterly basis. We anticipate this strategy will result in the hedging of future cash flows from acquisitions. We generally limit our aggregate hedge position to no more than 50% of total production but will hedge larger percentages of total production in certain circumstances. We seek to minimize basis risk and index the majority of oil hedges to NYMEX prices and the majority of gas hedges to various regional index prices associated with pipelines in proximity to our areas of gas production. Our cash flow hedging instruments generally qualify for cash flow hedge accounting under SFAS No. 133. Our policy requires that we diversify our hedge positions with various counterparties and requires that such counterparties have clear indications of current financial strength. Including hedges entered into since December 31, 2002 we have the following contracts in place:

Swaps

	Average	Quantity	Average Fixed

Product	Volumes/month	Type	Contract Price	Duration
Natural Gas	1,599,000	MMBtu	$4.35	01/03 - 12/03
Natural Gas	844,000	MMBtu	$4.04	01/04 - 12/04
Oil	206,200	Bbls	$25.94	01/03 - 12/03
Oil	144,500	Bbls	$23.71	01/04 - 12/04

Collars

Product	Average Volumes/month	Floor Price	Ceiling Price	Duration
Natural Gas	152,000 MMbtu	$2.50	$5.96	02/03 - 12/03

On February 4, 2002, we entered into an agreement to monetize our unrealized hedge gain receivable due from Enron for $1.1 million. This amount was included in other comprehensive income at December 31, 2001, and was recorded as a hedge gain in the first quarter of 2002. Hedge gains and losses are reported in oil and gas production revenues in our consolidated statements of operations. Amortization of $1.7 million of other comprehensive income related to our commodity positions with Enron is also recorded in hedge gain. We will record amortization of the remaining $49,000 of other comprehensive income in hedge loss in 2003 for these contracts. Derivative gain in the consolidated statements of operations includes $31,000 of net loss from oil and gas hedge ineffectiveness.

Other Derivatives. Our senior convertible notes contain a provision for payment of contingent interest if certain conditions are met. Under SFAS No. 133 this provision is considered an embedded equity-related derivative that is not clearly and closely related to the fair value of an equity interest and therefore must be separated and accounted for as a derivative instrument. The value of the derivative at issuance was $474,000. This amount was recorded as a decrease to the convertible notes payable in the consolidated balance sheets. Of this amount, $75,000 was amortized through interest expense in 2002. Derivative gain in the consolidated statements of operations includes $341,000 of net loss from mark-to-market adjustments for this derivative.

Our fixed-rate to floating-rate interest rate swap on $50.0 million of senior convertible notes did not qualify for fair value hedge treatment under SFAS No. 133. We entered into this contract in March 2002 and closed it out in December 2002. Derivative gain in the consolidated statements of operations includes $3.6 million of net gain from the termination of this contract.

Accounting Matters

In December 2002 the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure: an amendment of FASB Statement No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for

stock-based employee compensation and the effect of the method used on reported results. The statement is effective for financial statements for fiscal years ending after December 15, 2002. We will continue to account for stock-based compensation using the methods detailed in Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees."

In June 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We do not have any pending or planned exit or disposal activities and do not expect a material effect on our financial position or results of operations from the adoption of this statement.

In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 requires that gains and losses from extinguishment of debt be evaluated under the provisions of Accounting Principles Board Opinion No. 30 and be classified as ordinary items unless they are unusual or infrequent or meet the specific criteria for treatment as an extraordinary item. This statement is effective for fiscal years beginning after May 15, 2002. We do not anticipate that the adoption of this statement will have a material effect on our financial position or results of operations.

In July 2001 the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement requires companies to recognize the fair value of an asset retirement liability in the financial statements by capitalizing that cost as part of the cost of the related long-lived asset. The asset retirement liability should then be allocated to expense by using a systematic and rational method. The statement is effective January 1, 2003. We have not determined the impact of adoption of this statement.

Effects of Inflation and Changing Prices

Within the United States in 2002 and 2001 general cost inflation had an effect on St. Mary as reflected in increased drilling costs and lease operating costs. We cannot predict the future extent of any such effect.

St. Mary's results of operations and cash flows are affected by material changes in oil and gas prices. Oil and gas prices are strongly impacted by North American influences on natural gas and global influences on oil in relation to supply and demand for petroleum products. Oil and gas prices are further impacted by the quality of the oil and gas to be sold and the location of our producing properties in relation to markets for our products. Oil and gas price increases or decreases have a corresponding effect on our revenues from oil and gas sales. Oil and gas prices also affect the prices charged for drilling and related services. As oil and gas prices increase, revenues increase and there is usually a corresponding increase in our costs of drilling and related services. Also as oil and gas prices increase, the cost of acquiring producing properties increases, which could limit the number and accessibility of quality properties on the market.

Material changes in oil and gas prices affect the current and future value of our estimated proved reserves and our borrowing capability, which is largely based on the value of such proved reserves. More stable natural gas and oil prices characterized most of 2002. Rig costs and operating costs decreased slightly. At the end of the year, in spite of a weakened economy, less than

normal gas in storage, cold weather, a continuing petroleum industry strike in Venezuela and the possibility of escalating conflict in the Middle East are causing both oil and natural gas prices to increase. However, higher oil and gas prices have not caused rig utilization to increase to the extent many expected. In the near-term we do not expect competition for these limited resources to increase, but continued high prices will encourage development activity and could result in increases in the cost of both materials and personnel and corresponding effects on the cost to explore for, drill for and produce oil and gas. We continue to have good relationships with our vendors due to our reputation for timely payment of invoices, a positive by-product of our strong

balance sheet.

Environmental

St. Mary's compliance with applicable environmental regulations has not resulted in any significant capital expenditures or materially adverse effects to our liquidity or results of operations. We believe we are in substantial compliance with environmental regulations and foresee that no material expenditures will be incurred 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We hold derivative contracts and financial instruments that have cash flow and net income exposure to changes in commodity prices or interest rates. Financial and commodity-based derivative contracts are used to limit the risks inherent in some crude oil and natural gas price changes that have an effect on us.

Our board of directors has adopted a policy regarding the use of derivative instruments. This policy requires every derivative used by St. Mary to relate to underlying offsetting positions, anticipated transactions or firm commitments. It prohibits the use of speculative, highly complex or leveraged derivatives. Under the policy, the Chief Executive Officer and Vice President of Finance must review and approve all risk management programs that use derivatives. The board of directors and the audit committee periodically review these programs.

Commodity Price Risk. We use various hedging arrangements to manage our exposure to price risk from natural gas and crude oil production. These hedging arrangements have the effect of locking in for specified periods, at predetermined prices or ranges of prices, the prices we will receive for the volumes to which the hedge relates. Consequently, while these hedging arrangements are structured to reduce our exposure to decreases in prices associated with the hedged commodity, they also limit the benefit we might otherwise receive from any price increases associated with the hedged commodity. The derivative gain or loss effectively offsets the loss or gain on the underlying commodity exposures that have been hedged. The fair value of the swaps are estimated based on quoted market prices of comparable contracts and approximate the net gains or losses that would have been realized if the contracts had been closed out at year-end. The fair values of the futures are based on quoted market prices obtained from the New York Mercantile Exchange adjusted fpr basis differentials.

For contracts in place on December 31, 2002, a hypothetical $0.10 change in the future NYMEX strip prices applied to a notional amount of 12.4 million MMBtu covered by natural gas swaps would cause a change in the gain or (loss) from these contracts of $853,000 in 2003 and $321,000 in 2004. A hypothetical $1.00 change in future NYMEX oil prices applied to a notional amount of 2.5 MMBbls covered by crude oil swaps would cause a change in the gain

or (loss) from these contracts of $1.7 million in 2003 and $654,000 in 2004. These hypothetical changes were discounted to present value using a 7.5% discount rate since the latest expected maturity date of some of the swaps and futures contracts is greater than one year from the reporting date.

Interest Rate Risk. Market risk is estimated as the potential change in fair value resulting from an immediate hypothetical one-percentage point parallel shift in the yield curve. The sensitivity analysis presents the hypothetical change in fair value of those financial instruments we held at December 31, 2002, that are sensitive to changes in interest rates. For fixed-rate debt, interest rate changes affect the fair market value but do not impact results of operations or cash flows. Conversely for floating-rate debt, interest rate changes generally do not affect the fair market value but do impact future results of operations and cash flows, assuming other factors are held constant. The carrying amount of our floating rate debt approximates its fair value. At December 31, 2002, we had floating-rate debt of $14.0 million and had $100.0 million of fixed-rate debt. Assuming constant debt levels, the cash flow impact for the next year resulting from a one-percentage point change in interest rates would be approximately $140,000 before taxes. The results of operations impact might be less than this amount as a direct effect of the capitalization of interest to wells drilled in the next year. In prior years when our debt amount was at a reduced level we capitalized a large portion of our interest expense. Since we cannot predict the exact amount that would be capitalized, we cannot predict the exact effect that a one-percentage point shift would have on the results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements that constitute Item 8 follow the text of this report. An index to the Consolidated Financial Statements and Schedules appears in Item 14(a) of this report.

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

As previously reported in our current reports on Form 8-K filed with the SEC on May 30, 2002 and June 5, 2002, on May 23, 2002 we dismissed Arthur Andersen LLP as our independent accountants and on June 3, 2002 we engaged Deloitte & Touche LLP as our new independent accountants. The St. Mary audit committee and board of directors approved this change in accountants.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item concerning St. Mar's directors is incorporated by reference to the information provided under the captions "Election of Directors" and "Nominees for Election of Directors" in St. Mary's definitive proxy statement for the 2003 annual meeting of stockholders to be filed within 120 days from December 31, 2002. The information required by this Item concerning St. Mary's executive officers is incorporated by reference to the information provided in Part I-Item 4A-Executive Officers of the Registrant, included in this Form 10-K.

The information required by this Item concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information provided under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in St. Mary's definitive proxy

statement for the 2003 annual meeting of stockholders to be filed within 120 days from December 31, 2002.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the information provided under the captions, "Director Compensation," "Executive Compensation," "Report of the Compensation Committee on Executive Compensation," "Retirement Plans," "Performance Graph," and "Employee Agreements and Termination of Employment and Change-in-Control Arrangements" in St. Mary's definitive proxy statement for the 2003 annual meeting of stockholders to be filed within 120 days from December 31, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item concerning security ownership of certain beneficial owners and management is incorporated by reference to the information provided under the caption "Security Ownership of Certain Beneficial

Owners and Management" in St. Mary's definitive proxy statement for the 2003 annual meeting of stockholders to be filed within 120 days from December 31, 2002.

The information required by this Item concerning securities authorized for issuance under equity compensation plans is incorporated by reference to the information provided under the caption "Equity Compensation Plans" in Part II - Item 5 - Market for Registrant's Common Equity and Related Stockholder Matters, included in this form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the information provided under the caption "Certain Relationships and Related Transactions" in St. Mary's definitive proxy statement for the 2003 annual meeting of stockholders to be filed within 120 days from December 31, 2002.

ITEM 14. CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures that are designed for the purposes of ensuring 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 that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Vice-President - Finance, as appropriate to allow timely decisions regarding required disclosure.

Within the 90-day period prior to the filing of this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Vice-President - Finance, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Vice-President - Finance concluded that our disclosure controls and procedures are effective for the purposes discussed above. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) and (a)(2) Financial Statements and Financial Statement Schedules:

All other schedules are omitted because the required information is not applicable or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the Consolidated Financial Statements and Notes thereto.

(b) Reports on Form 8-K.

St. Mary Land & Exploration Company filed the following current reports on Form 8-K during the quarter ended December 31, 2002:

On October 3, 2002, we filed a current report on Form 8-K reporting under Item 5 that we had signed a Purchase and Sale Agreement to acquire oil and gas properties from Burlington Resources Oil & Gas Company LP.

On November 7, 2002, we filed a current report on Form 8-K reporting under Item 9 that we had issued a press release announcing our earnings and financial highlights for the third quarter of 2002.

On November 20, 2002, we filed a current report on Form 8-K reporting under Item 9 that in connection with the filing of the Form 10-Q on November 13, 2002, the Chief Executive Officer and the Vice-President - Finance of the registrant each signed a Certification pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

On December 12, 2002, we filed a current report on Form 8-K reporting under Item 2 that on December 3, 2002, we purchased oil and gas properties from Burlington Resources Oil & Gas Company LP.

On December 16, 2002, we filed a current report on Form 8-K reporting under Item 5 that we had issued a press release announcing an agreement to acquire oil and gas properties from Flying J Oil & Gas and Big West Oil & Gas.

(c) Exhibits. The following exhibits are filed with or incorporated by reference into this report on Form 10-K:

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated July 27, 1999 among St. Mary Land & Exploration Company, St. Mary Acquisition Corporation, King Ranch, Inc. and King Ranch Energy, Inc. as amended by Amendment No. 1 and Amendment No. 2 to Agreement and Plan of Merger dated November 8, 1999 (included as Annex A to the joint proxy/consent statement and prospectus contained in the registrant's Amendment No. 2 to Form S-4/A (Registration No. 333-85537) filed on November 12, 1999 and incorporated herein by reference)
2.2	Stock Exchange Agreement dated June 1, 1999 among St. Mary Land & Exploration Company, Robert L. Nance, Penni W. Nance, Amy Nance Cebull and Robert Scott Nance (filed as Exhibit 10.27 to the registrant's Registration Statement on Form S-4 (Registration No. 333-85537) filed on August 19, 1999 and incorporated herein by reference)
2.3	Stock Exchange Agreement dated June 1, 1999 among St. Mary Land & Exploration Company, Robert L. Nance and Robert T. Hanley (filed as Exhibit 10.28 to the registrant's Registration Statement on Form S-4 (Registration No. 333-85537) filed on August 19, 1999 and incorporated herein by reference)
2.4	Stock Exchange Agreement dated June 1, 1999 between St. Mary Land & Exploration Company and Robert T. Hanley (filed as Exhibit 10.29 to the registrant's Registration Statement on Form S-4 (Registration No. 333-85537) filed on August 19, 1999 and incorporated herein by reference)
3.1	Restated Certificate of Incorporation of St. Mary Land & Exploration Company as amended in May 2001 (filed as Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and incorporated herein by reference)
3.2	Restated By-Laws of St. Mary Land & Exploration Company as amended in July 2001 (filed as Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q (File No. 0-20872) for the quarter ended September 30, 2001 and incorporated herein by reference)
4.1	St. Mary Land & Exploration Company Shareholder Rights Plan adopted on July 15, 1999 (filed as Exhibit 4.1 to the

registrant's Quarterly Report on Form 10-Q/A (File No. 0-20872) for the quarter ended June 30, 1999 and incorporated herein by reference)

4.2 First Amendment to Shareholders Rights Plan dated March 15, 2002 as adopted by the Board of Directors on July 19, 2001 (filed as Exhibit 4.2 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 2001 and incorporated herein by reference)

10.1 Stock Option Plan (filed as Exhibit 10.3 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)

10.2 Stock Appreciation Rights Plan (filed as Exhibit 10.4 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)

10.3 Cash Bonus Plan (filed as Exhibit 10.5 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)

10.4 Net Profits Interest Bonus Plan, As Amended on September 19, 1996 and July 24, 1997 and January 28, 1999 filed as Exhibit 10.3 to registrant's Quarterly Report on Form 10-Q (File No. 0-20872) for the quarter ended March 31, 1999 and incorporated herein by reference)

Exhibit Number	Description
10.5	Summary Plan Description/Pension Plan dated December 30, 1994 (filed as Exhibit 10.35 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1994 and incorporated herein by reference)
10.6	Non-qualified Unfunded Supplemental Retirement Plan, as amended (filed as Exhibit 10.8 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)
10.7	Summary Plan Description 401(k) Profit Sharing Plan (filed as Exhibit 10.34 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1994 and incorporated herein by reference)
10.8	St. Mary Land & Exploration Company Stock Option Plan, As Amended on March 29, 2001 (filed as Exhibit 99.1 to registrant's Registration Statement on Form S-8 (Registration No. 333-88780) and incorporated herein by reference)
10.9	St. Mary Land & Exploration Company Incentive Stock Option Plan, As Amended on March 29, 2001 (filed as Exhibit 99.2 to registrant's Registration Statement on Form S-8 (Registration No. 333-88780) and incorporated herein by reference)
10.10	St. Mary Land & Exploration Company Employee Stock Purchase Plan (filed as Exhibit 10.48 filed to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1997 and incorporated herein by reference)
10.11	First Amendment to St. Mary Land & Exploration Company Employee Stock Purchase Plan dated February 27, 2001 (filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q (file No. 0-20872) for the quarter ended June 30, 2001 and incorporated herein by reference)
10.12	Form of Change of Control Severance Agreements (filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q (File No. 0-20872) for the quarter ended September 30, 2001 and incorporated herein by reference)
10.13	Employment Agreement between Registrant and Mark A. Hellerstein (filed as Exhibit 10.15 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)
10.14	Credit Agreement dated June 30, 1998 (filed as Exhibit 10.52 to the registrant's Quarterly Report on Form 10-Q (File No. 0-20872) for the quarter ended June 30, 1998 and incorporated herein by reference)
10.15	Second Amendment to Credit Agreement dated June 27, 2000 (filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q (File No. 0-20872) for the quarter ended June 30, 2000 and incorporated herein by reference)
10.16	Third Amendment to Credit Agreement dated April 30, 2001 (filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q (File No. 0-20872) for the quarter ended June 30, 2001 and incorporated herein by reference)
10.17	Loan and Stock Purchase Agreement dated June 25, 1999 among Resource Capital Fund L.P., St. Mary Land & Exploration Company and St. Mary Minerals Inc. (filed as Exhibit 10.30 to the registrant's Registration Statement on Form S-4 (Registration No. 333-85537) filed on August 19, 1999 and incorporated herein by reference)
10.18	Credit Agreement dated June 25, 1999 among Summo Minerals Corporation, Summo USA Corporation, Resource Capital Fund L.P. and St. Mary Minerals Inc. (filed as Exhibit 10.31 to the registrant's Registration Statement on Form S-4 (Registration

Exhibit Number	Description
	No. 333-85537) filed on August 19, 1999 and incorporated herein by reference)
10.19	Replacement Promissory Note dated June 25, 1999 payable to St. Mary Minerals Inc. in the amount of $1,400,000 (filed as Exhibit 10.32 to the registrant's Registration Statement on Form S-4 (Registration No. 333-85537) filed on August 19, 1999 and incorporated herein by reference)
10.20	Pledge and Security Agreement dated June 25, 1999 among Summo Minerals Corporation, Resource Capital Fund L.P., and St. Mary Minerals Inc. (filed as Exhibit 10.33 to the registrant's Registration Statement on Form S-4 (Registration No. 333-85537) filed on August 19, 1999 and incorporated herein by reference)
10.21	Pledge and Security Agreement dated June 25, 1999 among Summo USA Corporation, Resource Capital Fund L.P., and St. Mary Minerals Inc. (filed as Exhibit 10.34 to the registrant's Registration Statement on Form S-4 (Registration No. 333-85537) filed on August 19, 1999 and incorporated herein by reference)
10.22	Warrant Agreement dated June 25, 1999 among Summo Minerals Corporation, Resource Capital Fund L.P. and St. Mary Minerals Inc. (filed as Exhibit 10.35 to the registrant's Registration Statement on Form S-4 (Registration No. 333-85537) filed on August 19, 1999 and incorporated herein by reference)
10.23	Agreement of Sale and Purchase dated October 16, 2000, effective as of September 1, 2000, between JN Exploration and Production Limited Partnership, Colt Resources Corporation, Princeps Partners, Inc., and The William G. Helis Company, LLC (collectively, "JN et al") and St. Mary Land & Exploration Company (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K (File No. 0-20872) dated January 5, 2001 and incorporated herein by reference)
10.24	Purchase and Sale Agreement dated September 28, 2001, effective as of September 1, 2001; between Choctaw II Oil & Gas, LTD and Nance Petroleum Corporation (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K (File No. 0-20872) dated December 10, 2001 and incorporated herein by reference)

10.25	Registration Rights Agreement between St. Mary Land & Exploration Company and Bear, Stearns & Co. Inc., et al dated March 13, 2002 (filed as Exhibit 10.25 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 2001 and incorporated herein by reference)
10.26	St. Mary Land & Exploration Company 5.75% Senior Convertible Notes Due 2002 Indenture dated March 13, 2002 (filed as Exhibit 10.26 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 2001 and incorporated herein by reference)
10.27	First Amendment to Credit Agreement dated December 22, 1998 (filed as Exhibit 10.27 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 2001 and incorporated herein by reference)
10.28	Fourth Amendment to Credit Agreement dated March 4, 2002 (filed as Exhibit 10.28 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 2001 and incorporated herein by reference)
10.29	Purchase and Sale Agreement dated October 1, 2002, effective as of July 1, 2002; between Burlington Resources Oil & Gas Company LP and The Louisiana Land and Exploration Company and Nance Petroleum Corporation (filed as Exhibit 10.1 to the

Exhibit Number	Description
	registrant's Current Report on Form 8-K (File No. 001-31539) filed on December 12, 2002 and incorporated herein by reference)
10.30	Purchase and Sale Agreement dated as of December 13, 2002 among Flying J Oil & Gas Inc., Big West Oil & Gas Inc., NPC Inc. and St. Mary Land & Exploration Company (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K (File No. 001-31539) filed on February 13, 2003 and incorporated herein by reference)
10.31	Addendum dated January 29, 2003 to Purchase and Sale Agreement dated December 13, 2002 (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K (File No. 001-31539) filed on February 13, 2003 and incorporated herein by reference)
10.32	Nonrecourse Secured Promissory Note dated January 29, 2003 by Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. (filed as Exhibit 10.3 to the registrant's Current Report on Form 8-K (File No. 001-31539) filed on February 13, 2003 and incorporated herein by reference)
10.33	Stock Pledge Agreement from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. to St. Mary Land & Exploration Company executed as of January 29, 2003 (filed as Exhibit 10.4 to the registrant's Current Report on Form 8-K (File No. 001-31539) filed on February 13, 2003 and incorporated herein by reference)
10.34	Registration Rights Agreement dated as of January 29, 2003 among St. Mary Land & Exploration Company, Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. (filed as Exhibit 10.5 to the registrant's Current Report on Form 8-K (File No. 001-31539) filed on February 13, 2003 and incorporated herein by reference)
10.35	Put and Call Option Agreement dated as of January 29, 2003 among St. Mary Land & Exploration Company, Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. (filed as Exhibit 10.6 to the registrant's Current Report on Form 8-K (File No. 001-31539) filed on February 13, 2003 and incorporated herein by reference)
10.36	Standstill Agreement dated as of January 29, 2003 among St. Mary Land & Exploration Company, Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. (filed as Exhibit 10.7 to the registrant's Current Report on Form 8-K (File No. 001-31539) filed on February 13, 2003 and incorporated herein by reference) 10.37 Share Transfer Restriction Agreement dated as of January 29, 2003 among St. Mary Land & Exploration Company, Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. (filed as Exhibit 10.8 to the registrant's Current Report on Form 8-K (File No. 001-31539) filed on February 13, 2003 and incorporated herein by reference)
10.38	Indemnity Guarantee Agreement dated January 29, 2003 between NPC Inc. and Flying J Inc. (filed as Exhibit 10.9 to the registrant's Current Report on Form 8-K (File No. 001-31539) filed on February 13, 2003 and incorporated herein by reference)
10.39	Promissory Note dated July 21, 2000 and Letter Agreement dated July 21, 2000 for $200,000 Relocation Loan to Robert T. Hanley (filed as Exhibit 10.29 to the registrant's Annual Report on Form 10-K/A No. 2 (File No. 0-20872) for the year ended December 31, 2001 and incorporated herein by reference)
10.40	Security Agreement made as of May 1, 2002 by St. Mary Land & Exploration Company, St. Mary Operating Company, St. Mary Energy Company, Nance Petroleum Corporation, St. Mary Minerals Inc., Parish Corporation, Four Winds Marketing LLC, and Roswell LLC, in favor of Bank of America, N.A. (filed as

Exhibit Number	Description
	Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q (File No. 000-20872) for the quarter ended June 30, 2002 and incorporated herein by reference)
10.41	Stock Pledge Agreement made as of May 1, 2002 by St. Mary Land & Exploration Company in favor of Bank of America, N.A. (filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q (File No. 000-20872) for the quarter ended June 30, 2002 and incorporated herein by reference)
10.42	LLC Pledge Agreement made as of May 1, 2002 by St. Mary Land & Exploration Company in favor of Bank of America, N.A. (filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q (File No. 000-20872) for the quarter ended June 30, 2002 and incorporated herein by reference)
10.43	Guaranty made as of May 1, 2002 by St. Mary Operating Company, St. Mary Energy Company, Nance Petroleum Corporation, St. Mary Minerals, Inc., Parish Corporation, Four Winds Marketing LLC and Roswell LLC in favor of Bank of America, N.A. (filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q (File No. 000-20872) for the quarter ended June 30, 2002 and incorporated herein by reference)
10.44*	Credit Agreement dated as of January 27, 2003 among St. Mary Land & Exploration Company, Wachovia Bank, National Association of Administrative Agent, and the Lenders party thereto
10.45*	Amendment to and Extension of Office Lease dated as of December 14, 2001
12.1*	Computation of Ratios of Earnings to Fixed Charges
16.1	Letter by Arthur Andersen LLP to the Securities and Exchange Commission dated May 28, 2002 (filed as Exhibit 16.1 to the registrant's Current Report on Form 8-K (File No. 000-20872) filed on May 30, 2002 and incorporated herein by reference)
21.1*	Subsidiaries of Registrant
23.1*	Consent of Deloitte & Touche LLP
23.2*	Information About Lack of Consent of Arthur Andersen LLP

23.3*	Consent of Ryder Scott Company, L.P.
24.1*	Power of Attorney (included in signature page hereof)

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* Filed with this Form 10-K.

(d) Financial Statement Schedules. See Item 14(c) above.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
St. Mary Land & Exploration Company and Subsidiaries

We have audited the accompanying consolidated balance sheet of St. Mary Land & Exploration Company and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Company's consolidated financial statements for each of the years in the two-year period ended December 31, 2001, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated February 18, 2002, which report included an explanatory paragraph for the change in method of accounting for derivative instruments and hedging activities on January 1, 2001.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Denver, Colorado
February 19, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
St. Mary Land & Exploration Company and Subsidiaries:

We have audited the accompanying consolidated balance sheets of St. Mary Land & Exploration Company (a Delaware corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Mary Land & Exploration Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Notes 1 and 10 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities on January 1, 2001.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado,
February 18, 2002.

NOTE: This Report of Independent Public Accountants dated February 18, 2002 by Arthur Andersen LLP is a copy of the report previously issued by Arthur Andersen LLP and included with Arthur Andersen LLP's consent in the Annual Report on Form 10-K for the year ended December 31, 2001 filed with the SEC on March 19, 2002 and the Annual Report on Form 10-K/A for the year ended December 31, 2001 filed with the SEC on March 25, 2002. Such report has not been reissued by Arthur Andersen LLP for inclusion with this Annual Report on Form 10-K for the year ended December 31, 2002. After reasonable efforts, St. Mary Land & Exploration Company has been unable to obtain a reissued report of Arthur Andersen LLP for inclusion with this Form 10-K, and in reliance on Rule 2-02(e) of Regulation S-X promulgated by the SEC is including a copy of the previously issued report with this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

	December 31,

ASSETS	2002	2001
Current assets:		
Cash and cash equivalents	$ 11,154	$ 4,116
Short-term investments	1,933	-
Accounts receivable	35,399	46,484
Prepaid expenses and other	6,510	2,337
Accrued derivative asset	-	8,194
Refundable income taxes	1,031	11,061
Deferred income taxes	3,520	29
Total current assets	59,547	72,221
Property and equipment (successful efforts method), at cost:		
Proved oil and gas properties	683,752	518,912
Less accumulated depletion, depreciation and amortization	(263,436)	(216,288)
Unproved oil and gas properties, net of impairment allowance of $8,865 in 2002 and $8,908 in 2001	47,984	53,054
Other property and equipment, net of accumulated depreciation of $3,586 in 2002 and $3,120 in 2001	3,639	3,252
	471,939	358,930
Other noncurrent assets	5,653	5,838
Total Assets	$ 537,139	$ 436,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 48,790	$ 34,858
Accrued derivative liability	8,707	-
Deferred income taxes	-	3,363
Total current liabilities	57,497	38,221
Noncurrent liabilities:		
Long-term credit facility	14,000	64,000
Convertible notes	99,601	-
Deferred income taxes	60,156	47,685
Other noncurrent liabilities	5,727	255
Total noncurrent liabilities	179,484	111,940
Commitments and contingencies (Notes 1,6,7,8)		
Minority interest	645	711
Stockholders' equity:		
Common stock, $0.01 par value: authorized -100,000,000 shares; issued - 28,983,110 shares in 2002 and 28,779,808 shares in 2001; outstanding - 27,973,210 shares in 2002 and 27,769,908 shares in 2001	290	288
Additional paid-in capital	140,688	137,384
Treasury stock - at cost: 1,009,900 shares in 2002 and 2001	(16,210)	(16,210)
Retained earnings	182,512	157,739
Accumulated other comprehensive income (loss)	(7,767)	6,916
Total stockholders' equity	299,513	286,117
Total Liabilities and Stockholders' Equity	$ 537,139	$ 436,989

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

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

	For the Years Ended December 31,		
	2002	2001	2000
Operating revenues:			
Oil and gas production	$ 185,670	$ 203,973	$ 188,407
Gain (loss) on sale of proved properties	(2,633)	367	3,404
Marketed gas revenue	8,399	420	-
Other oil and gas revenue	682	2,166	1,421
Derivative gain	3,188	-	-
Other revenues	1,088	543	2,434
Total operating revenues	196,394	207,469	195,666
Operating expenses:			
Oil and gas production	50,839	55,000	38,461
Depletion, depreciation and amortization	54,432	51,346	40,129
Exploration	19,501	19,518	9,633
Impairment of proved properties	-	820	4,449
Abandonment and impairment of unproved properties	2,446	3,865	1,841
General and administrative	14,299	11,762	11,166
Derivative loss	-	1,573	-
Marketed gas system operating expense	7,982	420	-
Minority interest and other	1,206	1,253	1,437
Total operating expenses	150,705	145,557	107,116
Income from operations	45,689	61,912	88,550
Nonoperating income (expense):			
Interest income	758	466	897
Interest expense	(3,868)	(90)	(160)
Income before income taxes	42,579	62,288	89,287
Income tax expense	15,019	21,829	33,667
Net income	$ 27,560	$ 40,459	$ 55,620

Basic net income per common share	$ 0.99	$ 1.45	$ 2.00
Diluted net income per common share	$ 0.97	$ 1.42	$ 1.97
Basic weighted average shares outstanding	27,856	27,973	27,781
Diluted weighted average shares outstanding	28,391	28,555	28,271

The accompaying 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
(In thousands, except share amounts)

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Earnings	Shares	Amount	Income	Equity
Balances, December 31, 1999	27,893,910	$ 279	$ 123,974	$ 67,230	(365,600)	$ 2,995)	$ 284	$ 188,772
Comprehensive income:								
Net Income	-	-	-	55,620	-	-	-	55,620
Unrealized net loss on marketable equity securities available for sale	-	-	-	-	-	-	(143)	(143)
Total comprehensive income								55,477
Cash dividends, $ 0.10 per share	-	-	-	(2,775)	-	-	-	(2,775)
Treasury stock purchases	-	-	-	-	(30,000)	(344)	-	(344)
Issuance for Employee Stock Purchase Plan	32,296	-	311	-	-	-	-	311
ESPP disqualified distribution	-	-	3	-	-	-	-	3
Sale of common stock, including income tax benefit of stock option exercises	619,220	6	8,597	-	-	-	-	8,603
Directors' stock compensation	8,400	1	88	-	-	-	-	89
Balances, December 31, 2000	28,553,826	$ 286	$ 132,973	$ 120,075	(395,600)	$ (3,339)	$ 141	$ 250,136
Comprehensive income:								
Net Income	-	-	-	40,459	-	-	-	40,459
Unrealized net loss on marketable equity securities available for sale	-	-	-	-	-	-	(132)	(132)
Adoption of SFAS No. 133							(28,587)	(28,587)
Reclass to earnings	-	-	-	-	-	-	21,102	21,102
Change in derivative instrument fair value	-	-	-	-	-	-	14,392	14,392
Total comprehensive income								47,234
Cash dividends, $ 0.10 per share	-	-	-	(2,795)	-	-	-	(2,795)
Treasury stock purchases	-	-	-	-	(614,300)	(12,871)	-	(12,871)
Issuance for Employee Stock Purchase Plan	29,772	-	575	-	-	-	-	575
Sale of common stock, including income tax benefit of stock option exercises	187,810	2	3,598	-	-	-	-	3,600
Directors' stock compensation	8,400	-	238	-	-	-	-	238
Balances, December 31, 2001	28,779,808	$ 288	$ 137,384	$ 157,739	(1,009,900)	$(16,210)	$ 6,916	$ 286,117
Comprehensive income:								
Net Income	-	-	-	27,560	-	-	-	27,560
Unrealized net loss on marketable equity securities available for sale	-	-	-	-	-	-	(725)	(725)
Reclass to earnings	-	-	-	-	-	-	1,447	1,447
Change in derivative instrument fair value	-	-	-	-	-	-	(14,644)	(14,644)
Minimum pension liability adjustment	-	-	-	-	-	-	(761)	(761)
Total comprehensive income								12,877
Cash dividends, $ 0.10 per share	-	-	-	(2,787)	-	-	-	(2,787)
Issuance for Employee Stock Purchase Plan	18,217	-	344	-	-	-	-	344
ESPP disqualified distribution	-	-	21	-	-	-	-	21
Sale of common stock, including income tax benefit of stock option exercises	177,085	2	2,743	-	-	-	-	2,745
Accelerated vesing of retiring director options	-	-	52	-	-	-	-	52
Directors' stock compensation	8,000	-	144	-	-	-	-	144
Balances, December 31, 2002	28,983,110	$ 290	$ 140,688	$ 182,512	(1,009,900)	$(16,210)	$ (7,767)	$ 299,513

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

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

	For the Years Ended December 31,		
	2002	2001	2000
Reconciliation of net income to net cash provided by operating activities:			
Net income	$ 27,560	$ 40,459	$ 55,620
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gain) loss on sale of proved properties	2,633	(367)	(3,404)
Gain on sale of KMOC stock	(836)	-	(2,156)
Depletion, depreciation and amortization	54,432	51,346	40,129
Impairment of proved properties	-	820	4,449
Abandonment and impairment of unproved properties	2,446	3,865	1,841
Unrealized derivative (gain) loss	373	1,573	-
Deferred income taxes	14,633	23,726	21,348
Exploratory dry hole expense	7,677	9,028	789
Minority interest and other	40	(1,327)	1,260
	108,958	129,123	119,876
Changes in current assets and liabilities:			
Accounts receivable	11,085	(629)	(23,138)
Prepaid expenses and other	(4,173)	(664)	228
Refundable income taxes	10,030	(11,061)	26
Accounts payable and accrued expenses	15,992	10,752	(4,652)
Current deferred income taxes	(183)	(29)	(73)
Net cash provided by operating activities	141,709	127,492	92,267

Cash flows from investing activities:			
Proceeds from sale of oil and gas properties	1,624	4,771	3,573
Capital expenditures	(97,257)	(131,680)	(65,241)
Acquisition of oil and gas properties	(87,466)	(39,124)	(52,076)
Proceeds from distribution and sale of KMOC stock	3,114	6,960	-
Deposits to short term investments available-for-sale	(13,523)	-	-
Receipts from short term investments available-for-sale	12,538	-	-
Other	39	(2)	876
Net cash used in investing activities	(180,931)	(159,075)	(112,868)
Cash flows from financing activities:			
Proceeds from long-term debt	37,400	147,050	45,050
Repayment of long-term debt	(87,400)	(105,050)	(36,050)
Proceeds from convertible debt	96,657	-	-
Proceeds from sale of common stock	2,390	2,746	7,143
Repurchase of common stock	-	(12,871)	(344)
Dividends paid	(2,787)	(2,795)	(2,775)
Other	-	-	1
Net cash provided by financing activities	46,260	29,080	13,025
Net change in cash and cash equivalents	7,038	(2,503)	(7,576)
Cash and cash equivalents at beginning of period	4,116	6,619	14,195
Cash and cash equivalents at end of period	$ 11,154	$ 4,116	$ 6,619

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

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

Supplemental schedule of additional cash flow information and noncash activities:

	For the Years Ended December 31,		
	2002	2001	2000
		(in thousands)	
Cash paid for interest, including amounts capitalized	$ 2,498	$ 764	$ 916
Cash paid (received) for income taxes	(550)	11,205	92

In June 2002 the Company issued 800 shares of common stock to a director and recorded compensation expense of $14,763.

In January 2002 the Company issued 7,200 shares of common stock to its directors and recorded compensation expense of $129,683.

In April 2002 the Company accepted 9,472,562 shares of common stock in Constellation Copper Corporation ("Constellation", formerly known as Summo Minerals Corporation) in lieu of cash payment for the relief of a $1,400,000 loan and $15,311 in interest due to the Company.

In January 2001 the Company issued 8,400 shares of common stock to its directors and recorded compensation expense of $237,852.

In June 2000 the Company received equipment valued at $1,202,000 as partial proceeds for property sold.

In January 2000 the Company issued 8,400 shares of common stock to its directors and recorded compensation expense of $88,368.

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

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

1. Summary of Significant Accounting Policies

Description of Operations

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

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Subsidiaries that are not wholly-owned are accounted for using full consolidation with minority interest or by the equity or cost method as appropriate. All significant intercompany accounts and transactions have been eliminated.

Stock Splits

In July 2000 St. Mary's Board of Directors approved a two-for-one stock split effected in the form of a stock dividend whereby one additional common share of stock was distributed for each common share outstanding. The stock split was distributed on September 5, 2000, to shareholders of record as of the close of business on August 21, 2000. All share and per share amounts for all periods presented herein have been restated to reflect this stock split.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

Short-term Investments

The Company's short-term investments consist primarily of equity securities and investment-grade marketable debt, which are classified as available-for-sale or held-to-maturity. Securities which have been categorized as available-for-sale are stated at fair value based on quoted market prices. Debt securities that the Company has the ability and intent to hold to maturity are accounted for as held-to-maturity securities and are carried at amortized cost.

Concentration of Credit Risk

Substantially all of the Company's receivables are within the oil and gas industry, primarily from purchasers of oil and gas and from joint interest owners. Although diversified within many companies, collectability is dependent upon the general economic conditions of the industry. The receivables are not collateralized, and to date the Company has had minimal bad debts.

The Company has accounts with separate banks in Denver, Colorado; Shreveport, Louisiana; Tulsa, Oklahoma; Lafayette, Louisiana; and Billings, Montana. At December 31, 2002 and 2001, the Company had $4,881,000 and

$6,576,000 respectively, invested in money market funds, including margin accounts consisting of corporate commercial paper, repurchase agreements and U.S. Treasury obligations. The Company's policy is to invest in highly rated instruments and to limit the amount of credit exposure at each individual institution.

Oil and Gas Producing Activities

The Company follows the successful efforts method of accounting for its oil and gas properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well does not find proved reserves, the costs of drilling the well are charged to expense. Exploratory dry hole costs are included in cash flows from investing activities within the consolidated statements of cash flows. The costs of development wells are capitalized whether productive or nonproductive.

Geological and geophysical costs on exploratory prospects and the costs of carrying and retaining unproved properties are expensed as incurred. An impairment allowance is provided on a property-by-property basis when the Company determines that the unproved property will not be developed. Depletion, depreciation and amortization ("DD&A") of capitalized costs of proved oil and gas properties is provided on a field-by-field basis using the units of production method based upon proved reserves. The computation of DD&A takes into consideration restoration, dismantlement and abandonment costs and the anticipated proceeds from equipment salvage. The restoration, dismantlement and abandonment costs for onshore properties are expected to be offset by the residual value of lease and well equipment. The Company had a recorded offshore abandonment liability of $9,100,000 as of December 31, 2002, based on total expected abandonment costs of $11,700,000 and a liability of $9,500,000 as of December 31, 2001 based on total expected abandonment costs of $10,251,000. This liability is included in accumulated DD&A on the consolidated balance sheets. The Company recorded $204,000, $313,000 and $1,988,000 of offshore abandonment liability accretion as part of DD&A expense in the consolidated statements of operations for the years ended December 31, 2002, 2001 and 2000, respectively.

The Company reviews its long-lived assets for impairments when events or changes in circumstances indicate that an impairment may have occurred. The impairment test compares the expected undiscounted future net revenues on a field-by-field basis with the related net capitalized costs at the end of each period. Expected future cash flows are calculated on all proved reserves using a 15% discount rate and escalated prices. When the net capitalized costs exceed the undiscounted future net revenue of a property, the cost of the property is written down to fair value, which is determined using discounted future net revenues. During 2002, 2001 and 2000 the Company recorded impairment charges for proved properties of $-0-, $820,000 and $4,449,000, respectively.

Sales of Producing and Nonproducing Properties

The sale of a partial interest in a proved property is accounted for as normal retirement, and no gain or loss is recognized as long as this treatment does not significantly affect the unit-of-production amortization rate. A gain or loss is recognized for all other sales of producing properties and is included in the results of operations.

The sale of a partial interest in an unproved property is accounted for as a recovery of cost when substantial uncertainty exists as to recovery of the cost applicable to the interest retained. A gain on the sale is recognized to the extent that the sales price exceeds the carrying amount of the unproved property. A gain or loss is recognized for all other sales of nonproducing properties and is included in the results of operations.

Other Property and Equipment

Other property and equipment is recorded at cost. Costs of renewals and improvements that substantially extend the useful lives of the assets are capitalized. Maintenance and repairs are expensed when incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the assets from 3 to 15 years. Gains and losses on dispositions of other property and equipment are included in the results of operations.

Gas Balancing

The Company uses the sales method to account for gas imbalances. Under this method, revenue is recorded on the basis of gas actually sold by the Company. The Company records revenue for its share of gas sold by other owners that cannot be volumetrically balanced in the future due to insufficient remaining reserves. Related receivables totaling $898,000 at December 31, 2002, and $984,000 at December 31, 2001, are included in other noncurrent assets in the accompanying balance sheets. The Company also reduces revenue for gas sold by the Company that cannot be volumetrically balanced in the future due to insufficient remaining reserves. Related payables totaling $531,000 at December 31, 2002, and $353,000 at December 31, 2001, are included in other noncurrent liabilities in the accompanying balance sheets. The Company's remaining overproduced and underproduced gas balancing positions are considered in the Company's proved oil and gas reserves (see Note 11 - Disclosures About Oil and Gas Producing Activities).

Derivative Financial Instruments

The Company seeks to protect its rate of return on acquisitions of producing properties, drilling prospects and other production by hedging cash flows when the economic criteria from its evaluation and pricing model indicate it would be appropriate. The Company intends for these derivative instruments used for this purpose to be designated as and qualify as cash flow hedging instruments under Statement of Financial Accounting Standards ("SFAS") No. 133. Management's strategy is to hedge cash flows from investments currently requiring a gas price in excess of $3.25 per Mcf and an oil price in excess of $22.50 per Bbl in order to meet minimum rate-of-return criteria. Management reviews these hedging parameters on a quarterly basis. The Company generally limits its aggregate hedge position to no more than 50% of its total production but will hedge larger percentages of total production in certain circumstances. The Company seeks to minimize basis risk and indexes the majority of its oil hedges to NYMEX prices and the majority of its gas hedges to various regional index prices associated with pipelines in proximity to the Company's areas of gas production.

The Company's hedge positions are diversified with various counterparties, and the Company requires that such counterparties have clear indications of current financial strength (See Note 10 - Derivative Financial Instruments for additional discussion of derivatives).

Income Taxes

Deferred income taxes are provided on the difference between the tax basis of an asset or liability and its carrying amount in the financial statements. This difference will result in taxable income or deductions in future years when the reported amount of the asset or liability is recovered or settled, respectively.

Earnings Per Share

Basic net income per common share of stock is calculated by dividing net income by the weighted average of common shares outstanding during each year. Diluted net income per common share of stock is calculated by dividing net income by the weighted average of common shares outstanding and other dilutive securities. Potentially dilutive securities of the Company consist of outstanding options to purchase the Company's common stock and shares associated with the convertible notes that were issued in 2002. The outstanding dilutive securities related to in-the-money options for the years ended December 31, 2002, 2001 and 2000 were 534,610, 582,313 and 490,288, respectively. Options that were out-of-the-money and therefore not considered in the diluted income per share calculation were 1,539,227, 625,492, and -0- for the years ended December 31, 2002, 2001 and 2000. Shares associated with the convertible notes are accounted for using the if-converted method. Potentially dilutive shares of 3,076,922 in 2002 that related to the convertible notes were not included in the calculation of diluted net income per share because they were anti-dilutive.

Stock-Based Compensation

At December 31, 2002 the Company had stock-based employee compensation plans that are more fully described in Note 7. The Company accounts for stock-based compensation using the intrinsic value recognition and measurement principles prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations. No stock-based employee compensation expense is reflected in net income as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

		Pro Forma for the Years Ended December 31,		
		2002	2001	2000
		(In thousands, except per share amounts)		
Net income				
	As reported	$ 27,560	$ 40,459	$ 55,620
	Pro forma	$ 22,894	$ 37,569	$ 52,515
Basic earnings per share				
	As reported	$ .99	$ 1.45	$ 2.00
	Pro forma	$ .82	$ 1.34	$ 1.89
Diluted earnings per share				
	As reported	$ .97	$ 1.42	$ 1.97
	Pro forma	$ .81	$ 1.32	$ 1.86

For purposes of pro forma disclosures, the estimated fair values of the options are amortized to expense over the options' vesting periods. The effects of applying SFAS No. 123 in the pro forma disclosure are not necessarily indicative of actual future amounts. Additional awards in future years are anticipated.

Comprehensive Income

Comprehensive income consists of net income, and unrealized gains and losses on marketable equity securities held for sale, the effective component of derivative instruments classified as cash flow hedges, and accrued pension benefit obligation in excess of plan assets. Comprehensive income is presented

net of income taxes in the consolidated statements of stockholders' equity and comprehensive income.

Major Customers

During 2002 no customer individually accounted for more than 10% of the Company's total oil and gas production revenue. During 2001 two customers individually accounted for 12.0% and 11.3% of the Company's total oil and gas production revenue. During 2000 one customer accounted for 22.3% of the Company's total oil and gas production revenue.

Industry Segment and Geographic Information

The Company operates in one industry segment, which is the exploration, development and production of natural gas and crude oil, and all of the Company's operations are conducted in the United States. Consequently, the Company currently reports as a single industry segment.

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Use of Estimates in the Preparation of Financial Statements

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

Recently Issued Accounting Standards

In July 2001 the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement requires companies to recognize the fair value of an asset retirement liability in the financial statements by capitalizing that cost as part of the cost of the related long-lived asset. The asset retirement liability should then be allocated to expense by using a systematic and rational method. The statement is effective January 1, 2003. The Company has not determined the impact of adoption of this statement.

In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement shall be applied in fiscal years beginning after May 15, 2002. We currently do not believe that adoption of this Statement will have an impact on the Company.

In June 2002 the FASB issued SFAS No. No. 146, "Accounting for Costs

Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an

Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not believe that adoption of this Statement will have a material impact on the financial statements.

In December 2002 the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure: an amendment of FASB Statement No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Statement is effective for financial statements for fiscal years ending after December 15, 2002. The Company will continue to account for stock-based compensation using the methods detailed in the stock-based compensation accounting policy.

2. Accounts Receivable

Accounts receivable are composed of the following:

	December 31,	
	2002	2001
	(In thousands)	
Accrued oil and gas sales	$25,962	$29,041
Due from joint interest owners	8,920	17,042
Other	517	401
Total accounts receivable	$35,399	$46,484

3. Acquisitions

On December 3, 2002, the Company completed the acquisition of oil and gas properties located in Montana, North Dakota and Wyoming from Burlington Resources Oil & Gas Company LP. The Company paid $69,469,000 in cash after normal price adjustments. The Company utilized a portion of its existing credit facility to fund the acquisition, and the transaction was accounted for as a purchase.

On November 29, 2001, the Company completed the acquisition of oil and gas properties located in Montana, North Dakota and Wyoming from Choctaw II Oil and Gas, LTD. The Company paid $40,526,000 in cash after normal price adjustments. The Company utilized a portion of its existing credit facility to fund the acquisition, and the transaction was accounted for as a purchase.

On December 28, 2000, the Company completed the acquisition of oil and gas properties primarily located in the Anadarko Basin of Oklahoma from JN Exploration and Production Limited Partnership and affiliates for $31,613,000 million in cash after normal purchase price adjustments. The Company utilized cash on hand and a portion of its existing credit facility to fund the acquisition. The transaction was accounted for as a purchase.

4. Income Taxes

The provision for income taxes consists of the following:

	For the Years Ended December 31,		
	2002	2001	2000
	(in thousands)		
Current Taxes:			
Federal	$ 719	$ 1,114	$ 11,194
State	569	620	1,181
Deferred taxes	13,731	20,095	21,292
Total income tax expense	$ 15,019	$ 21,829	$ 33,667

The above taxes from continuing operations are net of alternative fuels credits (Internal Revenue Code Section 29) of $167,000 in 2002, $185,000 in 2001 and $79,000 in 2000. Current federal tax does not reflect the tax benefit for deductions from stock option exercises of $719,000 in 2002, $930,000 in 2001 and $1,771,000 in 2000 because the benefit is included in additional paid-in capital in the consolidated balance sheets. The net federal taxes payable for the years ending December 31, 2002, 2001 and 2000 are $-0-, $184,000 and $9,423,000, respectively.

The components of the net deferred tax liability are as follows:

	December 31,	
	2002	2001
	(in thousands)	
Deferred Tax Liabilities		
Oil and gas properties	$ 71,448	$ 55,819
Derivative Instruments	-	3,903
Other	62	147
Total deferred tax liabilities	71,510	59,869
Deferred Tax Assets		
Amounts included in Other Comprehensive Income	4,181	-
State tax net operating loss carryforward	4,042	3,638
Federal net operating loss carryforward	3,142	-
Deferred capital loss	1,703	1,715
Other, primarily employee benefits	1,325	1,716
State and federal income tax benefit	775	3,497
Charitable contributions carryforward	218	-
Alternative minimum tax credit carryforward	215	184
Total deferred tax assets	15,601	10,750
Valuation allowance	(727)	(1,929)
Net deferred tax assets	14,874	8,821
Total net deferred tax liabilities	56,636	51,048
Current deferred income tax assets (liabilities)	3,520	(3,363)
Non-current net deferred tax liabilities	$ 60,156	$ 47,685
Current refundable income tax	$ 1,031	$ 11,061

In accordance with SFAS No. 109 the Company records purchase adjustments to its long-term deferred income tax liability accounts to more closely align book and tax basis at the time of acquisition. These adjustments mitigate the effect of deferred income tax expense or reduced deferred income tax benefit on future net income before income tax from acquisitions that utilize the purchase method for accounting principles generally accepted in the United States and are considered to be tax-free basis transfers for tax accounting. During 1999 the Company adjusted its long-term deferred income tax liability account for a $667,000 increase relating to its Nance Petroleum Corporation ("Nance") stock acquisition and recorded a $10,426,000 decrease for its King Ranch Energy ("KRE") stock acquisition as Nance's book basis was greater than its tax basis, and KRE's tax basis was greater than its book basis. The Company has been recording adjustments to reflect the utilization of additional tax benefits of KRE by King Ranch, Inc. on it's 1999 Federal consolidated income tax return and to reflect the utilization of tax benefits or liabilities on its own federal consolidated returns since the original amounts were recorded.

At December 31, 2002, the Company had state net operating loss carryforwards of approximately $61,000,000, which expire between 2003 and 2021. The Company's valuation allowance relates to those state net operating loss carryforwards that the Company anticipates will expire before they can be utilized. The net change in valuation allowance in 2002 results from an evaluation of state net operating loss carryforwards that led to a conclusion by the Company that more of the carryforwards will be offset by reversing state temporary differences, projections of future taxable income and individual state tax planning strategies before they expire than was anticipated in prior years.

Federal income tax expense differs from the amount that would be provided by applying the statutory U.S. Federal income tax rate to income before income taxes for the following reasons:

	For the Years Ended December 31,		
	2002	2001	2000
	(in thousands)		
Federal statutory taxes	$ 14,477	$ 20,420	$ 30,267
Increase (reduction) in taxes resulting from:			
State taxes (net of Federal benefit)	2,092	2,017	4,342
Statutory depletion	(218)	(238)	(71)
Alternative fuel credits (Section 29)	(167)	(185)	(79)
Change in valuation allowance	(1,202)	34	(826)
Other	37	(219)	34
Income tax expense from continuing operations	$ 15,019	$ 21,829	$ 33,667

5. Long-term Debt and Notes Payable

In March 2002 the Company issued in a private placement a total of $100,000,000 of 5.75% senior convertible notes due 2022 (the "Notes") with a 0.5% contingent interest provision (see Note 10-Derivative Financial Instruments). The contingent interest provision did not apply to St. Mary's first interest payment on September 15, 2002, but it will apply to the payment due on March 15, 2003. Interest payments will be made on March 15 and September 15 in subsequent years. The Company received net proceeds of $96,661,000 after deducting the initial purchasers' discount and offering expenses paid by the Company. The Notes are general unsecured obligations and rank on parity in right of payment with all existing and future unsecured senior indebtedness and other

general unsecured obligations. They are senior in right of payment to all future subordinated indebtedness. The Notes are convertible into the Company's common stock at a conversion price of $26.00 per share, subject to adjustment. The Company can redeem the Notes with cash in whole or in part at a repurchase price of 100% of the principal amount plus accrued and unpaid interest (including contingent interest) beginning on March 20, 2007. The note holders have the option of requiring the Company to repurchase the Notes for cash at 100% of the principal amount plus accrued and unpaid interest (including contingent interest) upon (1) a change in control of St. Mary or (2) on March 20, 2007, March 15, 2012, and March 15, 2017. If the note holders require repurchase on March 20, 2007, the Company may elect to pay the repurchase price with cash, shares of its common stock valued at a discount at the time of repurchase, or any combination of cash and its discounted common stock. The shares of common stock used in any repurchase will be discounted at 95% of market price if 33% or less of the repurchase price is in shares of our common stock; otherwise the stock will be discounted at 93% of market value. St. Mary is not restricted from paying dividends, incurring debt, or issuing or repurchasing its securities under the indenture for the Notes. There are no financial covenants in the indenture. The Company used a portion of the net proceeds from the Notes to repay its credit facility balance and used the remaining net proceeds to fund a portion of its 2002 capital expenditures. On March 25, 2002, the Company entered into a five-year fixed-rate to floating-rate interest rate swap on $50,000,000 of Notes. The floating rate for each applicable six-month period was determined as LIBOR plus 0.36%. For the six-month calculation period ending March 15, 2003 this rate was 2.19%. The interest rate swap contract was terminated on December 3, 2002. The Company received proceeds of $3,952,000 upon termination of the contract and recorded a derivative gain of $3,561,000 in the statement of operations. See Note 10 - Derivative Financial Instruments for a discussion of the derivative accounting for the interest rate swap.

On March 4, 2002, St. Mary entered into an agreement to amend the existing long-term revolving credit agreement. The lender may periodically re-determine the aggregate borrowing base depending upon the value of St. Mary's oil and gas properties and other assets. The accepted borrowing base was $40.0 million at December 31, 2002, and the stated total borrowing base was $160.0 million. The credit agreement has a maturity date of December 31, 2006 and includes a revolving period that matures on June 30, 2003. Quarterly principal payments will begin on September 30, 2003. The amended agreement deletes all reference to and provisions of the short-term tranche previously available to St. Mary. The Company must comply with certain covenants including maintenance of stockholders' equity at a specified level and limitations on additional indebtedness. These outstanding balances accrued interest at rates determined by St. Mary's debt to total capitalization ratio at our option of either:

Debt to Capitalization Ratio	<30%	=>30%<40%	=>40%<50%	=>50%
Option (1)				
LIBOR plus	1.000%	1.250%	1.375%	1.625%
Option (2) - The higher of:				
Federal funds rate plus	0.500%	0.500%	0.500%	0.500%
Prime rate plus	-	-	-	0.250%

The debt to total capitalization ratio as defined under the agreement was 27.5% as of December 31, 2002.

Outstanding borrowings under the revolving credit agreement were $14,000,000 and $64,000,000 as of December 31, 2002 and 2001, respectively. Borrowings under the Notes were $100,000,000 and $-0- as of December 31, 2002

and 2001, respectively. The weighted average interest rate paid in 2002 was 4.2% including commitment fees paid on the unused portion of the accepted borrowing base and including the effect of the interest rate swap contract. Borrowings under the facility are secured by a pledge of collateral in favor of the banks and guarantees by subsidiaries. Such collateral consists primarily of security interests in the oil and gas properties of St. Mary and its subsidiaries.

The Company's estimated annual principal payments under the credit agreement for the next four years are as follows:

Years Ending December 31,	(In thousands)
2003	$ 2,000
2004	4,000
2005	4,000
2006	4,000
Total	$14,000

In January 2003, this line of credit was closed and replaced, as described in Note 13, Subsequent Events.

6. Commitments and Contingencies

The Company leases office space under various operating leases with terms extending as far as May 31, 2012. The Company has a noncancelable sublease of approximately $1,685,000 through 2012. Rent expense, net of sublease income, was $1,082,000, $839,000 and $782,000 in 2002, 2001 and 2000, respectively. The Company also leases office equipment under various operating leases. The annual minimum lease payments for the next five years are presented below:

Years Ending December 31,	(In thousands)
2003	$1,573
2004	1,327
2005	1,205
2006	1,125
2007	861
Thereafter	3,674
Total	$9,724

7. Compensation Plans

The Company has a cash bonus plan that allows participants to receive up to 100% of their aggregate base salary. Any awards under the cash bonus plans are based on a combination of Company and individual performance. The Company accrued $2,100,000 for cash bonuses in 2002 that will be paid in 2003, $170,000 for cash bonuses in 2001 that were paid in 2002, and $1,957,000 for cash bonuses in 2000 that were paid in 2001.

Under the Company's net profits interest bonus plan, oil and gas wells that are completed or acquired during a year are designated as a pool. Key employees designated as participants by the Company's board of directors and employed by the Company on the last day of that year vest and become entitled to bonus payments after the Company recovers net revenues generated by the pool

equal to 100% of its investment in that pool. Thereafter, an amount generally equal to 10% of net revenues generated by the pool will be allocated among the participants and paid on a quarterly basis. The percentage of net revenues from the pool to be split among the participants increases to 20% after the Company recovers net revenues equal to 200% of its investment. The Company records estimated compensation expense based on a number of assumptions including estimates of oil and gas production, oil and gas prices, recurring and workover lease operating expense and a present value discount factor. The Company uses a discount factor to calculate present value that reflects recovery of its investment, the timing of payments to participants and uncertainties associated with the estimates. The estimates the Company uses will change from year-to-year based on new information and any change in estimated compensation will be recorded in the period that information becomes available. The Company recorded estimated compensation expense of $5,600,000 in 2002, $5,259,000 in 2001 and $877,000 in 2000 relating to the net profits interest bonus plan.

The Company has a defined contribution pension plan ("401(k) Plan") that is subject to the Employee Retirement Income Security Act of 1974. The 401(k) Plan allows eligible employees to contribute up to 60% of their base salaries. The Company matches each employee's contributions up to 6% of the employee's base salary and also may make additional contributions at its discretion. The Company's contributions to the 401(k) Plan were $621,000, $559,000, and $412,000 for the years ended December 31, 2002, 2001 and 2000, respectively. No discretionary contributions were made by the Company to the 401(K) Plan in any of these three years.

In September 1997 the Board of Directors approved the St. Mary Land & Exploration Company Employee Stock Purchase Plan ("Stock Purchase Plan"), which became effective January 1, 1998. Under the Stock Purchase Plan eligible employees may purchase shares of the Company's common stock through payroll deductions of up to 15% of eligible compensation. The purchase price of the stock is 85% of the lower of the fair market value of the stock on the first or last day of the purchase period. The Stock Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code. The Company has set aside 1,000,000 shares of its common stock to be available for issuance under the Stock Purchase Plan. In 2002, 2001 and 2000 shares issued under the Stock Purchase Plan totaled 18,217, 29,772 and 32,296, respectively. Total proceeds to the Company for the issuance of these shares were $344,000, $575,000 and $311,000 in 2002, 2001 and 2000, respectively. The Company recorded compensation expense of $21,000, $20,000 and $3,000 in 2002, 2001 and 2000, respectively, due to nonqualified dispositions of stock acquired by employees under the Stock Purchase Plan.

In 1996 the Company established the St. Mary Land & Exploration Company Stock Option Plan and the St. Mary Land & Exploration Company Incentive Stock Option Plan (collectively, the "Option Plans"). The Option Plans grant options to purchase shares of the Company's common stock to eligible employees, contractors, and current and former members of the Board of Directors. In 2001 the stockholders approved an increase in the number of shares of the Company's common stock reserved for issuance under the Option Plans from 3,300,000 shares to 4,300,000 shares. All options granted to date under the Option Plans have been granted at exercise prices equal to the respective market prices of the Company's common stock on the grant dates.

A summary of the status of the Company's Stock Option Plans, including the 1990 and 1991 options and changes during the last three years follows:

	For the Years Ended December 31,					
	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price

Outstanding, start of year	2,151,675	$ 19.42	1,986,124	$ 18.95	1,998,254	$ 11.63
Granted	1,109,541	23.55	397,009	18.86	653,848	33.31
Exercised	177,085	11.44	187,810	11.57	619,220	11.05
Forfeited	22,565	25.08	43,648	26.00	46,758	11.74
Outstanding, end of year	3,061,566	21.34	2,151,675	19.42	1,986,124	18.95
Exercisable, end of year	1,944,382	19.79	1,418,404	17.09	1,150,196	15.00
Weighted average fair value of options granted during the year	$ 10.77		$ 8.36		$ 14.75	

A summary of additional information related to the options outstanding as of December 31, 2002 follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 9.25 - $10.25	332,808	4.8 years	$ 9.57	328,776	$ 9.57
12.38 - 14.69	517,367	6.7 years	12.58	517,367	12.58
15.93 - 17.50	280,111	7.3 years	16.55	196,353	16.82
21.19 - 25.00	1,314,209	9.5 years	23.17	430,847	22.83
33.31 - 33.31	617,071	8.0 years	33.31	471,039	33.31
Total	3,061,566	8.0 years	21.34	1,944,382	19.79

SFAS No. 123 establishes a fair value method of accounting for stock-based compensation plans either through recognition or disclosure. The Company accounts for stock-based compensation under APB No. 25 and has elected to adopt SFAS No. 123 through compliance with the disclosure requirements set forth in the Statement. Because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized under APB No. 25. Pro forma information regarding net income and earnings per share is required by SFAS No.

123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement.

The fair value of options is measured at the date of grant using the Black-Scholes option-pricing model. The fair values of options granted in 2002, 2001 and 2000 were estimated using the following weighted-average assumptions:

	2002	2001	2000
Risk free interest rate	3.76%	4.35%	5.14%
Dividend yield	0.43%	0.53%	0.32%
Volatility Factor of the expected market price of the Company's common stock	47.54%	49.79%	47.11%
Expected life of the options (in years)	5.9	4.8	4.8

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, it is management's opinion that the existing models do not necessarily provide a reliable single measure of the fair value of St Mary's employee stock options.

8. Pension Benefits

The Company's employees participate in 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"). The Company's disclosures about pension benefits are as follows:

	For the Years Ended December 31, 2002	2001
	(In thousands)	
Change in benefit obligations:		
Benefit obligation at beginning of year	$ 5,098	$ 3,054
Service Cost	442	323
Interest Cost	358	317
Amendments	(46)	0
Actuarial loss	409	1,485
Benefits paid	(25)	(81)
Benefit obligation at end of year	$ 6,236	$ 5,098
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 2,042	$ 1,775
Actual return on plan assets	(255)	(13)
Employer contribution	716	361
Benefits paid	(25)	(81)
Fair value of plan assets at end of year	$ 2,478	$ 2,042
Funded Status	$(3,758)	$(3,056)
Unrecognized net actuarial loss	2,925	2,326
Unrecognized prior service cost	(41)	(20)
Accrued benefit cost	$ (874)	$ (750)

The Company's Qualified Pension Plan's accumulated benefit obligation was $3,526,000 at December 31, 2002, and $2,646,000 at December 31, 2001. The accumulated benefit obligation exceeds plan assets by $1,048,000. The tax-adjusted liability of $761,000 was recorded in other comprehensive income at December 31, 2002.

The Company's Nonqualified Pension Plan's accumulated benefit obligation was $853,000 at December 31, 2002, and $685,000 at December 31, 2001. There are no plan assets in the nonqualified plan due to the nature of the plan.

Assumptions used in the measurement of the Company's benefit obligation are as follows:

	For the Years Ended December 31,	
	2002	2001
Weighted-average assumptions:		
Discount rate	6.50%	7.25%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.75%	5.00%

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Components of net periodic benefit cost:			
Service cost	$ 442	$ 323	$ 257
Interest cost	358	317	193
Expected return on plan assets	(146)	(129)	(119)
Amortization of prior service cost	(25)	(8)	(7)
Amortization of net actuarial loss	211	188	36
Net periodic benefit cost	$ 840	$ 691	$ 360

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 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

9. Investment in Russian Joint Venture

In February 2000 St. Mary exercised its option to convert its Khanty Mansiysk Oil Corporation ("KMOC") production payment receivable into common stock of KMOC. In July 2000 the Company finalized a negotiated value for the receivable that equated to 21,583 shares of KMOC common stock under the terms of the original agreement. In December 2000 the Company sold 14,662 of these shares for proceeds of $6,157,000, net of transaction costs and recognized a net gain of $2,156,000.

In January 2002 the Company sold its remaining shares of KMOC common stock for proceeds of $2,772,000 and recorded a gain of $838,000.

10. Derivative Financial Instruments

The Company realized a net gain of $878,000 from its derivative contracts for the year ended December 31, 2002, a net loss of $22,675,000 for the year ended December 31, 2001 and a net loss of $33,641,000 for the year ended December 31, 2000.

The Company's senior convertible notes contain a provision for payment of contingent interest if certain conditions are met. Under SFAS No. 133 this provision is considered an embedded equity related derivative that is not clearly and closely related to the fair value of an equity interest and therefore must be separately treated as a derivative instrument. The value of the derivative at issuance was $474,000. This amount was recorded as a decrease to the convertible notes payable in the consolidated balance sheets. Of this amount, $75,000 has been amortized through interest expense. Derivative gain in the consolidated statements of operations includes $341,000 of net loss from mark-to-market adjustments for this derivative.

The Company's fixed-rate to floating rate interest rate swap on $50,000,000 of senior convertible notes did not qualify for fair value hedge treatment under SFAS No. 133. This contract was entered into on March 25, 2002, and was closed out on December 3, 2002. Derivative gain in the consolidated statement of operations includes $3,561,000 of net realized gain from the termination of the interest rate swap contract.

The following table summarizes derivative instrument activity.

	2002	2001	2000
	Gain (Loss)		
Derivative contract settlements included in oil and gas production revenues	$ (2,235,000)	$ (21,102,000)	$ (33,641,000)
Ineffective portion of hedges qualifying for hedge accounting included in derivative gain(loss)	(32,000)	45,000	-
Non-qualified derivative contracts included in derivative gain (loss)	3,220,000	(1,618,000)	-
Amortization of contingent interest derivative through interest expense	(75,000)	-	-
Total	$ 878,000	$ (22,675,000)	$ (33,641,000)

Including hedges entered into since December 31, 2002 the Company has the following commodity swap contracts in place to hedge cash flow and reduce the impact of oil and gas price fluctuations:

Swaps

Product	Average Volumes/month	Quantity Type	Average Fixed Contract Price	Duration
Natural Gas	1,599,000	MMBtu	$4.35	01/03 - 12/03
Natural Gas	844,000	MMBtu	$4.04	01/04 - 12/04
Oil	206,200	Bbls	$25.94	01/03 - 12/03
Oil	144,500	Bbls	$23.71	01/04 - 12/04

Collars

Product	Average Volumes/month	Floor Price	Ceiling Price	Duration
Natural Gas	152,000 MMbtu	$2.50	$5.96	02/03 - 12/03

This table excludes commodity positions with Enron North America Corp, which filed for bankruptcy protection in December 2001. A net non-cash gain of $1,697,000 from these contracts is included in oil and gas production operating revenues in the consolidated statements of operations. The Company will amortize the remaining $49,000 unrealized hedge loss in 2003.

As noted in the table above, the last of those contracts will expire by December 31, 2004. Derivative gain in the consolidated statement of operations includes a loss of $31,000 from ineffectiveness related to these hedge contracts. On December 31, 2002 the estimated fair value of contracts designated and qualifying as cash flow hedges under SFAS No. 133 was a liability of $9,980,000. The Company will reclassify this amount to gains or losses included in oil and gas production operating revenues as the hedged production quantity is produced. Based on current prices the net amount of existing unrealized after-tax loss as of December 31, 2002 to be reclassified from accumulated other

comprehensive income to oil and gas production operating revenues in the next twelve months would be $5,461,000, net of deferred income taxes. The Company

anticipates that all original forecasted transactions will occur by the end of the originally specified time periods.

The Company adopted SFAS No. 133 adopted on January 1, 2001. SFAS No. 133 requires companies to report all derivatives at fair value as either assets or liabilities and bases the accounting treatment of the derivatives on the reasons an entity holds the instrument. The adoption of SFAS No. 133 resulted in the Company recording a liability of $45,699,000 for the fair value of the derivative instruments at January 1, 2001. The Company's adoption entry also resulted in deferral of the recognition of this liability to accumulated other comprehensive loss of $28,587,000, net of deferred income taxes.

See also Derivative Financial Instruments in Note 1 - Summary of Significant Accounting Policies.

11. Disclosures About Oil and Gas Producing Activities

Costs Incurred in Oil and Gas Producing Activities:

Costs incurred in oil and gas property acquisition, exploration and development activities, whether capitalized or expensed, are summarized as follows:

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Development costs	$ 74,376	$ 98,617	$ 48,996
Exploration	22,778	24,506	17,012
Acquisitions:			
Proved	87,706	41,188	53,482
Unproved	8,128	18,552	5,694
Total	$192,988	$182,863	$125,184

Oil and Gas Reserve Quantities (Unaudited):

The reserve information as of December 31, 2002, 2001, and 2000 was prepared by Ryder Scott Company and St. Mary. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of proved producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are those expected to be recovered through existing wells with existing equipment and operating methods.

Presented below is a summary of the changes in estimated domestic reserves of the Company:

	For the Years Ended December 31,					
	2002		2001		2000	
	Oil or Condensate	Gas	Oil or Condensate	Gas	Oil or Condensate	Gas
	(MBbl)	(MMcf)	(MBbl)	(MMcf)	(MBbl)	(MMcf)
Total proved reserves:						
Developed and undeveloped:						
Beginning of year	23,669	241,231	20,950	225,975	18,900	207,642
Revisions of previous estimate	3,611	4,696	(1,334)	(16,421)	210	(1,172)
Discoveries and extensions	1,250	32,813	3,131	59,830	1,707	37,702
Purchases of minerals in place	10,578	38,118	3,774	13,086	3,149	21,689
Sales of reserves	(174)	(4,522)	(418)	(1,748)	(618)	(1,540)
Production	(2,815)	(38,164)	(2,434)	(39,491)	(2,398)	(38,346)
End of year (a)	36,119	274,172	23,669	241,231	20,950	225,975
Proved developed reserves:						
Beginning of year	20,679	205,637	19,006	192,472	16,688	169,379
End of year	33,580	228,973	20,679	205,637	19,006	192,472

(a) At December 31, 2002, 2001, and 2000, includes approximately 1,151, 869 and 1,199 MMcf, respectively, representing the Company's underproduced gas balancing position.

Standardized Measure of Discounted Future Net Cash Flows (Unaudited):

SFAS No. 69, "Disclosures About Oil and Gas Producing Activities," prescribes guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. The Company has followed these guidelines, which are briefly discussed below.

Future cash inflows and future production and development costs are determined by applying benchmark prices and costs, including transportation, quality and basis differential, in effect at year-end to the year-end estimated quantities of oil and gas to be produced in the future. Estimated future income taxes are computed using current statutory income tax rates, including consideration for estimated future statutory depletion and alternative fuels tax credits. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

The assumptions used to compute the standardized measure are those prescribed by the FASB and the Securities and Exchange Commission. These assumptions do not necessarily reflect the Company's expectations of actual revenues to be derived from those reserves, nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates are the basis for the valuation process. The following prices, adjusted for transportation, quality and basis differentials, were used in the calculation of the standardized measure:

	For the Years Ended December 31,		
	2002	2001	2000
Gas (per Mcf)	$ 4.211	$ 2.502	$ 8.857
Oil (per Bbl)	$29.311	$18.113	$ 25.439

The following summary sets forth the Company's future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed in SFAS No. 69:

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Future cash inflows	$2,238,513	$1,020,948	$2,648,108
Future production and development costs	(783,991)	(444,608)	(570,711)
Future income taxes	(429,618)	(140,271)	(727,929)
Future net cash flows	1,024,904	436,069	1,349,468
10% annual discount	(443,042)	(154,192)	(630,984)
Standardized measure of discounted future net cash flows	$ 581,862	$ 281,877	$ 718,484

The principle sources of change in the standardized measure of discounted future net cash flows are as follows:

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Standard measure, beginning of year	$ 281,877	$ 718,484	$ 261,314
Sales of oil and gas produced, net of production costs	(137,066)	(170,074)	(183,586)
Net changes in prices and production costs	298,079	(820,253)	772,910
Extensions, discoveries and other, net of production costs	92,227	71,265	203,786
Purchase of minerals in place	160,089	29,267	104,883
Development costs incurred during the year	23,802	35,736	12,436
Changes in estimated future development cost	4,265	(8,370)	351
Revisions of previous quantity estimates	49,892	(17,593)	306
Accretion of discount	34,749	109,912	33,871
Sales of reserves in place	(708)	(10,548)	(3,329)
Net change in income taxes	(177,335)	298,717	(357,780)
Other	(48,009)	45,334	(126,678)
Standardized measure, end of year	$ 581,862	$ 281,877	$ 718,484

12. Quarterly Financial Information (Unaudited)

The Company's quarterly financial information for fiscal 2002 and 2001 is as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2002:				
Total Revenue	$ 42,773	$ 50,028	$ 48,335	$ 55,258
Less: costs and expenses	38,991	33,322	35,634	42,758
Operating Income	$ 3,782	$ 16,706	$ 12,701	$ 12,500
Income before income taxes	$ 3,440	$ 15,858	$ 1,187	$ 11,402
Net income	$ 2,318	$ 10,589	$ 7,674	$ 6,979
Net income per common share:				
Basic	$ 0.08	$ 0.38	$ 0.28	$ 0.25
Diluted	$ 0.08	$ 0.37	$ 0.27	$ 0.24
Dividends paid per share	$ -	$ 0.05	$ -	$ 0.05
Year Ended December 31, 2001				
Total Revenue	$ 68,347	$ 55,776	$ 42,656	$ 40,690
Less: costs and expenses	36,626	32,804	37,129	38,998
Operating Income	31,721	22,972	5,527	1,692
Income before income taxes	$ 31,874	$ 23,119	$ 5,595	$ 1,700
Net income	$ 20,393	$ 14,234	$ 4,861	$ 971
Net income per common share:				
Basic	$ 0.72	$ 0.51	$ 0.17	$ 0.04
Diluted	$ 0.71	$ 0.50	$ 0.17	$ 0.03
Dividends paid per share	$ -	$ 0.05	$ -	$ 0.05

13. Subsequent Events (Unaudited)

Long - Term Debt

In January 2003 the Company entered into a new long-term revolving credit agreement that replaced the agreement dated June 30, 1998. The new credit agreement specifies a maximum loan amount of $300,000,000. Borrowings under the facility are secured by a pledge of collateral in favor of the lenders and by common stock of material subsidiaries of the Company. The borrowing base is currently $215,000,000 but will be increased to $250,000,000 when additional collateral is provided to the lenders. The lenders may periodically re-determine the aggregate borrowing base depending upon the value of St. Mary's oil and gas properties and other assets. The aggregate commitment was $150,000,000 at January 27, 2003, and the credit agreement has a maturity date of January 27, 2006. The Company must comply with certain covenants. Interest is accrued based on the borrowing base utilization percentage as LIBOR or the Alternate Base Rate ("ABR"), which is the Prime rate plus the following:

Borrowing base utilization percentage	<30%	=>30%<40%	=>40%<50%	=>50%
Eurodollar Loans	1.250%	1.500%	1.750%	2.000%
ABR Loans	0.000%	0.250%	0.500%	0.750%
Commitment Fee Rate	0.300%	0.375%	0.375%	0.500%

Acquisitions

On January 29, 2003, the Company closed the previously announced agreement to acquire oil and gas properties from Flying J Oil & Gas Inc. and Big West Oil & Gas Inc. St. Mary issued 3,380,818 shares of its restricted common stock valued at $71,594,000 for an estimated 66.9 BCFE of proved reserves and a net amount of $2,800,000 in cash for purchase price adjustments. In addition, St. Mary has made a non-recourse loan to Flying J and Big West of $71,594,000 at LIBOR plus 2% for up to a 39-month period that is secured by a pledge of these shares of St. Mary stock. During the 39-month loan period Flying J and Big West can elect to sell their shares of St. Mary stock to the Company for $71,594,000 plus accrued interest on the loan for the first thirty months, and St. Mary can elect to purchase the shares for $97,447,000, with the proceeds applied to the repayment of the loan.

SIGNATURES

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

ST. MARY LAND & EXPLORATION COMPANY
(Registrant)

Date: March 12, 2003

By: /s/ MARK A. HELLERSTEIN
Mark A. Hellerstein
Chairman of the Board of Directors,
President and Chief Executive Officer

GENERAL POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Mark A. Hellerstein his or her true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any amendments to this annual report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ MARK A. HELLERSTEIN Mark A. Hellerstein	Chairman of the Board of Directors, President and Chief Executive Officer	March 12, 2003
/s/ RONALD D. BOONE Ronald D. Boone	Executive Vice President, Chief Operating Officer and Director	March 12, 2003
/s/ ROBERT L. NANCE Robert L. Nance	Senior Vice President and Director	March 12, 2003
/s/ RICHARD C. NORRIS Richard C. Norris	Vice President-Finance, Secretary and Treasurer	March 12, 2003
/s/ GARRY A. WILKENING Garry A. Wilkening	Vice President-Administration and Controller	March 12, 2003

Signature	Title	Date
/s/BARBARA M. BAUMANN Barbara M. Baumann	Director	March 12, 2003
 Larry W. Bickle	Director	March 12, 2003
 Thomas E. Congdon	Director	March 12, 2003
/s/ WILLIAM J. GARDINER William J. Gardiner	Director	March 12, 2003
/s/ AREND J. SANDBULTE Arend J. Sandbulte	Director	March 12, 2003
 John M. Seidl	Director	March 12,2003

CERTIFICATION

I, Mark A. Hellerstein, certify that:

1. I have reviewed this annual report on Form 10-K of St. Mary Land & Exploration Company;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

/s/ MARK A. HELLERSTEIN

Mark A. Hellerstein
Chairman of the Board, President and
Chief Executive Officer

CERTIFICATION

I, Richard C. Norris, certify that:

1. I have reviewed this annual report on Form 10-K of St. Mary Land & Exploration Company;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

/s/ RICHARD C. NORRIS

Richard C. Norris
Vice-President - Finance

EXHIBIT 10.44

CREDIT AGREEMENT

DATED AS OF

JANUARY 27, 2003

AMONG

ST. MARY LAND & EXPLORATION COMPANY,
AS BORROWER,

WACHOVIA BANK, NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT,

BANK ONE, NA AND WELLS FARGO BANK, N.A.,
AS CO-SYNDICATION AGENTS,

ROYAL BANK OF CANADA AND COMERICA BANK-TEXAS,
AS CO-DOCUMENTATION AGENTS,

AND

THE LENDERS PARTY HERETO

$300,000,000 SENIOR SECURED
REVOLVING CREDIT FACILITY

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THIS CREDIT AGREEMENT dated as of January 27, 2003, 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") BANK ONE, NA and WELLS FARGO BANK, N.A., as Co-Syndication Agents; and ROYAL BANK OF CANADA and COAMERICA BANK-TEXAS, as Co-Documentation Agents.

R E C I T A L S

A. The Borrower has requested that the Lenders provide certain loans to and extensions of credit on behalf of the Borrower.

B. The Lenders have agreed to make such loans and extensions of credit subject to the terms and conditions of this Agreement.

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:

ARTICLE 1
Definitions and Accounting Matters

Section 1.01 Terms Defined Above. As used in this Agreement, each term defined above has the meaning indicated above.

Section 1.02 Certain Defined Terms. As used in this 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.

"Acquisition" means the acquisition by the Borrower of certain assets of Flying J Oil & Gas, Inc. ("Flying J") and Big West Oil & Gas Inc. ("Big West") pursuant to the terms and conditions contained in that certain Purchase and Sale Agreement dated as of December 13, 2002, by and among Flying J, Big West and the Borrower (the "Purchase and Sale Agreement").

"Acquisition Date" means the date the Acquisition is consummated, which shall occur no later than February 15, 2003.

"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 or increased from time to time pursuant to the terms hereof; provided that the Aggregate Commitment shall not at any time exceed the then effective Borrowing Base. The initial Aggregate Commitment is $150,000,000.

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

"Agreement" means this 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 1/2 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 Utilization Percentage	<50%	=>50%<75%	=>75%<90%	=>90%
Eurodollar Loans	1.250%	1.500%	1.750%	2.000%
ABR Loans	0.000%	0.250%	0.500%	0.750%

Commitment Fee Rate	0.300%	0.375%	0.375%	0.500%

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 Commitments 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.

"Assignments" means (a) the Assignment of Notes and Liens dated as of even date herewith from each Former Lender to the Former Agent, and (b) the Assignment of Undivided Interest in Notes and Liens dated as of even date herewith from the Former Agent to the Administrative Agent, whereby the indebtedness of the Borrower to the Former Lenders under the Existing Credit Agreement, together with all Liens securing the payment thereof, has been assigned to the Lenders and, to the extent set forth therein, 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 E 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 or Section 9.13(e); provided that the Borrowing Base shall not any time exceed the Maximum Credit Amount.

"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 $1,000,000.

"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 be (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) the net income (or loss) of any Person acquired in a pooling-of-interests transaction for any period prior to the date of such transaction; (d) any non-cash gains or losses during such period and (e) any gains or losses attributable to writeups or writedowns of assets, including ceiling test writedowns.

"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 the Purchase and Sale Agreement shall not constitute "Debt" within this definition. 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 and other noncash charges, minus all noncash income added to Consolidated Net Income.

"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 either 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 and (h) 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).

"Existing Credit Agreement" means that certain Credit Agreement dated as of June 30, 1998, among the Borrower, Bank of America, N.A., as agent, and the lenders party thereto, as the same has been heretofore amended and supplemented from time to time.

"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).

"5.75% Senior Convertible Notes" means those certain 5.75% Senior Convertible Notes due 2022, in the aggregate amount of $100,000,000 issued by the Borrower March 20, 2002.

"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.

"Former Agent" means Bank of America, N.A., as agent for the Former Lenders under the Existing Credit Agreement.

"Former Lenders" means the lenders party to the Existing Credit Agreement.

"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, 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 Swap Agreements entered into while such Person (or its Affiliate) was a Lender hereunder 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 January 2003, relating to the Borrower and the Transactions.

"Initial Reserve Report" means (a) the report of Ryder Scott Company, L.P. dated as of January 1, 2002, with respect to the value of the Oil and Gas Properties of the Borrower and its Material Subsidiaries as of December 31, 2001, (b) the report of the Manager of Reservoir Engineering of the Borrower dated as of October 1, 2002, with respect to the value of the Oil and Gas Properties of the Borrower and its Material Subsidiaries as of June 30, 2002, and (iii) the report of the Manager of Reservoir Engineering of the Borrower dated as of November 1, 2002, with respect to the value of the Flying J and Burlington Resources Properties.

"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 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(i). 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 $30,000,000.

"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.

"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 $3,000,000. 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 January 27, 2006.

"Maximum Credit Amount" means $300,000,000.

"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 hereinafter 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 (other than NPC Inc.), in substantially the form of Exhibit D-3, as the same may be amended, modified or supplemented from time to time.

"Pledge - Nance" means that certain Pledge and Security Agreement from Nance Petroleum Corporation in favor of the Administrative Agent, pledging to the Administrative Agent as security for the Indebtedness all equity interests held by Nance Petroleum Corporation in NPC Inc., in substantially the form of Exhibit D-4, 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).

"Purchase and Sale Agreement" has the meaning assigned such term in the definition of Acquisition.

"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. "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 the Guaranty Agreement, the Pledge, 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 D-1, 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.

"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 or by the Borrower and 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 as 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 or by the Borrower and 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 Banks 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. 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(e). 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(e) 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 telecopy 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;

(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 the 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.

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 telecopy 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".

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.

(d) 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.

(e) 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(e) 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 Credit Amounts.

(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)(ii) 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 F-1 (a "Commitment Increase Certificate"), together with a processing and recordation fee of $3,500 payable by the Borrower and the reimbursement by the Borrower of the reasonable legal fees of counse to the Administrative Agent, and 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;

(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-2 (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 the other Loan Documents 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 then effective Borrowing Base.

Section 2.07 Borrowing Base.

(a) Initial Borrowing Base. For the period from and including the Effective Date until the satisfaction of the conditions contained in 6.03(a), the amount of the Borrowing Base shall be $175,000,000. For the period from and including the date of satisfaction of the conditions contained in 6.03(a) to the date of satisfaction of the conditions in 6.03(b) the amount of the Borrowing Base shall be $215,000,000. Thereafter the Borrowing Base shall increase to $250,000,000 upon satisfaction of the conditions contained in 6.03(b) and shall remain at $250,000,000 to but excluding the first Redetermination Date. 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) and Section 9.13.

(b) Scheduled and Interim Redeterminations. Subject to Section 2.07(d), the Borrowing Base shall be redetermined (a "Scheduled Redetermination") no later than April 30 and October 31 of each year, commencing April 30, 2003. 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.

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(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 such year following the date of delivery or 66. 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).

(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:

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(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 30 or October 31, 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.

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 five (5) 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(c));

(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.

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.

(c) 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.

(d) 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(e), 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(d) 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.

(e) 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 2:00 p.m., 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 2:00 p.m., 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 a 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(e), 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(e) to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in Section 2.08(e) 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, or 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(f), 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.

(g) 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.

(h) 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(e)), 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(h) 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(e) to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) 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.

(j) 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(j), 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(h) 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 therefor. The Borrower's obligation to deposit amounts pursuant to this Section 2.08(j) 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 Guarantors 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 telecopy 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 telecopy) 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 119. 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 120. 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(j). 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 122. 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 123. 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(j). 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) or Section 9.13, if the Aggregate Revolving Credit Exposures exceeds the Borrowing Base as adjusted, then the Borrower shall 125. 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 126. 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(j). 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
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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
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Set-offs.
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(a) Payments by the Borrower. The Borrower shall make each
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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
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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
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exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of 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
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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
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Lender shall fail to make any payment required to be made by it pursuant to Section 2.05(b), Section 2.08(d), Section 2.08(e) 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
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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 Subsidiarie 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.

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 168. 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, 169. 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, 170. specimen signatures of such authorized officers, and 171. the articles or certificate of incorporation and bylaws of the Borrower and such Guarantor, certified as being true and complete. 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 date of Effective Date.

(e) 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 each of the Assignments, together with the original promissory notes assigned thereby endorsed to the order of the

Administrative Agent and the original recorded acknowledgment copies of each of the other instruments and documents described on Exhibit A to the Assignments.

(f) 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.

(g) The Administrative Agent shall have received duly executed Notes payable to the order of each Lender in a principal amount equal to its Commitment dated as of the date hereof.

(h) 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 Security Instruments, including the Pledge, the Guaranty Agreement and the other Security Instruments described on Exhibit D-1. In connection with the execution and delivery of the Security Instruments, the Administrative Agent shall:

(i) be reasonably satisfied that the Security Instruments create first priority, perfected Liens (subject only to Excepted Liens identified in clauses (a) to (d) and (f) of the definition thereof, but subject to the provisos at the end of such definition) on at least 75% of the total value of the Oil and Gas Properties evaluated in the Initial Reserve Report sufficient in the reasonable opinion of the Administrative Agent to justify a Borrowing Base of $175,000,000 on the Effective Date hereof; and

(ii) have received certificates, together with undated, blank stock powers for each such certificate, representing all of the

issued and outstanding Equity Interests of each of the Guarantors.

(i) The Administrative Agent shall have received an opinion of Ballard Spahr Andrews & Ingersoll, LLP, special counsel to the Borrower and the Guarantors, substantially in the form of Exhibit C hereto.

(j) The Administrative Agent shall have received a certificate of insurance coverage of the Borrower evidencing that the Borrower is carrying insurance in accordance with Section 7.13.

(k) The Administrative Agent shall have received copies of the title information recently prepared by Thompson & Knight L.L.P. for Bank of America, N.A., in form and substance satisfactory to the Administrative Agent, setting forth the status of title to at least 75% of the total value of the Oil and Gas Properties evaluated in the Initial Reserve Report and the Administrative Agent shall be reasonably satisfied with the status of title reflected therein.

(l) The Administrative Agent shall be reasonably satisfied with the environmental condition of the Oil and Gas Properties of the Borrower and its Material Subsidiaries.

(m) The Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower certifying that the Borrower has received all consents and approvals required by Section 7.03.

(n) The Administrative Agent shall have received the financial statements referred to in Section 7.04(a) and the Initial Reserve Report accompanied by a certificate covering the matters described in Section 8.12(c).

(o) The Administrative Agent shall have received appropriate UCC search certificates reflecting no prior Liens encumbering the Properties the Borrower and the Material Subsidiaries for each of the following jurisdictions: Colorado, Delaware, Louisiana, Montana, New Mexico, North Dakota, Oklahoma, Texas, Utah, and Wyoming and any other jurisdiction requested by the Administrative AGENT; other than those being assigned or released on or prior to the Effective Date or Liens permitted by Section 9.03.

(p) 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 January 31, 2003 (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).

Section 6.03 Further Conditions on Borrowing Base Increases.

(a) Prior to the increase of the Borrowing Base from $175,000,000 to $215,000,000, the Administrative Agent shall have received evidence satisfactory to the Administrative Agent that Security Instruments reasonably satisfactory to the Administrative Agent have been properly recorded on Properties sufficient in the reasonable opinion of the Administrative Agent to justify a Borrowing Base of $215,000,000.

(b) Prior to the increase of the Borrowing Base from $215,000,000 to $250,000,000, the Administrative Agent shall have received evidence satisfactory to the Administrative Agent that Security Instruments reasonably satisfactory to the Administrative Agent have been properly recorded on Properties sufficient in the reasonable opinion of the Administrative Agent to justify a Borrowing Base of $250,000,000.

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 (i). as of and for the fiscal year ended December 31, 2001, reported on by Arthur Andersen LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2002, certified by its chief financial officer. 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 dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of the unaudited quarterly financial statements.

(b) Since December 31, 2001, (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 217. 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 218. 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 239. 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 240. 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, 249. all insurance policies sufficient for the compliance by each of them with all material Governmental Requirements and all material agreements and 250. 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 offices 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 7.07 could not reasonably be expect 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 one and one-half 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 refinance the acquisition of Oil & Gas Properties, (c) to renew, rearrange, modify and extend the Debt under the Existing Credit Agreement assigned pursuant to the Assignments, (d) to fund the $72,000,000 loan evidenced by the "Note" defined and described in Section 7.03 of the Purchase and Sale Agreement (said $72,000,000 principal amount being subject to adjustment [higher or lower] pursuant to the terms of the Purchase and Sale 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.

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 and 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

$1,000,000, 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 $2,000,000; 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 $500,000, 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 July 31st of each year, commencing February 28, 2003, 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 be prepared by one or more Approved Petroleum Engineers, and the June 30 Reserve Report 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 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 75% 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 75% 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 75% 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 75% 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 75% 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 75% 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 75% 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 75% 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 3.0 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 $5,000,000.

(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 $10,000,000 in the aggregate at any one time outstanding.

(i) other Debt not to exceed $5,000,000 in the aggregate at any one time outstanding.

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 $.20 per common share, (c) Subsidiaries may declare and pay dividends ratably with respect to their Equity Interests, and (d) the Borrower may make Restricted Payments pursuant to and in accordance with stock option plans or other benefit plans for management or employees of the Borrower and its Subsidiaries.

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 39. made by the Borrower in or to the Guarantors, and 40. 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 $10,000,000.

(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 enture 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 $10,000,000.

(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) the $72,000,000 loan (said principal amount being subject to adjustment [higher or lower] pursuant to the terms of the Purchase and Sale Agreement) to be made by the Borrower pursuant to the Purchase and Sale Agreement.

(l) 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 that the aggregate amount paid by the Borrower in connection with such repurchases shall not exceed $20,000,000.

Section 9.06 Designation of Material Subsidiaries. Unless designated as
a Material Subsidiary on Schedule 7.15 as of the date hereof or thereafter, assuming compliance with Section 9.06, 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 $3,000,000 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
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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
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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
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(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; 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 $5,000,000, 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 (iii)sales and other dispositions of Properties not regulated by Section 9.13(a) to (e) having a fair market value not to exceed $5,000,000 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 one and one-half million mcf of gas (on an mcfe 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 5.75% 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 3. such transactions do not involve termination or expiry dates longer than six (iii) 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 $10,000,000 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.

(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 $1,000,000 (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 during 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(j)), 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(j)), 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
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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
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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
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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.

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 Richard C. Norris (Telecopy No. 303/861-0934);

(ii) if to the Administrative Agent, to it at 201 South College Street, 8th Floor NC 0680, Charlotte, North Carolina 28288, Attention of Rufus Kearney (Telecopy No. 704/383-0288), with a copy to Wachovia Securities, at 1001 Fannin, Suite 2255, Houston, Texas 77002-6709, Attention of Jay Chernosky (Telecopy No. 713/650-6354);

(iii) if to the Issuing Bank, to it at 201 South College Street, 8th Floor NC 0680, Charlotte, North Carolina 28288, Attention of Rufus Kearney (Telecopy No. 704/383-0288); 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 75%, 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 (xii) 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
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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
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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 telecopy 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 unmatured. 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 AFOREMENTIONED 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 THIRTY (30) DAYS AFTER SUCH MAILING. 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 date of the initial funding, the loans and other Debt of the Borrower under the Existing Credit Agreement shall be paid in full with the proceeds of the initial funding and the commitments of the lenders thereunder shall be superseded by this Agreement and terminated. To the extent of $3,000,000, the Notes represent a renewal and rearrangement of the promissory notes issued pursuant to the Existing Credit Agreement.

[SIGNATURES BEGIN NEXT PAGE]

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/MILAM RANDOLPH PHARO
Name: Milam Randolph Pharo
Title:Vice President - Land & Legal

AGENTS AND LENDERS: WACHOVIA BANK, NATIONAL ASSOCIATION, Individually and as Administrative Agent

By:/s/ PHILIP J TRINDER
Name: Philip J. Trinder
Title:Vice President

BANK ONE, NA, Individually and as Co-Syndication Agent

By:/s/ J SCOTT FOWLER
Name: J. Scott Fowler
Title: Director, Capital Markets

WELLS FARGO BANK, N.A., Individually and as Co-Syndication Agent

By:/s/ LAURA BUMGARNER
Name: Laura Bumgarner
Title:Relationship Manager

ROYAL BANK OF CANADA, Individually and as Co-Documentation Agent

By:/s/ JASON YORK
Name: Jason York
Title:Manager

COMERICA BANK-TEXAS, Individually and
as Co-Documentation Agent

By:/s/ THOMAS G RAJAN

Name: Thomas G. Rajan
Title:Vice President

BNP PARIBAS

By:/s/ DOUGLAS R LIFTMAN

Name: Douglas R. Liftman
Title:Managing Director

By:/s/ BETSY JOCHER

Name: Betsy Jocher
Title:Vice President

BANK OF SCOTLAND

By:/s/ JOSEPH FRATUS

Name: Joseph Fratus
Title:First Vice President

U.S. BANK NATIONAL ASSOCIATION

By:/s/ MARK E THOMPSON

Name: Mark E. Thompson
Title:Vice President

HIBERNIA NATIONAL BANK

By:/s/ DARIA MAHONEY

Name: Daria Mahoney
Title:Vice President

AMENDMENT TO AND EXTENSION OF OFFICE LEASE

This Amendment to and Extension of Office Lease (this "Amendment") is by and between MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY, a Massachusetts corporation ("Landlord"), through its agent, CORNERSTONE REAL ESTATE ADVISERS, INC., and ST. MARY LAND & EXPLORATION COMPANY, a Delaware corporation ("Tenant"), and is dated as of December 14, 2001.

1. Purpose. This Amendment amends and extends that certain lease agreement titled Indenture dated June 1, 1989 (the "Original Lease") by and between The Equitable Life Assurance Society of the United States, a New York corporation ("Equitable"), and Parish Corporation, a Colorado corporation ("Parish"). Equitable conveyed its interest in the Property and in the Original Lease (as amended) to Landlord. Parish has assigned its interest in the Lease to Tenant and Tenant has assumed Parish's obligations under the Lease as set forth in paragraph 25, below. Landlord and Tenant desire to extend the currently effective term of the Original Lease (as amended), to modify the definition of the Premises, to provide for certain improvements to the Premises, and to make certain other modifications to the Original Lease.

2. Interpretation. For purposes of this Amendment, the term "Original Lease" means only the June 1, 1989 Indenture, described above (but not any amendment thereto) and paragraphs 1 through 3 of the Rider attached thereto. This Amendment amends the provisions and extends the term of the Original Lease. In the event of any inconsistency between the provisions of this Amendment and the provisions of the Original Lease, the provisions of this Amendment shall control. Capitalized terms used and not otherwise defined herein shall have the meanings set forth for them in the Original Lease. This Amendment and the Original Lease are referred to collectively as this "Lease."

3. Premises. As of the date of this Amendment, Tenant occupies all of Floors 7, 9, and 11 and portions of Floors 6, 8, and 10 of Denver Financial Center Tower II, Denver, Colorado (the "Building") pursuant to the terms of the Original Lease (as amended).

a. On or before approximately February 1, 2002, Landlord shall complete Tenant Improvements, as described in paragraph 10, below, to Suite 420 as shown on Exhibit A ("Suite 420") and to the 5th Floor of the Building. Upon such completion, Tenant shall take possession of such space pursuant to the terms of this Lease. Tenant shall thereupon surrender all space on the 6th Floor, 8th Floor, and 10th Floor (to the extent occupied by Tenant) of the Building, Landlord shall complete Tenant Improvements to the 6th Floor on or before approximately April 1, 2002 pursuant to paragraph 10, below at which time Tenant shall commence occupancy thereof pursuant to this Lease. Tenant shall thereupon surrender all space on the 7th Floor, and Landlord shall complete Tenant Improvements to the 7th Floor on or before approximately June 1, 2002 pursuant to paragraph 10, below, at which time Tenant shall complete the vacation of the 11th Floor and commence occupancy of the 7th Floor pursuant to this Lease. In addition, this Lease shall be effective as of June 1, 2002 with respect to Tenant's occupancy of the 9th Floor of the Building. The estimated completion dates in this paragraph are dependent upon, among other things, Tenant's compliance with the provisions of paragraph 10, below, and shall be subject to delays caused by Force Majeure (as defined below).

b. For purposes of this Lease, Suite 420 and the 5th, 6th, 7th, and 9th Floors of the Building shall constitute the "Premises" and be deemed to consist of approximately 42,660 rentable square feet. Rentable square footage computations are made by Landlord in accordance with BOMA method of measurement ANSI/BOMA Z65.1-1996.

c. The Commencement Date under this Amendment with respect to each floor, or portion thereof, set forth above shall be the date which is the earlier of (i) the date Tenant commences actual occupancy of such portion of the Premises and (ii) the date which is the later of the date set forth in subparagraph (a), above, or the date such portion of the Premises has been substantially completed in accordance with the plans as determined in writing by the architect subject only to punch-list items which will not materially interfere with Tenant's occupancy of such portion of the Premises and, in the case of the 9th Floor, June 1, 2002. The termination date with respect to leased space under the Original Lease shall be the date on which Tenant completely vacates and surrenders to Landlord all space on a particular floor in the condition required by the Original Lease, except with respect to any floor or portion thereof which is intended by the Plans to be demolished and rebuilt as part of the Premises.

4. Property. For purposes of determining operating expenses under paragraph 1(b) of the Lease, "Property" means the commercial office structure, together

with all appurtenant plazas, subgrade areas, and other improvements situated on the land and known as the "Denver Financial Center Tower I and Tower II", and Tenant's share means 9.79% (42,660/435,672).

5. Effective Date and Rent Commencement. Payment of rent with respect to each portion of the Premises under this Lease shall commence three months after the Commencement Date as determined under paragraph 3(c), above. The estimated dates on which rent shall commence with respect to various floors comprising the Premises are as follows:

Suite 420 and 5th Floor:	May 1, 2002
6th Floor:	July 1, 2002
7th and 9th Floors:	September 1, 2002

As Tenant vacates floors as contemplated by paragraph 3, above, rent payable under the Original Lease for such vacated floors shall terminate. Landlord and Tenant intend that, so long as Tenant's relocation from currently occupied space to newly remodeled portions of the Premises in a commercially reasonable and business-like matter, rent payments due with respect to the space being vacated shall terminate as of the Commencement Date with respect to the new space. Except as provided in this paragraph 5 and paragraph 3(c), above, the effective date for the application of this Amendment shall be June 1, 2002.

6. Lease Term. The Lease Term for the Premises shall expire May 31, 2012.

7. Rent. Tenant shall pay Base Rent, Additional Rent, and all other amounts due to Landlord under this Lease on the first day of each month during the Term (and pro rata for any partial month) at the office of Landlord's building manager, currently Transwestern Commercial Services, 1775 Sherman Street, Lobby Level, Denver, CO 80203 without demand, the same being waived and without set-off or deduction, according to the following schedule:

Time Period	Annual Rent Per r.s.f.	Annual Rent	Monthly Rent
Commencement Date - 05/31/04	$17.50 per r.s.f	$746,550.00	$62,212.50
6/1/04 - 05/31/07	$18.50 per r.s.f	$789,210.00	$65,767.50
6/1/07 - 05/31/12	$19.50 per r.s.f.	$831,870.00	$69,322.50

8. Base Year. Under this Lease, the Base Year for Taxes and Operating Expenses shall be the full calendar year 2002. Each calendar year, Tenant shall pay its Tenant's share (9.79%) of the difference between Operating Expenses and Taxes for such calendar year and actual Operating Expenses and Taxes incurred during the Base Year.

9. Taxes and Operating Expenses. For purposes of the provisions of paragraph 1(b) of the Original Lease, Taxes and Operating Expenses shall have the following meanings:

Taxes: The term "Taxes" means all taxes and assessments, special or otherwise, levied upon or with respect to the Building and the Property (including air rights) imposed by federal, state or local government, use, occupancy, excise or other similar taxes, and taxes on rent or other income from the Building (computed, in case of a graduated tax as if Landlord's income from the Building were Landlord's sole taxable income), the cost of contesting by appropriate proceeding the amount or validity of any of the aforementioned taxes or assessments, and taxes and assessments of every kind and nature whatsoever levied or assessed and imposed on Landlord in lieu of or in substitution for existing or additional real or personal property taxes or assessments on the Building or the Property; except that Taxes shall not include general income, franchise, capital stock, estate or inheritance tax, unless Landlord equitably determines that such Taxes are in lieu of or in substitution for real estate taxes. In the case of special taxes and assessments payable in installments, only the amount of such installment due and payable during a single calendar year shall be included in Taxes for that year.

Operating Expenses: The term "Operating Expenses" shall be deemed to include all costs which, for federal tax purposes, may be expensed rather than capitalized and which Landlord will incur in owning, maintaining and operating the Building or the Property, exclusive of Taxes, as hereinabove defined, mortgage

interest and depreciation. Without limitation to the foregoing, the term "Operating Expenses" shall mean those costs incurred during each year of the term of the Lease in respect of the operations and maintenance of the Property and the Building in accordance with accepted principles of sound management and accounting practices as applied to the operation and maintenance of comparable office buildings in the Central Business District of Denver, Colorado, including the cost of or charges for the following by way of illustration, but without limitation: landscaping and snow removal, water and sewer, insurance premiums, licenses, permits and inspections, heat, light, electrical power, steam, security, janitorial services, maintenance of and repairs to equipment servicing the Property or the Building, window cleaning, refuse removal services, air-conditioning, supplies, materials, equipment and tools, administration and management of the Property and the Building, changing the Building's electric service provider and associated installation, maintenance, repair and service costs, changing any company providing electricity service, personal property taxes on the personal property used in the operation of the Property or the Building, the cost, as amortized over the useful life of the improvement as reasonably determined by Landlord with interest at one and one-half percent (1 1/2%) above the prime rate announced from time to time by the Wells Fargo Bank of Denver on the unamortized amount of any capital improvement made after the Effective Date which reduces Operating Expenses, but in an amount not to exceed such reduction for the relevant year, and the cost of contesting by appropriate proceedings the applicability to the Property or the Building or the validity of any statute, ordinance, rule or regulation affecting the Property or the Building which might increase Operating Expenses. Operating Expenses shall not include: (i) costs for repairs or other work occasioned by fire, windstorm or other insured casualty to the extent covered by insurance proceeds; (ii) costs incurred in leasing or procuring new tenants (i.e., lease commissions, advertising costs and costs for renovating space for new tenants); (iii) legal costs in enforcing the terms of any lease; (iv) interest or amortization payments on any mortgage or mortgages; (v) rental for any ground or underlying lease or leases; (vi) salaries or other compensation paid to any executive employees above the grade of Senior Property Manager (unless the resident Senior Property Manager has executive responsibilities, in which case such person's salary shall be allocated between duties as property manager, which shall be charged as an Operating Expense, and duties as an executive, which shall not be allocated as an Operating Expense); (vii) wages, salaries, or

other compensation paid for clerks or attendants in concessions or newsstands operated by Landlord; and (viii) those exclusions from Operating Expenses listed on Exhibit B to this Amendment.

If Landlord makes any capital improvement during the term of the Lease in order to comply with safety or any other requirements of any federal, state or local law or governmental regulation that is enacted after the date of this Amendment, then the cost as amortized over the useful life of the improvement as reasonably determined by the Landlord with interest at one and one-half percent (1 1/2%) above the prime rate announced from time to time by Wells Fargo Bank of Denver, shall be deemed an Operating Expense in each of the calendar years during which such amortization occurs, and Tenant shall be responsible for Tenant's Share of any such amortized expense.

The remaining terms of Paragraph 1(b) are not modified.

10. Tenant Improvements.

a. Landlord shall provide to Tenant an allowance (the "TI Allowance") of up to $32.70 per rentable square foot of Suite 420 and Floors 5, 6, and 7 of the Building, approximately 33,181 rentable square feet, or $1,085,018.70. Such allowance shall be utilized by Tenant solely for the architecture, design, engineering, construction, and construction management (including project management services of CRESA Partners or an affiliate up to a maximum of $2.00 per rentable square foot) in the construction of Tenant Improvements to the Premises. Landlord shall charge a construction management fee of 2% of the hard construction costs which shall be paid from the TI Allowance. "Hard construction costs" include all costs of labor and materials related to the physical construction of the Tenant Improvements and do not include fees of architects and engineers, project management fees, or insurance. Tenant Improvements shall include only those additions and improvements which are considered real property under Colorado law, including capital improvements to the Building as approved by Landlord and shall be installed only pursuant to detailed plans and specifications which have been approved in advance by Landlord, which approval

shall not be unreasonably withheld or delayed. Landlord and Tenant have approved the preliminary space plan (the "Preliminary Drawings") for improvements to the Premises (as finally embodied in the detailed plans and specifications, the "Tenant Improvements") prepared by W.E. Kieding Interior Architects (the "Architect"). Landlord shall review the detailed plans and specifications described above and provide comments to Tenant within five (5) business days of delivery. Thereafter, comments on revised plans and plan revisions shall be provided no later than two (2) business days after request by the other party.

i. All such Tenant Improvements shall be completed by a contractor reasonably approved by Landlord pursuant to a contract between such contractor and Landlord.

ii. Landlord shall require its general contractor to solicit written bids from reputable subcontractors and suppliers with respect to

all material subcontracts and material purchases. Such subcontracts and contracts for material purchases shall be awarded to the lowest bidder unless Tenant consents to use of a different subcontractor or supplier, and such consent shall be granted on a commercially reasonable basis. The contract with the general contractor shall contain the provisions set forth in this subparagraph.

iii. Landlord reserves the right to require that any Tenant Improvement affecting any significant system in the Building to be completed only by Landlord's contractor or subcontractor at Tenant's expense, provided the charges of such contractors are competitive with others in their trade.

iv. Tenant shall be liable to pay any amount for such Tenant Improvements in excess of the amount of the allowance set forth above ("Excess Costs"). Landlord shall promptly notify Tenant upon Landlord's discovery that there are Excess Costs, whereupon Tenant shall have the opportunity to make changes to the approved plans so as to reduce the costs. Landlord shall, upon Tenant's written request, finance an amount to pay for Excess Costs not to exceed $1.00 per rentable square foot or $33,181.00. Such amount shall be amortized over the remaining Term of the Lease at an interest rate of 12% per year and paid to Landlord in equal installments monthly as Base Rent.

b. Tenant may authorize changes in the Tenant Improvements during construction only by written change order. All such changes will be subject to Landlord's prior written approval, which approval shall not be unreasonably withheld or delayed, and shall be subject to Tenant's final agreement in writing as to any delays attributable to the change and the costs of such change (including availability of Landlord's financing and Tenant electing to have Landlord finance such costs as provide in subparagraph (a)(iv), above), all of which costs in excess of the TI Allowance shall be prepaid by Tenant. Tenant shall confirm its final agreement to a change order by executing a written agreement and paying to Landlord any amounts payable in connection with the change order. If Tenant fails to deliver the final agreement or payment in a timely manner, Tenant shall be deemed to have withdrawn the proposed change order, and Landlord will not proceed with the change.

c. In addition to the TI Allowance described above, Landlord shall provide a TI Allowance for the portion of the Premises located on the 9th Floor. Such TI Allowance may be used with respect to Tenant Improvements for which a building permit is issued on or after June 1, 2002 but prior to June 1, 2004. The amount of the TI Allowance shall be $32.70 per rentable square foot of the Premises on the 9th Floor being improved multiplied by a fraction the numerator which is the number of full calendar months remaining in the term of the Lease subsequent to the date of issuance of the building permit and the denominator of which is 120. The provisions of the preceding subparagraph (a) shall apply to the construction of Tenant Improvements to the 9th Floor. In the event the costs of Tenant Improvements to the 9th Floor exceed the TI Allowance, at the request

of Tenant, Landlord shall advance up to an additional $1.00 per square foot on the terms and conditions set forth in paragraph 10(a)(iv), above.

d. Tenant shall receive no credit for any unused TI Allowance.

e. The plans for constructing the Tenant Improvements contemplate that the Landlord will make certain repairs and replacements to base building systems, and the expense of such repairs and replacements are to be paid from the TI Allowance. Any repairs or replacements to the base building systems in addition to those contemplated by the plans which are necessary in order to provide services to the Premises as required by this Amendment or required by appropriate authorities to comply with applicable building codes shall be the responsibility of Landlord.

f. Landlord shall notify Tenant in writing at such time as Landlord

deems the construction of a portion of the Tenant Improvements (which portion shall not be less than all of the Tenant Improvements for a particular floor) to be complete and the Premises ready for occupancy, which notice shall be accompanied by a certificate of the Architect that the Tenant Improvements have been substantially completed in accordance with the approved plans. Upon Landlord so notifying Tenant of completion, Landlord, Tenant, and the contractor shall conduct an inspection of the Premises to verify that the applicable Tenant Improvements have been satisfactorily completed. As a part of the inspection, the inspecting parties shall prepare and execute a punch-list of items of incomplete work. Landlord shall cause the general contractor to promptly commence the punch-list work and to complete all such work within thirty (30) days after the date of the punch-list.

g. Subject to Tenant complying with reasonable requirements relating to balancing the HVAC system, Landlord shall maintain the Premises according to ASHRAE standards as set forth in Exhibit C to this Amendment. Tenant's
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requirements may include the following: maintaining window coverings in a closed position during the cooling season; not covering registers or returns; not making substantial changes in the location of electrical equipment, lights, and other heat generators compared to the plans; not accessing or changing thermostats without input from Building management; and not using space heaters or other substantial generators of heat in the Premises. Landlord shall provide electrical power to the Premises, exclusive of the power required to run base building systems and building standard lighting, in an amount equal to or greater than 1.7 watts per rentable square foot based on an "Average Running Load" of Tenant's low voltage electrical demand. In addition, Landlord shall make available to Tenant and the Premises the additional electrical service as set forth on Exhibit C to this Amendment. Landlord shall not require Tenant to
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install a submeter with respect to electrical service unless there is a material change in Tenant's electrical usage from that contemplated by the plans. Electrical usage, as shown on the Architect's plans dated November 2, 2001, does not constitute "heat generating machines or equipment" which triggers certain rights of Landlord under Section 2(b) of the Original Lease.

h. Upon default by Landlord in providing electrical service to the Premises, Tenant shall have the right to an abatement of rent for each day in which there has been an Interruption of Electrical Service (as defined below). Landlord shall be deemed to be in default in providing electrical service only if, in any 12-month period, there have been more than two Interruptions in Electrical Service or if, during the Term, there have been more than four Interruptions in Electrical Service. An Interruption in Electrical Service shall mean that:

i. there has been a failure to provide electrical service to any part of the Premises at the minimum levels required by this Amendment;

ii. the interruption has, in Tenant's reasonable opinion, materially interfered with its ability to conduct its business;

iii. the interruption is for reasons other than Force Majeure, except insufficiency in capacity of the Building's base systems shall not be deemed to be beyond Landlord's reasonable control; and

iv. Tenant has given Landlord written notice of such interruption and interference within one business day of its occurrence.

Upon any Interruption of Electrical Service, Landlord will use its best efforts to determine the cause of the interruption and remedy the same as soon as possible. Thereafter, Landlord shall notify Tenant as to what Landlord has determined to be the cause of the Interruption of Electrical Service and how it has remedied the same. Tenant, through its engineers and consultants, shall have the right, at Tenant's expense, to participate in investigating the cause of the interruption. Tenant's remedies hereunder shall be in addition to any other remedies available to Tenant.

11. Brokerage. Tenant warrants to Lender that Tenant has not dealt with any broker, agent, or other person who may be entitled to a commission in connection with the modification and extension of the Lease other than CRESA Partners and Cushman & Wakefield of Colorado, Inc. ("Cushman"). Cushman is Landlord's agent and owes a fiduciary obligation to Landlord only. Tenant is represented by CRESA Partners which owes a fiduciary obligation to Tenant only. Landlord agrees to pay CRESA Partners a brokerage commission with respect to the execution of this Lease equal to $178,140.00. One half of such commission, or $89,070.00, will be paid to CRESA Partners upon execution and delivery of this Amendment to Landlord and the balance shall be paid promptly following Landlord's receipt of Tenant's rent payment due May 1, 2002 and Tenant's having taken full possession of Suite 420 and the 5th and 6th Floors to the extent such portions of the Premises are ready for occupancy.

12. Right of First Refusal.
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a. Subject to the terms and conditions contained herein, Tenant shall have a continuing right ("Option") to lease all or part of the remaining office space located on the 4th and 8th Floors of the Building, respectively (the

"Option Space"), on and subject to the terms of this paragraph 12. This Option shall be subject to Landlord's right to lease all or part of the Option Space which becomes subject to a Letter of Intent to Lease ("LOI") between a prospective tenant and Landlord from time to time ("Offer Space") provided Landlord gives Tenant notice of its intent to lease such Offer Space and Tenant does not exercise its Option to lease such Offer Space as provided in subparagraph (b), below.

b. If during the initial Term of this Lease, Landlord enters an LOI, Landlord shall promptly provide Tenant with written notice (the "Offer Notice") that Landlord has entered into the LOI. The Offer Notice shall identify the Offer Space, the name of the prospective tenant, and the rent rate. Tenant shall have seven (7) business days following the Offer Notice within which to exercise its Option to lease the Offer Space in accordance with the terms set forth below. Should Tenant indicate that it is not prepared to lease the Offer Space, whether by notice to Landlord or by failing to respond to the Offer Notice within the seven (7) business day period, then Tenant shall be deemed to have waived its Option with respect to such Offer Space. Upon such waiver, for a period of 90 days Landlord may lease the Offer Space to the prospective tenant at a rent not less than 90% of the rent set forth in the LOI without having to re-offer the Offer Space to Tenant. If during such 90-day period Landlord desires to lease the Offer Space to the prospective tenant named in the LOI for a rent less than 90% of the rent set forth in the LOI, Landlord shall notify Tenant of such fact and again offer the Offer Space to Tenant and Tenant shall accept or reject such offer within two business days. If Tenant fails to respond within such two business-day period, Tenant shall be deemed to have rejected the offer and Landlord may lease the Offer Space within the original 90-day period to the prospective tenant pursuant to the LOI at not less than 100% of the rent as so modified. If Landlord does not lease the Offer Space to the prospective tenant within the 90-day period, Tenant shall again have its continuing Option to lease the Offer Space on the terms provided in this paragraph 12 and Landlord shall not lease the Offer Space unless Landlord re-offers the Offer Space to Tenant on the terms provided in subparagraph (a), above.

c. Tenant's Option shall be the Option to lease the Option Space at the then current rent per square foot under the Lease and otherwise in accordance with the terms set forth below, and subject to existing rights to expand, extend, or renew as set forth in this Lease. The term of the lease of the Option Space shall be co-terminus with the term of the Lease, including extensions. Landlord shall not be obligated to provide any allowance to Tenant for tenant improvements or any other expense.

d. If Tenant exercises such Option, the effective date of Tenant's leasing of the Option Space (the "Option Space Effective Date") shall be the earlier to occur of (i) the date Tenant occupies the Option Space or (ii) the date ninety (90) days following Tenant's notice of its intent to exercise its option to lease the Option Space.

e. The Option Space shall be leased in "as is" condition, and all other improvements in the Option Space shall be Tenant's responsibility at Tenant's cost, and shall be made in accordance with the applicable provisions of

this Lease and in compliance with all applicable laws, ordinances, and regulations. The rights of Tenant under this provision shall not be severed from this Lease or separately sold, assigned, or otherwise transferred, and shall terminate at the expiration of the original Lease term.

13. Option to Renew. Tenant, but not any assignee or sublessee of Tenant, is hereby granted the option to renew this Lease for one (1) term of five (5) years. Provided Tenant is not in default (after notice and expiration of any applicable cure period), Tenant may exercise such option upon written notice to Landlord with no less than nine (9) months prior written notice before the expiration of the current Term. If Tenant fails to exercise the option by the date set forth in the preceding sentence, then Tenant shall be deemed to have elected not to exercise the option and this renewal option shall be deemed to have terminated. Time is of the essence in the exercise of such option. Notwithstanding the preceding, an assignee of Tenant which is owned or under common ownership with Tenant or which owns Tenant may exercise the option to renew set forth in this paragraph 13, provided such assignee's financial position is reasonably acceptable to Landlord and provided Tenant continues to be a party to the Lease during such renewal term. For purposes of the preceding sentence, ownership means at least 51% equity ownership and 51% voting control.

a. The renewal term will be on the same terms and conditions as those contained in this Lease except as follows:

i. There shall be no further rights to renew after the exercise of the renewal option;

ii. Any tenant improvement allowance, rental concessions, or the like, granted by Landlord to Tenant in the initial lease term shall not be applicable in the renewal term; and

iii. The rent for the renewal term shall be the "Fair Market Rental Value" defined as the amount per rentable square foot for the Premises during the renewal term which is representative of and comparable of the consideration charge for substantially comparable office space in the Central Business District of Denver, Colorado taking into consideration that the renewal is being made on an "as is" basis without any tenant improvement allowance, rental concessions, or the like.

b. In the event the parties cannot agree on Fair Market Rental Value, either Landlord or Tenant may, by notice to the other, commence an arbitration proceeding to determine Fair Market Rental Value as follows:

i. The arbitration shall be conducted by a three-member panel composed of licensed Colorado real estate brokers, whose brokerage activities for the last ten years have concentrated in office leasing in the Central Business District of Denver, Colorado. Each of Landlord and

Tenant shall, by notice to the other, identify one such broker to act as an arbitrator. Within five days of such appointment, the two arbitrators so selected shall select a third arbitrator meeting the preceding qualifications, who shall act as chairman of the arbitration panel. In the event a party fails to appoint an arbitrator, the arbitration shall be conducted by the single arbitrator appointed by the other party. In the event the two arbitrators cannot select a third arbitrator within the applicable time period, such arbitrator shall be selected by the President of the Denver Board of Realtors upon the request of either party.

ii. The arbitrators shall be impartial.

iii. Within 15 days of the appointment of the third arbitrator, each of the two party-appointed arbitrators shall prepare a memorandum setting forth such arbitrator's estimate of the Fair Market Rental Value of the Premises, including all comparable leases relied on and the reasoning and rationale of such arbitrator.

iv. Within five days following the delivery of the reports of the two party-appointed arbitrators to the third arbitrator, the third arbitrator shall select as the Fair Market Rental Value the amount determined by one or the other of the party-appointed arbitrators which, in the determination of the third arbitrator, is closest to Fair Market Rental Value as determined by such third arbitrator.

v. The place of the arbitration will be in the Central Business District of Denver, Colorado. The rules of the arbitration shall be established as needed by the third arbitrator. The decision of the arbitrators shall be final, binding, and conclusive on Landlord and Tenant and shall not be reviewable by a court other than on account of fraud. Once the arbitrators have been appointed, neither the parties nor their respective counsel may contact the arbitrators except in writing with copies to the other party and its counsel or in telephone conversations or meetings with counsel for both of the parties participating. The fees of the two party-appointed arbitrators shall be paid by the respective appointing party. The fees of the third arbitrator shall be shared equally by the parties. All expenses authorized by the third arbitrator in connection with the arbitration shall be shared by the parties.

14. Early Termination Option. Subject to Tenant's compliance with the provisions of this paragraph, Tenant may, from time to time, surrender to Landlord all or a portion of the Premises (the "Surrendered Premises"). To exercise such early termination option, Tenant shall comply with each of the following:

a. Tenant shall provide written notice to Landlord at least nine calendar months in advance of the date of termination.

b. The date of termination shall be as of the last day of a calendar month.

c. The Surrendered Premises shall include all of the space on the

floor or floors on which the Surrendered Premises is located.

d. On the first day of the month in which the termination date occurs, Tenant shall pay to Landlord as Additional Rent the unamortized Transaction Costs with respect to the Surrendered Premises. "Transaction Costs" means all of the following costs actually paid by Landlord and not reimbursed by Tenant: TI Allowance, Excess Costs, real estate brokerage commissions, and Landlord's legal expenses. As of the date of this Amendment, the TI Allowance is $32.70 per rentable square foot, and real estate brokerage commissions are $6.65 per rentable square foot; Landlord's legal expenses will be determined as of the execution of this Amendment. Because the actual Transaction Costs will not be known until after the Tenant Improvements are completed, upon the request of either party, the parties will confirm in writing the final actual Transaction Costs. All Transaction Costs shall first be allocated on a per square footage basis (and on a temporal basis to account for different Commencement Dates) as between the Surrendered Premises and the balance of the Premises, and such Transaction Costs allocated to the Surrendered Premises shall then be prorated by multiplying such expenses by a fraction, the numerator of which is the number of calendar months remaining in the Term divided by the total number of months from the first month for which Base Rent was paid through the last month of the Term.

e. The termination right granted by this paragraph shall not be effective until after May 31, 2008.

f. At the time Tenant makes the payment required by subparagraph (d), above, Tenant shall pay Landlord a termination fee equal to the amount of Rent for the Surrendered Premises which would have been due for the first three months following the termination date but for such early termination.

15. Parking. Landlord grants to Tenant the right, in common with others
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authorized by Landlord, to use the parking facilities owned by Landlord which are part of the Property. As of the commencement of this Lease, Landlord shall continue to provide to Tenant parking in 20 reserved spaces and 32 non-reserved spaces as provided in the Original Lease (as amended). In the event Tenant expands the Premises subject to this Lease, additional parking shall be provided at a ratio of one parking space per each 1,208 rentable square feet added to the Premises. In the event Tenant exercises its rights of early termination under paragraph 14, above, the number of parking spaces provided to Tenant under this Lease shall be reduced at a ratio of one parking space per each 1,208 rentable square feet subtracted from the Premises (to the extent the Premises is 42,660 square feet or larger) or at the ratio of one parking space per each 820 rentable square feet subtracted from the Premises to the extent the Premises is less than 42,660 square feet. Tenant shall pay Landlord the fee for parking monthly, in advance, with monthly Rent. Through December 31, 2002, such parking fee shall be the same as charged on September 18, 2001 under the Original Lease. Thereafter, the parking fee will be adjusted to the then current market rate. Thereafter, any adjustment in market rate shall be limited, on a cumulative

basis, to 4% per year. Parking spaces which are currently allocated to and used by Tenant's subtenants D.C. Dudley & Associates and Summo Minerals, shall continue to be made available to them for the Term of this Lease at the parking fee determined under this paragraph.

a. Landlord, at its sole election, shall designate types and locations of parking spaces within the parking facilities provided, however, any such designation shall be uniformly applied and shall not unfairly favor any tenant in the Building. Landlord shall not move the location of Tenant's 20 reserved parking spaces and the reserved parking spaces which are currently allocated to and used by Tenant's subtenants, D.C. Dudley & Associates and Summo Minerals, unless required to do so by events not in Landlord's control; provided, however, that Landlord will use good faith efforts to return such spaces to their original location as soon as practical.

b. In addition to the limited rate increases in parking fees described above, Landlord may increase the parking fee by the amount of any fee or charge levied, assessed, imposed, or required to be paid to any governmental authority on account of the parking of motor vehicles.

c. If requested by Landlord, Tenant shall notify Landlord of the license plate number, year, make, and model of each automobile entitled to use the parking facilities pursuant to this Lease, and if requested by Landlord, such automobile shall be identified by identification tags and stickers and only such designated automobiles will be permitted to use the parking facilities.

d. Parking facilities are provided solely for the accommodation of Tenant. Landlord disclaims any responsibility or liability of any kind whatsoever, from whatever cause, with respect to automobile parking areas and adjoining streets, sidewalks, driveways, property, and passage ways, or the use thereof by Tenant or Tenant's employees, customers, agents, contractors or invitees.

During the period CRESA is providing construction management services as contemplated by paragraph 10(a), above, a representative of CRESA may park in the loading dock area of the Building pursuant to reasonable requirements of Landlord, including sign-in procedures and depositing keys for such vehicle with Building security.

16. Storage Space Agreement. Tenant entered into a certain Storage Space Agreement dated September 30, 1991, with Equitable, the then owner of the Building. The Storage Space Agreement shall continue in effect at the current rate of $10.00 per square foot. The Storage Space Agreement shall terminate as of the last day of the Term of this Lease. Landlord may change the amount of rent payable with respect to Storage Space Agreement, provided such rent shall not be increased on a cumulative basis more than 3% per year from January 1, 2002.

17. Hazardous Materials.

a. Definition of Hazardous Materials. The term "Hazardous Materials" for purposes hereof shall mean any chemical, substance, materials or waste or component thereof which is now or hereafter listed, defined or regulated as all hazardous or toxic chemical, substance, materials or waste or component thereof by any federal, state or local governing or regulatory body having jurisdiction ("Governmental Body"), or which would trigger any employee or community "right-to-know" requirements adopted by any such body, or for which any such body has adopted any requirements for the preparation or distribution of a materials safety data sheet ("MSDS"). Landlord represents that, to its actual knowledge, there are no Hazardous Materials currently existing on the Property, except as may be disclosed in any report or document delivered to Tenant by Landlord, Hazardous Materials brought to the Premises by Tenant or Tenant's agents, commercially reasonable amounts of Hazardous Materials which are constituents of cleaners, solvents, or ink, in commercially reasonable quantities, as used in normal day-to-day operations of the Building and the Premises, or Hazardous Materials contained in office equipment, appliances, electrical fixtures, all of which are not in violation of applicable law.

b. No Hazardous Materials. Tenant shall not transport, use, store, maintain, generate, manufacture, handle, dispose, release, or discharge any Hazardous Materials. However, the foregoing provisions shall not prohibit the transportation to and from, and use, storage, maintenance and handling within the Premises of Hazardous Materials customarily used in the business or activity expressly permitted to be undertaken in the Premises under Article 6, provided: (a) such Hazardous Materials shall be used and maintained only in such quantities as are reasonably necessary for such permitted use of the Premises and the ordinary course of Tenant's business therein, strictly in accordance with applicable Law, highest prevailing standards, and the manufacturers' instructions therefor, (b) such Hazardous Materials shall not be disposed of, released or discharged in the Building, and shall be transported to and from the Premises in compliance with all applicable Laws, and as Landlord shall reasonably require, (c) if any applicable Law or Landlord's trash removal contractor requires that any such Hazardous Materials be disposed of separately from ordinary trash, Tenant shall make arrangements at Tenant's expense for such disposal directly with a qualified and licensed disposal company at a lawful disposal site (subject to scheduling and approval by Landlord), and (d) any remaining such Hazardous Materials shall be completely, properly and lawfully removed from the Building upon expiration or earlier termination of this Lease. Any clean up, remediation and removal work shall be subject to Landlord's prior written approval (except in emergencies), and shall include, without limitation, any testing, investigation, and the preparation and implementation of any remedial action plan required by any Governmental Body or reasonably required by Landlord. If Landlord or any Lender or Governmental body arranges for any tests or studies showing, that this Article has been violated by Tenant, Tenant shall pay for the costs of such tests.

c. Notices To Landlord. Tenant shall promptly notify Landlord of: (i) any enforcement, cleanup or other regulatory action taken or threatened by any governmental or regulatory authority with respect to the presence of any Hazardous Materials on the Premises or the migration thereof from or to other property, (ii) any demands or claims made or threatened by any party relating to any loss or injury resulting from any Hazardous Materials on the Premises, (iii) any release, discharge or non-routine, improper or unlawful disposal or transportation of any Hazardous Materials on or from the Premises or in violation of this Article, and (iv) any matters where Tenant is required by Law to give a notice to any Governmental Body respecting any Hazardous Materials on the Premises. Landlord shall have the right (but not the obligation) to join and participate, as a party, in any legal proceedings or actions affecting the Premises initiated in connection with any environmental, health or safety law.

At such times as Landlord may reasonably request, Tenant shall provide Landlord with a written list, certified to be true and complete, identifying any Hazardous Materials then used, stored, or maintained upon the Premises, the use and approximate quantity of each such materials, a copy of any MSDS issued by the manufacturer therefor, and such other information as Landlord may reasonably require or as may be required by Law.

d. Indemnifications. Tenant will indemnify, defend (by counsel reasonably acceptable to Landlord), protect, and hold Landlord and each of Landlord's partners, employees, agents, attorneys, successors and assigns, free and harmless from and against any and all claims, liabilities, penalties, forfeitures, losses or expenses (including attorney's fees) or death of or injury to any person or damage to any property whatsoever, arising from or caused in whole or in part directly or indirectly, by:

i. the presence in, on, under, or about the Premises or discharge in or from the Premises of any Hazardous Materials placed in, under or about, the Premises by Tenant or at Tenant's direction, excluding any tenant improvement work done by Landlord; or

ii. Tenant's use, analysis, storage, transportation, disposal, release, threatened release, discharge, or Generation of Hazardous Materials to, in, on, under, about, or from the Premises; or

iii. Tenant's failure to comply with any Hazardous Materials Law applicable hereunder to Tenant.

Landlord will indemnify, defend (by counsel reasonably acceptable to Tenant), protect, and hold Tenant and each of Tenant's employees, agents, attorneys, successors and assigns, free and harmless from and against any and all claims, liabilities penalties, forfeitures, losses or expenses (including attorney's fees) or death of or injury to any person or damage to any property whatsoever, arising from or caused in whole or in part, directly or indirectly, by

(1) the presence in, on, under or about the Premises or the Building or discharge in or from the Premises or the Building of any Hazardous Materials existing as of the date of this Amendment (and not placed or released on the Premises by Tenant) or placed, in, on, under, or about the Premises or the Building by Landlord or at Landlord's direction; or

(2) Landlord's use, analysis, storage, transportation, disposal, release, threatened release, discharge or generation of Hazardous Materials to, in, on, under, about or from the Premises or the Building; or

(3) Landlord's failure to comply with any Hazardous Materials Law.

The obligations of each party ("Indemnifying Party") pursuant to this paragraph includes, without limitation, and whether foreseeable or unforeseeable, all costs of any required or necessary repair, cleanup or detoxification or decontamination of the Premises or the Building, and the preparation and implementation of any closure, remedial action or other required plans in connection therewith, and survives the expiration or earlier termination of the term of the Lease.

18. Alterations. Tenant shall make no alterations or additions to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Tenant shall complete any alterations authorized by Landlord in good and workman like manner, using contractors and pursuant to a general contract reasonably acceptable to Landlord, fully paid for and free from liens, in accordance with plans and specifications approved by Landlord. In exercising Landlord's reasonable discretion under this paragraph 18, Landlord may take into consideration the following, without limitation: the effect of any proposed alteration or addition on any base system of the Building, the need for additional power, the need to rebalance the HVAC system, the effect on other portions of the Building, the business reputation and financial qualification of the contractors and their experience with the Building, and similar factors. Tenant shall give Landlord at least 10 days prior written notice of the commencement of any alterations to afford Landlord the opportunity to post a notice of nonresponsibility, which notice Tenant will maintain in place throughout the period of construction. Tenant indemnifies Landlord on account of any mechanics', materialmen's, or similar lien or encumbrance to be filed against the Premises or Building in connection with any such work undertaken by Tenant. Tenant shall remove any such lien to Landlord's satisfaction within 20 days from its recordation, and if Tenant fails to do so, Landlord may take whatever action Landlord deems necessary to remove such lien or encumbrance, without being responsible to investigate its validity. All amounts so paid and Landlord's costs, including attorneys' fees, shall be deemed additional rent under this Lease and be payable in full upon demand. Tenant shall not be

required to remove any alterations or additions made by Tenant pursuant to this paragraph unless removal is made a condition of Landlord's approval.

19. Compliance with ADA. Notwithstanding anything to the contrary contained in this Lease, Landlord and Tenant agree that responsibility for compliance with the Americans With Disabilities Act of 1990 (the "ADA") shall be allocated as follows: (i) Landlord shall be responsible for compliance with the provisions of Title III of the ADA for all Common Areas, including exterior and interior areas of the Building not included within the Premises or the premises of other tenants; (ii) Landlord shall be responsible for compliance with the provisions of Title III of the ADA for any construction, renovations, alterations and repairs made within the Premises if such construction, renovations, alterations or repairs are made by Landlord for the purpose of improving the Building generally or are done as Landlord's Work and the plans and specifications for the Landlord's Work were prepared by Landlord's architect or space planner and were not provided by Tenant's architect or space planner; (iii) Tenant shall be responsible for compliance with the provisions of Title III of the ADA for any construction, renovations, alterations and repairs made within the Premises if such construction, renovations, alterations and repairs are made by Tenant, its employees, agents or contractors, at the direction of Tenant or done pursuant to plans and specifications prepared or provided by Tenant or Tenant's architect or space planner.

20. General Office Use. Paragraph 11 of the Original Lease permits Tenant to occupy and use the Premises for general offices and no other purpose whatsoever. "General office use" does not include use as a telephone call center or other use which would increase the level of occupancy of the Premise to more than one person per 170 square feet.

21. Rules and Regulations. Landlord may adopt Building Rules and Regulations and janitorial specifications from time to time which shall be applicable to all tenants in the Building to the extent of any inconsistency between the provisions of this Lease and the provisions of such Rules and Regulations, this Lease shall control. A copy of the current Rules and Regulations and janitorial specifications is attached to this Lease as Exhibit D.

22. Surrender of Premises. Upon the expiration of the Term, or sooner termination of the Lease, Tenant shall quit and surrender to Landlord the Premises, broom clean, in good order and condition, normal wear and tear and damage by fire and other casualty excepted. All leasehold improvements and other fixtures, such as light fixtures and HVAC equipment, wall coverings, carpeting and drapes, in or serving the Premises, whether installed by Tenant or Landlord, shall be Landlord's property and shall remain, all without compensation, allowance or credit to Tenant. Any property not removed shall be deemed to have been abandoned by Tenant and may be retained or disposed of by Landlord at Tenant's expense free of any and all claims of Tenant, as Landlord shall desire. All property not removed from the Premises by Tenant may be handled or stored by Landlord at Tenant's expense and Landlord shall not be liable for the value, preservation, or safekeeping thereof. At Landlord's option all or part of such property may be conclusively deemed to have been conveyed by Tenant to Landlord as if by bill of sale without payment by Landlord. The Tenant hereby waives to the maximum extent allowable the benefit of all laws now or hereafter in force in this state or elsewhere exempting property from liability for rent or for debt. Tenant's Liebert air cooling unit presently located on the Premises shall

be deemed to be equipment owned by Tenant, and not a leasehold improvement or fixture. Tenant shall, upon the termination of the Lease with respect to that portion of the Premises where such Liebert unit is located remove such Liebert unit and repair any damage to the Premises caused by such removal.

23. Cooperation Regarding Operation of HVAC System. Paragraph 11(k) of the Original Lease is revised to read in its entirety as follows:

> Tenant shall cooperate in all reasonable ways with Landlord to assure the effective operation of the Building's heating, ventilating, and air-conditioning system. Such cooperation shall include closing of window coverings during the cooling season; not covering registers or returns; not making substantial changes in the location of electrical equipment, lights, and other heat generators compared to the plans; not accessing or changing thermostat settings without input from Building management; and not using space heaters or other substantial generators of heat in the Premises

24. Landlord's Obligation to Repair. To the extent any part of the Tenant Improvements contemplated by this Amendment and paid for with the TI Allowance constitute part of the Building's base utility systems or structural element, Landlord, and not Tenant, shall be obligated to maintain, repair, and replace such items as contemplated by the second sentence of paragraph 12 of the Original Lease.

25. Assignment and Assumption. Parish is the original tenant under the Original Lease (as defined in paragraph 1, above). Parish hereby assigns to Tenant all of Parish's rights and obligations of whatsoever nature under the Original Lease as modified by this Amendment. Tenant hereby assumes all obligations of Parish under the Original Lease and this Amendment and agrees to timely pay and perform all obligations of Parish and Tenant under the Original Lease and this Amendment. Landlord shall not be required to provide to Parish any notices under the Lease, including, without limitation, notice of non-payment or non-performance or any notice of default.

26. Substitute Premises. Paragraph 26 of the Original Lease is deleted.

27. Force Majeure. Landlord shall be excused for the period of any delay in the performance of any obligation hereunder when prevented from so doing by a cause or causes beyond its control ("Force Majeure"), including all labor disputes, civil commotion, war, war-like operations, invasion, rebellion, hostilities, military or usurped power, sabotage, governmental regulations or controls, fire or other casualty, inability to obtain any material, services or financing, or through acts of God. Tenant shall similarly be excused for delay in the performance of any obligation hereunder by reason of Force Majeure; provided:

a. Nothing contained in this paragraph or elsewhere in this Lease shall be deemed to excuse or permit any delay in the payment of the Rent, or any delay in the cure of any default which may be cured by the payment of money; and

b. No reliance by Tenant upon this paragraph shall limit or restrict in any way Landlord's right of self-help as provided in this Lease.

28. Certifications and Covenants by Tenant. As additional consideration for this Amendment, Tenant hereby certifies that:

a. The Lease is in full force and effect, unmodified except by this Amendment, and binding on Tenant. Tenant ratifies the Lease.

b. There are no uncured defaults on the part of Landlord or Tenant under the Lease.

c. There are no existing offsets or defenses which Tenant has against the enforcement of the Lease by Landlord.

29. Authority. Each of Landlord and Tenant, and each person signing for them, hereby warrants and represents to the other that the individual signing on behalf of that party is fully authorized to sign on behalf of, and to bind, such party and that, when signed by the parties, this Amendment shall be fully binding on the party on whose behalf this Amendment is executed by such individual.

30. Exhibits. The parties acknowledge and agree that each of the Exhibits attached to this Agreement form an integral part of this Agreement and by this reference are incorporated herein as if set forth in full verbatim.

Exhibit A:	Suite 420
Exhibit B:	Operating Expense Exclusions
Exhibit C:	ASHRAE Standards
Exhibit D:	Rules and Regulations and Janitorial Standards

31. Execution by Facsimile and Counterparts. This Amendment may be executed in one or more counterparts, all of which shall, taken together, constitute one and the same agreement. The parties intend that delivery of this Amendment may be effected by facsimile transmission and that a facsimile copy which has been executed by the transmitting party shall constitute an original.

32. Notice Addresses. Addresses for notice to Landlord and Tenant under the Lease shall be as follows:

Landlord:	Massachusetts Mutual Life Insurance Company c/o Cornerstone Real Estate Advisers, Inc. 10866 Wilshire Boulevard Suite 800 Los Angeles, CA 90024 Attn: Asset Manager - Denver Financial Center
with a copy to:	Transwestern Commercial Services 1775 Sherman Street, Lobby Level Denver, CO 80203
Tenant:	St. Mary Land & Exploration Company 1776 Lincoln Street, Suite 700* Denver, CO 80203 Attn: Vice President - Administration
with copy to:	St. Mary Land & Exploration Company 1776 Lincoln Street, Suite 700 Denver, CO 80203 Attn: General Counsel

*Suite 1100 prior to delivery of 7th Floor to Tenant

33. Entire Agreement. This Amendment, together with the Exhibits attached hereto, constitutes the entire agreement of the parties and supersedes all prior understandings and agreements with respect to the subject matter hereof.

34. No Amendments. No change, modification, or addition of this Amendment shall be enforceable unless it is in writing and signed by the party against whom enforcement is sought.

LANDLORD:	TENANT:
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY	ST. MARY LAND & EXPLORATION COMPANY, a Delaware corporation
By: CORNERSTONE REAL ESTATE ADVISERS, INC., its agent	By: /s/ MARK A. HELLERTEIN
By: /s/ ROBERT K. GIFFIN	Name Typed: Mark A. Hellerstien
Name Typed: Robert K. Giffin	Title: President
Title: Vice President	Date: 12/14/01
Date: 12/17/01	

EXHIBIT 12.1

St. Mary Land & Exploration Company
Computation of Ratios of Earnings to Fixed Charges
(dollars in thousands)

	Years Ended December 31,					
	2002	2001	2000	1999	1998	
Earnings:						
Income (loss) from continuing operations	$ 27,560	$ 40,459	$ 55,620	$ 82	$ (8,831)	
Income tax expense (benefit)	15,019	21,829	33,667	(406)	(5,415)	
Total fixed charges	4,714	904	1,043	1,451	1,854	
Less capitalized interest	427	473	548	270	-	-
Total earnings	$ 46,866	$ 62,719	$ 89,782	$ 857	$ (12,392)	
Fixed charges:						
Interest expense	$ 4,287	$ 431	$ 495	$ 1,181	$ 1,854	
Capitalized interest	427	473	548	270	-	-
Total fixed charges	$ 4,714	$ 904	$ 1,043	$ 1,451	$ 1,854	
Ratio of earnings to fixed charges	9.9	69.4	86.1	0.6(1)	(6.7)(1)	

Note: For purposes of computing St. Mary Land & Exploration Company's ratios of earnings to fixed charges, "earnings" represent pretax earnings from continuing operations plus fixed charges (excluding capitalized interest). "Fixed charges" represent interest expensed and capitalized. Interest expense includes the portion of operating rental expense that St. Mary believes is representative of the interest component of rental expense.

(1) Earnings in 1999 and 1998 were inadequate to cover fixed charges, with a deficiency of $0.6 million and $14.3 million, respectively.

EXHIBIT 21.1

SUBSIDIARIES
OF
ST. MARY LAND & EXPLORATION COMPANY

A. Wholly-owned subsidiaries of St. Mary Land & Exploration Company, a Delaware corporation:

1. St. Mary Minerals, Inc., a Colorado corporation
2. Parish Corporation, a Colorado corporation
3. St. Mary Operating Company, a Colorado corporation
4. Nance Petroleum Corporation, a Montana corporation
5. St. Mary Energy Company, a Delaware corporation
6. Roswell LLC, a Texas limited liability company
7. Four Winds Marketing LLC, a Colorado limited liability company
8. GNK Acquisition Corp., a Texas corporation

B. Other subsidiaries of St. Mary Land & Exploration Company

1. Box Church Gas Gathering LLC, a Colorado limited liability company (58.6754%)
2. Centennial Oil & Gas LLC, a Texas limited liability company (50%)
3. Trinity River Services LLC, a Texas limited liability company (25%)

C. Wholly-owned subsidiaries of Nance Petroleum Corporation

1. NPC Inc., a Colorado corporation

D. Wholly-owned subsidiaries of Parish Corporation:

1. Natasha Corporation, a Colorado corporation
2. Lucy Corporation, a Colorado corporation

E. Partnership interests held by Parish Corporation:

1. Hilltop Investment Partners, a Colorado general partnership (50%)
2. C-470 Venture, a Colorado general partnership (68.858%)
3. ParishVentures, a Colorado general partnership (100%)

F. Subsidiaries of Lucy Corporation:

1. St. Mary East Texas LP, a Texas limited partnership (99%) (the remaining 1% interest is held by St. Mary Land & Exploration Company)

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-88712 on Form S-3 and Nos. 033-61850, 333-30055, 333-58273 and 333-35352 on Form S-8 of St. Mary Land & Exploration Company of our report dated February 19, 2003, related to the consolidated financial statements of St. Mary Land & Exploration Company as of and for the year ended December 31, 2002, appearing in this Annual Report on Form 10-K of St. Mary for the year ended December 31, 2002.

/s/ DELIOTTE & TOUCHE LLP

Denver, Colorado,
March 12, 2003

Exhibit 23.2

INFORMATION ABOUT LACK OF CONSENT OF ARTHUR ANDERSEN LLP

The audit report of Arthur Andersen LLP dated February 18, 2002 (the "Audit Report") with respect to the consolidated financial statements of St. Mary Land & Exploration Company ("St. Mary") as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001 included in St. Mary's Annual Report on Form 10-K for the year ended December 31, 2002 (the "2002 Form 10-K") is a copy of the Audit Report previously issued by Arthur Andersen LLP and included with Arthur Andersen LLP's consent in St. Mary's Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission ("SEC") on March 19, 2002 (the "2001 Form 10-K") and St. Mary's Annual Report on Form 10-K/A for the year ended December 31, 2001 filed with the SEC on March 25, 2002 (the "2001 Form 10-K/A"). The Audit Report has not been reissued by Arthur Andersen LLP for inclusion with the 2002 Form 10-K, but a copy of the Audit Report is included in the 2002 Form 10-K in reliance on Rule 2-02(e) of Regulation S-X promulgated by the SEC.

The 2002 Form 10-K is incorporated by reference in St. Mary's previously filed Registration Statements on Form S-8 (Registration Nos. 033-61850, 333-30055, 333-58273, 333-35352 and 333-88780) and Registration Statement on Form S-3 (Registration No. 333-88712) (collectively, the "Registration Statements"). Although St. Mary obtained the consent of Arthur Andersen LLP to the incorporation by reference in the Registration Statements of the Audit Report included in the 2001 Form 10-K and 2001 Form 10-K/A, after reasonable efforts St. Mary has not been able to obtain the consent of Arthur Andersen LLP to the incorporation by reference in the Registration Statements of the Audit Report included in the 2002 Form 10-K. Therefore, in reliance on Rule 437a under the Securities Act of 1933 (the "Securities Act") St. Mary has not filed a consent of Arthur Andersen LLP with the 2002 Form 10-K. As a result, with respect to transactions in St. Mary securities pursuant to the Registration Statements that occur subsequent to the date that the 2002 Form 10-K is filed with the SEC, investors will not be able to recover against Arthur Andersen LLP under Section 11 of the Securities Act for any untrue statement of a material fact contained in the financial statements audited by Arthur Andersen LLP as indicated in the Audit Report and incorporated by reference in the Registration Statements from the 2002 Form 10-K, or any omission to state a material fact required to be stated therein. In addition, due to the significant decline in size of Arthur Andersen LLP and their termination of operations after having been found guilty in June 2002 of federal obstruction of justice charges arising from the U.S. government's investigation of Enron, investors are unlikely to be able to exercise any effective remedies against or collect judgments from Arthur Andersen LLP.

March 12, 2003

EXHIBIT 23.3

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

The undersigned hereby consents to the references to our firm in the form and context in which they appear in the Annual Report on Form 10-K of St. Mary Land and Exploration Company for the year ended December 31, 2002. We hereby further consent to the use of information contained in our reports, as of January 1, 2003, 2002 and 2001 setting forth the estimates of revenues from St. Mary Land & Exploration Company's oil and gas reserves. We further consent to the incorporation by reference thereof into St. Mary Land & Exploration Company's Form S-8 (Registration Statement No. 033-61850), Form S-8 (Registration Statement No. 333-30055), Form S-8 (Registration Statement No. 333-58273), and Form S-8 (Registration Statement No. 333-35352) and Form S-3 (Registration Statement No. 333-88712).

Very truly yours,

/s/ RYDER SCOTT COMPANY, L.P.

RYDER SCOTT COMPANY, L.P.

Denver, Colorado,
March 12, 2003.