

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)
December 10, 2001 (November 29, 2001)

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

Delaware (State or other jurisdiction of incorporation)	000-20872 (Commission File Number)	41-0518430 (I.R.S Employer Identification No.)
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1776 Lincoln Street, Suite 1100, Denver, Colorado 80203
(Address of principal executive offices) (Zip Code)

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

Not applicable
(Former name or former address, if changed since last report.)

Item 2. Acquisition or Disposition of Assets.

On November 29, 2001, St. Mary Land & Exploration Company (the "Company"), through its wholly-owned subsidiary Nance Petroleum Corporation, acquired certain producing and nonproducing oil and gas properties in Montana, North Dakota, Wyoming and Colorado from Choctaw II Oil & Gas, LTD ("Choctaw") for a purchase price of \$40.6 million in cash after normal purchase price adjustments. The Company utilized cash on hand and a portion of its existing credit facility with Bank of America to fund the acquisition. The transaction was consummated pursuant to Purchase and Sale Agreement dated September 28, 2001, effective as of September 1, 2001.

Item 7. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

Financial statements for the acquired properties are not required to be filed with this report.

(b) Pro forma financial information.

Pro forma financial statements, which give effect to the acquisition of the acquired properties, are not required to be filed with this report.

(c) Exhibits.

The following exhibits are furnished as part of this report:

Exhibit 10.1* Purchase and Sale Agreement dated September 28, 2001, effective as of September 1, 2001; between Choctaw II Oil & Gas, LTD and Nance Petroleum Corporation

Exhibit 3.1** Amendments to St. Mary Land & Exploration Company By-Laws adopted July 19, 2001

* Filed herewith.

** Filed herewith. Such amendments are reflected in the complete Restated By-Laws of St. Mary Land & Exploration Company, as amended July 19, 2001, filed as Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q (File No. 000-20872) for the quarter ended September 30, 2001.

SIGNATURES

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

ST. MARY LAND & EXPLORATION COMPANY

Date: December 10, 2001

/s/ MARK A. HELLERSTEIN

Mark A. Hellerstein

President and Chief Executive Officer

Date: December 10, 2001

/s/ RICHARD C. NORRIS

Richard C. Norris

Vice President - Finance,

Treasurer and Secretary

PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement ("Agreement") dated as of September 28, 2001, is by and between CHOCTAW II OIL & GAS, LTD., a Texas limited partnership ("Seller"), and NANCE PETROLEUM CORPORATION ("Buyer"), relative to the "Interests" (as hereinafter defined).

In consideration of the mutual promises contained herein, the benefits to be derived by each party hereunder and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Buyer and Seller agree as follows:

ARTICLE I

PURCHASE AND SALE

1.01 Purchase and Sale. Seller agrees to sell and convey and Buyer agrees to purchase and pay for the Interests subject to the terms and conditions of this Agreement.

1.02 Interests. All of the following (except for the "Excluded Assets" defined below) shall be referred to as the "Interests":

(a) All of Seller's interests, in and to the entire estates created by the leases, licenses, permits and other agreements described in Exhibit "A" (the "Leases") and the lands described in Exhibit "A" (the "Lands"), and including all of Seller's interests in and to its oil and gas assets within the states of Montana, North Dakota, Wyoming, and Colorado whether correctly described herein unless specifically included within the Excluded Assets, together with (i) all rights, privileges, benefits and powers conferred upon the holder of the Leases with respect to the use and occupation of the surface of the Lands that may be necessary, convenient or incidental to the possession and enjoyment of the Leases, (ii) all rights in respect of any pooled, communitized, or unitized acreage located in whole or in part within the Lands by virtue of the Leases, including rights to production from the pool, communitized area, or unit allocated to any Lease being a part thereof, regardless of whether such production is from the Lands, (iii) all rights, options, titles and interests of Seller granting Seller the right to obtain, or otherwise earn interests within the Lands no matter how earned, and (iv) all tenements, hereditaments and appurtenances belonging to any of the foregoing;

(b) The undivided interests in and to all of the oil and gas wells, saltwater disposal wells and injection wells (the "Wells") as set forth in Exhibit A together with all hydrocarbons produced from the Wells and Leases and all of the personal property, fixtures and improvements now or as of the Effective Time (as defined in Section 1.04 below) on the Lands, appurtenant thereto or used in connection therewith or with the production, treatment, sale or disposal of hydrocarbons or water produced therefrom or attributable thereto and all other appurtenances thereunto belonging including without limitation, all pipe, fittings and other equipment located in the Sydney, Montana yard and any other Williston Basin yards;

(c) The contracts and contractual rights, obligations and interests, including all farmout agreements, farmin agreements, drilling contracts, operating agreements, sales contracts, saltwater disposal agreements, division orders and transfer orders and other contracts or agreements covering or affecting any or all of the Leases and/or Lands (the "Contracts"); and

(d) The easements, licenses, authorizations, permits, rights of way, servitudes, surface leases, the building lease for the Sydney, Montana field office and similar rights and interests applicable to the ownership or operation of the Wells; and

(e) Insofar as such pertain to the Leases, Lands, Wells and the other equipment, personal property, Contracts and other matters described herein, all books, records, reports, manuals, files, title documents, including correspondence, records of production maintenance, revenue, sales, expenses, warranties, lease files, land files, well files, division order files, abstracts, title opinions, assignments, reports, and other written material relating to the Interests and in Seller's possession, including without limitation, property records, contract files, operations files, copies of tax and accounting records (but excluding Federal income tax returns and records) and files, maps, core data, hydrocarbon analyses, well logs, mud logs, field studies, together with other files, contracts, and other records and data, including all geologic and geophysical data and seismic of Seller relating to the Interests (the "Records"); however, Seller shall have no obligation to furnish Buyer any data or information which Seller cannot provide to Buyer because of third party restrictions.

1.03 Excluded Assets. As used herein, "Excluded Assets" means (a) all trade

credits and all accounts, instruments and general intangibles (as such terms are defined in the Texas Uniform Commercial Code) attributable to the Interests with respect to any period of time prior to the Effective Time; (b) all claims and causes of action of Seller (i) arising from acts, omissions or events, or damage to or destruction of property, occurring prior to the Effective Time, (ii) arising under or with respect to any contracts that are attributable to periods of time prior to the Effective Time (including claims for adjustments or refunds), or (iii) with respect to any of the Excluded Assets; (c) all rights and interests of Seller (i) under any policy or agreement of insurance or indemnity, (ii) under any bond, or (iii) to any insurance or condemnation proceeds or awards arising, in each case, from acts, omissions or events, or damage to or destruction of property, occurring prior to the Effective Time; (d) all substances produced and sold from the Lands and Leases with respect to all periods prior to the Effective Time, together with all proceeds from or of such substances; (e) claims of Seller for refunds of or loss carry forwards with respect to (i) production or any other taxes attributable to any period prior to the Effective Time, (ii) income or franchise taxes, or (iii) any taxes

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attributable to the Excluded Assets; (f) all amounts due or payable to Seller as adjustments to insurance premiums related to the Interests with respect to any periods prior to the Effective Time; (g) all proceeds, income or revenues (and any security or other deposits made) attributable to (i) the Interests for any period prior to the Effective Time, or (ii) any Excluded Assets; (h) all personal computers and associated peripherals and all radio and telephone equipment except that which is located on the Wells; (i) all of Seller's proprietary computer software, patents, trade secrets, copyrights, names, trademarks, logos and other intellectual property; (j) Seller's interests in Blaine, Chocteau and Hill Counties, Montana, which collectively comprise the Bearpaw Prospect; (k) all documents and instruments of Seller that may be protected by an attorney-client privilege; (l) data that cannot be disclosed or assigned to Buyer as a result of confidentiality arrangements under agreements with persons unaffiliated with Seller; (m) all audit rights arising under any contracts or otherwise with respect to any period prior to the Effective Time or to any of the Excluded Assets; and (n) all of Seller's rolling stock, including, without limitation, nine (9) pickup trucks; and (o) all (i) agreements and correspondence between Seller and its representatives and any affiliates thereof relating to the transactions contemplated in this Agreement, (ii) lists of prospective purchasers for such transactions compiled by Seller or its representatives, (iii) bids submitted by other prospective purchasers of the Interests, (iv) analyses by Seller or its representatives of any bids submitted by any prospective purchaser, (v) correspondence between or among Seller or its representatives, or either of their respective representatives, and any prospective purchaser other than Buyer, and (vi) correspondence between Seller or its representatives, or any of their respective representatives with respect to any of the bids, the prospective purchasers, the engagement or activities of its representatives or the transactions contemplated in this Agreement.

1.04 Effective Time. The purchase and sale of the Interests shall be

effective for all purposes as of September 1, 2001, at 12:01a.m., local time at the location of the Interests (the "Effective Time").

ARTICLE II

PURCHASE PRICE

2.01 Purchase Price. The purchase price for the Interests shall be

Forty-One Million and No/100 Dollars (\$41,000,000.00) (the "Purchase Price"), which shall be adjusted as set forth in Section 2.03 below.

2.02 Deposit. To bind this transaction, Buyer concurrent with the date of

execution of this Agreement has deposited with Seller, either by cashier's check or wire transfer, the sum of Four Million One Hundred Thousand and No/100 Dollars (\$4,100,000.00) (the "Deposit"), which shall be either (a) applied toward a reduction in the Purchase Price at the Closing Date, (b) returned by

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Seller to Buyer, or (c) forfeited by Buyer to Seller, all as otherwise provided in this Agreement.

2.03 Adjustments to Purchase Price. The Purchase Price shall be adjusted as

follows and the resulting amount shall be referred to as the "Adjusted Purchase Price":

(a) The Purchase Price shall be adjusted upward as follows:

(i) The value of all oil and gas in storage or in pipelines or the tanks and above the pipeline connection or upstream of the sales meter as of

the Effective Time which is credited to the Interests, such value to be the market value or, if applicable, the contract price in effect as of the Effective Time, less taxes and deductions by the purchaser; provided however, Seller shall remain responsible for the payment of any taxes on this production and all royalty, overriding royalty, and other non-cost bearing burdens affecting this production;

(ii) The amount of all verifiable expenditures under applicable operating agreements or other similar arrangements or agreements and, in the absence of such agreements, such expenses of the sort customarily billed thereunder, paid by Seller in connection with the Interests for the period subsequent to the Effective Time;

(iii) An amount equal to all prepaid expenses attributable to the Interests that are paid by Seller or any affiliate of Seller prior to the Closing Date that inure to the benefit of Buyer and that are, in accordance with generally accepted accounting principles, attributable to the period after the Effective Time, including without limitation, prepaid ad valorem, property, production, severance and similar taxes (but not including income taxes) based upon or measured by the ownership of property or the production of hydrocarbons or the receipt of proceeds therefrom;

(iv) An amount equal to \$1.00 per Mcf of the underproduced gas imbalance with respect to any gas production, pipeline, storage, processing or other gas imbalance attributable to the Interests as of the Effective Time; and

(v) Any other amount agreed upon by Seller and Buyer.

(b) The Purchase Price shall be adjusted downward by the following:

(i) The value of proceeds received by Seller from the sale of oil, gas or other hydrocarbons attributable to the Interests and relating to production after the Effective Time, less all applicable taxes not reimbursed to Seller by a purchaser; and less all royalties, overriding royalties and other non-cost bearing burdens affecting this production;

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(ii) An amount equal to all unpaid ad valorem, property, production, severance and similar taxes and assessments (but not including income taxes) based upon or measured by the ownership of property or the production of hydrocarbons or the receipt of proceeds therefrom accruing to the Interests prior to the Effective Time;

(iii) The amount of all authorized and verifiable expenditures paid by Buyer for work actually done and performed in connection with the Interests for the period prior to the Effective Time;

(iv) An amount equal to \$1.00 per Mcf of the overproduced gas imbalance with respect to any gas production, pipeline, storage, processing or other gas imbalance attributable to the Interests as of the Effective Time;

(v) The amount of all proceeds from production attributable to the Interests which are currently held in suspense, if any, for which Buyer shall assume responsibility;

(vi) The amount of the Deposit; and

(vii) Any other amount agreed upon by Seller and Buyer.

2.04 Allocation of Purchase Price. The Purchase Price shall be allocated

("Allocated Value") among the Interests including the specifically identified proved undeveloped locations and behind pipe intervals all as set forth in Exhibit "B" hereto and which is subject to Seller's approval.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

3.01 Representations and Warranties of Seller. Seller represents and warrants to Buyer as follows:

(a) Seller is a Texas limited partnership, duly organized, validly existing and in good standing under the laws of its state of organization, and is duly qualified to carry on its business in each of the states identified in Exhibit "A".

(b) Seller has the requisite power and authority to carry on its business as presently conducted, to enter into this Agreement, to sell the Interests on the terms described in this Agreement and to perform its obligations under this Agreement. The consummation of the transactions contemplated by this Agreement will not violate, nor be in conflict with, any

provision of Seller's governing documents, or any agreement or instrument to which Seller is a party or is bound, or any judgment, decree, order, statute, rule or regulation applicable to Seller.

(c) The execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite action on the part of Seller.

(d) This Agreement has been duly executed and delivered on behalf of Seller, and at the Closing all documents and instruments required hereunder to be executed and delivered by Seller shall have been duly executed and delivered. This Agreement does, and such documents and instruments shall, constitute legal and valid obligations of Seller.

(e) Seller has incurred no liability, contingent or otherwise, for brokers' or finders' fees relating to the transactions contemplated by this Agreement for which Buyer shall have any responsibility whatsoever.

(f) No claim, demand, filing, hearing, notice of violation, proceeding, notice or demand letter, investigation, administrative proceeding, civil, criminal or other action, suit or other legal proceeding is pending or, to the best of Seller's knowledge, threatened, against Seller relating to, resulting from or affecting the ownership or operation of the Interests.

(g) To the best of Seller's knowledge and subject to the provisions of this paragraph, (i) the production and expense data heretofore furnished or caused to be furnished by Seller to Buyer (the "Information"), and any supplement thereto, was substantially complete and correct as of the date of such delivery, and (ii) the Information, as of its respective dates and of the respective dates of its delivery, did not contain a material misstatement of fact regarding the matters described herein and did not omit to state therein a material fact necessary to make the statements therein not misleading, in light of the circumstances under which they were made. Except as set forth in this Section 3.01(g), no representation or warranty of any kind is made by Seller as to the Information or with respect to the Interests to which the Information relates and Buyer expressly agrees that any conclusions drawn therefrom shall be the result of its own independent review and judgment. The representations contained in this paragraph shall apply only to matters of fact, and shall not apply to any information, data, printouts, extrapolations, projections, documentation, maps, graphs, charts, or tables which reflect, depict, present, portray, or represent, or which are based upon or derived from, in whole or in part, interpretation of the Information including, but not limited to, matters of geological, geophysical, engineering, or scientific interpretation.

(h) The transfer of the Interests to Buyer does not violate any covenants or restrictions imposed on Seller by any bank or other financial institution in connection with a mortgage or other instrument, and will not

result in the creation or imposition of a lien on any portion of the Interests.

(i) Except as disclosed by Seller in writing, to the best of Seller's knowledge, it is in compliance with all laws, rules, regulations, ordinances, codes, orders, licenses, concessions and permits pertaining to the Interests.

(j) To the best of Seller's knowledge, Seller has all material governmental licenses and permits and has properly made all material filings, necessary or appropriate to obtain those licenses and permits to own and operate the Interests, and such licenses, permits and filings are in full force and effect, and no material violations exist in respect of any such licenses, permits or filings, no proceeding is pending or to the best of Seller's knowledge is threatened looking toward the challenging, revocation or limitation of any such licenses, permits or filings.

(k) To the best of Seller's knowledge, (i) the material terms of all Leases, operating agreements, production sales contracts, farmout agreements and other contracts or agreements respecting the Interests can be found either of record in the counties in which the Interests are located or are reflected or referenced in Seller's files, and (ii) the Contracts are currently in full force and effect in accordance with their applicable terms.

(l) Seller has received no notice of termination of any of the Leases.

(m) To the best of Seller's knowledge, (i) Seller is not obligated by virtue of any prepayment arrangement under any contract for the sale of hydrocarbons, including "take or pay" obligation, hedging or forward sale agreements, or similar provisions or a production payment or any other arrangement to deliver hydrocarbons from the Interests at some future time without then or thereafter receiving full payment therefor, (ii) there are no production sales agreements currently in effect that cannot be terminated with sixty (60) days prior written notice, and (iii) there are no calls on production

affecting the Interests.

(n) To the best of Seller's knowledge, information, and belief there are no surface use or access agreements currently in force and effect that would materially interfere with oil and gas operations on the Leases.

(o) To best of Seller's knowledge, none of the Wells included within the Interests has been represented by its operator, either in a pending AFE or other written proposal, to other well participants as being in need of being plugged and abandoned.

(p) All ad valorem, property, production, severance and similar taxes and assessments based on or measured by the ownership of property or the production of hydrocarbons or the receipt of proceeds therefrom with respect to the Interests for all periods prior to the Effective Time have been properly paid and all such taxes and assessments which must be paid prior to the Closing shall have been properly paid by Seller.

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(q) certain of the representations set forth in this Section 3.01 are limited to the best of Seller's knowledge to avoid the creation of an automatic breach as a result of Seller's possible lack of knowledge of certain facts or circumstances covered by such representations at the time such representations are made or are deemed to have been made. "Seller's knowledge" is defined for this Section 3.01 as the knowledge of only the following individuals: Blake T. Liedtke, W. Russell Brown, Jr., Karl H. Herkert, John N. Black, Greg J. Fox or Tim C. Lechner.

3.02 Representations and Warranties of Buyer. Buyer represents and warrants

to Seller as follows:

(a) Buyer is a Montana corporation duly organized, validly existing and in good standing under the laws of its state of organization and is duly qualified to carry on its business in each of the states identified in Exhibit "A".

(b) Buyer has all requisite power and authority to carry on its business as presently conducted, to enter into this Agreement, to purchase the Interests on the terms described in this Agreement and to perform its other obligations under this Agreement. The consummation of the transactions contemplated by this Agreement will not violate, nor be in conflict with, any provision of Buyer's governing documents, or any agreement or instrument to which Buyer is a party or is bound, or any judgment, decree, order, statute, rule or regulation applicable to Buyer.

(c) The execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite action on the part of Buyer.

(d) This Agreement has been duly executed and delivered on behalf of Buyer, and at the Closing all documents and instruments required hereunder to be executed and delivered by Buyer shall have been duly executed and delivered. This Agreement does, and such documents and instruments shall, constitute legal and valid obligations of Buyer.

(e) Buyer has incurred no liability, contingent or otherwise, for brokers' or finders' fees relating to the transactions contemplated by this Agreement for which Seller shall have any responsibility whatsoever.

(f) In entering into this Agreement, Buyer has relied solely on the express representations and covenants of Seller in this Agreement, its independent investigation of, and judgment with respect to, the Interests and the advice of its own legal, tax, economic, environmental, engineering,

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geological and geophysical advisors and not on any comments or statements of any representatives of, or consultants or advisors engaged by Seller or its representatives.

(g) Prior to the Closing, Buyer intends to satisfy all bonding and regulatory requirements of all state and federal governmental authorities so that Buyer is qualified to own the Interests. The consummation of the transactions contemplated hereby will not cause Buyer to be disqualified as an owner of state or federal oil, gas and mineral leases, or to exceed any acreage limitation imposed by any law, statute, rule or regulation.

(h) Buyer is an experienced and knowledgeable investor and operator in the oil and gas business. Buyer is acquiring the Interests for its own account and not with a view to, or for offer of resale in connection with, a distribution thereof, within the meaning of the Securities Act of 1933, 15 U.S.C.ss.77a et seq., and any other rules, regulations and laws pertaining to the distribution of securities.

(i) Buyer has arranged to have available by the Closing Date sufficient funds to enable the payment to Seller by wire transfer of the Adjusted Purchase Price in accordance with Section 7.03 hereof and to otherwise perform Buyer's obligations under this Agreement.

ARTICLE IV

COVENANTS

4.01 Covenants of Seller. Seller covenants and agrees with Buyer that from

the date hereof to the Closing Date, except (i) as provided herein, (ii) as required by any obligation, agreement, lease, contract or instrument affecting the Interests, or (iii) as otherwise consented to in writing by Buyer, Seller shall:

(a) Give Buyer and its representatives access to, and the right to copy, at Buyer's expense, all information in its possession relating to the Interests unless specifically precluded by a third party agreement which shall include, without limitation, title opinions, abstracts of title, land records, accounting records, production records, operating expense records, engineering, geological and geophysical data, development plans and permits, and any other information of whatsoever kind relating to the production and operation of the Interests. All such information shall be open to inspection and photocopying at Seller's offices at any reasonable time during the term of this Agreement, but until subsequent to the Closing shall remain confidential and shall not be disclosed to any third party other than Buyer's employees and agents.

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(b) Not, except as set forth in Schedule 4.01(b) attached hereto, (i) enter into any new agreements or commitments with respect to the Interests which terms would extend beyond the Closing, (ii) conduct any single capital or workover project with respect to the Interests in excess of Twenty Thousand and No/100 Dollars (\$20,000.00), (iii) abandon any Well located on the Leases nor release or abandon all or any portion of any of the Leases, (iv) modify or terminate any of the existing agreements and (v) encumber, sell or otherwise dispose of any of the Interests other than personal property that is replaced by equivalent property or consumed in the normal operation of the Interests.

(c) Take or cause to be taken all such actions as may be necessary or advisable to consummate and make effective the sale of the Interests and the transactions contemplated by this Agreement and to assure that as of the Closing Date it will not be under any material organizational, legal or contractual restriction that would prohibit or delay the timely consummation of such transactions.

(d) Cause all the representations and warranties of Seller contained in this Agreement to be true and correct on and as of the Closing Date.

(e) Promptly notify Buyer (i) if any representation or warranty of Seller contained in this Agreement is discovered to be or becomes untrue, or (ii) if Seller fails to perform or comply with any covenant or agreement contained in this Agreement or it is reasonably anticipated that Seller will be unable to perform or comply with any covenant or agreement contained in this Agreement.

(f) Keep and maintain all policies of insurance relating to the Interests in full force and effect through Closing.

(g) Cooperate with Buyer in the notification of all applicable governmental regulatory authorities of the transactions contemplated hereby and cooperate with Buyer in obtaining the issuance by each such authority of such permits, licenses and authorizations as may be necessary for Buyer to own and operate the Interests following the consummation of the transactions contemplated by this Agreement.

(h) Exercise all due diligence in safe-guarding and securely maintaining all engineering, geological and geophysical data, reports and maps, all other confidential information, in any medium or form whatsoever, in the possession of Seller relating to the Interests.

4.02 Covenants of Buyer. Buyer covenants and agrees with Seller that from

the date hereof to the Closing Date, except (i) as provided herein, or (ii) as otherwise consented to in writing by Seller, Buyer shall:

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(a) Take or cause to be taken all such actions as may be necessary or advisable to consummate and make effective the purchase of the Interests and the transactions contemplated by this Agreement and to assure that as of the Closing Date it will not be under any material organizational, legal or contractual restriction that would prohibit or delay the timely consummation of such

transactions.

(b) Cause all the representations and warranties of Buyer contained in this Agreement to be true and correct on and as of the Closing Date.

(c) Promptly notify Seller (i) if any representation or warranty of Buyer contained in this Agreement is discovered to be or becomes untrue, or (ii) if Buyer fails to perform or comply with any covenant or agreement contained in this Agreement or it is reasonably anticipated that Buyer will be unable to perform or comply with any covenant or agreement contained in this Agreement.

ARTICLE V

TITLE MATTERS, ENVIRONMENTAL MATTERS,

CASUALTY LOSS AND ABANDONMENT

5.01 Seller's Title. Seller represents to Buyer that Seller's title to the

Interests as of the Effective Time is (and as of the Closing shall be) "Marketable Title" as defined in Section 5.02 hereinbelow.

5.02 Definition of Marketable Title. As used in this Agreement, the term

"Marketable Title" shall mean, as to each of the Interests including the proved undeveloped locations and behind pipe intervals specifically identified on Exhibit B, that the title acquired by Buyer:

(a) Will entitle Buyer to receive not less than the Net Revenue Interests set forth in Exhibit "A" and a like share of all hydrocarbons produced, saved and marketed from the Interests throughout the productive life of the Interests.

(b) Will obligate Buyer to bear not more than that percentage of the costs and expenses related to the maintenance and development of and operation of the Working Interests as set forth on Exhibit "A" and a like share attributable thereto throughout the productive life of the Interests.

(c) Is free and clear of all liens, security interests, encumbrances, burdens and claims of any kind, except for Permitted Encumbrances.

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5.03 Definition of Permitted Encumbrances. As used herein, the term

"Permitted Encumbrances" shall mean:

(a) Lessors' royalties, overriding royalties, reversionary interests and similar burdens, whether recorded or unrecorded, that do not operate to reduce the Net Revenue Interests set forth in Exhibit "A".

(b) Division orders and sales contracts terminable without penalty upon no more than thirty (30) days' notice to the purchaser.

(c) Except as provided in Section 5.06 below, preferential rights to purchase and required third-party consents and similar agreements with respect to which waivers or consents are obtained under this Agreement prior to the Closing from the appropriate parties or the appropriate time period for asserting the right has expired prior to the Closing without an exercise of such right.

(d) Encumbrances relating to the Interests that arise under operating agreements to secure payment of amounts not yet delinquent and are of a type and nature customary in the oil and gas industry.

(e) Encumbrances relating to the Interests securing payments to mechanics and materialmen and encumbrances securing payment of taxes or assessments that are, in either case, not yet delinquent or, if delinquent, are being contested in good faith in the normal course of business and Seller shall have agreed to remain responsible therefore if such arose before the Effective Time.

(f) All rights to consent by, required notices to, filings with, or other actions by governmental entities in connection with the sale or conveyance of oil and gas leases or interests therein if they are customarily obtained subsequent to the sale or conveyance.

(g) Conventional rights of reassignment obligating Seller to reassign its interest in any portion of the Interests to a third party in the event it intends to release or abandon such Interests prior to the expiration of the primary term or other termination of such Interests.

(h) Easements, rights of way, servitudes, permits, surface leases, surface use restrictions and other surface uses and impediments on, over or in

respect to any of the Interests that do not, taken as a whole, materially interfere with the operation, value or use of the Interests.

(i) All rights reserved to or vested in any governmental, statutory or public authority to control or regulate any of the Interests in any manner, and all applicable laws, rules and orders of governmental authority provided that

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Seller's ownership or operation of the Interests is not in violation thereof.

(j) The terms and conditions of all Leases and all agreements to which the Interests are subject provided that such do not operate to reduce the Net Revenue Interests attributable to the Interests.

(k) Such Title Defects affecting the Interests which Buyer fails to deliver to Seller in writing as provided in Section 5.05(b) below.

(l) Liens in favor of Compass Bank if released at Closing.

(m) All revesionary interests set forth in Schedule 5.03(m) attached hereto.

5.04 Definition of Title Defect. As used in this Agreement, the term "Title

Defect" shall mean any defect which renders title to an Interest, as herein defined, less than Marketable Title.

5.05 Title Procedure.

(a) As used herein, "Title Defect Amount" shall mean, with respect to any reduction of the Net Revenue Interest set forth on Exhibit "A" hereto, an amount calculated by multiplying the reduction in the Net Revenue Interest by the Allocated Value for such affected Interests; with respect to any increase in the Working Interest set forth on Exhibit "A" hereto and assuming no corresponding increase in Net Revenue Interest, an amount calculated by multiplying the increase in the Working Interest by the Allocated Value for such affected Interests; and with respect to any Title Defect that does not cause the Net Revenue Interest set forth on Exhibit "A" to decrease or cause the Working Interest set forth on Exhibit "A" to increase, an amount determined by evaluating the portion of the Interests affected by such Title Defect, the legal effect of the Title Defect, and the potential economic effect of the Title Defect over the life of the affected Interests. The Title Defect Amount as to any particular Interest, however, shall never exceed the Allocated Value therefor. Furthermore, in the event it is determined that the Net Revenue Interests for any affected Interest is greater than set forth on Exhibit "A" hereto or the Working Interests for any affected Interest is less without a corresponding decrease in Net Revenue Interest than set forth on Exhibit "A" hereto, the Purchase Price shall be proportionately adjusted upward by multiplying the increase in the Net Revenue Interest by the Allocated Value for such affected Interest or multiplying the decrease in the Working Interest by the Allocated Value for such affected Interest. Increases or decreases in the Working Interest without a corresponding increase or decrease in the Net Revenue Interest shall be evaluated by rerunning the economics for the affected Interest to determine the impact on the Allocated Value for such affected Interests. Notwithstanding any terms contained in this Agreement to the contrary, no

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adjustment to the Purchase Price for Title Defects and Environmental Defects shall be made unless the sum of such Title Defect Amounts and Environmental Defect Amounts is more than Two Hundred Fifty Thousand and No/100 Dollars (\$250,000.00). This \$250,000.00 sum is a threshold, not a deductible, and if this threshold is exceeded, the Purchase Price shall be adjusted by the total sum of these defects. In addition, this threshold amount shall apply independently to increases in the Purchase Price for the reasons set forth in this Section 5.05(a), and the amounts attributable to such increases shall not be netted against the downward adjustments to the Purchase Price to determine whether or not a Purchase Price adjustment should be made. Notwithstanding any terms contained in this Agreement to the contrary, no Title Defect shall be asserted by Buyer unless the Title Defect Amount is at least Twenty Thousand and No/100 Dollars (\$20,000.00). This \$20,000.00 threshold shall likewise apply to any upward adjustment sought by Seller under this Section 5.05(a).

(b) If Buyer discovers any Title Defect, Buyer shall give Seller notice of such Title Defect no later than fifteen (15) days prior to the Closing Date. Such notice shall be in writing and shall include (i) a description of the Title Defect and (ii) the Title Defect Amount therefor. Buyer shall be deemed to have waived all Title Defects to which Buyer has not given timely notice to Seller thereof.

(c) Seller shall notify Buyer in writing no later than five (5) days before the Closing Date whether it elects to cure the alleged Title Defect. If Seller has elected to cure the Title Defect, then the Interests subject to the

Title Defect shall not be assigned at the Closing and Seller shall use commercially reasonable efforts to cure such Title Defect during a period ending sixty (60) days after Closing. Notwithstanding the foregoing, Seller shall be under no obligation to cure any Title Defect unless Seller otherwise expressly agrees in writing to cure such Title Defect.

(d) With respect to any Title Defect that Seller elects not to cure, Seller shall have the option to:

(i) Exclude the Interest, including pipelines and other personal property necessary to operate the particular Interest subject to the Title Defect, in which event the Purchase Price shall be reduced by the Allocated Value of the excluded Interest; or

(ii) If Buyer and Seller so agree, sell the Interest subject to such Title Defect to Buyer and the Purchase Price shall be reduced by the Title Defect Amount.

(e) Notwithstanding any terms contained in this Agreement to the contrary, in the event the aggregate amount of (i) the Title Defects and (ii) the Environmental Defect Amounts and which Seller does not timely agree to cure, excluding exercised preferential rights to purchase exceeds twenty percent (20%) of the Purchase Price, either Seller or

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Buyer may elect to terminate this Agreement and Buyer shall be entitled to an immediate refund of the Deposit.

5.06 Consents and Preferential Rights.

(a) If any third party consent to the sale and transfer of the Interests is not obtained prior to the Closing, Buyer shall not treat that portion of the Interests subject to such consent requirement as a Title Defect if such consent is customarily secured after the Closing or such consent does not materially affect the value of the affected Interests if such consent were withheld.

(b) If any of the Interests are subject to a preferential right to purchase, Seller shall in a good faith, prior to the Closing Date, attempt to notify each third party which holds a preferential right to purchase covering that portion of the Interests subject thereto. If the notice period under any preferential right to purchase has not expired prior to the Closing Date, Buyer shall nevertheless purchase that portion of the Interests which may be affected by the exercise of such preferential right but the Interests subject to such unexpired preferential right shall not be treated as a Title Defect. If after the Closing any party holding a preferential right to purchase elects to exercise same, Buyer shall then coordinate with Seller in connection with the execution by such third party of a purchase and sale agreement substantially in the form hereof. Buyer shall be due any consideration paid by such third party upon the exercise of such preferential right to purchase in exchange for Buyer delivering such third party an assignment for that portion of the Interests affected by the exercise of such preferential right.

5.07 Environmental Procedure.

(a) Prior to the Closing Date, Buyer may conduct a field inspection of the Interests and Buyer may further secure, at its sole risk, cost and expense, an environmental audit of all or any of the Interests. If obtained, Buyer shall immediately furnish a copy of such environmental audit to Seller and the contents of such environmental audit shall remain confidential unless required to be disclosed by any rule, order or governmental proceeding.

(b) As used herein, "Environmental Defect" shall mean any material environmental defect relating to the Interests in the nature of environmental pollution or contamination, including pollution of the soil, ground water or the air, and which is a violation of environmental or land use laws, rules, regulations, or orders of appropriate state or federal regulatory agencies.

(c) As used herein, "Environmental Defect Amount" means the cost to remediate such Environmental Defect in accordance with applicable environmental laws. Notwithstanding any terms contained in this Agreement to the contrary, no adjustment to the Purchase Price shall be made unless the sum of such Title

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Defect Amounts and Environmental Defect Amounts is more than Two Hundred Fifty Thousand and NO/100 Dollars (\$250,000.00). This \$250,000.00 sum is a threshold, not a deductible, and if this threshold is exceeded, the Purchase Price shall be adjusted by the total sum of these defects. In addition, this threshold amount shall apply independently to increases in the Purchase Price for the reasons set forth in this Section 5.07(a), and the amounts attributable to such increases shall not be netted against the downward adjustments to the Purchase Price to

determine whether or not a Purchase Price adjustment should be made. Notwithstanding any terms contained in this Agreement to the contrary, no Environmental Defect shall be asserted by Buyer unless the Environmental Defect Amount is at least Twenty Thousand and No/100 Dollars (\$20,000.00).

(d) If Buyer discovers any Environmental Defect, Buyer shall give Seller notice of such Environmental Defect no later than fifteen (15) days prior to the Closing Date. Such notice shall be in writing and shall include (i) a description of the Environmental Defect and (ii) the Environmental Defect Amount therefor. Buyer shall be deemed to have waived all Environmental Defects to which Buyer has not given timely notice to Seller thereof.

(e) Seller shall notify Buyer in writing no later than five (5) days before the Closing Date whether it elects to cure the alleged Environmental Defect. If Seller has elected to cure the Environmental Defect, then the Interest subject to the Environmental Defect shall not be assigned at the Closing and Seller shall use commercially reasonable efforts to cure such Environmental Defect during a period ending one hundred eighty (180) days after Closing. Notwithstanding the foregoing, Seller shall be under no obligation to cure any Environmental Defect unless Seller otherwise expressly agrees in writing to cure such Environmental Defect.

(f) With respect to any Environmental Defect that Seller elects not to cure, Seller shall have the option to:

(i) Exclude the Interest, including pipelines and other personal property necessary to operate the particular Interest subject to the Environmental Defect, in which event the Purchase Price shall be reduced by the Allocated Value of the excluded Interest; or

(ii) If Buyer and Seller shall so agree, sell the Interest subject to the Environmental Defect to Buyer and the Purchase Price shall be reduced by the Environmental Defect Amount. Notwithstanding any terms in the Section 5.07 to the contrary, with respect to the Watt No. 2 well and the Tveit Saltwater Disposal System ("Tveit et al Properties"), if Buyer asserts an Environmental Defect on the Tveit et al Properties, Buyer shall have the option, but not the obligation to accept an indemnity from Seller which is acceptable to Buyer

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(g) Notwithstanding any terms contained in this Agreement to the contrary, in the event the aggregate amount of (i) the Environmental Defect Amounts and (ii) the Title Defect Amounts set forth in Section 5.05 hereinabove, and which Seller does not timely agree to cure, exceeds twenty percent (20%) of the Purchase Price, either Seller or Buyer may elect to terminate this Agreement and Buyer shall be entitled to an immediate refund of the Deposit.

5.08 Casualty Loss. If, prior to the Closing, all or any portion of the

Interests shall be destroyed by fire or other casualty, or if any portion of the Interests shall be taken in condemnation or under the right of eminent domain, or if proceedings for such purposes shall be pending or threatened (collectively "Casualty Losses"), except as provided below, this Agreement shall remain in full force and effect notwithstanding any such destruction or taking, and Seller shall at Closing pay to Buyer all sums paid to Seller by reason of such destruction or taking. In addition, Seller shall assign, transfer and set over unto Buyer all of the right, title and interest of Seller in and to any unpaid awards or other payments arising out of such destruction or taking. Seller shall not voluntarily compromise, settle or adjust any amounts payable by reason of such destruction or taking without first obtaining the written consent of Buyer. Notwithstanding the foregoing, in the event the total value of Casualty Losses exceeds twenty percent (20%) of the Purchase Price, either Buyer or Seller may elect to terminate this Agreement and Buyer shall be entitled to an immediate refund of the Deposit. In addition, the Purchase Price shall be reduced by the amount of Seller's deductible under any applicable policy of insurance or other sums not covered by Seller's insurance or any shortfall in the unpaid awards insofar as the same pertain to payments arising out of the destruction or taking of the affected Interests.

5.09 Plugging and Abandonment. Upon Closing, Buyer shall assume all of

Seller's plugging, replugging, abandonment, removal, disposal and restoration obligations associated with the Interests acquired hereunder. Such obligations being assumed shall include, but not be limited to, all necessary and proper plugging and abandonment and/or removal and disposal of all of the Wells, whether pre-existing or drilled by Seller, and all structures, personal property and equipment located on or associated with the Leases, the necessary and proper capping and burying of all associated flow lines, and any necessary disposal of naturally occurring radioactive material (NORM) or asbestos except those matters which are asserted as Environmental Defects and which remain uncured. All plugging, replugging, abandonment, removal, disposal and restoration operations shall be in compliance with applicable laws, rules and regulations and conducted in a good and workmanlike manner.

OF SELLER CONTAINED IN THIS AGREEMENT (OR IN THE ASSIGNMENT TO BE EXECUTED
PURSUANT TO THIS AGREEMENT) ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER

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REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE, AND SELLER EXPRESSLY DISCLAIMS ANY AND ALL SUCH OTHER REPRESENTATIONS AND WARRANTIES, EXCEPT THAT SELLER WARRANTS TITLE TO THE INTERESTS BY, THROUGH, AND UNDER SELLER, BUT NOT OTHERWISE. WITHOUT LIMITATION OF THE FOREGOING, THE INTERESTS SHALL BE CONVEYED PURSUANT HERETO WITHOUT ANY WARRANTY OR REPRESENTATION, WHETHER EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE RELATING TO THE CONDITION, QUANTITY, QUALITY, FITNESS FOR A PARTICULAR PURPOSE, CONFORMITY TO THE MODELS OR SAMPLES OF MATERIALS, OR MERCHANTABILITY OF ANY EQUIPMENT OR ITS FITNESS FOR ANY PURPOSE, AND WITHOUT ANY OTHER EXPRESS, IMPLIED, STATUTORY, OR OTHER WARRANTY OR REPRESENTATION WHATSOEVER. BUYER SHALL HAVE INSPECTED, OR WAIVED (AND UPON CLOSING SHALL BE DEEMED TO HAVE WAIVED) ITS RIGHT TO INSPECT THE INTERESTS FOR ALL PURPOSES AND SATISFIED ITSELF AS TO THEIR PHYSICAL AND ENVIRONMENTAL CONDITION, BOTH SURFACE AND SUBSURFACE, INCLUDING, BUT NOT LIMITED TO, CONDITIONS SPECIFICALLY RELATED TO THE PRESENCE, RELEASE, OR DISPOSAL OF HAZARDOUS SUBSTANCES, SOLID WASTES, ASBESTOS OR OTHER MANMADE FIBERS OR NATURALLY OCCURRING RADIOACTIVE MATERIALS ("NORM") IN, ON, OR UNDER THE INTERESTS. BUYER IS RELYING SOLELY UPON ITS OWN INSPECTION OF THE INTERESTS, AND BUYER SHALL, EXCEPT AS PROVIDED OTHERWISE HEREIN, ACCEPT ALL OF THE SAME "AS IS, WHERE IS". WITHOUT LIMITATION OF THE FOREGOING, SELLER MAKES NO WARRANTY OR REPRESENTATION, EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE, AS TO THE ACCURACY OR COMPLETENESS OF ANY DATA, REPORTS, RECORDS, PROJECTIONS, INFORMATION, OR MATERIALS NOW HERETOFORE, OR HEREAFTER FURNISHED OR MADE AVAILABLE TO BUYER IN CONNECTION WITH THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, PRICING ASSUMPTIONS OR QUALITY OR QUANTITY OF HYDROCARBON RESERVES (IF ANY) ATTRIBUTABLE TO THE INTERESTS OR THE ABILITY OR POTENTIAL OF THE INTERESTS TO PRODUCE HYDROCARBONS OR THE ENVIRONMENTAL CONDITION OF THE INTERESTS OR ANY OTHER MATERIALS FURNISHED OR MADE AVAILABLE TO BUYER BY SELLER, OR BY SELLER'S AGENTS OR REPRESENTATIVES. ANY AND ALL SUCH DATA, RECORDS, REPORTS, PROJECTIONS, INFORMATION, AND OTHER MATERIALS (WRITTEN OR ORAL) FURNISHED BY SELLER OR OTHERWISE MADE AVAILABLE OR DISCLOSED TO BUYER ARE PROVIDED TO BUYER AS A CONVENIENCE AND SHALL NOT CREATE OR GIVE RISE TO ANY LIABILITY OF OR AGAINST SELLER, AND ANY RELIANCE ON OR USE OF THE SAME SHALL BE AT BUYER'S SOLE RISK TO THE MAXIMUM EXTENT PERMITTED BY LAW.

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ARTICLE VI

CONDITIONS TO CLOSING

6.01 Conditions to Obligations of Seller. The obligations of Seller to

consummate the transactions contemplated by this Agreement are subject to the satisfaction, or waiver by Seller, of the condition that all representations and warranties of Buyer contained in this Agreement shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing, and Buyer shall have performed and satisfied all covenants and agreements required by this Agreement to be performed and satisfied by Buyer at or prior to the Closing.

6.02 Conditions to Obligations of Buyer. The obligations of Buyer to

consummate the transactions contemplated by this Agreement are subject to the satisfaction, or waiver by Buyer, of the condition that all representations and warranties of Seller contained in this Agreement shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing, and Seller shall have performed and satisfied all covenants and agreements required by this Agreement to be performed and satisfied by Seller at or prior to the Closing.

ARTICLE VII

CLOSING

7.01 Date of Closing. Subject to the conditions stated in this Agreement,

the consummation of the transactions contemplated by this Agreement (the "Closing") shall be held on November 29, 2001, at 10:00 a.m., or such earlier date as the parties shall agree in writing. Said date shall be referred to as the "Closing Date".

7.02 Place of Closing. The Closing shall be held at the offices of Seller,

or at such other place as Buyer and Seller may agree upon in writing.

7.03 Closing Obligations. At the Closing, the following events shall occur,

each being a condition precedent to the others and each being deemed to have occurred simultaneously with the others:

(a) Seller shall execute, acknowledge and deliver (in sufficient counterparts to facilitate recording) the Assignment, Conveyance and Bill of Sale ("Assignment") conveying the Interests to Buyer in substantially the form attached as Exhibit "C" hereto. As appropriate, Seller shall also execute, acknowledge and deliver separate assignments of the Interests on officially

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approved forms, in sufficient counterparts, to satisfy applicable statutory and regulatory requirements.

(b) Seller and Buyer shall execute a settlement statement (the "Preliminary Settlement Statement") prepared by Seller that shall set forth the Preliminary Amount (as hereinafter defined) and each adjustment and the calculation of such adjustments used to determine such amount. The term "Preliminary Amount" shall mean the Purchase Price adjusted as provided in Section 2.03 using for such adjustments the best information then available.

(c) Buyer shall deliver to Seller a cashier's check or wire transfer for the Preliminary Amount.

(d) Seller shall deliver to Buyer exclusive possession of the Interests.

(e) Seller shall prepare and both it and Buyer shall execute, acknowledge and deliver transfer orders or letters in lieu thereof directing all purchasers of production to make payment of proceeds attributable to production from the Interests after the Effective Time to Buyer.

(f) Seller shall deliver to Buyer the original Records. Buyer agrees to furnish Seller at Seller's cost after the Closing with a copy of any of the Records upon written request by Seller.

(g) If Seller is the operator of any of the Interests, Seller and Buyer shall execute the appropriate regulatory forms transferring operatorship of the Interests to Buyer and Seller shall file such forms subject to the provisions of Article X. hereinbelow.

(h) Seller shall provide to Buyer a listing showing all proceeds from production attributable to the Interests which are currently held in suspense for any reason and Buyer shall receive a credit in the amount of such suspended funds in connection with the final closing statement as provided hereunder. Buyer shall be responsible for proper distribution of all such suspended proceeds to the parties lawfully entitled to them, and indemnify and hold Seller harmless against any claim, action or liability (including court costs and attorney's fees) associated with claims against such suspended funds based on Buyer's actions or inactions in connection with such funds as of and after the Closing Date. Seller shall indemnify and hold Buyer harmless against any claim, action or liability (including court costs and attorneys' fees) associated with any claims against such suspended funds based on Seller actions or inactions in connection with such funds prior to the Closing Date.

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ARTICLE VIII

OBLIGATIONS AFTER CLOSING

8.01 Post-Closing Adjustments. After the Closing, Seller and Buyer shall

make available to each other all accounting records necessary for Seller to prepare within 120 days of Closing, in accordance with this Agreement, a statement (the "Final Settlement Statement") setting forth each adjustment or payment which was not finally determined as of the Closing and showing the calculation of such adjustments. As soon as practicable after receipt of the Final Settlement Statement, Buyer shall deliver to Seller a written report containing any changes which Buyer proposes be made to the Final Settlement Statement. The parties shall undertake to agree with respect to the amounts due pursuant to such post-closing adjustment no later than one hundred fifty (150) days after the Closing. If such post-closing adjustment has not been agreed to within one hundred fifty (150) days after the Closing, either party may seek to enforce any rights it claims hereunder. The date upon which such agreement is reached or upon which the Adjusted Purchase Price is established, shall be referred to as the "Final Settlement Date." In the event that (i) the Adjusted Purchase Price is more than the Preliminary Amount, Buyer shall deliver to Seller or to Seller's account the amount of such difference in immediately available funds, or (ii) the Adjusted Purchase Price is less than the Preliminary Amount, Seller shall deliver to Buyer or to Buyer's account the amount of such difference in immediately available funds. Payment by Buyer or Seller shall be made within five (5) days after the Final Settlement Date. To

the extent not accounted for in the computation of the Adjusted Purchase Price, all uncollected accounts receivable attributable to the Interests accruing on or after the Effective Time shall be assigned to Buyer.

8.02 Sales Taxes and Recording Fees. Buyer shall pay all sales taxes occasioned by the sale of the Interests. Buyer shall pay all documentary, filing and recording fees required in connection with the filing and recording of all assignments.

8.03 Indemnification. After the Closing, Buyer and Seller shall indemnify -----
each other as follows:

(a) Including any "Environmental Claim" as defined in Section 8.03(c) hereinbelow, Buyer shall defend, indemnify and save and hold harmless Seller against any and all costs, expenses, claims, demands and causes of action of whatsoever kind or character, including court costs and attorneys' fees, arising out of any operations conducted, commitment made or any action taken or omitted with respect to the Interests, which accrue or relate to times on and after the Effective Time.

(b) Excluding (i) any "Environmental Claim" as defined in Section 8.03(c) hereinbelow, Seller shall defend, indemnify and save and hold harmless

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Buyer against any and all costs, expenses, claims, demands and causes of action of whatsoever kind or character, including court costs and attorneys' fees, arising out of any operations conducted, commitment made or any action taken or omitted with respect to the Interests, which accrue or relate to times prior to the Effective Time.

(c) Notwithstanding any terms contained in Sections 8.03(a) and (b) above, but in furtherance of same, Buyer expressly agrees to fully and promptly pay, perform and discharge, defend, indemnify and hold Seller harmless from and against any and all costs, expenses, claims, demands and causes of action of whatsoever kind or character, including court costs and attorneys' fees, resulting from any "Environmental Claim" as hereinafter defined arising out of any operations conducted, commitment made or any action taken or omitted at any time, whether accruing or relating to times prior to or after the Effective Time, with respect to the Interests operated by Buyer. For purposes of this paragraph "Environmental Claim" shall mean any claim, demand or cause of action asserted by any governmental agency or any person, corporation or other entity for personal injury (including sickness, disease or death), property damage or damage to the environment resulting from the discharge or release of any chemical, material or emission into one or more of the environmental media at or in the vicinity of the Interests.

(d) Notwithstanding the provisions of Section 8.03(c), if after the Closing, but in no event later than one (1) year after the Closing Date, any third party other than Buyer asserts an Environmental Claim which occurred prior to the Effective Time and the cost to remediate same in accordance with applicable environmental laws exceeds Twenty Thousand and No/100 Dollars (\$20,000.00) ("Retained Environmental Liability"), Buyer may notify Seller in writing to assume such claim relating to the Retained Environmental Liability in accordance with the terms of this section 8.03(d). Such written notice shall describe the details known to Buyer of the claim relating to the Retained Environmental Liability and Buyer shall concurrently furnish to Seller all information available to Buyer relating to such claim. If Buyer timely notifies Seller of such claim relating to a Retained Environmental Liability on or before one (1) year after the Closing Date, Seller shall retain the risk, cost, expense and liability related to such Retained Environmental Liability. It is agreed that Seller and Buyer will cooperate with each other in connection with the disposition of the Retained Environmental Liability which shall require either (i) remediation, (ii) reacquisition of the affected Interests by Seller (taking into consideration the Allocated Value therefor less net profits owed or received by Buyer and the value added by subsequent development or operations), or (iii) such other disposition as Seller and Buyer shall mutually agree. However, for Interests which were operated by Seller as of the Effective Time, if Seller and Buyer are unable to agree upon the disposition of the Retained Environmental Liability, Seller shall be required to remediate same at its sole risk, cost, expense and liability in accordance with applicable environmental law and for non-operated Interests operated by Seller as of the Effective Time, Seller shall pay to Buyer the share of costs required to remediate the Retained Environmental Liability. Notwithstanding the foregoing, if the parties cannot agree on the cost to remediate a Retained Environmental Liability, such issue shall be submitted to binding arbitration in accordance with Section 11.12 herein.

(e) THE INDEMNIFICATION, RELEASE AND ASSUMPTION PROVISIONS PROVIDED FOR IN THIS AGREEMENT SHALL BE APPLICABLE WHETHER OR NOT THE LOSSES, COSTS, EXPENSES AND DAMAGES IN QUESTION AROSE SOLELY OR IN PART FROM THE GROSS, ACTIVE, PASSIVE OR CONCURRENT NEGLIGENCE, OR OTHER FAULT OF ANY INDEMNIFIED PARTY. BUYER AND SELLER ACKNOWLEDGE THAT THIS STATEMENT COMPLIES WITH THE EXPRESS NEGLIGENCE RULE AND IS CONSPICUOUS.

8.04 Further Assurances. Seller and Buyer shall execute, acknowledge and

deliver or cause to be executed, acknowledged and delivered such instruments and
take such other action as may be necessary or advisable to carry out their
obligations under this Agreement and under any exhibit, document, certificate or
other instrument delivered pursuant hereto.

8.05 Survival. The representations, warranties, covenants, agreements and

indemnities contained in this Agreement shall terminate at the Closing except
for the provisions of Section 5.09, Section 5.10 and all of Article VIII., X.
and XI.

8.06 Limitation on Seller's Liability. After the Closing, any assertion by

Buyer that Seller is liable under this Agreement (a) for the inaccuracy of any
representation or warranty, (b) for breach of any covenant, (c) for indemnity
under the terms of this Agreement, or (d) otherwise in connection with the
transactions contemplated in this Agreement, must be made by Buyer in writing
and must be given to Seller on or prior to the last business day preceding the
first anniversary of the Closing Date. The notice shall state the facts known to
Buyer that give rise to such notice in sufficient detail to allow Seller to
evaluate the assertion of Buyer.

8.07 Devon Underproduced Imbalance. Seller is periodically paid revenues

that relate to an underproduced gas imbalance of approximately 390,000 MCF owned
by Devon SFS Operating, Inc. ("Devon") relating to certain wells in the Standard
Draw Field of Wyoming and which underproduced position is owned by Devon,
Seller's predecessor in title ("Devon Underproduced Imbalance"). Seller forwards
these revenues received and attributable to the Devon Underproduced Imbalance to
Devon. The Devon Underproduced Imbalance is not an underproduced gas imbalance
owned by Seller nor does it affect the Interests. If Closing occurs, Buyer shall
forward any payments it receives that relate to the Devon Underproduced
Imbalance to Devon, or its successors and assigns.

ARTICLE IX

TERMINATION OF AGREEMENT

9.01 Termination. This Agreement and the transactions contemplated hereby

may be terminated in the following instances:

(a) By Buyer if any condition set forth in Section 6.02 above shall
not be satisfied on or before the Closing, or Buyer otherwise elects to
terminate this Agreement pursuant to Sections 5.05(e) or 5.07(g) of this
Agreement.

(b) By Seller if any condition set forth in Section 6.01 above shall
not be satisfied on or before the Closing or Seller otherwise elects to
terminate this Agreement pursuant to Sections 5.05(e) or 5.07(g) of this
Agreement.

(c) By the mutual written agreement of Buyer and Seller.

9.02 Return or Forfeiture of Deposit. If this Agreement is terminated by

Buyer in accordance with Section 6.02 above and Buyer is not in a material
breach of any terms of this Agreement, Seller shall immediately refund to Buyer
the Deposit whereupon this Agreement shall terminate and be of no further force
and effect. Alternatively, if this Agreement is terminated by Seller in
accordance with Section 6.01 above and Seller is not in a material breach of any
terms of this Agreement, Buyer shall forfeit the Deposit to Seller as liquidated
damages, and not as a penalty, whereupon this Agreement shall terminate except
for Section 9.03 below.

9.03 Return of Information. If this Agreement is terminated, Buyer shall

return to Seller all information and material delivered to Buyer by Seller
pursuant to the terms of this Agreement.

9.04 Liabilities upon Termination. If this Agreement is terminated for any

reason or is breached, Seller's or Buyer's legal or equitable remedies shall be
limited to actual damages for the breach or failure of any representation,
warranty, covenant or agreement contained herein which shall in no event exceed
the Purchase Price and which shall exclude all consequential or punitive
damages. Seller and Buyer shall also each retain the right to enforce specific

performance of this Agreement.

ARTICLE X

INTERIM OPERATIONS

If Seller is the operator of the Interests, Seller shall continue to operate the Interests during the period between the Effective Time and 7:00 a.m. on the first day of the month following the Closing Date (the "Interim Period"), but Seller shall not have any obligation to operate the Interests after the Interim Period. Seller shall operate the Interests during the Interim Period in

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a prudent manner consistent with generally accepted industry practices and standards, applicable laws and regulations, and all applicable lease and other agreement terms, but shall not be liable to Buyer except for gross negligence or willful misconduct. Seller shall be entitled (i) to charge Buyer the COPAS overhead rates under existing operating agreements, or where none exist, a rate of \$800.00 per well during the Interim Period proportionately reduced to the affected Interests and (ii) to retain any overhead fees owing or paid by any third party non-operators attributable to the operations during the Interim Period. Seller makes no representation or warranty that Buyer will become operator of any portion of the Interests, as that matter is controlled by the applicable operating agreements and governmental regulatory requirements.

ARTICLE XI

MISCELLANEOUS

11.01 Like Kind Exchange. The parties shall each have the option to

complete all or a portion of the sale and purchase of the Interests as part of a tax-deferred exchange under Section 1031 of the Internal Revenue Code of 1986, as amended. The parties agree to cooperate in documenting and completing such exchange, including, without limitation, consenting to an assignment of all or a portion of a party's rights, title, interest, duties, or obligations under this Agreement to a third party accommodator or Qualified Intermediary (as such term is defined in Section 1031). Notwithstanding the foregoing, Buyer shall take title to the Interests directly from Seller pursuant to the Assignment and shall pay Seller the Purchase Price therefor, and each party shall remain liable for its obligations to the other party hereunder.

11.02 Expenses. Except as otherwise specifically provided in this

Agreement, all fees, costs and expenses incurred by Buyer or Seller in negotiating this Agreement or in consummating the transactions contemplated by this Agreement shall be paid by the party incurring the same, including without limitation, legal and accounting fees, costs and expenses.

11.03 Notices. All notices and communications required or permitted under

this Agreement shall be in writing and shall be effective when received by mail, telecopy or hand delivery as follows:

If to Seller:

Choctaw II Oil & Gas, Ltd.
808 Travis, Suite 1700
Houston, Texas 77002

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Attn: Mr. W. Russell Brown, Jr., President
Telephone: 713-632-0222
Telecopy: 713-227-1007

If to Buyer:

Nance Petroleum Corporation
550 North 31st Street, Suite 500
Billings, MT 59011
Attn: Ron Santi, Vice President, Land
Telephone: 406-245-6248
Telecopy: 406-245-9106

With a copy to:
St. Mary Land & Exploration Company
1776 Lincoln St., Suite 1100
Denver, Colorado 80203
Attn: Randy Pharo, Vice President, Land & Legal
Telephone: 303-863-4313
Telecopy: 303-863-1040

Either party may, by written notice so delivered to the other, change the address to which notice shall thereafter be made.

11.04 Amendment. This Agreement may not be altered or amended, nor any

rights hereunder be waived, except by an instrument in writing executed by the party or parties to be charged with such amendment or waiver. No waiver of any term, provision or condition of this Agreement, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any other term, provision or condition of this Agreement.

11.05 Assignment. Neither Seller nor Buyer may assign any portion of its

rights or delegate any portion of its duties or obligations under this Agreement without the prior written consent of the other party.

11.06 Announcements. Prior to Closing Seller and Buyer shall consult with

each other with regard to all press releases and other announcements concerning this Agreement or the transaction contemplated hereby and, except as may be required by applicable laws or regulations of any governmental agency, neither Buyer nor Seller shall issue any such press release or make any other announcement without the prior written consent of the other party.

11.07 Generality of Provisions. The specificity of any representation,

warranty, covenant, agreement or indemnity included or provided in this Agreement, or in any exhibit, document, certificate or other instrument

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delivered pursuant hereto, shall in no way limit the generality of any other representation, warranty, covenant, agreement or indemnity included or provided in this Agreement, or in any exhibit, document, certificate or other instrument delivered pursuant hereto.

11.08 Headings. The headings of the articles and sections of this Agreement

are for guidance and convenience of reference only and shall not limit or otherwise affect any of the terms or provisions of this Agreement.

11.09 Counterparts. This Agreement may be executed by Buyer and Seller in

any number of counterparts and shall be binding upon each party executing same whether or not executed by all parties. Each of the counterparts shall be deemed an original instrument, but all of which together shall constitute but one and the same instrument.

11.10 References. References made in this Agreement, including use of a

pronoun, shall be deemed to include where applicable, masculine, feminine, singular or plural, individuals, partnerships or corporations. As used in this Agreement, "person" shall mean any natural person, corporation, partnership, trust, estate or other entity. As used in this Agreement, "affiliate" of a person shall mean any partnership, joint venture, corporation or other entity in which such person has an interest or which controls, is controlled by or is under common control of such person.

11.11 Governing Law. This Agreement, and the transactions contemplated

hereby, shall be construed in accordance with, and governed by, the laws of the State of Texas and venue shall be in Harris County, Texas.

11.12 Binding Arbitration. On the request of any party hereto, whether made

before or after the institution of any legal proceeding, any action, dispute, claim or controversy of any kind, now existing or hereafter arising, between any of the parties hereto in any way arising out of, pertaining to or in connection with this Agreement (a "Dispute") shall be resolved by binding arbitration in accordance with the terms hereof. Any party may, by summary proceedings, bring an action in court to compel arbitration of any Dispute. Any arbitration shall be administered by the American Arbitration Association (the "AAA") in accordance with the terms of this section, the Commercial Arbitration Rules of the AAA and, to the maximum extent applicable, the Federal Arbitration Act. Judgment on any award rendered by the arbitrators may be entered in any court having jurisdiction. Any arbitration shall be conducted before one (1) arbitrator selected by Buyer and Seller. The arbitrator shall be knowledgeable in the subject matter of the Dispute. If the parties cannot agree on the arbitrator within thirty (30) days after the request for an arbitration, then three (3) arbitrators shall be required to conduct the arbitration with one (1) arbitrator selected by Buyer, one (1) arbitrator selected by Seller, and the two (2) arbitrators selecting the third arbitrator. The arbitrator(s) may engage engineers, accountants or other consultants that the arbitrator deems necessary to render a conclusion in the arbitration proceeding. To the maximum extent

practicable, an arbitration proceeding hereunder shall be concluded within one hundred eighty (180) days of the filing of the Dispute with the AAA. Arbitration proceedings shall be conducted in Houston, Texas. The arbitrator(s) shall be empowered to impose sanctions and to take such other actions as the arbitrator(s) deems necessary to the same extent a judge could impose sanctions or take such other actions pursuant to the Federal Rules of Civil Procedure and applicable law. At the conclusion of any arbitration proceeding, the arbitrator(s) shall make specific written findings of fact and conclusions of law and such shall be final and not appealable. The arbitrator(s) shall have the power to award recovery of all costs and fees to the prevailing party. Each party agrees to keep all Disputes and arbitration proceedings strictly confidential except for disclosure of information required by applicable law. All fees of the arbitrator(s) and any engineer, accountant or other consultant engaged by the arbitrator(s) shall be paid by Buyer and Seller equally unless otherwise awarded by the arbitrator(s).

11.13 Entire Agreement. This Agreement (including the exhibits hereto)

constitutes the entire understanding between the parties with respect to the subject matter hereof and supersedes all negotiations, prior discussions and prior agreements and understandings relating to such subject matter. No material representation, warranty, covenant, agreement, promise, inducement or statement, whether oral or written, has been made by Seller or Buyer and relied upon by the other that is not set forth in this Agreement or in the instruments referred to herein, and neither Seller nor Buyer shall be bound by or liable for any alleged representation, warranty, covenant, agreement, promise, inducement or statement not so set forth.

11.14 Severability. If any term or provision of this Agreement shall be

determined to be illegal or unenforceable, all other terms and provisions of this Agreement shall nevertheless remain effective and shall be enforced to the fullest extent permitted by applicable law.

11.15 Parties in Interest. This Agreement shall be binding upon, and shall

inure to the benefit of, the parties hereto and their respective successors and assigns. Nothing contained in this Agreement, express or implied, is intended to confer upon any other person or entity any benefits, rights or remedies.

EXECUTED as of the date first above mentioned.

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SELLER:

CHOCTAW II OIL & GAS, LTD.

By: Choctaw Corporation,
its General Partner

By: /S/ W. RUSSELL BROWN, JR.

W. Russell Brown, Jr.,
President

BUYER:

NANCE PETROLEUM CORPORATION

By: /S/ RON SANTI

Name: Ronald B. Santi
Title: Vice President, Land

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Amendments to St. Mary By-Laws Adopted July 19, 2001:

Section 4(b) of the By-Laws is amended to read as follows:

(b) Special meetings of the Stockholders shall be held at the place prescribed for the annual meetings, unless otherwise ordered by the Board of Directors, and may be called by the Chairman of the Board and the President or on the written request of any four Directors who may include the Chairman of Board or the President.

Section 4(e) of the By-Laws is amended to read as follows:

(e) Notice of the meetings and the conduct of the same shall be as prescribed by the Board of Directors, subject to applicable law and the provisions of these By-Laws.

The following subsections (g) and (h) shall be added to Section 4 of the By-Laws:

(g) At an annual meeting of the Stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (ii) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (iii) otherwise properly brought before the annual meeting by any Stockholder of the Corporation (A) who is a Stockholder of record on the date of the giving of notice provided for in this subsection (g) and on the record date for the determination of Stockholders entitled to vote at such annual meeting and (B) who complies with the notice procedures set forth in this subsection (g).

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a Stockholder, such Stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a Stockholder's notice to the Secretary must be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than seventy-five (75) days nor more than one hundred five (105) days prior to the first anniversary date of the immediately preceding annual meeting of the Stockholders, provided, however, that if the date of the annual meeting is called for a date that is not within twenty (20) days before or after such anniversary date, in order to be timely notice by the Stockholder must be so delivered or received not later than the close of business on the tenth (10th) day following the day on which public disclosure of the date of the annual meeting is first made.

To be in proper written form, a Stockholder's notice to the Secretary must set forth as to each matter the Stockholder proposes to bring before the annual meeting (i) a brief description of the proposal desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the Stockholder proposing such business and any other Stockholders known by such Stockholder to be supporting such proposal, (iii) the class and number of shares of the Corporation's capital stock which are owned beneficially and of record by the Stockholder on the date of such Stockholder notice and by any other Stockholders known by such Stockholder to be supporting such proposal on the date of such Stockholder notice, (iv) a description of all arrangements or understandings between such Stockholder and any other person or persons (including their names) in connection with the proposal of such business by such Stockholder and any material interest of such Stockholder in such proposal and (v) a representation that such Stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at an annual meeting of the Stockholders except business brought before the annual meeting in accordance with the procedures set forth in this subsection (g), provided, however, that once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this subsection (g) shall be deemed to preclude discussion by any Stockholder of any such business. If the Chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

(h) Only persons who are nominated in accordance with the following procedures shall be eligible for the election as Directors of the Corporation. Nominations of persons for election to the Board of Directors may be made at any annual meeting of the Stockholders, or at any special meeting of the Stockholders called for the purpose of electing Directors (i) by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (ii) by any Stockholder of the Corporation (A) who is a Stockholder of record on the date of the giving of the notice provided for in this subsection (h) and on the record date for the determination of Stockholders entitled to vote for the election of Directors at such meeting and (B) who complies with the notice procedures set forth in this subsection (h).

In addition to any other applicable requirements, for a nomination to be made by a Stockholder such Stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a Stockholder's notice to the Secretary must be delivered to, or mailed and received at, the principal executive offices of the Corporation (i) in the case of an annual meeting of the Stockholders, not less than seventy-five (75) days nor more than one hundred five (105) days prior to the first anniversary date of the immediately preceding annual meeting of the Stockholders, provided, however, that if the date of the annual meeting is called for a date that is not within twenty (20) days before or after such anniversary date, in order to be timely notice by the Stockholder must be so delivered or received not later than the close of business on the tenth (10th) day following the day on which public disclosure of the date of the annual meeting is first made, and (ii) in the case of a special meeting of the Stockholders called for the purpose of electing Directors, not later than the close of business on the tenth (10th) day following the day on which public disclosure of the date of such meeting is first made.

To be in proper written form, a Stockholder's notice to the Secretary must set forth (i) as to each person whom the Stockholder proposes to nominate for election as a Director, (A) the name, age, business address and residence address of the person, (B) the principal occupation or employment of the person, (C) the class and number of shares of capital stock of the Corporation that are owned beneficially and of record by the person, and (D) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder, and (ii) as to the Stockholder giving the notice, (A) the name and address, as they appear on the Corporation's books, of such Stockholder, (B) the class and number of shares of the Corporation's capital stock which are owned beneficially and of record by such Stockholder on the date of such Stockholder notice, (C) a description of all arrangements or understandings between such Stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such Stockholder, (D) a representation that such Stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in the notice and (E) any other information relating to such Stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations

promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a Director if elected.

No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth in this subsection (h). If the Chairman of the meeting of the Stockholders determines that a nomination was not made in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

Section 5(g) of the By-Laws is amended to read as follows:

(g) In case of any increase in the number of Directors, or of any vacancy in the Board of Directors, the additional Director or Directors shall be elected, or, as the case may be, the vacancy or vacancies shall be filled by the Board of Directors at any meeting by the affirmative vote of a majority of the remaining Directors, notwithstanding that the remaining Directors may be less than a quorum, or by the sole remaining Director. The Directors so chosen shall hold office until the next annual meeting of Stockholders and until their successors are elected and qualify or until their earlier resignation or removal.

Section 5 of the By-Laws is amended by the addition of paragraph (1) thereto to read as follows:

(1) A Director of the Company may be removed by a vote of the Stockholders for cause, as determined by the written opinion of independent counsel of the Company.