

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the Quarter Ended June 30, 1996

Commission File Number 0-20872

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

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

1776 Lincoln Street, Suite 1100, Denver, Colorado 80203  
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [ x ] No [ ]

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

As of August 12, 1996, the registrant had 8,759,214 shares of Common Stock, \$.01 par value, outstanding.

THIS AMENDMENT ON FORM 10-Q/A TO THE REGISTRANT'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 1996 IS BEING FILED TO INCLUDE EXHIBIT NO. 27, FINANCIAL DATA SCHEDULE. ALL OTHER INFORMATION CONTAINED IN THE ORIGINAL FORM 10-Q IS UNCHANGED.

ST. MARY LAND & EXPLORATION  
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Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value: authorized - 15,000,000 shares; issued and outstanding - 8,759,214 shares in 1996 and 8,761,855 shares in 1995	85	88
Additional paid-in capital	15,803	15,835
Retained earnings	52,524	50,378
Unrealized gain on marketable equity securities-available for sale	56	15
Treasury stock - 2,572 shares, at cost	-	(34)
	-----	-----
Total stockholders' equity	68,468	66,282
	-----	-----
	\$ 124,207	\$ 96,126
	=====	=====

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

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

months ended	Three months ended		Six
	June 30,		June
30,	-----		-----
-----	1996	1995	1996
1995	-----	-----	-----
-----	<S>	<C>	<C>
<C>			
Operating revenues:			
Oil and gas production	\$ 13,337	\$ 8,931	\$ 24,745
\$ 17,552			
Gain (loss) on sale of proved properties	-	-	-
1,150			
Gas contract settlements and other revenues	263	94	285
357			
	-----	-----	-----
Total operating revenues	13,600	9,025	25,030
19,059	-----	-----	-----
-----			
Operating expenses:			
Oil and gas production	2,970	2,564	5,926
4,953			
Depletion, depreciation and amortization	2,947	2,417	5,874
4,986			
Impairment of proved properties	-	1,219	-
1,662			
Exploration	1,792	1,102	4,329
2,208			
Abandonment and impairment of unproved properties	299	319	549
557			
General and administrative	1,596	981	3,680
2,656			
Gas contract disputes and other	16	62	93
129			
Loss in equity investees	112	147	1
218			
	-----	-----	-----
Total operating expenses	9,732	8,811	20,452
17,369	-----	-----	-----
-----			
Income from operations	3,868	214	4,578
1,690			
Nonoperating income and (expense):			
Interest income	110	98	167
174			

Interest expense (476)	(520)	(250)	(840)
-----	-----	-----	-----
Income from continuing operations before income taxes 1,388	3,458	62	3,905
Income tax expense (81)	(1,160)	(11)	(1,217)
-----	-----	-----	-----
Income from continuing operations 1,307	2,298	51	2,688
Gain on sale of discontinued operations, net of income taxes 231	81	231	159
-----	-----	-----	-----
Net income \$ 1,538	\$ 2,379	\$ 282	\$ 2,847
=====	=====	=====	=====
Net income per common share:			
Income from continuing operations	\$ .27	\$ -	\$ .31
\$ .15			
Gain on sale of discontinued operations	.01	.03	.02
.03			
-----	-----	-----	-----
Net income per share \$ .18	\$ .28	\$ .03	\$ .33
=====	=====	=====	=====
Weighted average common shares outstanding 8,761	8,759	8,760	8,759
=====	=====	=====	=====

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

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

	For the six months ended June 30,	
	1996	1995
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Cash received from oil and gas operations	\$ 19,854	\$ 15,990
Cash paid for oil and gas operations, including general and administrative expenses	(6,137)	(5,971)
Exploration expenses	(3,118)	(1,838)
Interest and other receipts	259	328
Interest paid	(545)	(310)
Income taxes paid	159	(295)
	-----	-----
Net cash provided by operating activities	10,472	7,904
	-----	-----
Cash flows from investing activities:		
Proceeds from sale of oil and gas properties	13	2,098
Capital expenditures, including dry hole costs	(11,580)	(8,194)
Acquisition of oil and gas properties	(12,856)	(6,862)
Investment in St. Mary Operating Company	3,059	-
Investment in Summo Minerals Corporation	-	(1,977)
Other	(309)	(454)
	-----	-----
Net cash used by investing activities	(21,673)	(15,389)
	-----	-----
Cash flows from financing activities:		
Proceeds from long-term debt	16,150	1,880
Repayment of long-term debt	(179)	(1,472)
Dividends paid	(701)	(41)

Purchase of treasury and common stock	(1)	(701)
Net cash provided (used) by financing activities	15,269	(334)
Net increase (decrease) in cash and cash equivalents	4,068	(7,819)
Cash and cash equivalents at beginning of period	1,723	9,976
Cash and cash equivalents at end of period	\$ 5,791	\$ 2,157

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

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

	For the six months ended June 30,	
	1996	1995
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 2,847	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	5,874	
Impairment of proved properties	-	
Loss in equity investees	1	
Gain on sale of oil and gas properties	-	
Dry hole costs	1,526	
Abandonment and impairment of unproved properties	549	
Deferred income taxes	979	
Other	642	
	12,418	
Changes in assets and liabilities:		
Accounts receivable	(2,928)	
Refundable income taxes	111	
Accounts payable and accrued expenses	828	
Deferred income taxes	43	
Net cash provided by operating activities	\$ 10,472	\$

Supplemental schedule of noncash investing and financing activities:

In March 1996, the Company acquired an additional 35% shareholder interest in St. Mary Operating Company for \$234,000 and assumed net liabilities of \$339,000.

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

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ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in the Annual Report on Form 10-K of St. Mary Land & Exploration Company and Subsidiaries (the Company) for the year ended December 31, 1995. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in Form 10-K for the year ended December 31, 1995. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the Form 10-K.

Note 2 - Investments

In March 1996, the Company completed its purchase of the Anderman Group stock of St. Mary Operating Company ("SMOC") at book value. The purchase increased the Company's ownership in SMOC from 65% to 100%. Through March 31, 1996 the Company accounted for its investment in SMOC using the equity method of accounting.

In June 1996, the Company completed the purchase of a 90% interest in certain of the assets of Siete Oil & Gas Corporation for approximately \$9.8 million. The assets purchased consist primarily of oil and gas producing properties in the Permian Basin of west Texas and New Mexico.

The Company accounts for its investment in the Russian joint venture using the equity method of accounting. For the six months ended June 30, 1996, the Company has recorded a gain of \$224,000 as its equity in income from the Russia joint venture.

The Company accounts for its investment in Summo Minerals Corporation ("Summo") using the equity method of accounting. For the six months ended June 30, 1996, the Company has recorded a loss of \$225,000 as its equity in the losses of Summo.

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ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

Note 3 - Contingencies

During 1995, the Company and other unrelated parties were named as defendants in a class action suit filed in Oklahoma seeking payment of royalties on amounts received in prior gas contract settlements. While the Company's leases state that royalties are paid only on oil and gas produced and sold, the end result of any litigation seeking royalty payments on amounts received in oil and gas settlements cannot be known in advance, and it is possible that a judgment adverse to the Company could result even though gas was not produced and sold. Management believes its position is legally correct and plans a vigorous defense of this suit. In the event of adverse judgment, however, management believes the

maximum exposure of the Company in this litigation, exclusive of interest, if any, would be approximately \$4.5 million. The Company has no material exposure to claims for such payments outside of Oklahoma.

The Company is also aware that, in two appellate proceedings in which the Company is not involved, the Oklahoma Supreme Court has been asked to address issues regarding the entitlement of lessors to royalty payments on amounts received by oil and gas working interest owners as a result of gas contract claims. While the Company believes that royalties are not owed until oil and gas is produced and sold, the decision of the Oklahoma Supreme Court cannot be known in advance and it is possible that the ruling will establish a right of royalty owners to payment. Such a ruling could adversely affect the Company's position in the royalty litigation described above.

#### Note 4 - Income Taxes

Federal income tax expense differs the amount that would be provided by applying the statutory U.S. Federal income tax rate to income before income taxes primarily due to Section 29 tax credits and percentage depletion and the utilization of capital loss carryovers in 1995.

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

### OVERVIEW

The Company receives significant royalty income from its Louisiana fee lands. Revenues from the fee lands were \$2.3 for the second quarter 1996 and \$3.7 million for the six months ended June 30, 1996 compared to \$1.6 million and \$2.8 million for the comparable 1995 periods. Management anticipates lower revenue from the Louisiana fee lands in future years unless the lessees continue infill drilling, recompletions and further exploration and development to offset the normal production decline of producing properties. Texaco, Vastar and Oryx have completed several significant wells in the first half of 1996 and have notified the Company of several geologic objectives they intend to test in the second half as a result of their 3-D seismic surveys.

Included in the 1996 results are the operations of several acquisitions made during the past few years. In April 1995, the Company acquired interests in Louisiana from Pennzoil for \$1.7 million and in July 1995 acquired additional Louisiana properties from Kelley Oil Corporation for \$2.2 million. In December 1995, the Company acquired two different interests in the Box Church Field located in Texas for \$2.2 million. The Company completed several acquisitions in June 1996 for \$12.8 million including \$9.8 million for a 90 percent interest in certain assets of Siete Oil and Gas Company and additional interests in the Box Church Field.

The Company entered into several long-term take-or-pay gas sales contracts in the late 1970s and early 1980s at prices substantially above current market prices. When the purchasers failed to take the volumes required by the contracts and began paying lower market prices, the Company commenced legal proceedings against the purchasers. The Company settled these claims out of court, receiving lump-sum payments as compensation for all prior claims and remaining contract values. The Company has no future obligation to deliver gas to these purchasers. The Company settled the last remaining disputes in 1994 for \$5.7 million. As a result of the purchasers' failure to take the required gas, the Company was underproduced approximately 1.7 BCF relative to other working interest owners at June 30, 1996. With all disputes now settled, the Company is selling additional gas and beginning to reduce this imbalance.

The Company follows the "successful efforts" method of accounting for its oil and gas properties. Under this method, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has proved reserves. If an exploratory well does not have proved reserves, the costs of drilling the well are charged to expense. The costs of development wells are capitalized, whether productive or nonproductive. Exploratory geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred. An impairment allowance is provided to the extent that capitalized costs of unproved properties, on a property-by-property basis, are considered to be not realizable. Prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 121 effective October 1, 1995, the net capitalized costs of proved oil and gas properties were limited to the aggregate undiscounted, after-tax, future net revenues determined on a property-by-property basis (the "ceiling test").

In March 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which addresses the impairment of proved oil and gas properties. The SFAS No. 121 impairment test compares the expected undiscounted future net revenues from each producing field with the related net capitalized costs at the end of each period. When the net capitalized costs exceed the undiscounted future net revenues, the cost of the property is written down to

"fair value" using the discounted future net revenues for the producing field.

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The Company adopted SFAS No. 121 as of October 1, 1995 and recorded an additional impairment charge for proved properties of \$1 million in the fourth quarter of 1995. In October 1995, the FASB issued SFAS No. 123 "Accounting for Stock-Based Compensation." This standard establishes a fair value method of accounting for stock-based compensation plans either through recognition or disclosure. The Company will adopt this standard in 1996 through compliance with the disclosure requirements set forth in SFAS No. 123. The Company does not believe the adoption of this standard will have a material impact on the financial position or results of operations of the Company.

#### RESULTS OF OPERATIONS

The following table sets forth selected operating and financial information for the Company:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
	----	----	----	----
	(In thousands, except BOE data)			
Oil and gas production revenues:				
Working interests	\$11,066	\$ 7,290	\$21,078	\$14,717
Louisiana royalties	2,271	1,641	3,667	2,835
	-----	-----	-----	-----
Total	\$13,337	\$ 8,931	\$24,745	\$17,552
	=====	=====	=====	=====
Production:				
Oil (Bbls)	283	251	544	494
Gas (Mcf)	3,772	2,796	7,090	6,142
	-----	-----	-----	-----
BOE equivalent (6:1)	912	717	1,726	1,518
	=====	=====	=====	=====
Prices:				
Oil	\$ 17.94	\$ 16.28	\$ 17.72	\$ 16.55
Gas	2.19	1.52	2.13	1.43
Oil and gas production costs:				
Lease operating expense	\$ 1,935	\$ 1,886	\$ 4,049	\$ 3,561
Production taxes	1,035	678	1,877	1,392
	-----	-----	-----	-----
Total	\$ 2,970	\$ 2,564	\$ 5,926	\$ 4,953
	=====	=====	=====	=====
Statistics per BOE equivalent (6:1)				
Sales price	\$ 14.62	\$ 12.46	\$ 14.34	\$ 11.56
Lease operating expense	2.12	2.63	2.35	2.35
Production taxes	1.13	.95	1.09	.92
	-----	-----	-----	-----
Operating margin	\$ 11.37	\$ 8.88	\$ 10.90	\$ 8.29
Depreciation, depletion and amortization	3.34	3.37	3.40	3.28
Impairment of producing properties	-	1.70	-	1.10
General and administrative	1.75	1.37	2.13	1.75

Oil and Gas Production Revenues. Oil and gas production revenue increased \$4.4 million or 49% to \$13.3 million for the second quarter 1996 compared to \$8.9 million in 1995. Oil production volumes increased 13% while gas production increased 35% for the second quarter 1996 compared to the 1995 period. Average net daily production was 10,022 BOE for the second quarter 1996 compared to 7,879 BOE in 1995. The production increased because of acquisitions and new drilling activity in 1996 and gas sales were partially curtailed in 1995 due to the low prices received. The average oil price for the second quarter 1996 increased 10% to \$17.94 per barrel, while gas prices increased 44% to \$2.19 per Mcf, from their respective 1995 levels.

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Oil and gas production revenue increased \$7.2 million, or 41% to \$24.7 million for the six months ended June 30, 1996 compared to \$17.6 million in 1995. Oil production volumes increased 10% while gas production increased 15% for the first six months of 1996 compared with the 1995 period. Average net daily production was 9,482 BOE for the six months ended June 30, 1996 compared to 8,387 BOE in 1995. This production increase resulted from new properties acquired and drilled during the past year. The average oil price for the six months ended June 30, 1996 increased 7% to \$17.72 per barrel, while gas prices increased 49% to \$2.13 per Mcf, from their respective 1995 levels. The Company



has hedged approximately 55% of its 1996 oil production at an average NYMEX price of \$18.59 per barrel and 19% of its gas production at an average \$1.92 per MMBTU for 1996. For the six months ended June 30, 1996 the Company incurred a \$544,000 loss or \$.69 per barrel on its oil hedge since the average NYMEX price was higher than the Company's hedged price. The Company incurred a \$577,000 loss on its gas hedge for the six months ended June 30, 1996 which decreased the average gas price by \$.08 per Mcf.

Oil and Gas Production Costs. Oil and gas production costs consist of lease operating expense and production taxes. Total production costs increased \$406,000 or 16% to \$3.0 million for the second quarter 1996. However, the lease operating expense per BOE decreased 19% to \$2.12 for the second quarter 1996 compared with \$2.63 for 1995 primarily due to higher Louisiana royalty production volume in 1996 and lower 1995 sales volumes stemming from low gas prices.

Total production costs increased \$973,000 or 20% for the six months ended June 30, 1996 to \$5.9 million. The lease operating expense per BOE was \$2.35 for the six months ended June 30, 1996 and 1995.

Depreciation, Depletion, Amortization and Impairment. Depreciation, depletion and amortization ("DD&A") increased 22% to \$2.9 million for the second quarter 1996 compared with \$2.4 million in 1995 because of much higher production. However, DD&A per BOE was \$3.34 in the second quarter 1996 compared to \$3.37 in 1995. There was no impairment of proved properties for the second quarter in 1996 compared to \$1.2 million in 1995 due to several high cost marginal wells and low natural gas prices.

Depreciation, depletion and amortization expense ("DD&A") increased 18% to \$5.9 million for the six months ended June 30, 1996 compared with \$5.0 million in 1995 because of increased production from new drilling and reserve acquisitions. DD&A per BOE was \$3.40 in 1996 compared to \$3.28 in 1995. There was no impairment of proved properties for the six months ended June 30, 1996 compared to \$1.7 million in 1995 due to high cost marginal wells and low natural gas prices.

Abandonment and impairment expenses for unproved properties was \$549,000 for the six months ended June 30, 1996 compared with \$557,000 in 1995.

Exploration. Exploration expense increased \$690,000 to \$1.8 million and \$2.1 million to \$4.3 million for the three and six months ended June 30, 1996, respectively, because of increased exploratory dry hole expense resulting from increased drilling activity and one large 3-D seismic shoot in 1996.

General and Administrative. General and administrative expenses increased \$615,000 or 63% to \$1.6 million in the second quarter 1996 compared to \$1.0 million in 1995 primarily because of increased compensation costs and \$306,000 of expense associated with the Company's stock appreciation rights.

General and administrative expense increased \$1.0 million or 39% to \$3.7 million for the six months ended June 30, 1996 compared to \$2.7 million in 1995 because of higher compensation costs, professional fees and \$638,000 of expense associated with the Company's stock appreciation rights.

Gas Contract Disputes and Other. Gas contract disputes and other consist of legal expenses in connection with gas contract disputes. This expense declined to \$16,000 in the second quarter 1996 compared to \$62,000 in 1995 and declined to \$93,000 for the six months ended June 30, 1996 compared to \$129,000 for the 1995 period because the legal disputes related to gas contracts with purchasers have been settled.

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Loss in Equity Investees. The Company accounts for its Russian joint venture and investment in Summo Minerals Corporation under the equity method and includes its share of the income or loss from these entities. The Company's share of net income from the Russian joint venture was \$28,000 for the second quarter 1996 and \$224,000 for the six months ended June 30, 1996 compared to a net loss of \$127,000 and \$186,000 for the comparable 1995 periods because production and product prices increased significantly in 1996 from the 1995 levels. The Company's share of the net loss for Summo Minerals Corporation was \$140,000 for the second quarter 1996 and \$225,000 for the six months ended June 30, 1996 compared to a net loss of \$20,000 and \$32,000 for the comparable 1995 periods because of higher general and administrative costs with the addition of personnel in anticipation of mine development and financing. Summo Minerals Corporation has obtained the final feasibility study and anticipates its permitting will be finalized before year-end. Summo has also obtained a senior debt financing commitment for \$30 million contingent on copper prices of at least \$.90 per pound and on equity financing of \$16 million. The equity financing has been delayed due to the drop in copper prices and market uncertainties.

Non-Operating Income and Expense. Net interest expense increased \$258,000 to \$410,000 in the second quarter 1996 compared to \$152,000 in 1995 because of the higher debt incurred for acquisitions and increased drilling activity.

Net interest expense increased \$371,000 to \$673,000 for the six months ended June 30, 1996 compared to \$302,000 of net interest expense in 1995 because of the higher debt incurred for acquisitions and increased drilling activity.

Income Taxes. The effective rate for the second quarter 1996 increased to 34% compared to 19% in 1995 because of the low impact of Section 29 tax credits on the \$3.5 million pre-tax income in 1996. The effective tax rate for the six months ended June 30, 1996 increased to 31% compared to 6% in the 1995 period because the Company was able to use capital loss carryovers and Section 29 tax credits against much lower net income in 1995.

Net Income. Net income increased \$2.1 million or 844% to \$2.4 million in the second quarter 1996 compared to \$282,000 in 1995 primarily as a result of substantially higher sales volumes and product prices causing a \$4.6 million increase in total revenues.

Net income for the six months ended June 30, 1996 increased \$1.3 million or 85% to \$2.8 million compared to \$1.5 million in 1995 because of higher production and prices resulting in a \$7.2 million increase in oil and gas production revenues, partially offset by a \$2.1 million increase in exploration expense and a \$1.0 million increase in general and administrative expenses. The 1995 net income also included a pre-tax gain of \$1.2 million on the sale of producing properties.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are the cash provided by operating activities, cash investments and debt financing. The Company's cash needs are for the acquisition, exploration and development of oil and gas properties, debt repayment, payment of trade obligations and payment of dividends to stockholders. The Company generally finances its exploration and development programs from internally generated cash flow and continually reviews its capital expenditure budget based on changes in cash flow and other factors.

Cash Flow. The Company's net cash provided by operating activities increased \$2.6 million to \$10.5 million for the six months ended June 30, 1996 compared to \$7.9 million for 1995 primarily due to increased revenue from oil and gas sales.

Net cash used in investing activities increased \$6.3 million or 41% to \$21.7 million for the six months ended June 30, 1996 compared to \$15.4 million in 1995. Increased capital expenditures from the Company's expanded drilling programs and oil and gas property acquisitions accounted for the increase.

Net cash provided by financing activities was \$15.3 million for the six months ended June 30, 1996 consisting of net debt proceeds for acquisitions and drilling activities, partially offset by dividends compared to cash used of \$334,000 in 1995 for debt repayment and dividends.

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The Company had \$5.8 million in cash and cash equivalents and working capital of \$6.7 million as of June 30, 1996 compared to \$1.7 million of cash and cash equivalents and working capital of \$3.1 million at December 31, 1995.

Credit Facility. On April 1, 1996, the Company amended and extended its credit facility with two banks to provide a \$60 million secured three-year revolving loan which thereafter converts at the Company's option to a five-year term loan. The amount which may be borrowed from time to time will depend upon the value of the Company's oil and gas properties and other assets. The Company's borrowing base is currently \$40 million and will be redetermined annually. When the debt to capitalization ratio is less than 30% the loans accrue interest at the Company's option of either the banks' prime rate or LIBOR plus 1/2% and 3/4% for the revolving and term loans, respectively. The interest rate increases as the Company's debt to capitalization ratio increases. The loan under the credit facility is collateralized by substantially all of the Company's domestic oil and gas properties. The credit facility provides for, among other things, covenants limiting additional recourse indebtedness of the Company and payment of dividends if the loan is in default or borrowings exceed the applicable borrowing base.

Panterra, in which the Company has a 74% ownership, also has a credit facility with an \$18.5 million borrowing base and \$11.1 million outstanding as of June 30, 1996. The partnership intends to use the available credit to fund a portion of the 1996 capital expenditures.

Outlook. The Company believes that its existing capital resources, cash flow from operations and available borrowings are sufficient to meet its anticipated capital and operating requirements for 1996.

For 1996, the Company anticipates spending approximately \$45 million for capital and exploration expenditures with \$19 million allocated for domestic acquisitions, \$21 million for low to moderate risk domestic exploration and development and \$5 million for large target, higher risk domestic exploration and development.

The Company and the Anderman Group, through subsidiaries, are involved in a

joint venture with Chernogor-neft Oil and Gas Enterprise, a local Russian oil producing enterprise, to develop the Chernogorskoye Field in western Siberia. The joint venture has obtained bank credit commitments from the European Bank for Reconstruction and Development and the Overseas Private Investment Corporation which are non-recourse to the Company. The joint venture has received \$42.5 million from loan advances through June 30, 1996 and the committed balance of \$10 million may be funded later in 1996 if the minimum production test is met. Through June 30, 1996, the Company had expended approximately \$7.7 million on the Russian project of which \$4.6 million has been capitalized as an investment in the venture. With the completion of bank funding commitments, the Company anticipates that most of its future share of expenditures for the project will be funded from cash flow generated by the project and non-recourse bank financing. Because substantially all of the revenues from the Russian joint venture will be applied initially to development of the Chernogorskoye Field and repayment of associated bank debt, the Company does not anticipate receiving significant cash flow from the Russian joint venture for approximately five years. At December 31, 1995, the undiscounted future net revenues attributable to the Company's share of the Russian joint venture's proved reserves was \$36.6 million (after debt repayment). The Russian joint venture is now a fully operational project with financing commitments and a reasonable tax structure. Because the Company's plans are to concentrate its expenditures on domestic projects, combined with the always present uncertainty of regulatory and other aspects of the Russian project, the Company is currently considering the sale of its interest in the Russian joint venture if such a sale can be made at a price substantially in excess of the Company's expenditures to date for the project.

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During 1995, the Company and other unrelated parties were named as defendants in a class action suit filed in Oklahoma seeking payment of royalties on amounts received in prior gas contract settlements. While the Company's leases state that royalties are paid only on oil and gas produced and sold, the end result of any litigation seeking royalty payments on amounts received in oil and gas settlements cannot be known in advance, and it is possible that a judgment adverse to the Company could result even though gas was not produced and sold. Management believes its position is legally correct and plans a vigorous defense of this suit. In the event of adverse judgment, however, management believes the maximum exposure of the Company in this litigation, exclusive of interest, if any, would be approximately \$4.5 million. The Company has no material exposure to claims for such payments outside of Oklahoma.

The Company is also aware that, in two appellate proceedings in which the Company is not involved, the Oklahoma Supreme Court has been asked to address issues regarding the entitlement of lessors to royalty payments on amounts received by oil and gas working interest owners as a result of gas contract claims. While the Company believes that royalties are not owed until oil and gas is produced and sold, the decision of the Oklahoma Supreme Court cannot be known in advance and it is possible that the ruling will establish a right of royalty owners to payment. Such a ruling could adversely affect the Company's position in the royalty litigation described above.

The amount and allocation of future capital and exploration expenditures will depend upon a number of factors including the number of available acquisition opportunities, the Company's ability to assimilate such acquisitions, the impact of oil and gas prices on investment opportunities, the availability of capital and the success of its exploratory activity which could lead to funding requirements for further development.

#### EFFECTS OF INFLATION AND CHANGING PRICES

The Company's results of operations and cash flow are affected by changing oil and gas prices. Within the United States, inflation has had a minimal effect on the Company. The Company's foreign operations may be adversely affected by inflation in Russia and other countries. The Company cannot predict the extent of any such effect. If oil and gas prices increase, there could be a corresponding increase in the cost to the Company for drilling and related services as well as an increase in revenues.

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#### PART II. OTHER INFORMATION

Item 4. Submission of matters to a Vote of Security Holders

There were no matters submitted to a vote of shareholders.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits  
Exhibit Description  
27 Financial Data Schedule

(b) A report regarding acquisition or disposition of assets

SIGNATURES

Pursuant to the requirements of the Securities and 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

October 8, 1996

By /s/ MARK A. HELLERSTEIN  
-----  
Mark A. Hellerstein  
President and Chief Executive Officer

October 8, 1996

By /s/ RICHARD C. NORRIS  
-----  
Richard C. Norris  
Vice President - Accounting and  
Administration and Chief Accounting  
Officer

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