

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

FORM 10-K/A-3

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998.

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

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
of incorporation or organization) Identification No.)

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)

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.01 par value
(Title of Class)

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

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

The aggregate market value of 10,599,514 shares of voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on March 15, 1999 of \$18.75 per share as reported on the Nasdaq National Market System, was \$198,740,888. Shares of Common Stock held by each director and executive officer and by each person who owns 10% or more of the outstanding Common Stock or who is otherwise believed by the Company to be in a control position have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 15, 1999, the Registrant had 10,827,067 shares of Common Stock outstanding.

DOCUMENT INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12 and 13) is incorporated by reference from Registrant's definitive Proxy Statement relating to its 1999 Annual Meeting of Stockholders.

THIS AMENDMENT ON FORM 10-K/A-3 TO THE REGISTRANT'S FORM 10-K/A-2 FOR THE YEAR ENDED DECEMBER 31, 1998 IS BEING FILED TO REFLECT CERTAIN ADDITIONAL DISCLOSURES IN RESPONSE TO COMMENTS RECEIVED FROM THE SEC STAFF IN CONNECTION WITH ST. MARY LAND & EXPLORATION COMPANY'S REGISTRATION STATEMENT ON FORM S-4 AMENDMENT NO. 2 FILED ON NOVEMBER 12, 1999.

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PART I

ITEM 1. BUSINESS

Background

St. Mary Land & Exploration Company ("St. Mary" or the "Company") is an independent energy company engaged in the exploration, development, acquisition and production of natural gas and crude oil. St. Mary's operations are focused in five core operating areas in the United States: the Mid-Continent region; the ArkLaTex region; south Louisiana; the Williston Basin; and the Permian Basin. As of December 31, 1998, the Company had estimated net proved reserves of approximately 8.6 MMBbls of oil and 132.6 Bcf of natural gas, or an aggregate of 184.3 BCFE (86% proved developed, 72% gas) with a PV-10 value before tax of \$125.1 million.

From January 1, 1994, through December 31, 1998, the Company added estimated net proved reserves of 270.0 BCFE at an average finding cost of \$5.84 per BOE. The Company's average annual production replacement was 220% during this five-year period.

In 1998 production increased 10% to a total of 33.1 BCFE, or average daily production of 90.6 MMcf per day. The Company's 1999 capital budget of approximately \$71.0 million includes \$37.0 million for ongoing development and exploration programs in the core operating areas, \$25.0 million for niche acquisitions of oil and gas properties and \$9.0 million for higher-risk, large-target exploration prospects.

The principal offices of the Company are located at 1776 Lincoln Street, Suite 1100, Denver, Colorado 80203, and its telephone number is (303) 861-8140.

Business Strategy

St. Mary's objective is to build stockholder value through consistent economic growth in reserves and production and the resulting increase in net asset value per share, cash flow per share and earnings per share. A focused and balanced program of low to medium-risk exploration and development and niche acquisitions in each of its core operating areas is designed to provide the foundation for steady growth while the Company's portfolio of higher-risk, large-target exploration prospects has the potential to significantly increase the Company's reserves and production. All investment decisions are measured and ranked by their risk-adjusted impact on per share value. The Company does not pursue growth for the sake of growth.

St. Mary's long-term corporate strategy focuses on growing value per share, and not necessarily the absolute size of the Company. Management believes that independents with equity market capitalizations between \$250 and \$600 million are best positioned to capitalize on opportunities in the domestic E&P sector and therefore to realize superior returns for their stockholders. Companies in this size range have critical mass and are able to sustain quality exploration, development and niche acquisition programs that have a significant impact on stockholder value.

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The Company will pursue opportunities to monetize selected assets at a premium and to repurchase shares at attractive values in order to enhance the growth in St. Mary's per share value while maintaining the market capitalization of the Company within an optimal size range. St. Mary also will continue to focus its resources within selected basins in the U.S. where the Company's expertise in geology, geophysics and drilling and completion techniques provides competitive advantages.

Principal elements of the Company's strategy are as follows:

Focused Geographic Operations. The Company focuses its exploration, development and acquisition activities in five core operating areas where it has built a balanced portfolio of proved reserves, development drilling opportunities and higher-risk large-target exploration prospects. The Company believes that its extensive leasehold position is a strategic asset. Since 1992 St. Mary has expanded its technical and operating staff and increased its drilling, production and operating capabilities. Senior technical managers, each possessing over 20 years of experience, head up regional technical offices located near core properties and are supported by centralized administration in the Company's Denver office. St. Mary has knowledgeable and experienced professionals at every level of the organization. St. Mary believes that its long-standing presence, its established networks of local industry relationships and its extensive acreage holdings in its core operating areas provide a significant competitive advantage. Additionally, the Company believes that it can continue to expand its operations without the need to proportionately increase the number of employees.

Exploitation and Development of Existing Properties. The Company uses its comprehensive base of geological, geophysical, engineering and production experience in each of its core operating areas to source prospects for its ongoing, low to medium-risk development and exploration programs. St. Mary conducts detailed geologic studies and uses an array of technologies and tools including 3-D seismic imaging, hydraulic fracturing and reservoir stimulation techniques, and specialized logging tools to maximize the potential of its

existing properties. During 1998, the Company participated in 137 gross wells with an 87% success rate and 52 recompletions with an 85% success rate.

Large-Target Prospects. The Company generally invests approximately 15% of its annual capital budget in higher-risk, large-target exploration projects. The Company's strategy is to test four or more of these large exploration prospects each year which in total have the potential, if successful, to increase the Company's net reserves by 25% or more. St. Mary seeks to invest in a diversified mix of large-target exploration projects and generally limits its capital exposure by participating with other experienced industry partners. St. Mary plans to test several large-target prospects in south Louisiana and Texas during 1999, including prospects at its Stallion, South Horseshoe Bayou, Edgerly, Patterson, North Parcerdue and Carrier projects.

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Selective Acquisitions. The Company seeks to make selective niche acquisitions of oil and gas properties that complement its existing operations, offer economies of scale and provide further development and exploration opportunities based on proprietary geologic concepts. Management believes that the focus on smaller, negotiated transactions where the Company has specialized geologic knowledge or operating experience has enabled it to acquire attractively priced and under-exploited properties.

St. Mary's strong balance sheet positions the Company in 1999 to exploit acquisition opportunities arising from dislocations occurring throughout the upstream oil and gas sector. Many over-leveraged companies are expected to divest assets during the year in order to reduce their debt levels in the adverse climate of low prices and severely limited access to new capital. St. Mary will continue to emphasize smaller niche acquisitions utilizing the Company's technical expertise, financial flexibility and structuring experience. Many attractive acquisition candidates are sourced in cooperation with St. Mary's regional offices where the local personnel have a detailed insight into emerging opportunities. Additionally, the Company is also actively seeking larger acquisitions of assets or companies that would afford opportunities to expand the Company's existing core areas, acquire additional geoscientists or gain a significant acreage and production foothold in a new basin within the United States.

Strategic Relationships. The Company cultivates strategic partnerships with independent oil and gas operators having focused regional experience and specialized technical skills. The Company's strategy is to serve as operator or, alternatively, to maintain a majority interest in such ventures to ensure that it can exercise significant influence over development and exploration activities. In addition the Company seeks industry partners who are willing to co-invest on substantially the same basis as the Company. For example, the Company's operations in the Williston Basin are conducted through Panterra Petroleum ("Panterra") in which St. Mary holds a 74% general partnership interest. The managing partner of Panterra is Nance Petroleum Corporation ("Nance Petroleum"), the principal of which has over 25 years of experience in the Williston Basin.

Financial Flexibility. A conservative use of financial leverage has long been a cornerstone of St. Mary's strategy. St. Mary believes that the preservation of a strong balance sheet is a competitive advantage because it enables the Company to act quickly and decisively to capture opportunities and provides the financial resources to weather periods of volatile commodity prices or escalating costs.

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Significant Developments Since December 31, 1997

Oil and Gas Property Sales. In order to continue to focus and rationalize its operations, the Company sold certain non-strategic interests in Oklahoma for net proceeds of approximately \$22 million and various minor interests in Canada for net proceeds of \$1.2 million. Both of these sales occurred in December 1998. The Company realized a pre-tax gain on the sale of these properties of approximately \$7.7 million. To accelerate the receipt of proceeds from the Canadian property sale, the Company obtained a letter of credit ("LOC") guaranteeing the payment of Canadian federal income tax liabilities for the Company and its joint venture partners in the Canadian properties. The Company expects the LOC to expire unused in 1999.

Stock Repurchase Plan. In August 1998 the Company's Board of Directors authorized a stock repurchase program whereby St. Mary may purchase from time-to-time, in open market purchases or negotiated sales, up to 1,000,000 of its own common shares. The Company repurchased a total of 147,800 of its common shares during 1998 and an additional 35,000 shares to date in 1999.

Acquisitions of Oil and Gas Properties. In 1998 the Company completed 6 acquisitions of oil and gas properties for \$4.2 million comprised of supplemental acquisitions of \$3.4 million in the Permian and Williston basins and acquisitions of producing properties in Louisiana and the Anadarko Basin of \$800,000.

Reserve Revisions and Writedowns. The Company's year-end 1998 reserves reflect property dispositions of 39.6 BCFE which includes 2.8 BCFE of current year production, discoveries and extensions of 40.8 BCFE, acquisitions of 5.3 BCFE, negative price-related revisions of 18.2 BCFE and a write-down of 38.8 BCFE of proved reserves at South Horseshoe Bayou.

Writedown of Russian Joint Venture Receivable. The Company reduced the carrying amount of the receivable from Khanty Mansiysk Oil Corporation to its minimum conversion value, incurring a charge to operations of \$4.6 million for the year ended December 31, 1998 (see Item 2, International Operations).

Writedown of Investment in Summo Minerals Corporation. The Company wrote down its net investment in Summo Minerals Corporation to its net realizable value in the fourth quarter of 1998 (see Item 2, Non-Oil and Gas Activities).

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ITEM 2. PROPERTIES

Domestic Operations

The Company's exploration, development and acquisition activities are focused in five core operating areas: the Mid-Continent region; south Louisiana; the ArkLaTex region; the Williston Basin in North Dakota and Montana; and the Permian Basin in west Texas and New Mexico. Information concerning each of the Company's major areas of operations, based on the Company's estimated net proved reserves as of December 31, 1998, is set forth below.

<TABLE>
<CAPTION>

	Oil	Gas	MMCFE		PV-10 Value	
	(MMbbls)	(MMcf)	Amount	Percent	(In thousands)	Percent
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Mid-Continent Region.....	577	75,186	78,648	42.7%	\$ 62,659	50.1%
ArkLaTex Region.....	578	40,061	43,529	23.6%	27,676	22.1%
South Louisiana.....	745	7,662	12,132	6.6%	12,628	10.1%
Williston Basin.....	3,821	3,094	26,020	14.1%	10,739	8.6%
Permian Basin.....	2,791	5,112	21,858	11.9%	10,162	8.1%
Other (1).....	102	1,490	2,102	1.1%	1,262	1.0%
Total	8,614	132,605	184,289	100.0%	\$ 125,126	100.0%

</TABLE>

(1) Includes reserves associated with properties in Colorado, Kansas, Mississippi, New Mexico, Texas, Utah and Wyoming.

Mid-Continent Region. The Company has been active in the Mid-Continent region since 1973 where the Company's operations are managed by its 25-person, Tulsa, Oklahoma office. The Company has ongoing exploration and development programs in the Anadarko Basin of Oklahoma and the Sherman-Marietta Basin of southern Oklahoma and northern Texas. The Mid-Continent region accounted for 43% of the Company's estimated net proved reserves as of December 31, 1998 or 78.6 BCFE (77% proved developed and 96% gas). The Company participated in 67 gross wells and recompletions in this region in 1998, including 21 Company-operated wells.

The Company's development and exploration budget in the Mid-Continent region for 1999 totals \$22 million. The Company plans to operate 29 drilling wells in the Mid-Continent region during 1999 and to utilize two to three drilling rigs throughout the year. St. Mary also expects to participate in an additional 10 to 20 wells to be operated by other entities.

Anadarko Basin. The Company's long history of operations and proprietary geologic knowledge enable the Company to sustain economic development and exploration programs despite periods of adverse industry conditions. The Company is applying state of the art technology in hydraulic fracturing and innovative well completion techniques to accelerate production and associated cash flow from the region's tight gas reservoirs. St. Mary also continues to benefit from a continuing consolidation and rationalization of operators in the basin. The Company periodically seizes attractive opportunities to acquire properties from companies that have elected to discontinue operations in the basin. This trend is expected to accelerate during 1999 and to offer St. Mary new opportunities as a result of the acute cost and capital pressures in the exploration and production sector.

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The Company works aggressively to control its operating costs and to enhance its full cycle economics. In December 1998 the Company realized net

proceeds of \$22 million on the sale of its interests in eight fields in the Anadarko Basin. This sale was part of the Company's ongoing strategy to enhance the return on its portfolio of assets through the opportunistic sale of non-strategic properties during periods in the market when such properties command premium valuations.

Drilling activities will focus on lower to medium-risk prospects in the Granite Wash and Red Fork formations. In addition, the Company will devote approximately 23% of its Mid-Continent capital budget to deeper, higher potential development wells in the lower Morrow formation below 19,000 feet at the NE Mayfield Field and in the Hunton and Arbuckle formations at depths between 16,000 and 18,000 at the SW Mayfield Field.

Carrier Prospect. Within its inventory of large-target prospects, the Company holds an aggregate 11.2% working interest in 25,800 acres in Leon County, Texas in the Cotton Valley reef play. The Company's Carrier Prospect acreage is located approximately nine miles east of the trend of the industry's initial prolific reef discoveries, and targets potentially larger reefs that are postulated to have developed in the deeper waters of the basin during the Jurassic period. The Company and its partners completed a 52 square mile 3-D seismic survey in 1997. St. Mary holds a 22% working interest in the first prospect that will test a large 3-D anomaly that has been interpreted to be a platform reef situated in the deeper portion of the East Texas Basin to the east of the industry's existing pinnacle reef discoveries. St. Mary and its partners plan to spud the initial test well during the second half of 1999.

South Louisiana Region. St. Mary's presence in south Louisiana dates to the turn of the century when the Company's founders acquired a franchise property in St. Mary Parish on the shoreline of the Gulf of Mexico. These 24,900 acres of fee lands constitute one of the Company's most valuable assets and yielded more than \$6.9 million of gross oil and gas royalty revenue in 1998. The south Louisiana region accounted for 6.6% of the Company's estimated net proved reserves as of December 31, 1998, or 12.1 BCFE (86% proved developed and 63% gas).

The Company's diverse activities in south Louisiana are managed by its regional 3-person office in Lafayette, Louisiana, and include ongoing development and exploration programs in St. Mary, Cameron, Lafourche, Jefferson Davis, Vermilion and Calcasieu parishes. Advanced 3-D seismic imaging and interpretation techniques are revitalizing exploration and development activities in the Miocene trend of south Louisiana. St. Mary is applying the latest technologies to unravel the region's complex geology and to extend exploratory drilling into deeper untested formations.

St. Mary's historical presence in southern Louisiana, its established network of industry relationships and its extensive technical database on the area have enabled the Company to assemble an inventory of large-target prospects in the south Louisiana region.

The 1998 disappointments at South Horseshoe Bayou and at Atchafalaya Bay discussed below underscore the risks inherent in the exploration for deep gas reserves in south Louisiana. St. Mary evaluates the results of its exploration efforts based on full cycle economic returns over a multi-year period and believes that exploration decisions should not be based solely on any single year's results.

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Fee Lands. The Company owns 24,900 acres of fee lands and associated mineral rights in St. Mary Parish located approximately 85 miles southwest of New Orleans. St. Mary also owns a 25% working interest in approximately 300 acres located offshore and immediately south of the Company's fee lands. Since the initial discovery on the Company's fee lands in 1938, cumulative oil and gas revenues, primarily landowners' royalties, to the Company from the Bayou Sale, Horseshoe Bayou and Belle Isle fields on its fee lands have exceeded \$223 million. St. Mary currently leases 14,419 acres of its fee lands and has an additional 10,481 acres that are presently unleased. The Company's principal lessees are Texaco, Vastar, Cabot, Mobil and Sam Gary Jr. and Associates, a private exploration company headquartered in Denver.

St. Mary has encouraged development drilling by its lessees, facilitated the origination of new prospects on acreage not held by production and stimulated exploration interest in deeper, untested horizons. The Company's major discovery on its fee lands at South Horseshoe Bayou in early 1997 and a subsequent successful confirmation well in early 1998 proved that significant accumulations of gas are sourced and trapped at depths below 16,000 feet.

South Horseshoe Bayou Project. In October 1995 the Company began participation as a working interest owner in its fee lands in St. Mary Parish with a 25% working interest in this project; resulting in a net revenue interest ranging from 36% to 40% due to its previously existing royalty position. The St. Mary Land & Exploration No. 1 well, under a turn-key contract, commenced drilling toward a target depth of 19,000 feet. In February 1996 this well began encountering severe pressure and mechanical problems that could not be corrected and in July 1996 the well was plugged without reaching total depth. The drilling

rig was skid and the drilling of a new well commenced on the same site. In February 1997 the Company announced a significant deep gas discovery at the St. Mary Land & Exploration No. 2 well. This well was completed in the 17,300 foot sand, and in January 1998 a confirmation well, the St. Mary Land & Exploration No. 3, was completed in the same interval. In April 1998 the No. 2 well was recompleted in the 17,900 foot sand and is currently producing. In August 1998 the No. 3 well was shut-in as the result of mechanical problems while it was producing approximately 33 MMcf per day. Management is currently evaluating whether to sidetrack or abandon the No. 3 well.

At year-end the Company adjusted proved reserves downward by 38.8 BCFE due to premature water encroachment and mechanical problems. Despite these disappointments, South Horseshoe Bayou has generated solid economic returns for the Company and still has significant remaining potential. The two wells have produced 6.0 Bcf of gas and 45 MBbls of oil, net to the Company's interest, through December 31, 1998.

An untested fault block to the north of the existing production will be drilled in 1999 as part of the Company's continuing management and exploitation of its fee lands. Permitting of the St. Mary Land & Exploration 24-1 well (25% working interest and approximately 36% net revenue interest) is scheduled to be completed by April, and drilling operations are expected to commence in May 1999. (see "Large-Target Exploration Projects").

Atchafalaya Bay Prospect. In March 1997 the Company and its partner acquired seven tracts (2,845 gross acres) in a Louisiana state lease sale in Atchafalaya Bay. A 19,000-foot test of a large 3-D prospect during 1998 was unsuccessful and the well was completed in a small secondary zone at 12,300 feet. The costs associated with the drilling of this deep exploratory well were expensed in 1998.

Stallion Prospect. The Company's Stallion prospect (31.25% working interest) was spud in January 1999 and is currently drilling below 15,300 feet toward a targeted total depth of approximately 17,800 feet. This 3-D prospect in Cameron Parish, Louisiana is scheduled to test a series of MA sands along a major east-west growth fault that produces from the same interval to the east at the Little Pecan Lake, Lac Blanc and North Freshwater Bayou fields. (see "Large-Target Exploration Projects").

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Edgerly Prospect. St. Mary and its partners have completed a 30 square mile 3-D survey on the western and northern flanks of the Edgerly salt dome in Calcasieu Parish, Louisiana where a 16,000 acre leasehold position was assembled during 1998. The Company has identified a number of promising anomalies on the 3-D survey and in 1999 expects to test several Hackberry prospects at shallow depths between 10,000 and 13,000 feet. The Company has an approximate 35% working interest in the Edgerly prospect. (see "Large-Target Exploration Projects").

Patterson Prospect. The Company's Patterson prospect is located approximately 20 miles north of the Company's fee lands in St. Mary Parish within the lower Miocene producing trend of south Louisiana. St. Mary holds a 25% working interest in leases and options totaling approximately 5,573 acres in the prospect area which lies within a major east-west producing trend between the Garden City and Patterson fields. An unsuccessful 19,000-foot test was drilled in 1995 based on 2-D seismic data and existing well control. In order to further evaluate this prospect, in 1997 St. Mary and its partners purchased 20 square miles of a regional 3-D seismic survey. The project was delayed during 1998 due to the financial constraints of certain partners. However, the partner group is exploring alternatives with other parties and hopes to proceed with the drilling of the 19,500-foot MA sand test by mid 1999. (see "Large-Target Exploration Projects").

North Parcperdue Prospect. The Company has a 25% working interest in the North Parcperdue prospect located in Vermilion Parish. The prospect is targeting Marg Tex sands in a fault block with other productive shallow sands. A re-entry and sidetrack of the Phillips Sweezy No. 1 well is scheduled to begin in May 1999. (see "Large-Target Exploration Projects").

ArkLaTex Region. The Company's operations in the ArkLaTex area are managed by its 12-person office in Shreveport, Louisiana. The ArkLaTex region accounted for 24% of the Company's estimated net proved reserves as of December 31, 1998, or 43.5 BCFE (92% proved developed and 92% gas). The Company's 1999 capital budget for the ArkLaTex region is \$6.5 million.

In 1992 the Company acquired the ArkLaTex oil and gas properties of T. L. James & Company, Inc. as well as rights to over 6,000 miles of proprietary 2-D seismic data in the region. The Shreveport office's successful development and exploration programs have derived from a series of niche acquisitions completed since 1992 totaling \$10.8 million. These acquisitions have provided access to strategic holdings of undeveloped acreage and proprietary packages of geologic and seismic data, resulting in an active program of additional development and exploration.

St. Mary's holdings in the ArkLaTex region are comprised of interests in approximately 445 producing wells, including 68 Company-operated wells, and interests in leases totaling approximately 54,900 gross acres and mineral servitudes totaling approximately 15,800 gross acres.

Activities in the ArkLaTex region during 1998 focused on the phased development of several important field discoveries made by the Company's geoscientists since 1994. At the Box Church Field in Limestone County, Texas, the Company completed an additional eight wells in 1998, bringing the field total to 26 wells. Four additional locations are planned for 1999. Gross production from the field has increased from 2.5 MMcf per day, when acquired in 1995, to the current rate of 18 MMcf per day. In 1999 the Company plans to install additional gathering systems, compression and artificial lift upgrades that are designed to sustain field production at approximately 20 MMcf per day. The Company operates the field and holds an average 58% working interest. Total cumulative gross field reserves are expected to exceed 100 Bcf of gas.

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Development around the Company's 1995 discovery at the Haynesville Field also continued in 1998 with St. Mary participating in the drilling of 14 new wells. St. Mary and others have drilled a total of 38 wells since the 1995 discovery. The Company operates 12 wells in the field and owns interests in an additional 13 wells.

In 1999 the Company is focused on the search for new opportunities and potential analog fields in which to apply its proprietary geologic models and production techniques. St. Mary believes that it is especially well positioned to secure additional acquisitions in the ArkLaTex region during 1999 in the wake of the dislocations and capital shortages being experienced by many of its competitors.

Williston Basin Region. The Company's operations in the Williston Basin are conducted through Panterra Petroleum, a general partnership formed in June 1991. The Company holds a 74% interest in Panterra, and the managing partner, Nance Petroleum, owns a 26% interest. Nance Petroleum's principal activity is the management of Panterra's interests in the Williston Basin. Panterra currently owns interests in 62 fields within the basin's core producing area including 134,000 gross acres, 78 Panterra-operated wells and 161 wells operated by other parties.

The Williston Basin region accounted for 14% of the Company's estimated net proved reserves as of December 31, 1998, or 26.0 BCFE (97% proved developed and 88% oil). St. Mary has budgeted approximately \$2.0 million as its share of Panterra's 1999 development and exploration program.

Panterra's operations are directed by senior geoscientists who have devoted their careers to the development of oil and gas reserves in the Williston Basin. The Company's long-term strategy is to employ advanced technologies to improve drilling results and production in order to maximize full cycle economics. For instance, Panterra has successfully used 3-D seismic imaging to delineate structural and subtle stratigraphic features not previously discernable using conventional exploration methods. This utilization of advanced technologies by experienced geoscientists has helped Panterra achieve a 100% success rate in its operated exploration and development program since 1991.

During periods of depressed oil prices or inflated costs the partnership has the financial resources to capitalize on dislocations experienced by other operators. Panterra uses these periods to replenish its prospect inventory, to secure attractively priced acquisitions and to conduct additional 3-D seismic work and technical studies in anticipation of cyclical recovery in the industry.

Panterra plans to conduct six additional or extended 3-D surveys in 1999 over existing fields in the search for bypassed pay zones. In addition a detailed reservoir simulation of the Bainville Field is scheduled for completion and will be used to evaluate secondary recovery opportunities in this existing field.

Permian Basin Region. The Permian Basin of New Mexico and west Texas is the Company's newest area of concentration. The Permian Basin area covers a significant portion of eastern New Mexico and western Texas and is one of the major producing basins in the United States. The basin includes hundreds of oil fields undergoing secondary and enhanced recovery projects. 3-D seismic imaging of existing fields and state-of-the-art secondary recovery programs are substantially increasing oil recoveries in the Permian Basin. The optimization of production and the careful control of operating costs are especially critical in the prevailing low oil price environment.

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St. Mary's holdings in the Permian Basin derive from a series of niche property acquisitions that date back to 1995. Management believes that its Permian Basin operations provide St. Mary with a solid base of long lived oil reserves, promising longer-term exploration and development prospects and the

potential for secondary recovery projects. The Permian Basin region accounted for 12% of the Company's estimated net proved reserves as of December 31, 1998, or 21.9 BCFE (91% proved developed and 77% oil).

The Company's reservoir engineers have identified a number of properties where the project economics of secondary recovery plans are still acceptable under current prices. St. Mary's geoscientists have also warehoused a number of high quality prospects for which future drilling is contingent upon a stabilization of oil prices above \$15 per barrel.

St. Mary initiated a full-scale multi-year waterflood in 1998 at its Parkway (Delaware) Unit in Eddy County, New Mexico. The initial response to the first phase of this waterflood has been excellent. The Company's operations in the Permian Basin during 1999 will focus on the expansion of the waterflood project at Parkway and additional secondary recovery work at the Shugart and Zuni fields.

St. Mary also holds a 21.2% working interest in an unusual 30,450-acre top lease in the North Ward Estes Field in Ward County, Texas. The original lease will expire on August 4, 2000. Before that date, working interest production from approximately 400 wells on the lease and the development and exploration rights on the lease are owned by Chevron U.S.A., Inc and Three-B Oil Company. After that date, working interest production from the wells located on the lease and future development and exploration rights on this 50 square mile property will revert to the ownership and control of St. Mary and its partners. The top lease will continue in effect for as long as oil and/or gas is produced in paying quantities.

Large-Target Exploration Projects. The Company generally invests approximately 15% of its annual capital budget in longer-term, higher-risk, high-potential exploration projects. During the past several years the Company has assembled an inventory of large potential projects in various stages of development which have the potential to materially increase the Company's reserves. The Company's strategy is to maintain a pipeline of seven to ten of these high-potential prospects and to test four or more targets each year, while furthering the development of early-stage projects and continuing the evaluation of potential new exploration prospects.

The Company seeks to develop large-target prospects by using its comprehensive base of geological, geophysical, engineering and production experience in each of its focus areas. The large-target projects typically require relatively long lead times before a well is commenced in order to develop proprietary geologic concepts, assemble leasehold positions and acquire and fully evaluate 3-D seismic or other data. The Company seeks to apply the latest technology wherever appropriate, including 3-D seismic imaging, in its prospect development and evaluation to mitigate a portion of the inherently higher risk of these exploration projects. In addition, the Company seeks to invest in a diversified mix of exploration projects and generally limits its capital exposure by participating with other experienced industry partners.

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The following table summarizes the Company's active large-target exploration projects. (see also "Properties").

<TABLE>

<CAPTION>

Project Name	Objective	Location	St. Mary Working Interest (1)	St. Mary Royalty Interest (2)	Expected Test Date (3)
Stallion	MA Sands	Cameron Parish, LA	31.2%	-	early 1999
South Horseshoe	Rob, Operc	St. Mary Parish, LA	25.0%	25.0%	mid 1999
Edgerly	Hackberry	Calcasieu Parish, LA	35.0%	-	mid 1999
North Parcperdue	Marg Tex	Vermilion Parish, LA	25.0%	-	mid 1999
Patterson	MA-3 , MA-7	St. Mary Parish, LA	25.0%	-	late 1999
Carrier	Cotton Valley Reef	Leon County, TX	22.0%	-	late 1999

</TABLE>

- -----

- (1) Working interests differ from net revenue interests due to royalty interest burdens.
- (2) Royalty interests are approximate and are subject to adjustment. St. Mary has no capital at risk with respect to its royalty interests.
- (3) Expected Test Date refers to the period during which the Company anticipates the completion of an exploratory well.

International Operations

In 1997 the Company completed the sale or disposition of the majority of its international investments. In 1998 the Company sold its remaining properties in Canada.

Russian Joint Venture. In February 1997, the Company sold its interest in

The Limited Liability Company Chernogorskoye (the "Russian joint venture") to Khanty Mansiysk Oil Corporation ("KMOC"), formerly known as Ural Petroleum Corporation, for consideration totaling \$17.6 million. The Company received \$5.6 million in cash, before transaction costs, \$1.9 million of KMOC common stock and a convertible receivable in a form equivalent to a retained production payment of approximately \$10.1 million plus interest at 10% per annum from the limited liability company formed to hold the Russian joint venture. The Company's receivable is collateralized by the partnership interest sold and the Company has the right, subject to certain conditions, to require KMOC to purchase the receivable from the net proceeds of an initial public offering of KMOC common stock. Alternatively, the Company may elect to convert all or a portion of its receivable into KMOC common stock immediately prior to an initial public offering of KMOC common stock or on or after February 11, 2000, whichever occurs first. Uncertain economic conditions in Russia and lower oil prices have affected the realizability of the convertible receivable. As a result, the Company has reduced the carrying amount of the receivable to its minimum conversion value, incurring a charge to operations of \$4.6 million for the year ended December 31, 1998.

Trinidad and Tobago. In 1997 the Company relinquished its 7.47% reversionary interest in a 281,506-acre onshore exploration and production license in the Caroni Basin of Trinidad and Tobago and recorded a \$3,000 charge to exploration expense.

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Key Relationships

The Company cultivates strategic partnerships with independent oil and gas operators having region-specific experience and specialized technical skills. The Company's strategy is to either serve as operator or maintain a majority interest in such ventures to ensure that it can exercise significant influence over development and exploration activities. In addition the Company seeks industry partners who are willing to co-invest on substantially the same basis as the Company. For example, the Company's operations in the Williston Basin are conducted through Panterra in which St. Mary holds a 74% general partnership interest. The managing partner of Panterra is Nance Petroleum, the principal of which has over 25 years of experience in the Williston Basin.

Acquisitions

The Company's strategy is to make selective niche acquisitions of oil and gas properties within its core operating areas in the United States. The Company seeks to acquire properties that complement its existing operations, offer economies of scale and provide further development and exploration opportunities based on proprietary geologic concepts or advanced well completion techniques. Management believes that the Company's success in acquiring attractively priced and under-exploited properties has resulted from its focus on smaller, negotiated transactions where the Company has specialized geologic knowledge or operating experience.

Although the Company periodically evaluates large acquisition packages offered in competitive bid or auction formats, the Company has continued to emphasize acquisitions having values of less than \$10 million. This size of acquisition package generally attracts less competition and is where the Company's technical expertise, financial flexibility and structuring experience affords a competitive advantage.

Faced with an overheated acquisition market where demand exceeded the supply of economically sound opportunities, St. Mary chose to conserve its capital resources in 1998 and completed only \$4.2 million of property acquisitions. During the last five years the Company has closed over \$85 million of niche acquisitions where proprietary geologic knowledge or operating expertise have afforded the Company a competitive advantage.

The economic success of the Company's historical acquisitions has resulted from a focus on smaller, negotiated transactions where St. Mary has clearly identified opportunities that maximize their value. St. Mary's teams of geoscientists and engineers evaluate each acquisition to quantify potential opportunities arising from proprietary geologic concepts or advanced production technologies. In addition, the acquired production is hedged for periods up to two years to protect the Company's return on its investment.

In 1999 St. Mary has reserved \$25 million of its capital program for property acquisitions. However, the Company has the financial capacity to commit substantially greater resources to purchases should additional opportunities be identified.

Weak commodity prices and depressed oil and gas stock prices have precipitated an important change in the acquisition market in early 1999. St. Mary expects that quality acquisitions will always command premium prices given the inherent costs and risks associated with developing new reserves. However, the market in 1999 is expected to offer favorable opportunities for the relatively few financially strong companies able to capitalize on this depressed

Reserves

At December 31, 1998, Ryder Scott Company, independent petroleum engineers, evaluated properties representing approximately 80% of the Company's total PV-10 value and the Company evaluated the remainder. The PV-10 values shown in the following table are not intended to represent the current market value of the estimated net proved oil and gas reserves owned by the Company. Neither prices nor costs have been escalated, but prices include the effects of hedging contracts.

The following table sets forth summary information with respect to the estimates of the Company's net proved oil and gas reserves for each of the years in the three-year period ended December 31, 1998, as prepared by Ryder Scott Company and St. Mary:

<TABLE>
<CAPTION>

	As of December 31,		
	1998 (2)	1997	1996
	-----	----	----
<S>	<C>	<C>	<C>
Proved Reserves Data: (1)			
Oil (MMbbls).....	8,614	11,493	10,691
Gas (MMcf).....	132,605	196,230	127,057
MMCFE.....	184,289	265,188	191,202
PV-10 value (in thousands).....	\$ 125,126	\$ 262,006	\$ 296,461
Proved developed reserves.....	86%	87%	84%
Production replacement.....	(25%)	358%	422%
Reserve life (years).....	6.5	7.3	7.2

</TABLE>

-
- (1) Reserve data attributable to the Company's Russian joint venture have been excluded from this table. Effective February 12, 1997, the Company sold its Russian joint venture. See "International Operations."
- (2) The Company's year-end 1998 reserves reflect property dispositions of 39.6 BCFE, discoveries and extensions of 40.8 BCFE, acquisitions of 5.3 BCFE, negative price-related revisions of 18.2 BCFE and a write-down of 38.8 BCFE of proved reserves at South Horseshoe Bayou.

The present value of estimated future net revenues before income taxes of the Company's reserves was \$125.1 million as of December 31, 1998. This present value is based on a benchmark of prices in effect at that date of \$12.05 per barrel of oil (NYMEX) and \$1.855 per million MMBtu of gas (Gulf Coast spot price), both of which are adjusted for transportation and basis differential. These prices were 34 percent and 20 percent lower, respectively, than prices in effect at the end of 1997. Had the December 31, 1997, pricing assumptions been applied, the PV-10 value and net reserves would have been \$193.2 million and 202.5 BCFE, respectively.

Production

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

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Operating Data:			
Net production (1):			
Oil (MMbbls).....	1,275	1,188	1,186
Gas (MMcf).....	25,440	22,900	15,563
MMCFE.....	33,090	30,024	22,680
Average net daily production (1):			
Oil (Bbls).....	3,493	3,254	3,240
Gas (Mcf).....	69,698	62,739	42,522
MCFE.....	90,656	82,263	61,962
Average sales price (2):			
Oil (per Bbl).....	\$ 12.98	\$ 18.87	\$ 18.64

Gas (per Mcf).....	\$ 2.13	\$ 2.33	\$ 2.23
Additional per BOE data:			
Lease operating expense.....	\$ 2.34	\$ 2.09	\$ 2.28
Production taxes.....	\$ 0.74	\$ 0.96	\$ 1.13

</TABLE>

-
- (1) Production from South Horseshoe Bayou and sold Oklahoma properties represented 18.1% and 6.5% respectively, or a total of 24.6% of the 1998 production total. Management expects that the 1999 capital investment program will partially offset this production loss.
 - (2) Includes the effects of the Company's hedging activities. (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview").

The Company uses financial hedging instruments, primarily fixed-for-floating price swap agreements and no-cost collar agreements with financial counterparties, to manage its exposure to fluctuations in commodity prices. The Company also employs the use of exchange-listed financial futures and options as part of its hedging program for crude oil.

Productive Wells

The following table sets forth information regarding the number of productive wells in which the Company held a working interest at December 31, 1998. Productive wells are either producing wells or wells capable of commercial production although currently shut in. One or more completions in the same borehole are counted as one well. A well is categorized under state reporting regulations as an oil well or a gas well based upon the ratio of gas to oil produced when it first commenced production, and such designation may not be indicative of current production.

<TABLE>

<CAPTION>

	Gross	Net
	-----	---
<S>	<C>	<C>
Oil	585	162
Gas	822	128
	-----	---
Total	1,407	290
	=====	===

</TABLE>

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Drilling Activity

The following table sets forth the wells in which the Company participated during each of the three years indicated:

<TABLE>

<CAPTION>

	Years Ended December 31,					
	1998		1997		1996	
	Gross	Net	Gross	Net	Gross	Net
<S>	<C>	<C>	<C>	<C>	<C>	
Domestic:						
Development:						
Oil.....	6	.28	10	3.06	17	3.91
Gas.....	109	26.04	92	19.64	74	13.29
Non-productive.....	12	3.98	15	4.35	11	2.70
	-----	-----	-----	-----	-----	-----
Total.....	127	30.30	117	27.05	102	19.90
Exploratory:						
Oil.....	1	.50	4	1.21	-	-
Gas.....	3	.95	7	2.04	5	1.25
Non-productive.....	6	1.05	5	1.93	10	3.10
	-----	-----	-----	-----	-----	-----
Total.....	10	2.50	16	5.18	15	4.35
	-----	-----	-----	-----	-----	-----
Farmout or non-consent	4	-	4	-	9	-
	-----	-----	-----	-----	-----	-----
International:						
Development:						
Oil.....	-	-	-	-	22	3.96
Gas.....	-	-	-	-	-	-
Non-productive.....	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Total.....	-	-	-	-	22	3.96
	-----	-----	-----	-----	-----	-----
Grand Total (1)	141	32.80	137	32.23	148	28.21

</TABLE>

(1) Does not include 1, 4 and 3 gross wells completed on The Company's fee lands during 1998, 1997 and 1996, respectively.

All of the Company's drilling activities are conducted on a contract basis with independent drilling contractors. The Company owns no drilling equipment.

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Domestic Acreage

The following table sets forth the gross and net acres of developed and undeveloped oil and gas leases, fee properties, mineral servitudes and lease options held by the Company as of December 31, 1998. Undeveloped acreage includes leasehold interests that may already have been classified as containing proved undeveloped reserves.

<TABLE>
<CAPTION>

	Developed Acreage (1)		Undeveloped Acreage (2)		Total	
	Gross	Net	Gross	Net	Gross	Net
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Arkansas.....	4,202	806	166	54	4,368	860
Louisiana.....	26,854	10,930	14,977	4,754	41,831	15,684
Montana.....	15,053	8,577	52,437	27,708	67,490	36,285
New Mexico.....	7,840	1,999	4,159	1,624	11,999	3,623
North Dakota.....	28,516	9,329	43,111	23,065	71,627	32,394
Oklahoma.....	111,345	23,725	46,835	12,720	158,180	36,445
Texas.....	39,651	11,021	58,341	12,122	97,992	23,143
Other (3)	15,934	5,740	51,720	26,678	67,654	32,418
Subtotal.....	249,395	72,127	271,746	108,725	521,141	180,852
Louisiana Fee Properties.....	13,084	13,084	11,830	11,830	24,914	24,914
Louisiana Mineral Servitudes.....	10,045	5,464	5,780	5,259	15,825	10,723
Subtotal.....	23,129	18,548	17,610	17,089	40,739	35,637
GRAND TOTAL	272,524	90,675	289,356	125,814	561,880	216,489

</TABLE>

- (1) Developed acreage is acreage assigned to producing wells for the spacing unit of the producing formation. Developed acreage in certain of the Company's properties that include multiple formations with different well spacing requirements may be considered undeveloped for certain formations, but have only been included as developed acreage in the presentation above.
- (2) Undeveloped acreage is lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether such acreage contains estimated net proved reserves.
- (3) Includes interests in Alabama, Colorado, Kansas, Mississippi, Utah and Wyoming. St. Mary also holds an override interest in an additional 44,388 gross acres in Utah

Non-Oil and Gas Activities

Summo Minerals. The Company, through a subsidiary, owns 9.9 million shares or 37% of Summo Minerals Corporation ("Summo"), a North American copper mining company focusing on finding late exploration stage, low to medium-sized copper deposits in the United States amenable to the SX-EW extraction process. Summo's common shares are listed on the Toronto Stock Exchange under the symbol "SMA." The persistence of depressed commodity prices and increased worldwide inventory levels of copper have caused Summo's stock price to decline. Management believes that this stock price decline is not temporary and that its value is impaired. Consequently, the Company wrote down its net investment in Summo to net realizable value in the fourth quarter of 1998. Management believes the recorded net investment is recoverable.

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In May 1997, the Company entered into an agreement to receive a 55% interest in Summo's Lisbon Valley Copper Project (the "Project") in return for the Company contributing \$4.0 million in cash, all of its outstanding stock in Summo, and \$8.6 million in letters of credit to a single purpose company, Lisbon

Valley Mining Company LLC ("LVMC"), formed to own and operate the Project. Summo will contribute the property, all project permits and contracts, \$3.2 million in cash, and a commitment for \$45 million senior debt financing in return for a 45% interest in LVMC. The agreement is subject to certain conditions including the finalization of the necessary project financing.

The Company has agreed to provide Summo with interim financing of up to \$3.5 million for the Project in the form of a loan bearing interest at the prime rate plus 1% due in June 1999. As security for this loan, Summo pledged its interest in LVMC to the Company in November 1998. As of December 31, 1998, \$2.9 million was outstanding under the note, and additional amounts totaling \$188,000 have been advanced to Summo under this loan to date in 1999. At the Company's option, the principal amounts advanced by the Company under the note are convertible into shares of Summo common stock at a defined conversion price. Upon finalization of the necessary project financing for LVMC, the Company may elect to deem the outstanding principal amount of the note as a capital contribution in partial satisfaction of its capital commitments as set forth in the May 1997 agreement. Accrued interest on the loan will be forgiven if the Company makes this election.

In September 1998 Summo received final regulatory approval to develop the Project. Future development and financial success of the Project are largely dependent on the market price of copper, which is determined in world markets and is subject to significant fluctuations. Current copper prices have declined to ten-year lows and do not justify construction and development of the Project at this time. Management believes that copper prices will recover and that the Project will have considerable value at that time. The Company has the ability to fund the carrying costs of the property and the intent to retain its interest in the Project until copper prices do recover. However, there can be no assurance that the Company will realize a return on its investment in Summo or the Project.

Competition

Competition in the oil and gas business is intense, particularly with respect to the acquisition of producing properties, proved undeveloped acreage and leases. Major and independent oil and gas companies actively bid for desirable oil and gas properties and for the equipment and labor required for their operation and development. The Company believes that the locations of its leasehold acreage, its exploration, drilling and production capabilities and the experience of its management and that of its industry partners generally enable the Company to compete effectively. Many of the Company's competitors, however, have financial resources and exploration, development and acquisition budgets that are substantially greater than those of the Company, and these may adversely affect the Company's ability to compete, particularly in regions outside of the Company's principal producing areas. Because of this competition, there can be no assurance that the Company will be successful in finding and acquiring producing properties and development and exploration prospects at its planned capital funding levels.

Markets and Major Customers

During 1998 no individual customer accounted for 10% or more of the Company's total oil and gas production revenue. During 1997 two customers individually accounted for 10.6% and 10.2% of the Company's total oil and gas production revenue.

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Government Regulations

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

The Company's operations could result in liability for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. The Company could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, and the payment of such liabilities could have a material adverse effect on the Company's financial condition and results of operations. The Company maintains insurance coverage for its operations, including limited coverage for sudden environmental damages, but does not believe that insurance coverage for environmental damages that occur over time is available at a reasonable cost. Moreover, the Company does not believe that insurance coverage for the full potential liability that could be caused by sudden environmental damages is available at a reasonable cost. Accordingly, the Company may be subject to liability or may lose substantial portions of its properties in the

event of certain environmental damages. The Company could incur substantial costs to comply with environmental laws and regulations.

The Oil Pollution Act of 1990 imposes a variety of regulations on "responsible parties" related to the prevention of oil spills. The implementation of new, or the modification of existing, environmental laws or regulations, including regulations promulgated pursuant to the Oil Pollution Act of 1990, could have a material adverse impact on the Company.

The recent trend toward stricter standards in environmental legislation and regulation is likely to continue. Initiatives to further regulate the disposal of oil and gas wastes at the federal, state and local level could have a material impact on the Company.

Title to Properties

Substantially all of the Company's working interests are held pursuant to leases from third parties. A title opinion is usually obtained prior to the commencement of drilling operations on properties. The Company has obtained title opinions or conducted a thorough title review on substantially all of its producing properties and believes that it has satisfactory title to such properties in accordance with standards generally accepted in the oil and gas industry. The Company's properties are subject to customary royalty interests, liens for current taxes and other burdens which the Company believes do not materially interfere with the use of or affect the value of such properties. The Company performs only a minimal title investigation before acquiring undeveloped properties.

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Operational Hazards and Insurance

The oil and gas business involves a variety of operating risks, including fire, explosions, blow-outs, pipe failure, casing collapse, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, ruptures and discharges of toxic gases. The occurrence of any such event could result in substantial losses to the Company due to injury and loss of life; severe damage to and destruction of property, natural resources and equipment; pollution and other environmental damage; clean-up responsibilities; regulatory investigation and penalties and suspension of operations. The Company and the operators of properties in which it has an interest maintain insurance against some, but not all, potential risks. However, there can be no assurance that such insurance will be adequate to cover any losses or exposure for liability. The occurrence of a significant unfavorable event not fully covered by insurance could have a material adverse affect on the Company's financial condition and results of operations. Furthermore, the Company cannot predict whether insurance will continue to be available at a reasonable cost or at all.

Employees and Office Space

As of December 31, 1998, the Company had 110 full-time employees. None of the Company's employees is subject to a collective bargaining agreement. The Company considers its relations with its employees to be good. The Company leases approximately 34,500 square feet of office space in Denver, Colorado, for its executive and administrative offices, of which 7,200 square feet is subleased. The Company also leases approximately 15,000 square feet of office space in Tulsa, Oklahoma, approximately 7,300 square feet of office space in Shreveport, Louisiana and approximately 1,100 square feet in Lafayette, Louisiana. The Company believes that its current facilities are adequate.

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MBOE. One thousand barrels of oil equivalent.

MMBOE. One million barrels of oil equivalent.

Mcf. One thousand cubic feet.

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

MMcf. One million cubic feet.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

To the knowledge of management, no claims are pending or threatened against the Company or any of its subsidiaries which individually or collectively could have a material adverse effect upon the Company's financial condition or results of operations.

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

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 1998.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDERS MATTERS

Market Information. The Company's common stock is traded on the Nasdaq National Market System under the symbol MARY. Prior to the commencement of trading on December 16, 1992, no market for the stock existed. The range of high and low bid prices for the quarterly periods in 1998 and 1997, as reported by the Nasdaq National Market System, is set forth below:

<TABLE>
<CAPTION>

Quarter Ended	High	Low
	----	---
<S>	<C>	<C>
March 31, 1998	\$39.375	\$26.250
June 30, 1998	39.625	21.625
September 30, 1998	25.000	15.000
December 31, 1998	23.875	15.500
March 31, 1997	\$31.000	\$24.000
June 30, 1997	35.750	24.000
September 30, 1997	45.375	32.000
December 31, 1997	46.000	32.250

</TABLE>

On March 15, 1999, the closing sale price for the Company's common stock was \$18.75 per share.

Holder. As of March 15, 1999, the number of record holders of the Company's common stock was 152. Management believes, after inquiry, that the number of beneficial owners of the Company's common stock is in excess of 1,600.

Dividends. The Company has paid cash dividends to stockholders every year since 1940. Annual dividends of \$0.16 per share have been paid quarterly in each of the years 1987 through 1996. The Company increased its quarterly dividend 25% to \$.05 per share effective with the quarterly dividend declared in January 1997 and paid in February 1997. Dividends paid totaled \$1,402,000 in each of the years 1994 through 1996, \$2,084,000 in 1997 and \$2,190,000 in 1998.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the Company as of the dates and for the periods indicated. The financial data for the five years ended December 31, 1998, were derived from the Consolidated Financial Statements of the Company. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," which includes a discussion of factors materially affecting the comparability of the information presented, and the Company's financial statements included elsewhere in this report.

<TABLE>
<CAPTION>

	Years Ended December 31,				
	1998	1997	1996	1995	1994

	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement Data:					
Operating revenues:					
Oil production	\$ 16,545	\$ 22,415	\$ 22,100	\$ 17,090	\$ 14,006
Gas production	54,103	53,349	34,674	19,479	24,233
Gain on sale of Russian joint venture	-	9,671	-	-	-
Gain on sale of proved properties	7,685	4,220	2,254	1,292	418
Gas contract settlements and other	411	1,391	523	789	6,128

Total operating revenues	78,744	91,046	59,551	38,650	44,785

Operating expenses:					
Oil and gas production	17,005	15,258	12,897	10,646	10,496
Depletion, depreciation & amortization	24,912	18,366	12,732	10,227	10,134
Impairment of proved properties	17,483	5,202	408	2,676	4,219
Exploration	11,705	6,847	8,185	5,073	8,104
Abandonment and impairment of unproved properties	4,457	2,077	1,469	2,359	1,023
General and administrative	7,097	7,645	7,603	5,328	5,261
Writedown of Russian convertible receivable	4,553	-	-	-	-
Writedown of investment in Summo Minerals	3,949	-	-	-	-
Other	141	281	78	152	493
(Income) loss in equity investees	661	325	(1,272)	579	348

Total operating expenses	91,963	56,001	42,100	37,040	40,078

Income (loss) from operations	(13,219)	35,045	17,451	1,610	4,707
Non-operating expense	1,027	99	1,951	896	525
Income tax expense (benefit)	(5,415)	12,325	5,333	(723)	445

Income (loss) from continuing operations	(8,831)	22,621	10,167	1,437	3,737
Gain on sale of discontinued operations, net of income taxes	34	488	159	306	-

Net income (loss)	\$ (8,797)	\$ 23,109	\$ 10,326	\$ 1,743	\$ 3,737
	=====				

</TABLE>

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<TABLE>
<CAPTION>

	Years Ended December 31,				
	1998	1997	1996	1995	1994

	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement Data (continued):					
Basic net income (loss) per common share:					
Income (loss) from continuing operations	\$ (0.81)	\$ 2.13	\$ 1.16	\$ 0.17	\$ 0.43
Gain on sale of discontinued operations	-	0.05	0.02	0.03	-

Basic net income (loss) per share	\$ (0.81)	\$ 2.18	\$ 1.18	\$ 0.20	\$ 0.43
	=====				
Diluted net income (loss) per common share:					
Income (loss) from continuing operations	\$ (0.81)	\$ 2.10	\$ 1.15	\$ 0.17	\$ 0.43
Gain on sale of discontinued operations	-	0.05	0.02	0.03	-

Diluted net income (loss) per share	\$ (0.81)	\$ 2.15	\$ 1.17	\$ 0.20	\$ 0.43
Cash dividends per share	\$ 0.20	\$ 0.20	\$ 0.16	\$ 0.16	\$ 0.16
Basic weighted average common shares outstanding	10,937	10,620	8,759	8,760	8,763
Diluted weighted average common shares outstanding	10,937	10,753	8,826	8,801	8,803
Balance Sheet Data (end of period):					
Working capital	\$ 9,785	\$ 9,618	\$ 13,926	\$ 3,102	\$ 9,444
Net property and equipment	143,825	157,481	101,510	71,645	59,655
Total assets	184,497	212,135	144,271	96,126	89,392
Long-term obligations	19,398	22,607	43,589	19,602	11,130
Total stockholders' equity	134,742	147,932	75,160	66,282	66,034
Other Data:					
EBITDA (1)	\$ 8,363	\$ 53,411	\$ 30,183	\$ 11,837	\$ 14,841
Net cash provided by operating activities	45,388	43,111	24,205	17,713	20,271
Capital and exploration expenditures	57,855	89,213	52,601	32,307	31,811

</TABLE>

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(1) EBITDA is defined as earnings before interest income and expense, income taxes, depreciation, depletion, amortization, and gain on sale of discontinued operations. EBITDA is a financial measure commonly used for the Company's industry and should not be considered in isolation or as a substitute for net income, cash flow provided by operating activities or other income or cash flow data prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity. Because EBITDA excludes some, but not all, items that affect net income and may vary among companies, the EBITDA presented above may not be comparable to similarly titled measures of other companies.

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

Overview

St. Mary Land & Exploration Company ("St. Mary" or the "Company") was founded in 1908 and incorporated in Delaware in 1915. The Company is engaged in the exploration, development, acquisition and production of natural gas and crude oil with operations focused in five core operating areas in the United States: the Mid-Continent region; the ArkLaTex region; south Louisiana; the Williston Basin; and the Permian Basin.

The Company's objective is to build value per share by focusing its resources within selected basins in the United States where management believes established acreage positions, long-standing industry relationships and specialized geotechnical and engineering expertise provide a significant competitive advantage. The Company's ongoing development and exploration programs are complemented by less predictable opportunities to acquire producing properties having significant exploitation potential, to monetize assets at a premium and to repurchase shares of its common stock at attractive values.

Internal exploration, drilling and production personnel conduct the Company's activities in the Mid-Continent and ArkLaTex regions and in south Louisiana. Activities in the Williston Basin are conducted through Panterra Petroleum ("Panterra"), a general partnership in which the Company owns a 74% interest. The Company proportionally consolidates its interest in Panterra. Activities in the Permian Basin are primarily contracted through an oil and gas property management company with extensive experience in the basin.

The Company's presence in south Louisiana includes active management of its fee lands from which significant royalty income is derived. Royalty revenues from the fee lands were \$6.9, \$8.8 and \$8.1 million for the years 1998, 1997 and 1996, respectively. St. Mary has encouraged development drilling by its lessees, facilitated the origination of new prospects on acreage not held by production and stimulated exploration interest in deeper, untested horizons. The Company's discovery on its fee lands at South Horseshoe Bayou in early 1997 and the successful confirmation well in early 1998 proved that significant accumulations of gas are sourced and trapped at depths below 16,000 feet. In August 1998 one of the wells in the South Horseshoe Bayou project experienced shut-in production due to mechanical problems. These mechanical problems and premature water encroachment caused the Company to reduce the project's proved reserves by 38.8 BCFE. An untested fault block to the north of the existing production will be drilled at South Horseshoe Bayou in 1999.

St. Mary seeks to make selective niche acquisitions of oil and gas properties that complement its existing operations, offer economies of scale and provide further development and exploration opportunities based on proprietary geologic concepts. Management believes that the Company's focus on smaller negotiated transactions where it has specialized geologic knowledge or operating experience has enabled it to acquire attractively-priced and under-exploited properties.

The results of operations include several property acquisitions made during recent years and their subsequent further development by the Company. In 1996 the Company purchased a 90% interest in the producing properties of Siete Oil & Gas Corporation for \$10.0 million. A series of follow-on acquisitions of smaller interests in these properties during 1997 and 1998 totaled \$5.8 million. The properties purchased from Siete solidified a new core area of focus in the Permian Basin of New Mexico and west Texas. St. Mary purchased additional interests in its Elk City Field located in Oklahoma in 1996 from Sonat Exploration Company for \$5.7 million. In 1997 the Company acquired an 85% working interest in certain Louisiana properties of Henry Production Company for \$3.9 million. Also in 1997 the Company purchased the interests of Conoco, Inc. in the Southwest Mayfield area in Oklahoma for \$20.6 million. In late 1998 St. Mary, through Panterra, acquired the interests of Texaco, Inc. in several fields in the Williston Basin for \$2.1 million.

The Company reviews its producing properties for impairments when events or changes in circumstances indicate that an impairment in value may have occurred. The impairment test compares the expected undiscounted future net revenues on a field-by-field basis with the related net capitalized costs at the end of each period. When the net capitalized costs exceed the undiscounted future net revenues, the cost of the property is written down to "fair value", which is determined using future net revenues discounted at 15% for the producing property. Future net revenues are estimated using escalated prices and include the estimated effects of the Company's hedging contracts in place at December 31, 1998. All proved reserve categories at their full estimated value and probable reserves, risk-adjusted downward to 15% of their estimated value are used in the impairment test. Probable reserves are risk-adjusted to recognize their lower likelihood of occurrence. The risk adjustment factor is subject to periodic review based on current economic conditions. Reserve volumes are based on independent engineering consistent with engineering used in evaluating property acquisitions.

The Company pursues opportunities to monetize selected assets at a premium and as part of its continuing strategy to focus and rationalize its operations. In 1996 and 1997 the Company sold its interests in Wyoming for \$2.9 million and its non-operated interests in south Texas for \$5.4 million, respectively. In late 1998 St. Mary sold a package of non-strategic properties in Oklahoma to ONEOK Resources Company ("ONEOK") for \$22.2 million and sold its remaining minor interests in Canada for \$1.2 million.

St. Mary has two principal equity investments, Summo Minerals Corporation ("Summo") and, until early 1997, the Company's Russian joint venture. The Company accounts for its investments in Summo and The Limited Liability Company Chernogorskoye ("the Russian joint venture") under the equity method and includes its share of the income or loss from these entities in its consolidated results of operations. In February 1997, the Company sold its interest in the Russian joint venture to Khanty Mansiysk Oil Corporation ("KMOC"), formerly known as Ural Petroleum Corporation, for \$17.6 million.

In February 1997 the Company closed the sale of 2,000,000 shares of common stock at \$25.00 per share and closed the sale of an additional 180,000 shares in March 1997, pursuant to the underwriters' exercise of the over-allotment option. These transactions resulted in aggregate net proceeds of \$51.2 million.

In June 1998 the Company's stockholders approved an increase in the number of authorized shares of the Company's common stock from 15,000,000 to 50,000,000 shares.

In August 1998 the Company's Board of Directors authorized a stock repurchase program whereby St. Mary may purchase from time-to-time, in open market transactions or negotiated sales, up to 1,000,000 of its own common shares. The Company has repurchased stock under this plan in 1998 and 1999.

The Company seeks to protect its rate of return on acquisitions of producing properties by hedging up to the first 24 months of an acquisition's production at prices approximately equal to those used in the Company's acquisition evaluation and pricing model. The Company also periodically uses hedging contracts to hedge or otherwise reduce the impact of oil and gas price fluctuations on production from each of its core operating areas. The Company's strategy is to ensure certain minimum levels of operating cash flow and to take advantage of windows of favorable commodity prices. The Company generally limits its aggregate hedge position to no more than 50% of its total production. The Company seeks to minimize basis risk and indexes the majority of its oil hedges

to NYMEX prices and the majority of its gas hedges to various regional index prices associated with pipelines in proximity to the Company's areas of gas production. The Company has hedged approximately 45% of its estimated 1999 gas production at an average fixed price of \$2.10 per MMBtu, approximately 9% of its estimated 1999 oil production at an average fixed price of \$15.11 per Bbl and approximately 8% of its estimated 2000 oil production at an average fixed price of \$14.76 per Bbl. The Company has also purchased options resulting in price collars on approximately 7% of the Company's estimated 1999 gas production with price ceilings between \$2.00 and \$2.63 per MMBtu and price floors between \$1.50 and \$1.90 per MMBtu.

This Annual Report on Form 10-K includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-K that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including such matters as future capital, development and exploration expenditures (including the amount and nature thereof), drilling of wells, reserve estimates (including estimates of future net revenues associated with such reserves and the present value of such future net revenues), future production of oil and gas, repayment of debt, business strategies, expansion and growth of the Company's operations, Year 2000 readiness and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, general economic and business conditions, the business opportunities (or lack thereof) that may be presented to and pursued by the Company, changes in laws or regulations and other factors, many of which are beyond the control of the Company. Readers are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

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Results of Operations

<TABLE>

<CAPTION>

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

	Years Ended December 31,		
	1998	1997	1996
	-----	-----	-----
	(In thousands, except BOE data)		
<S>	<C>	<C>	<C>
Oil and gas production revenues:			
Working interests.....	\$63,771	\$66,957	\$48,685
Louisiana royalties.....	6,877	8,807	8,089
	-----	-----	-----
Total.....	\$70,648	\$75,764	\$56,774
	=====	=====	=====
Net production:			
Oil (MBbls).....	1,275	1,188	1,186
Gas (MMcf).....	25,440	22,900	15,563
	-----	-----	-----
MBOE.....	5,515	5,005	3,780
	=====	=====	=====
Average sales price (1):			
Oil (per Bbl).....	\$12.98	\$18.87	\$18.64
Gas (per Mcf).....	\$ 2.13	\$ 2.33	\$ 2.23
Oil and gas production costs:			
Lease operating expenses.....	\$12,929	\$10,463	\$8,615
Production taxes.....	4,076	4,795	4,282
	-----	-----	-----
Total.....	\$17,005	\$15,258	\$12,897
	=====	=====	=====
Additional per BOE data:			
Sales price.....	\$12.81	\$15.14	\$15.02
Lease operating expenses.....	2.34	2.09	2.28
Production taxes.....	.74	.96	1.13
	-----	-----	-----
Operating margin.....	\$ 9.73	\$12.09	\$11.61

Depletion, depreciation and amortization.....	\$ 4.52	\$ 3.67	\$ 3.37
Impairment of proved properties.....	\$ 3.17	\$ 1.04	\$.11
General and administrative.....	\$ 1.29	\$ 1.53	\$ 2.01

</TABLE>

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

Oil and Gas Production Revenues. Oil and gas production revenues decreased \$5.1 million, or 7% to \$70.6 million in 1998 compared to \$75.8 million in 1997. Oil production volumes increased 7% and gas production volumes increased 11% in 1998 compared to 1997. Average net daily production reached 15.1 MBOE in 1998 compared to 13.7 MBOE in 1997. This production increase resulted from new properties acquired and drilled during 1998 and late 1997. Major acquisitions affecting the production increase included the Southwest Mayfield properties in Oklahoma purchased from Conoco and the Louisiana properties purchased from Henry Production Company in 1997, the acquisition of certain producing properties in Texas from Stroud Exploration in 1998, and the additional interests purchased in the Siete properties during 1997 and 1998. Successful drilling results in the South Horseshoe Bayou and Haynesville fields in Louisiana, the Box Church Field in Texas and the Company's Oklahoma drilling program also contributed to the 1998 production increase. These production increases were only slightly offset by the sale of certain Oklahoma properties to ONEOK Resources Company in late 1998.

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The average realized oil price for 1998 decreased 31% to \$12.98 per Bbl, while average realized gas prices decreased 9% to \$2.13 per Mcf, from their respective 1997 levels. The Company hedged approximately 20.1% of its oil production for 1998 or 257 MBbls at an average NYMEX price of \$19.423. The Company realized a \$435,000 increase in oil revenue or \$.34 per Bbl for 1998 on these contracts compared to a \$293,000 decrease or \$.25 per Bbl in 1997. The Company also hedged 45.3% of its 1998 gas production or 11,520 MMBtu at an average indexed price of \$2.343. The Company realized a \$1.4 million increase in gas revenues or \$.06 per Mcf for 1998 from these hedge contracts compared to a \$2.9 million decrease in gas revenues or \$.13 per Mcf in 1997.

Oil and gas production revenues increased \$19.0 million, or 33% to \$75.8 million in 1997 compared to \$56.8 million in 1996. Oil production volumes remained constant between 1997 and 1996 while gas production volumes increased 47% in 1997 compared to 1996. Average net daily production reached 13.7 MBOE in 1997 compared to 10.3 MBOE in 1996. This production increase resulted from new properties acquired and drilled during 1997. Major acquisitions included the Southwest Mayfield properties purchased from Conoco, the acquisition of Louisiana properties from Henry Production Company, and the additional interests purchased in the Siete properties. Successful drilling results in the Box Church Field in Texas and the South Horseshoe Bayou prospect in south Louisiana also contributed to the 1997 production increase. These production increases were partially offset by the sale of the Company's south Texas non-operated properties. The average realized oil price for 1997 increased 1% to \$18.87 per Bbl, while realized gas prices increased 4% to \$2.33 per Mcf, from their respective 1996 levels. The Company hedged approximately 16% of its oil production for 1997 or 185 MBbls at an average NYMEX price of \$18.36. The Company realized a \$293,000 decrease in oil revenue or \$.25 per Bbl for 1997 on these contracts compared to a \$2.6 million decrease or \$2.20 per Bbl in 1996. The Company also hedged 27% of its 1997 gas production or 6,687 MMBtu at an average indexed price of \$2.06. The Company realized a \$2.9 million decrease in gas revenues or \$.13 per Mcf for 1997 from these hedge contracts compared to a \$1.65 million decrease or \$.11 per Mcf in 1996.

Oil and Gas Production Costs. Oil and gas production costs consist of lease operating expense and production taxes. Total production costs increased \$1.7 million, or 11% in 1998 to \$17.0 million compared with \$15.3 million in 1997, while total oil and gas production costs per BOE increased only 1% to \$3.08 in 1998 compared with \$3.05 in 1997. A \$2.4 million increase in LOE relates to the corresponding increase in production described above and a \$1.0 million increase in non-recurring LOE resulting from increased workover activity. A \$700,000 decrease in production taxes is the result of the above described decrease in oil and gas revenues on which a portion of production taxes are based. Total production costs increased \$2.4 million, or 18% in 1997 to \$15.3 million compared with \$12.9 million in 1996. However, total oil and gas production costs per BOE declined 11% to \$3.05 in 1997 compared to \$3.41 per BOE in 1996. The increase in production costs is a result of the increase in production related to new wells, and the increase in oil and gas revenues on which a portion of production taxes are based as described above. The decrease in production costs per BOE is due to a decrease in LOE per BOE caused by an increase in lower cost gas production from drilling in South Horseshoe Bayou and Box Church. The decrease is also caused by production tax exemptions obtained from the states of Louisiana and Texas on new wells located in South Horseshoe Bayou, the Fee Lands and Box Church.

Depreciation, Depletion, Amortization and Impairment. Depreciation, depletion and amortization expense ("DD&A") increased \$6.5 million or 36% to \$24.9 million in 1998 compared with \$18.4 million in 1997. This increase

resulted from increased production volumes of new properties acquired and drilled in 1998 and late 1997. Significant contributors were the Southwest Mayfield properties acquired from Conoco in the fourth quarter of 1997 and the reduction of proved reserves at South Horseshoe Bayou. Decreases in reserve volumes caused by the adverse impact of low oil prices in the Williston Basin and mechanical problems at South Horseshoe Bayou also contributed to the DD&A increase. DD&A expense per BOE increased 23% to \$4.52 in 1998 compared to \$3.67 in 1997 due to higher drilling and acquisition costs per BOE and the factors mentioned above. Impairment of proved oil and gas properties increased \$12.3 million to \$17.5 million in 1998 compared with \$5.2 million in 1997. Those charges resulting from a decline in the Company's oil and gas reserve value due to lower prices in predominantly oil producing fields were \$1.4 million in west Texas and \$600,000 in the Williston Basin of North Dakota and Montana. Other charges were due to reserve volume reductions in under-performing properties. Of these, \$8.9 million and \$1.2 million related to the Atchafalaya and Bayou D'arbonne prospects, respectively, in Louisiana, \$1.2 million related to the Young North prospect in New Mexico, \$700,000 related to the Kirvin/Mann North prospect in Texas and \$1.0 million related to several prospects in Oklahoma. The drilling of two marginal wells in Oklahoma also resulted in the impairments of \$600,000 in 1998.

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Depreciation, depletion and amortization expense increased \$5.7 million, or 44% to \$18.4 million in 1997 compared with \$12.7 million in 1996. This increase resulted from new properties acquired and drilled in 1997. DD&A expense per BOE increased 9% to \$3.67 in 1997 compared to \$3.37 in 1996 due to higher drilling and acquisition costs per BOE. Impairment of proved oil and gas properties increased \$4.8 million to \$5.2 million in 1997 compared with \$408,000 in 1996. These charges resulted from a decline in the value of the Company's oil properties in the Williston Basin of North Dakota and Montana due to lower oil prices at year-end 1997, the under-performance of the Nameless prospect in the Williston Basin and the Sweetwater and Tantara prospects in Oklahoma and the drilling of several marginal wells in Oklahoma, Wyoming, and Texas.

Abandonment and impairment of unproved properties increased \$2.4 million or 115% to \$4.5 million in 1998 compared to \$2.1 million in 1997 due to additional impairments taken during 1998. Abandonment and impairment of unproved properties increased \$608,000 or 41% to \$2.1 million in 1997 compared to \$1.5 million in 1996 due to additional impairments taken during 1997, partially offset by fewer abandonments of expired leases.

Exploration. Exploration expense increased \$4.9 million or 71% to \$11.7 million for 1998 compared with \$6.8 million in 1997 due to the drilling of ten exploratory dry holes during 1998 in the Mid-Continent and south Louisiana regions, compared to better exploratory drilling results in 1997. The payment of \$795,000 in delay rentals for the Company's Atchafalaya prospect area during 1998 also contributed to the increase in exploration expense. Exploration expense decreased \$1.3 million or 16% to \$6.8 million for 1997 compared with \$8.2 million in 1996 due to better exploratory drilling results in 1997 compared to 1996.

General and Administrative. General and administrative expenses decreased \$548,000 or 7% in 1998 compared to 1997 due to a \$358,000 reduction of expenses related to the Company's Stock Appreciation Rights ("SAR") plan and a \$259,000 reduction in charitable contributions which is based on pre-tax income. General and administrative expenses were unchanged at \$7.6 million for 1997 from 1996. Increased compensation costs, charitable contributions and insurance premium costs in 1997 were offset by a \$1.4 million decrease in the expense associated with the SAR plan.

Other operating expenses primarily consist of legal expenses in connection with ongoing oil and gas activities and oversight of the Company's mining investments. This expense decreased \$140,000 or 50% in 1998 compared with 1997, due to decreased activity in the pending litigation that seeks to recover damages from the drilling contractor for the St. Mary Land & Exploration No. 1 well at South Horseshoe Bayou. Other operating expense increased \$203,000 to \$281,000 in 1997 compared with 1996, due to legal expenses associated with the pending litigation for the St. Mary Land & Exploration No. 1 well.

Equity in Income of Russian Joint Venture. The Company accounted for its investment in the Russian joint venture under the equity method and included its share of income or loss from the venture in its results of operations up to the point of sale. The equity in the net income of the Russian joint venture was \$201,000 in 1997 and \$1.7 million in 1996. As discussed under Outlook, the Company sold this investment in February 1997 resulting in a partial year of equity income recorded in 1997.

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Equity in Loss of Summo Minerals Corporation. The Company accounts for

its investment in Summo under the equity method and includes its share of Summo's income or loss in its results of operations. The equity in the net loss of Summo was \$661,000 in 1998, \$526,000 in 1997, and \$457,000 in 1996. Increased losses are due to general and administrative expenses associated with the expansion of Summo's Denver office beginning in 1996 and with the appeals process for permitting of the Lisbon Valley Copper Project. The Company's ownership in Summo was 37% in 1998 and 1997 and was 49% in 1996.

Non-Operating Income and Expense. Net interest and other non-operating expense increased \$928,000 to \$1.0 million in 1998 compared to \$99,000 in 1997 due primarily to increased borrowings in 1998 to fund capital expenditures, and to lower borrowings in 1997 resulting from cash received from the sale of common stock. Net interest and other non-operating expense decreased \$1.9 million to \$99,000 in 1997 due to the reduction of the Company's debt with the proceeds of the sale of common stock in the first quarter of 1997.

Income Taxes. Income taxes provided a net benefit of \$5.4 million for 1998 resulting in an effective tax rate of 38%. The benefit reflects the effect of the book net operating loss and the compounded effect of Section 29 credits incurred in years when the Company reports a book loss. Income tax expense was \$12.3 million in 1997 and \$5.3 million in 1996, resulting in effective tax rates of 35% and 34%, respectively. The expense amounts in 1997 and 1996 reflect higher net income from continuing operations before income taxes for each year compared to the previous year, offset partially by the utilization of Section 29 tax credits.

State tax expense was \$24,000 in 1998, \$1.6 million in 1997, and \$700,000 in 1996. The decrease in state taxes in 1998 was caused by the book net operating loss which resulted from Louisiana activity in the South Horseshoe Bayou and Atchafalaya Bay prospects plus the effects on Colorado and other states of the Russian and Summo writedowns. Louisiana taxes for 1997 increased \$620,000 as a result of higher Louisiana net income from royalties and from working interest income from South Horseshoe Bayou and the Henry Production Company acquisition during 1997.

Net Income. Net loss for 1998 was \$8.8 million compared to net income of \$23.1 million for 1997. A 9% reduction in gas prices and a 31% reduction in oil prices were only partially offset by an 11% percent increase in gas production volumes and a 7% increase in oil production volumes for the year. This resulted in a \$5.1 million or 7% reduction in oil & gas production revenues. Gains on sales of proved properties of \$7.7 million were offset by impairments of proved and unproved properties and increased DD&A expense resulting from lower reserve values; writedowns of the Russian convertible receivable and the Company's investment in Summo Minerals; and increased exploration expense brought about by unsuccessful exploration projects.

Net income for 1997 increased \$12.8 million or 124% to \$23.1 million compared to \$10.3 million in 1996. A 47% increase in gas volumes and modest increases in oil and gas prices resulted in a \$19.0 million increase in oil and gas production revenues. A \$9.7 million gain on the sale of the Company's Russian joint venture, a \$4.2 million gain on the sale of the Company's south Texas properties and a \$700,000 lease bonus received for exploration on the Company's fee lands contributed to total operating revenues of \$91.0 million. These revenues were partially offset by the higher production expenses and DD&A associated with increased production volumes, a \$4.8 million increase in impairment of proved properties and a \$325,000 loss from equity investees.

The Company also realized gains net of income taxes from the sale of discontinued real estate of \$34,000 in 1998, \$488,000 in 1997 and \$159,000 in 1996, respectively.

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Liquidity and Capital Resources

The Company's primary sources of liquidity are the cash provided by operating activities, debt financing, sales of non-strategic properties and access to the capital markets. The Company's cash needs are for the acquisition, exploration and development of oil and gas properties and for the payment of debt obligations, trade payables and stockholder dividends. The Company generally finances its exploration and development programs from internally generated cash flow, bank debt and cash and cash equivalents on hand. In 1997 the Company financed a large portion of its exploration and development programs with the proceeds from the sale of common stock. The Company 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 \$2.3 million or 5% to \$45.4 million in 1998 compared to \$43.1 million in 1997. A \$9.8 million decrease in accounts receivable resulting from lower oil and gas prices and reduced drilling activity and a \$2.4 million increase in unproved property impairments were offset by a \$5.1 million decrease in oil and gas revenue, a \$4.3 million increase in prepaid expenses and a \$400,000 increase in cash paid for interest expense. Net cash provided by operating activities

increased 78% to \$43.1 million in 1997 compared to \$24.2 million in 1996 as a result of a \$19.0 million increase in oil and gas revenues.

Exploratory dry hole costs are included in cash flows from the investing activities even though these costs are expensed as incurred. If exploratory dry hole costs had been included in the operating cash flows, the net cash provided by operating activities would have been \$40.5 million, \$41.5 million, and \$21.2 million in 1998, 1997, and 1996, respectively.

The Company made cash payments of approximately \$363,000 in 1998 and \$1.6 million in 1997 in satisfaction of liabilities previously accrued under the SAR plan.

Net cash used in investing activities decreased \$30.5 million or 45% in 1998 to \$37.0 million compared to \$67.5 million in 1997. The decrease is due to a \$10.1 million increase in proceeds from sales of oil and gas properties in 1998, including the sale of the Russian joint venture in 1997, and a decrease of \$23.1 million in cash paid for acquisitions of oil and gas properties in 1998. Total 1998 capital expenditures, including acquisitions of oil and gas properties, decreased \$22.9 million or 28% to \$58.6 million in 1998 compared to \$81.5 million in 1997 due to a \$23.1 million decrease in acquisitions in 1998.

Net cash used in investing activities increased \$22.3 million or 49% in 1997 to \$67.5 million compared to \$45.2 million in 1996. This increase was due to a \$26.7 million increase in capital expenditures for the Company's drilling programs, a \$6.3 million increase in expenditures for acquisitions of oil and gas properties and additional investment in and loans to Summo of \$1.8 million, offset by \$7.7 million of proceeds from the sale of oil and gas properties and \$5.6 million in cash received from the sale of the Company's Russian joint venture. Total 1997 capital expenditures, including acquisitions of oil and gas properties, increased \$33.0 million or 68% to \$81.5 million in 1997 compared to \$48.5 million in 1996.

If exploratory dry hole costs had been included in operating cash flows rather than in investing cash flows, net cash used in investing activities would have been \$32.1 million, \$65.8 million, and \$42.1 million in 1998, 1997, and 1996, respectively.

The Company was able to apply the majority of the proceeds from the sales of oil and gas properties in 1997 and 1996 to acquisitions of oil and gas properties in 1997 allowing tax-free exchanges of these properties for income tax purposes. A portion of the proceeds from sales of oil and gas properties in 1998 were also applied to acquisitions of oil and gas properties in 1999 under tax-free exchanges. In a tax-free exchange of properties the tax basis of the sold property carries over to the acquired property for tax purposes. Gains or losses for tax purposes are recognized by amortization of the lower tax basis of the property throughout its remaining life or when the acquired property is sold or abandoned.

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Net cash provided by (used in) financing activities decreased \$35.8 million to net cash used of \$7.7 million compared to net cash provided of \$28.1 million in 1997. The decrease in cash provided was due to the \$51.2 million received in 1997 from the sale of common stock compared to only \$173,000 in 1998. This change was partially offset by a \$3.2 million decrease in long-term debt in 1998 compared to a \$21.0 million decrease in 1997. The Company also spent \$2.5 million in 1998 to repurchase shares of its own common stock.

Net cash provided by financing activities increased \$5.5 million to \$28.1 million in 1997 compared to \$22.6 million in 1996. The Company received \$51.2 million from the sale of common stock in the first quarter of 1997 and had a net reduction of borrowings of \$21.0 million in 1997. The Company borrowed \$24.0 million in 1996 for the expanded capital expenditure programs and reserve acquisitions. The Company increased its quarterly dividend 25% to \$.05 per share effective with the quarterly dividend declared in January 1997 and paid in February 1997, resulting in dividends paid in 1997 of \$2.1 million compared to \$1.4 million in 1996.

The Company had \$7.8 million in cash and cash equivalents and had working capital of \$9.8 million as of December 31, 1998 compared to \$7.1 million in cash and cash equivalents and working capital of \$9.6 million as of December 31, 1997. The net change in working capital results from a \$5.5 million decrease in accounts receivable, prepaid expenses and refundable income taxes that was offset by \$5.0 million decrease in accounts payable and accrued liabilities along with a \$700,000 increase in cash and cash equivalents.

Credit Facility. On June 30, 1998, the Company entered into a new long-term revolving credit agreement that replaced the agreement dated March 1, 1993 and amended in April 1996. The new credit agreement specifies a maximum loan amount of \$200.0 million and had an initial aggregate borrowing base of \$115.0 million. The lender may periodically re-determine the aggregate borrowing

base depending upon the value of the Company's oil and gas properties and other assets. In December 1998 the borrowing base was reduced by the lender to \$105.0 million as a result of the sale of certain producing properties in Oklahoma to ONEOK. The accepted borrowing base was \$40.0 million at December 31, 1998. The credit agreement has a maturity date of December 31, 2005, and includes a revolving period that matures on December 31, 2000. The Company can elect to allocate up to 50% of available borrowings to a short-term tranche due in 364 days. The Company must comply with certain covenants including maintenance of stockholders' equity at a specified level and limitations on additional indebtedness. As of December 31, 1998 and 1997, \$10.5 million and \$14.5 million, respectively, was outstanding under this credit agreement. These outstanding balances accrue interest at rates determined by the Company's debt to total capitalization ratio. During the revolving period of the loan, loan balances accrue interest at the Company's option of either (a) the higher of the Federal Funds Rate plus 1/2% or the prime rate, or (b) LIBOR plus 1/2% when the Company's debt to total capitalization is less than 30%, up to a maximum of either (a) the higher of the Federal Funds Rate plus 5/8% or the prime rate plus 1/8%, or (b) LIBOR plus 1-1/4% when the Company's debt to total capitalization is equal to or greater than 50%.

Panterra, in which the Company has a 74% general partnership interest, has a separate credit facility with a \$21.0 million borrowing base as of December 31, 1998, and \$12.0 million and \$11.0 million outstanding as of December 31, 1998 and 1997, respectively. In June 1997, Panterra entered into this credit agreement replacing a previous agreement due March 31, 1999. The new credit agreement includes a revolving period converting to a five-year amortizing loan on June 30, 2000. During the revolving period of the loan, loan balances accrue interest at Panterra's option of either the bank's prime rate or LIBOR plus 3/4% when the Partnership's debt to partners' capital ratio is less than 30%, up to a maximum of either the bank's prime rate or LIBOR plus 1-1/4% when the Partnership's debt to partners' capital ratio is greater than 100%.

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Common Stock. In February 1997 the Company closed the sale of 2,000,000 shares of common stock at \$25.00 per share and closed the sale of an additional 180,000 shares in March 1997 pursuant to the underwriters' exercise of the over-allotment option. These transactions resulted in aggregate net proceeds of \$51.2 million. The proceeds of these sales were used to fund the Company's exploration, development and acquisition programs, and pending such use were used to repay borrowings under its credit facility.

In June 1998 the Company's stockholders approved an increase in the number of authorized shares of the Company's common stock from 15,000,000 to 50,000,000 shares.

In August 1998 the Company's Board of Directors authorized a stock repurchase program whereby St. Mary may purchase from time-to-time, in open market transactions or negotiated sales, up to 1,000,000 of its common shares. During 1998 the Company repurchased a total of 147,800 shares of its common stock under the program for \$2.5 million at a weighted-average price of \$16.71 per share. In early 1999 the Company repurchased an additional 35,000 shares for \$15.00 per share. Management anticipates that additional purchases of shares by the Company may occur as market conditions warrant. Such purchases will be funded with internal cash flow and borrowings under the Company's credit facility.

Capital and Exploration Expenditures. The Company's expenditures for exploration and development of oil and gas properties and acquisitions are the primary use of its capital resources. The following table sets forth certain information regarding the costs incurred by the Company in its oil and gas activities during the periods indicated.

<TABLE>

	Capital and Exploration Expenditures		
	For the Years Ended December 31,		
	1998	1997	1996
		(In thousands)	
<S>	<C>	<C>	<C>
Development	\$32,191	\$39,030	\$16,709
Exploration:			
Domestic	17,767	15,311	11,910
International	-	16	84
Acquisitions:			
Proved	4,204	27,291	20,957
Unproved	3,693	7,565	2,941
Total	\$57,855	\$89,213	\$52,601

Russian joint venture (a)	\$ -	\$ -	\$ 3,881
	=====	=====	=====

</TABLE>

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(a) In February 1997, the Company sold its interest in the Russian joint venture.

The Company's total costs incurred in 1998 decreased \$31.4 million or 35% compared to 1997. Proved property acquisitions decreased \$23.1 million in 1998. In December 1998 Panterra acquired certain properties in the Williston Basin for \$2.8 million, of which the Company's share was \$2.1 million. Follow-on acquisitions relating to interests purchased in the Permian Basin in 1996 amounted to \$1.2 million in 1998, and certain properties were acquired in Texas for \$510,000. Several smaller acquisitions were also completed during 1998 totaling \$390,000. The Company spent \$53.7 million in 1998 for unproved property acquisitions and domestic exploration and development compared to \$61.9 million in 1997.

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The Company's total costs incurred in 1997 increased \$36.6 million or 70% to \$89.2 million compared to \$52.6 million in 1996. Proved property acquisitions increased \$6.3 million to \$27.3 million in 1997 compared to \$21.0 million in 1996. In May 1997, the Company acquired an 85% working interest in certain Louisiana properties of Henry Production Company for \$3.8 million. In November 1997, the Company acquired the interests of Conoco, Inc. in the Southwest Mayfield area in Oklahoma for \$20.3 million. Several smaller acquisitions were also completed during 1997 totaling \$560,000 in addition to follow-on acquisitions relating to interests purchased in 1996. The Company spent \$61.9 million in 1997 for unproved property acquisitions and domestic exploration and development compared to \$31.6 million in 1996 as a result of the Company's expanded drilling programs.

Outlook. The Company believes that its existing capital resources, cash flows from operations and available borrowings are sufficient to meet its anticipated capital and operating requirements for 1999.

The Company generally allocates approximately 85% of its capital budget to low to moderate-risk exploration, development and niche acquisition programs in its core operating areas. The remaining portion of the Company's capital budget is directed to higher-risk, large exploration ideas that have the potential to increase the Company's reserves by 25% or more in any single year.

The Company anticipates spending approximately \$71.0 million for capital and exploration expenditures in 1999 with \$37.0 million allocated for ongoing exploration and development in its core operating areas, \$25.0 million for niche acquisitions of producing properties and \$9.0 million for large-target, higher-risk exploration and development.

Anticipated ongoing exploration and development expenditures for each of the Company's core areas include \$22.0 million in the Mid-Continent region, \$6.5 million in the ArkLaTex region, \$2.0 million in the Williston Basin and \$6.5 million allocated within the Permian Basin and south Louisiana regions.

The Company has several prospects in its pipeline of large-target exploration ideas and expects to commence the drilling of six significant tests in 1999 at its Stallion, South Horseshoe Bayou, Edgerly, North Parcperdue and Patterson projects in south Louisiana, and at its Carrier project in east Texas.

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 borrowing capability and the success of its development and exploratory activity which could lead to funding requirements for further development.

The Company continuously evaluates opportunities in the marketplace for oil and gas properties and, accordingly, may be a buyer or a seller of properties at various times. St. Mary will continue to emphasize smaller niche acquisitions utilizing the Company's technical expertise, financial flexibility and structuring experience. In addition, the Company is also actively seeking larger acquisitions of assets or companies that would afford opportunities to expand the Company's existing core areas, to acquire additional geoscientists or to gain a significant acreage and production foothold in a new basin within the United States.

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The Company, through a subsidiary, owns 9.9 million shares or 37% of Summo, a North American copper mining company focusing on finding late exploration stage, low to medium-sized copper deposits in the United States amenable to the SX-EW extraction process. Summo's common shares are listed on the Toronto stock exchange under the symbol "SMA". The persistence of depressed

commodity prices and increased worldwide inventory levels of copper have caused Summo's stock price to decline. Management believes that this stock price decline is not temporary and that its value is impaired. Consequently, the Company wrote down its net investment in Summo to net realizable value in the fourth quarter of 1998. Management believes the recorded net investment is recoverable.

In May 1997 the Company entered into an agreement to receive a 55% interest in Summo's Lisbon Valley Copper Project (the "Project") in return for the Company contributing \$4.0 million in cash, all of its outstanding stock in Summo, and \$8.6 million in letters of credit to a single purpose company, Lisbon Valley Mining Company LLC ("LVMC"), formed to own and operate the Project. Summo will contribute the property, all project permits and contracts, \$3.2 million in cash, and a commitment for \$45 million senior debt financing in return for a 45% interest in LVMC. The agreement is subject to certain conditions including the finalization of the necessary project financing.

The Company has agreed to provide Summo with interim financing of up to \$3.5 million for the Project in the form of a loan bearing interest at the prime rate plus 1% due in June 1999. As security for this loan, Summo pledged its interest in LVMC to the Company in November 1998. As of December 31, 1998, \$2.9 million was outstanding under the loan, and additional amounts totaling \$188,000 have been advanced to Summo under this loan to date in 1999. At the Company's option, the principal amounts advanced by the Company under the note are convertible into shares of Summo common stock at a defined conversion price. Upon finalization of the necessary project financing for LVMC, the Company may elect to deem the outstanding principal amount of the note as a capital contribution in partial satisfaction of its capital commitments as set forth in the May 1997 agreement. Accrued interest on the loan will be forgiven if the Company makes this election.

In September 1998 Summo received final regulatory approval to develop the Project. Future development and financial success of the Project are largely dependent on the market price of copper, which is determined in world markets and is subject to significant fluctuations. Current copper prices have declined to ten-year lows and do not justify construction and development of the Project at this time. Management believes that copper prices will recover and that the Project will have considerable value at that time. The Company has the ability to fund the carrying costs of the property and the intent to retain its interest in the Project until copper prices do recover. However, there can be no assurance that the Company will realize a return on its investment in Summo or the Project.

In February 1997 the Company sold its interest in the Russian joint venture to KMOC. The Company received cash consideration of approximately \$5.6 million before transaction costs, KMOC common stock valued at approximately \$1.9 million, and a receivable in a form equivalent to a retained production payment of approximately \$10.1 million plus interest at 10% per annum from the limited liability company formed to hold the Russian joint venture. The Company's receivable is collateralized by the partnership interest sold. The Company has the right, subject to certain conditions, to require KMOC to purchase the Company's receivable from the net proceeds of an initial public offering of KMOC common stock. Alternatively, the Company may elect to convert all or a portion of its receivable into KMOC common stock immediately prior to an initial public offering of KMOC common stock or on or after March 10, 2000, whichever occurs first. Uncertain economic conditions in Russia and lower oil prices have affected the carrying value of the convertible receivable. Consequently, the Company reduced the carrying amount of the receivable to its minimum conversion value during 1998, incurring a pre-tax charge to operations of \$4.6 million.

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Impact of the Year 2000 Issue. The following Year 2000 statements constitute a Year 2000 Readiness Disclosure within the meaning of the Year 2000 Information and Readiness Disclosure Act of 1998.

The Year 2000 Issue is the result of computer programs and embedded computer chips being written or manufactured using two digits rather than four, or other methods, to define the applicable year. Computer programs and embedded chips that are date-sensitive may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, operate equipment or engage in normal business activities. Failure to correct a material Year 2000 compliance problem could result in an interruption in, or inability to conduct normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, cash flow and financial condition.

The Company's approach to determining and mitigating the impact on the Company of Year 2000 compliance issues is comprised of five phases:

- i) Review and assessment of all internal information technology (IT) systems and significant non-IT systems for Year 2000 compliance;
- ii) Identify and prioritize systems with Year 2000 compliance issues;

- iii) Repair or replace and test non-Year 2000 compliant systems;
- iv) Survey and assess the Year 2000 readiness of the Company's significant vendors, suppliers, purchasers and transporters of oil and natural gas; and,
- v) Design and implement contingency plans for those systems, if any, that cannot be made Year 2000 compliant before December 31, 1999.

The Company completed phases i) and ii) of its plan by August 1998, and identified the systems requiring repair or replacement in order to be Year 2000 compliant. This review and assessment was completed using outside consultants as well as Company personnel. The Company determined that of its major systems, the software it uses for reservoir engineering, its telephone system, a significant number of the personal computers used by Company personnel and the computer system used by Panterra should be updated or replaced.

Phase iii) of the Company's plan of repair and replacement of non-Year 2000 compliant systems is approximately 90% complete. The telephone system and personal computers have been replaced with Year 2000 compliant hardware and software as part of the Company's ongoing upgrade program. The Company purchased a Year 2000 compliant release of the reservoir engineering system and anticipates conversion to and testing of the new system in the second quarter of 1999. In the fourth quarter of 1998 Panterra licensed a Year 2000 compliant system and converted to the new system in January 1999. The systems that have been either upgraded or replaced will be further tested to confirm their Year 2000 compliance. This testing is planned for completion in the second quarter of 1999. The Company presently believes that other less significant IT and non-IT systems can be upgraded to mitigate any Year 2000 issues with modifications to existing software or conversions to new systems. Modifications or conversions to new systems for the less significant systems, if not completed timely, would have neither a material impact on the operations of the Company nor on its results of operations.

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Under phase iv) of the plan, the Company initiated formal communications with its significant vendors, suppliers and purchasers and transporters of oil and natural gas to determine the extent to which the Company is vulnerable to those third parties' failures to remediate their own Year 2000 issues. The process of collecting information from these third parties is approximately 40% complete. All of the responses received to date are positive in assuring that the respondents will be Year 2000 compliant on a timely basis. Completion of phase iv) of the plan is anticipated in the third quarter of 1999. Until this phase of the plan is complete, management cannot currently predict if third party compliance issues will materially affect the Company's operations. There can be no assurance that the systems of these third parties will be converted timely, or that a failure to remediate Year 2000 compliance issues by another company would not have a material adverse effect on the Company.

Phase v) of the Company's Year 2000 plan, the design and implementation of contingency plans for those systems, if any, that cannot be made Year 2000 compliant before December 31, 1999, will be addressed in the last half of 1999.

Through December 31, 1998, the Company has spent approximately \$450,000 on its Year 2000 efforts. This includes the costs of consultants as well as the cost of repair or replacement of non-compliant hardware and software systems. Additional costs to complete the Company's plan are estimated at approximately \$50,000. The Company has not specifically tracked its internal costs of addressing the Year 2000 issue. However, management does not believe these costs to be material.

The Company has not completed a comprehensive analysis of the operational problems and costs that would be reasonably likely to result from the Company or its significant third parties' failure to timely complete efforts to remediate Year 2000 issues. Potential "worst case" impacts could include the inability of the Company to deliver its production to, or receive payment from, third parties purchasing or transporting the Company's production; the inability of third party vendors to provide needed materials or services to the Company for ongoing or future exploration, development or producing operations; and the inability of the Company to execute financial transactions with its banks or third parties whose systems fail or malfunction.

The Company currently has no reason to believe that any of these contingencies will occur or that its principal vendors, customers and business partners will not be Year 2000 compliant. However, there can be no assurance that the Company will be able to identify and correct all Year 2000 problems or implement a satisfactory contingency plan. Therefore, there can be no assurance that the Year 2000 issue will not materially impact the Company's results of operations or adversely affect its relationships with vendors, customers and other business partners.

Accounting Matters

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective for financial

statements for periods beginning after December 15, 1997. The Statement requires the Company to report certain information about operating segments in its financial statements and certain information about its products and services, the geographic areas in which it operates and its major customers. The Company operates predominantly in one industry segment, which is the exploration, development and production of natural gas and crude oil, and the Company's operations are conducted entirely in the United States

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Statement requires companies to report all derivatives at fair value as either assets or liabilities and bases the accounting treatment of the derivatives on the reasons an entity holds the instrument. The Company is currently reviewing the effects this Statement will have on the financial statements in relation to the Company's hedging activities.

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Effects of Inflation and Changing Prices

Within the United States inflation has had a minimal effect on the Company. The Company cannot predict the future extent of any such effect.

The Company's results of operations and cash flows are affected by material changes in oil and gas prices. Oil and gas prices are strongly impacted by global influences on the supply and demand for petroleum products. Oil and gas prices are further impacted by the quality of the oil and gas to be sold and the location of the Company's producing properties in relation to markets for the products. Oil and gas price increases or decreases have a corresponding effect on the Company's revenues from oil and gas sales. Oil and gas prices also affect the prices charged for drilling and related services. If oil and gas prices increase, there could be a corresponding increase in the cost to the Company for drilling and related services, although offset by an increase in revenues. Also, as oil and gas prices increase, the cost of acquisitions of producing properties increases, which could limit the number and accessibility of quality properties on the market.

Material changes in oil and gas prices affect the current and future value of the Company's estimated proved reserves and the borrowing capability of the Company, which is largely based on the value of such proved reserves. Oil and gas price changes have a corresponding effect on the value of the Company's estimated proved reserves and the available borrowings under the Company's credit facility.

During the first half of 1998 the Company experienced an increase in the cost of drilling and related services resulting from shortages in available drilling rigs, drilling and technical personnel, supplies and services. However, service costs stabilized about mid-year 1998 and have begun to decline. The last half of 1998 was characterized by historically low oil prices and weakening gas markets. Capital has left the oil and gas industry and has caused a significant drop in the number of working drilling rigs. Consequently, in early 1999 there is an abundance of available drilling rigs, personnel, supplies and services with a corresponding reduction of costs. If oil and gas prices increase, there could be a return to shortages and corresponding increases in the cost to the Company of exploration, drilling and production of oil and gas.

Financial Instrument Market Risk

Directly, and through its 74% investment in Panterra, the Company holds derivative contracts and financial instruments that have cash flow and net income exposure to changes in commodity prices or interest rates. Financial and commodity-based derivative contracts are used to limit the risks inherent in some crude oil and natural gas price changes that have an effect on the Company. In prior years the Company has occasionally hedged interest rates, and may do so in the future should circumstances warrant.

The Company's Board of Directors has adopted a policy regarding the use of derivative instruments. This policy requires every derivative used by the Company to relate to underlying offsetting positions, anticipated transactions or firm commitments. It prohibits the use of speculative, highly complex or leveraged derivatives. Under the policy, the Chief Executive Officer and Vice President of Finance must review and approve all risk management programs that use derivatives. The Audit Committee of the Company's Board of Directors also periodically reviews these programs.

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Commodity Price Risk. The Company uses various hedging arrangements to manage the Company's exposure to price risk from its natural gas and crude oil production. These hedging arrangements have the effect of locking in for specified periods, at predetermined prices or ranges of prices, the prices the Company will receive for the volumes to which the hedge relates. Consequently, while these hedging arrangements are structured to reduce the Company's exposure to decreases in prices associated with the hedged commodity, they also limit the

benefit the Company might otherwise receive from any price increases associated with the hedged commodity. A hypothetical 10% change in the year-end market prices of commodity-based swaps and futures contracts on a notional amount of 11,250 MMBtu would have caused a potential \$1.9 million change in net loss before income taxes for the Company for contracts in place on December 31, 1998. Results of operations for Panterra (a non-taxable entity) would have changed by \$48,000 on a notional amount of 39 MBbls. These changes were not discounted to present value since the latest expected maturity date of all of the swaps and futures contracts is less than one year from the reporting date. The derivative gain or loss effectively offsets the loss or gain on the underlying commodity exposures that have been hedged. The fair values of the swaps are estimated based on quoted market prices of comparable contracts and approximate the net gains or losses that would have been realized if the contracts had been closed out at year end. The fair values of the futures are based on quoted market prices obtained from the New York Mercantile Exchange.

Interest Rate Risk. Market risk is estimated as the potential change in fair value resulting from an immediate hypothetical one percentage point parallel shift in the yield curve. The sensitivity analysis presents the hypothetical change in fair value of those financial instruments held by the Company at December 31, 1998, which are sensitive to changes in interest rates. For fixed-rate debt, interest rate changes affect the fair market value but do not impact results of operations or cash flows. Conversely for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future results of operations and cash flows, assuming other factors are held constant. The carrying amount of the Company's floating rate debt approximates its fair value. At December 31, 1998, the Company had floating rate debt of \$19.4 million and had no fixed rate debt. Assuming constant debt levels, the results of operations and cash flows impact for the next year resulting from a one percentage point change in interest rates would be approximately \$190,000 before taxes.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference from the Company's Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from the Company's Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference from the Company's Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference from the Company's Proxy Statement for the 1999 Annual Meeting of Stockholders.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

Report of Independent Public Accountants (Arthur Andersen LLP).....	F-1
Report of Independent Accountants (PricewaterhouseCoopers LLP).....	F-2
Consolidated Balance Sheets.....	F-3
Consolidated Statements of Operations.....	F-4
Consolidated Statements of Stockholders' Equity.....	F-5
Consolidated Statements of Cash Flows.....	F-6

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

(b) Reports on Form 8-K. One report on Form 8-K dated December 30, 1998 regarding the sale of certain Oklahoma properties to ONEOK Resources Company was filed during the last quarter of 1998.

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

Exhibit Number	Description
3.1*	Restated Certificate of Incorporation of the Registrant, as amended
3.1A*	Restated Certificate of Incorporation of the Registrant (as of November 17, 1992)
3.2*	Restated Bylaws of the Registrant
10.3*	Stock Option Plan
10.4*	Stock Appreciation Rights Plan
10.5*	Cash Bonus Plan
10.6*	Net Profits Interest Bonus Plan
10.7*	Summary Plan Description/Pension Plan dated January 1, 1985
10.8*	Non-qualified Unfunded Supplemental Retirement Plan, as amended
10.10*	Summary Plan Description Custom 401(k) Plan and Trust
10.11*	Stock Option Agreement - Mark A. Hellerstein
10.12*	Stock Option Agreement - Ronald D. Boone
10.13*	Employment Agreement between Registrant and Mark A. Hellerstein
10.14	Summary Plan Description 401(k) Profit Sharing Plan filed as Exhibit 10.34 on Registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1994
10.15	Summary Plan Description/Pension Plan dated December 30, 1994 filed as Exhibit 10.35 on Registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1994

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10.16	Second Restated Partnership Agreement - Panterra Petroleum filed as Exhibit 10.41 on Registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1995
10.17	Purchase and Sale Agreement between Siete Oil & Gas Corporation and Registrant incorporated by reference from the Exhibit 10.42 filed on Registrant's Current Report on Form 8-K (File No. 0-20872) dated June 28, 1996, as amended by Registrant's Current Report on Form 8-K/A (File No. 0-20872) dated June 28, 1996
10.18	Acquisition Agreement regarding the sale of the Company's interest in the Russian joint venture incorporated by reference from the Exhibit 10.43 filed on Registrant's Current Report on Form 8-K (File No. 0-20872) dated December 16, 1996
10.19	Employment Agreement between Registrant and Ralph H. Smith, effective October 1, 1995, incorporated by reference from the Exhibit 99 filed on Registrant's Current Report on Form 8-K (File No. 0-20872) dated January 28, 1997
10.20	St. Mary Land & Exploration Company Stock Option Plan dated November 21, 1996, incorporated by reference from the Exhibit 10.47 filed on Registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1996
10.21	St. Mary Land & Exploration Company Incentive Stock Option Plan incorporated by reference from the Exhibit 10.48 filed on Registrants Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1996
10.22	St. Mary Land & Exploration Company Employee Stock Purchase Plan incorporated by reference from the Exhibit 10.48 filed on Registrants Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1997
10.23	Credit Agreement dated June 30, 1998, incorporated by reference from the Exhibit 10.52 filed on Form 10-Q dated June 30, 1998
10.24	Purchase and Sale Agreement dated November 12, 1998 between ONEOK Resources Company, incorporated by reference from the Exhibit 10.53 filed on Registrant's Current Report on Form 8-K (File No. 0-20872) dated December 30, 1998
10.25	Credit Agreement between Panterra Petroleum and Colorado National Bank dated June 17, 1997
10.26	Agreement between Summo Minerals Corporation, Summo USA Corporation, St. Mary Land & Exploration Company, and St. Mary Minerals Inc. re the formation of Lisbon Valley Mining Company dated May 15, 1997

- 10.27 Pledge and Security Agreement From Summo USA Corporation and Lisbon Valley Mining Co. LLC to St. Mary Minerals Inc. dated November 23, 1998
- 10.28 Deed of Trust, Assignment of Rents and Security Agreement by Lisbon Valley Mining Co. LLC and Stewart Title Guaranty Company for the benefit of St. Mary Minerals Inc. dated November 23, 1998
- 21.1* Subsidiaries of Registrant
- 23.3 Consent of Arthur Andersen LLP
- 23.4 Consent of PricewaterhouseCoopers LLP
- 24.1 Power of Attorney (included on signature page of this document)
- 27.1 Financial Data Schedule

* Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 33-53512).

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

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of St. Mary Land & Exploration Company (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Mary Land & Exploration Company and subsidiaries as of December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Denver, Colorado,
February 17, 1999.

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated statements of operations,

stockholders' equity, and cash flows of St. Mary Land & Exploration Company and Subsidiaries for the year ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of St. Mary Land & Exploration Company and Subsidiaries for the year ended December 31, 1996, in conformity with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Denver, Colorado March 3, 1997, except for the effects of adopting Statement of Financial Accounting Standards No. 128, "Earnings Per Share," as discussed in Note 1, as to which the date is March 19, 1998.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

<TABLE>
<CAPTION>

ASSETS

	December 31,	
	1998	1997
	-----	-----
	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 7,821	\$ 7,112
Accounts receivable	17,937	24,320
Prepaid expenses and other	795	112
Refundable income taxes	391	246
Deferred income taxes	125	122
	-----	-----
Total current assets	27,069	31,912
	-----	-----
Property and equipment (successful efforts method), at cost:		
Proved oil and gas properties	241,021	246,468
Unproved oil and gas properties, net of impairment allowance of \$5,987 in 1998 and \$3,032 in 1997	25,588	28,615
Other	4,051	3,386
	-----	-----
	270,660	278,469
Less accumulated depletion, depreciation, amortization and impairment	(126,835)	(120,988)
	-----	-----
	143,825	157,481
	-----	-----
Other assets:		
Khanty Mansiysk Oil Corporation receivable and stock	6,839	12,003
Summo Minerals Corporation investment and receivable	2,869	6,691
Restricted cash	720	-
Other assets	3,175	4,048
	-----	-----
	13,603	22,742
	-----	-----
	\$184,497	\$212,135
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 16,926	\$ 21,817
Accrued expenses	-	126
Current portion of stock appreciation rights	358	351
	-----	-----
Total current liabilities	17,284	22,294
	-----	-----

Long-term liabilities:

Long-term debt	19,398	22,607
Deferred income taxes	11,158	16,589
Stock appreciation rights	422	989
Other noncurrent liabilities	1,493	1,724
	-----	-----
	32,471	41,909
	-----	-----

Commitments and contingencies (Notes 1,3,6,7,8)

Stockholders' equity:

Common stock, \$.01 par value: authorized - 50,000,000 shares in 1998 and 15,000,000 shares in 1997; issued and outstanding - 10,992,447 shares in 1998 and 10,980,423 shares in 1997	110	110
Additional paid-in capital	67,761	67,494
Treasury stock - 147,800 shares, at cost	(2,470)	-
Retained earnings	69,341	80,328
	-----	-----
Total stockholders' equity	134,742	147,932
	-----	-----
	\$184,497	\$212,135
	=====	=====

</TABLE>

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

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<TABLE>

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

<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Operating revenues:			
Oil and gas production	\$ 70,648	\$ 75,764	\$ 56,774
Gain on sale of Russian joint venture	-	9,671	-
Gain on sale of proved properties	7,685	4,220	2,254
Other revenues	411	1,391	523
	-----	-----	-----
Total operating revenues	78,744	91,046	59,551
	-----	-----	-----
Operating expenses:			
Oil and gas production	17,005	15,258	12,897
Depletion, depreciation and amortization	24,912	18,366	12,732
Impairment of proved properties	17,483	5,202	408
Exploration	11,705	6,847	8,185
Abandonment and impairment of unproved properties	4,457	2,077	1,469
General and administrative	7,097	7,645	7,603
Writedown of Russian convertible receivable	4,553	-	-
Writedown of investment in Summo Minerals Corporation	3,949	-	-
(Income) loss in equity investees	661	325	(1,272)
Other	141	281	78
	-----	-----	-----
Total operating expenses	91,963	56,001	42,100
	-----	-----	-----
Income (loss) from operations	(13,219)	35,045	17,451
Nonoperating income and (expense):			
Interest income	638	1,043	186
Interest expense	(1,665)	(1,142)	(2,137)
	-----	-----	-----
Income (loss) from continuing operations before income taxes	(14,246)	34,946	15,500
Income tax expense (benefit)	(5,415)	12,325	5,333
	-----	-----	-----
Income (loss) from continuing operations	(8,831)	22,621	10,167
Gain on sale of discontinued operations, net of taxes of \$17 in 1998, \$252 in 1997 and \$82 in 1996	34	488	159
	-----	-----	-----
Net income (loss)	\$ (8,797)	\$ 23,109	\$ 10,326
	=====	=====	=====
Basic earnings per common share:			
Income (loss) from continuing operations	\$ (.81)	\$ 2.13	\$ 1.16
Gain on sale of discontinued operations	-	.05	.02
	=====	=====	=====
Basic net income (loss) per common share	\$ (.81)	\$ 2.18	\$ 1.18

Diluted earnings per common share:			
Income (loss) from continuing operations	\$ (.81)	\$ 2.10	\$ 1.15
Gain on sale of discontinued operations	-	.05	.02
Diluted net income (loss) per common share	\$ (.81)	\$ 2.15	\$ 1.17
Basic weighted average shares outstanding	10,937	10,620	8,759
Diluted weighted average shares outstanding	10,937	10,753	8,826

</TABLE>

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 STOCKHOLDERS' EQUITY
(In thousands, except share amounts)

Accumulated Total	Common Stock		Additional		Treasury Stock		Other Income
	Shares	Amount	Paid-in Capital	Retained Earnings	Shares	Amount	
Comprehensive Stockholders' Equity							
Balance, December 31, 1995	8,761,855	\$ 88	\$ 15,835	\$ 50,378	(2,572)	\$ (34)	\$ 15
Comprehensive income:							
Net income	-	-	-	10,326	-	-	-
Unrealized loss on marketable equity securities available for sale	-	-	-	-	-	-	(47)
Total comprehensive income							
Cash dividends, \$.16 per share	-	-	-	(1,401)	-	-	-
Purchase and retirement of common stock	(69)	-	-	-	-	-	-
Retirement of treasury stock	(2,572)	-	(34)	-	2,572	34	-
Balance, December 31, 1996	8,759,214	88	15,801	59,303	-	-	(32)
Comprehensive income:							
Net income	-	-	-	23,109	-	-	-
Unrealized gain on marketable equity securities available for sale	-	-	-	-	-	-	32
Total comprehensive income							
Cash dividends, \$.20 per share	-	-	-	(2,084)	-	-	-
Purchase and retirement of common stock	(55)	-	(2)	-	-	-	-
Sale of common stock, net of income tax benefit of stock							

option exercises 51,649	2,217,664	22	51,627	-	-	-	-
Directors' stock compensation 68	3,600	-	68	-	-	-	-

Balance, December 31, 1997 147,932	10,980,423	110	67,494	80,328	-	-	-
Comprehensive income:							
Net loss (8,797)	-	-	-	(8,797)	-	-	-

Total comprehensive income (8,797)							

Cash dividends, \$.20 per share (2,190)	-	-	-	(2,190)	-	-	-
Treasury stock purchases (2,470)	-	-	-	-	(147,800)	(2,470)	-
Issuance for Employee Stock Purchase Plan 172	8,424	-	172	-	-	-	-
Directors' stock compensation 95	3,600	-	95	-	-	-	-

Balance, December 31, 1998 \$ 134,742	10,992,447	\$ 110	\$ 67,761	\$ 69,341	(147,800)	\$(2,470)	\$ -
=====							

</TABLE>

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)

<TABLE>
<CAPTION>

31,	For the Years Ended December	
	1998	1997
1996		

	<C>	<C>
Reconciliation of net income to net cash provided by operating activities:		
Net income (loss)	\$ (8,797)	\$ 23,109
10,326		
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on sale of Russian Joint Venture	-	(9,671)
-		
Writedown of Russian convertible receivable	4,553	-
-		
Writedown of investment in Summo Minerals Corporation	3,949	-
-		
Gain on sale of proved properties	(7,685)	(4,220)
(2,254)		
Depletion, depreciation and amortization	24,912	18,366
12,732		
Impairment of proved properties	17,483	5,202
408		
Exploratory dry hole costs	4,892	1,638
3,048		
Abandonment and impairment of unproved properties	4,457	2,077
1,469		
Loss (income) in equity investees	661	325

(1,272)	Deferred income taxes	(5,431)	10,799	
4,634	Other	378	428	
17				
		-----	-----	
		39,372	48,053	
29,108	Changes in current assets and liabilities:			
	Accounts receivable	6,502	(3,235)	
(8,810)	Prepaid expenses	(2,109)	2,162	
(478)	Refundable income taxes	(145)	(189)	
119	Accounts payable and accrued expenses	1,762	(2,359)	
2,788	Stock appreciation rights	7	(1,199)	
1,550	Deferred income taxes	(3)	(122)	
(72)		-----	-----	
	Net cash provided by operating activities	45,386	43,111	
24,205		-----	-----	
	Cash flows from investing activities:			
	Proceeds from sale of oil and gas properties	23,380	7,723	
3,082	Capital expenditures	(54,375)	(54,164)	
(27,504)	Acquisition of oil and gas properties	(4,204)	(27,291)	
(20,957)	Purchase of interest in St. Mary Operating Company	-	-	
3,059	Sale of Russian joint venture	75	5,608	
(209)	Investment in and loans to Summo Minerals Corporation	(788)	(2,332)	
(500)	Receipts from restricted cash	7,275	9,747	
-	Deposits to restricted cash	(7,995)	(6,829)	
(2,918)	Other	(350)	61	
772		-----	-----	
	Net cash used in investing activities	(36,982)	(67,477)	
(45,175)		-----	-----	
	Cash flows from financing activities:			
	Proceeds from long-term debt	54,579	22,837	
42,996	Repayment of long-term debt	(57,787)	(43,819)	
(19,009)	Proceeds from sale of common stock, net of offering costs	173	51,207	
-	Repurchase of common stock	(2,470)	-	
-	Dividends paid	(2,190)	(2,084)	
(1,402)	Other	-	(1)	
-		-----	-----	
	Net cash (used in) provided by financing activities	(7,695)	28,140	
22,585		-----	-----	
	Net increase in cash and cash equivalents	709	3,774	
1,615	Cash and cash equivalents at beginning of period	7,112	3,338	
1,723		-----	-----	
	Cash and cash equivalents at end of period	\$ 7,821	\$ 7,112	\$
3,338		=====	=====	

</TABLE>

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

Supplemental schedule of additional cash flow information and noncash activities:

<TABLE>

<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
		(in thousands)	
<S>	<C>	<C>	<C>
Cash paid for interest	\$ 1,650	\$ 1,248	\$ 1,953
Cash paid for income taxes	307	1,864	(305)
Cash paid for exploration expenses	11,873	6,462	4,843

</TABLE>

In March 1996, the Company acquired the remaining 35% shareholder interest in St. Mary Operating Company for \$234,000 and assumed net liabilities of \$339,000, resulting in acquired cash of \$3.1 million.

In February 1997, the Company sold its interest in the Russian joint venture for \$17,609,000, receiving \$5,608,000 of cash, \$1,869,000 of Khanty Mansiysk Oil Corporation common stock, and a \$10,134,000 receivable in a form equivalent to a retained production payment.

In February 1997, the Company issued 3,600 shares of common stock to its directors and recorded compensation expense of \$68,175.

In June 1997, an officer of the Company exercised 14,072 options to buy common stock at \$20.50 per share. As payment of the exercise price and taxes due, the Company accepted 11,022 of the exercised shares, resulting in an increase in shares outstanding of 3,050.

In January 1998, the Company issued 3,600 shares of common stock to its directors and recorded compensation expense of \$94,500.

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
DECEMBER 31, 1998

1. Summary of Significant Accounting Policies:

Description of Operations:

St. Mary Land & Exploration Company (the "Company") is an independent energy company engaged in the exploration, development, acquisition and production of natural gas and crude oil. In December 1998 the Company sold its remaining interests in properties located in Canada. The Company's operations are conducted entirely in the United States. In February 1997 the Company completed the sale of its interest in the Russian joint venture. Also in 1997, the Company relinquished its interest in an exploration and production license in the Caroni Basin of Trinidad and Tobago.

Basis of Presentation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Subsidiaries that are not wholly-owned are accounted for by proportionate consolidation or by the equity or investment method as appropriate. All significant intercompany accounts and

transactions have been eliminated.

The Company accounts for its investment in Summo Minerals Corporation ("Summo") under the equity method of accounting. The Company accounted for its investment in The Limited Liability Company Chernogorskoye (the "Russian joint venture") under the equity method until February 1997, when the Russian joint venture investment was sold. In March 1996 the Company completed its purchase of the remaining stock of St. Mary Operating Company ("SMOC"). 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. The Company's interests in other oil and gas ventures and partnerships are proportionately consolidated, including its 74% investment in Panterra Petroleum ("Panterra").

Cash and Cash Equivalents:

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because the instruments have maturity dates of three months or less.

Concentration of Credit Risk:

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

The Company has accounts with separate banks in Denver, Colorado and Shreveport, Louisiana. At December 31, 1998 and 1997, the Company had \$4,697,000 and \$7,295,000, respectively, invested in money market funds consisting of corporate commercial paper, repurchase agreements and U.S. Treasury obligations. The Company's policy is to invest in conservative, highly rated instruments and to limit the amount of credit exposure to any one institution.

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Oil and Gas Producing Activities:

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

Geological and geophysical costs on exploratory prospects and the costs of carrying and retaining unproved properties are expensed as incurred. An impairment allowance is provided on a property-by-property basis when the Company determines that the unproved property will not be developed. Depletion, depreciation and amortization ("DD&A") of capitalized costs of proved oil and gas properties is provided on a field-by-field basis using the units of production method based upon proved reserves. The computation of DD&A takes into consideration restoration, dismantlement and abandonment costs and the anticipated proceeds from equipment salvage. The estimated restoration, dismantlement and abandonment costs are expected to be offset by the estimated residual value of lease and well equipment.

The Company reviews its long-lived assets for impairments when events or changes in circumstances indicate that an impairment may have occurred. The impairment test compares the expected undiscounted future net revenues on a field-by-field basis with the related net capitalized costs at the end of each period. Expected future cash flows are calculated using all proved reserves at full estimated value and probable reserves at a risk-adjusted 15% of estimated value. When the net capitalized costs exceed the undiscounted future net revenues, the cost of the property is written down to "fair value," which is determined using discounted future net revenues from the producing property. The discount rate used is 15%. During 1998, 1997 and 1996 the Company recorded impairment charges for proved properties of \$17,483,000, \$5,202,000 and \$408,000, respectively.

Gains and losses are recognized on sales of entire interests in proved and unproved properties. Sales of partial interests are generally treated as recoveries of costs.

Sales of Producing and Nonproducing Properties:

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

The sale of a partial interest in an unproved property is accounted for as a recovery of cost when substantial uncertainty exists as to recovery of the cost applicable to the interest retained. A gain on the sale is recognized to the extent that the sales price exceeds the carrying amount of the unproved property.

Other Property and Equipment:

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

Restricted Cash:

Proceeds from the sales of certain oil and gas producing properties are held in escrow and restricted for future acquisitions under a tax-free exchange agreement. These funds have been invested in money market funds consisting of corporate commercial paper, repurchase agreements and U.S. Treasury obligations and are carried at cost, which approximates market.

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Gas Balancing:

The Company uses the sales method to account for gas imbalances. Under this method, revenue is recorded on the basis of gas actually sold by the Company. The Company records revenue for its share of gas sold by other owners that cannot be balanced in the future due to insufficient remaining reserves. Related receivables totaling \$1,928,000 at December 31, 1998 and \$1,955,000 at December 31, 1997 are included in other assets in the accompanying balance sheets. The Company also reduces revenue for gas sold by the Company that cannot be balanced in the future due to insufficient remaining reserves. Related payables totaling \$872,000 at December 31, 1998 and \$1,105,000 at December 31, 1997 are included in other liabilities in the accompanying balance sheets. The Company's remaining underproduced gas balancing position is included in the Company's proved oil and gas reserves (see Note 12).

Financial Instruments:

The Company periodically uses commodity contracts to hedge or otherwise reduce the impact of oil and gas price fluctuations. Gains and losses on commodity hedge contracts are recognized as an adjustment to revenues when the related oil or gas is sold. Cash flows from such transactions are included in oil and gas operations. The Company realized a net gain of \$1,873,000 on these contracts for the year ended December 31, 1998 and realized net losses of \$3,242,000 and \$4,253,000 on these contracts for the years ended December 31, 1997 and 1996, respectively.

In connection with these hedging transactions, the Company may be exposed to nonperformance by other parties to such agreements, thereby subjecting the Company to current oil and gas prices. However, the Company only enters into hedging contracts with large financial institutions and does not anticipate nonperformance.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Statement requires companies to report all derivatives at fair value as either assets or liabilities and bases the accounting treatment of the derivatives on the reasons an entity holds the instrument. The Company is currently reviewing the effects this Statement will have on the financial statements in relation to the Company's hedging activities.

Income Taxes:

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

Earnings Per Share:

Basic net income per share of common stock is calculated by dividing net income by the weighted average of common shares outstanding during each year. Diluted net income per common share of stock is calculated by dividing net income by the weighted average of outstanding common shares and other dilutive securities. Dilutive securities of the Company consist entirely of outstanding options to purchase the Company's common stock. As of December 31, 1998, there

were 66,748 securities that would normally be considered dilutive. However, as the Company was in a net loss position for the year ended December 31, 1998, all of the outstanding options were considered anti-dilutive and were therefore excluded from the diluted earnings per share calculation. The outstanding dilutive securities for the years ended December 31, 1997 and 1996 were 132,666 and 66,326, respectively. All net income of the Company is available to common stockholders.

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Stock-Based Compensation:

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Compensation expense for stock options, if any, is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The Company has elected to remain on its current method of accounting as described above, and has adopted the disclosure requirements of SFAS No. 123.

Comprehensive Income:

In 1998 the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income consists of net income and unrealized gains and losses on marketable equity securities held for sale and is presented in the consolidated statements of stockholders' equity. The adoption of SFAS No. 130 had no impact on total stockholders' equity. Prior year financial statements have been reclassified to conform to the requirements of SFAS No. 130.

Major Customers:

During 1998 no individual customer accounted for 10% or more of the Company's total oil and gas production revenue. During 1997 two customers individually accounted for 10.6% and 10.2% of the Company's total oil and gas production revenue.

Industry Segment and Geographic Information:

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

Use of Estimates in the Preparation of Financial Statements:

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

Reclassifications:

Certain amounts in the 1997 and 1996 consolidated financial statements have been reclassified to correspond to the 1998 presentation.

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2. Accounts Receivable:

Accounts receivable are composed of the following:

<TABLE>
<CAPTION>

	December 31,	
	----- 1998	1997 -----
	(In thousands)	
<S>	<C>	<C>
Accrued oil and gas sales	\$ 7,170	\$ 13,373
Due from joint interest owners	7,868	8,360
Other	2,899	2,587
	=====	=====

</TABLE>

3. Summo Minerals Corporation Investment and Receivable:

As of December 31, 1998 and 1997, the Company owned 9,924,093 shares (37% of total shares outstanding) of Summo, a North American mining company, with a total cost of \$5,859,000. The recorded net book value of the stock was zero and \$4,609,000 at December 31, 1998 and 1997, respectively. The Company also owned warrants to acquire an additional 616,090 shares of Summo common stock as of December 31, 1998 and 1997. These warrants expired January 12, 1999. The market value of this investment declined to \$705,000 at December 31, 1998. For the years ended December 31, 1998, 1997 and 1996 the Company reported equity in losses from Summo of \$661,000, \$526,000 and \$457,000, respectively. The equity in losses recorded were determined under United States Generally Accepted Accounting Principles.

In May 1997 the Company entered into an agreement to receive a 55% interest in Summo's Lisbon Valley Copper Project (the "Project") in return for the Company contributing \$4,000,000 in cash, all of its outstanding stock in Summo, and \$8,600,000 in letters of credit to a single purpose company, Lisbon Valley Mining Company LLC ("LVMC"), formed to own and operate the Project. Summo will contribute the property, all project permits and contracts, \$3,200,000 in cash, and a commitment for \$45,000,000 of senior debt financing in return for a 45% interest in LVMC. The agreement is subject to certain conditions, including finalization of the necessary project financing. In September 1998, Summo received final regulatory approval to develop the Project.

The Company has agreed to provide Summo with interim financing of up to \$3,471,000 for the Project in the form of a loan due in June 1999 bearing interest at the prime rate plus 1%. As security for this loan, Summo has pledged its interest in LVMC to the Company by entering into a pledge and security agreement, a deed of trust, and an assignment of rents and security agreement. All of these agreements are dated November 23, 1998. As of December 31, 1998 and 1997, the amounts outstanding under this loan were \$2,869,000 and \$2,081,000, respectively. Additional amounts totaling \$188,000 have been advanced to Summo under this loan to date in 1999.

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The principal amount of the note outstanding at December 31, 1998 is convertible into shares of Summo common stock at a conversion price equal to the weighted-average trading price of the common stock on the Toronto Stock Exchange for the twenty trading days immediately prior to and including December 31, 1998. The principal amount of advances made by the Company to Summo during 1999 are convertible into shares of Summo common stock at a conversion price equal to the weighted-average trading price of the common stock on the Toronto Stock Exchange for the twenty trading days immediately prior to and including June 12, 2000. Upon capitalization of LVMC the outstanding loan principal shall constitute a capital contribution in partial satisfaction of the Company's capital commitments set out in the May 1997 agreement, and any accrued interest on the loan shall be forgiven.

Future development and financial success of the Project are largely dependent on the market price of copper, which is determined in world markets and is subject to significant fluctuations. Current copper prices have declined to ten-year lows and do not justify construction and development of the Project at this time. Management believes that copper prices will recover and that the Project will have considerable value at that time. The Company has the ability to fund the carrying costs of the property and the intent to retain its interest in the Project until copper prices do recover.

The Company has analyzed its net investment in Summo and the effect of persistent depressed copper prices and increased worldwide copper inventory levels on Summo's stock price. Management believes Summo's stock price decline is not temporary and that its value is impaired. Consequently, the Company wrote down its net investment in Summo to net realizable value of \$2,869,000 in the fourth quarter of 1998. Management believes the recorded net investment is recoverable.

4. Income Taxes:

The provision for income taxes consists of the following:

<TABLE>
 <CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
	-----	-----	-----
	-----	-----	-----
	(In thousands)		
<S>	<C>	<C>	<C>
Current taxes:			

Federal	\$ 213	\$ 485	\$ 81
State	141	972	700
Deferred taxes	(5,752)	10,677	4,634
Benefit of deduction for stock option exercises	-	443	-
Total income tax expense (benefit)	\$ (5,398)	\$ 12,577	\$ 5,415
Continuing operations	\$ (5,415)	\$ 12,325	\$ 5,333
Discontinued operations	17	252	82
Total income tax expense (benefit)	\$ (5,398)	\$ 12,577	\$ 5,415

</TABLE>

The above taxes from continuing operations are net of alternative fuels credits (Internal Revenue Code Section 29) of \$315,000 in 1998, \$525,000 in 1997 and \$551,000 in 1996.

F-13

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

<TABLE>

<CAPTION>

	December 31,	
	1998	1997
	(In thousands)	
	<C>	<C>
Deferred tax liabilities:		
Oil and gas properties	\$ 13,194	\$ 18,279
Other	833	2,478
Total deferred tax liabilities	14,027	20,757
Deferred tax assets:		
Other, primarily employee benefits	696	1,496
State tax net operating loss carryforward	1,255	1,989
State and federal income tax benefit	930	1,320
Alternative minimum tax credit carryforward	1,123	784
Total deferred tax assets	4,004	5,589
Valuation allowance	(1,010)	(1,299)
Net deferred tax assets	2,994	4,290
Total net deferred tax liabilities	11,033	16,467
Current deferred income tax assets	125	122
Non-current net deferred tax liabilities	\$ 11,158	\$ 16,589

</TABLE>

At December 31, 1998, the Company had state net operating loss carryforwards of approximately \$25,800,000 which expire between 1999 and 2012 and alternative minimum tax credit carryforwards of \$1,123,000 which may be carried forward indefinitely. The Company's valuation allowance relates in part to its state net operating loss carryforwards, since the Company anticipates that a portion of the carryovers from prior years will expire before they can be utilized, and in part to a portion of the anticipated state benefit from federal income tax expense incurred as the Company's existing taxable temporary differences reverse. The net change in valuation allowance in 1998 results from the current year calculation of deferred state income tax for Oklahoma and the state benefit of federal income tax which is not offset by reversing state temporary differences.

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

<TABLE>

<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
	(In thousands)		
	<C>	<C>	<C>
Federal statutory taxes	\$ (4,843)	\$ 11,881	\$ 5,270
Increase (reduction) in taxes resulting from:			

State taxes (net of Federal benefit)	191	758	1,212
Statutory depletion	(119)	(174)	(173)
Alternative fuels credits (Section 29)	(315)	(525)	(551)
Change in valuation allowance	(289)	401	(504)
Other	(40)	(16)	79
	-----	-----	-----
Income tax expense (benefit) from continuing operations	\$ (5,415)	\$ 12,325	\$ 5,333
	=====	=====	=====

</TABLE>

F-14

5. Long-term Debt and Notes Payable:

On June 30, 1998, the Company entered into a new long-term revolving credit agreement that replaced the agreement dated March 1, 1993 and amended in April 1996. The new credit agreement specifies a maximum loan amount of \$200,000,000, and the initial aggregate borrowing base was \$115,000,000. The lender may periodically re-determine the aggregate borrowing base. In December 1998 the borrowing base was reduced by the lender to \$105,000,000 as a result of the sale of certain producing properties in Oklahoma. The accepted borrowing base was \$40,000,000 at December 31, 1998. The credit agreement has a maturity date of December 31, 2005, and includes a revolving period that matures on December 31, 2000. The Company can elect to allocate up to 50% of available borrowings to a short-term tranche due in 364 days. The Company must comply with certain covenants including maintenance of stockholders' equity at a specified level and limitations on additional indebtedness. As of December 31, 1998 and 1997, \$10,500,000 and \$14,450,000, respectively, was outstanding under this credit agreement.

Effective June 30, 1998, interest on borrowings during the revolving period and commitment fees on the unused portion of the accepted borrowing base are calculated as follows:

INTEREST RATES:

Debt to Capitalization Ratio	Interest Rate
-----	-----
Less than 0.3 to 1.0	The Company's option of (a) LIBOR + 0.50% or (b) the higher of the Federal Funds Rate + 0.5% or the Prime Rate
Greater than or equal to 0.3 to 1.0 but less than 0.4 to 1.0	The Company's option of (a) LIBOR + 0.75% or (b) the higher of the Federal Funds Rate + 0.5% or the Prime Rate
Greater than or equal to 0.4 to 1.0 but less than 0.5 to 1.0	The Company's option of (a) LIBOR + 1.00% or (b) the higher of the Federal Funds Rate + 0.5% or the Prime Rate
Greater than or equal to 0.5 to 1.0	The Company's option of (a) LIBOR + 1.25% or (b) the higher of the Federal Funds Rate + 0.625% or the Prime Rate + 0.125%

COMMITMENT FEES:

Debt to Capitalization Ratio	Short-Term Tranche	Long-Term Tranche
-----	-----	-----
Less than 0.5 to 1.0	0.125%	0.25%
Greater than or equal to 0.5 to 1.0	0.375%	0.50%

At December 31, 1998, the Company's debt to capitalization ratio as defined under the credit agreement was 0.13 to 1.0.

Panterra, in which the Company has a 74% general partnership ownership interest, has a separate credit facility with a \$21,000,000 borrowing base as of December 31, 1998, and \$12,000,000 and \$11,000,000 outstanding as of December 31, 1998 and 1997, respectively. In June 1997, Panterra entered into this credit agreement replacing a previous agreement, which was due March 31, 1999. The new credit agreement includes a revolving period converting to a five-year amortizing loan on June 30, 2000. During the revolving period of the loan, loan balances accrue interest at Panterra's option of either the bank's prime rate or LIBOR plus 0.75% when the Partnership's debt to partners' capital ratio is less than 30%, up to a maximum of either the bank's prime rate or LIBOR plus 1.25% when the Partnership's debt to partners' capital ratio is greater than 100%. At December 31, 1998, Panterra's debt to partners' capital ratio as defined was 66%. In the event of default both the Company and Nance are jointly and

severally liable for all debt as the general partners.

F-15

The carrying value of long-term debt approximates fair value because the debt is variable rate and reprices in the short term.

The Company's liability for estimated annual principal payments for the next five years under both notes payable are as follows:

<TABLE>
<CAPTION>

Years Ending December 31, -----	(In thousands) -----
<S>	<C>
1999	\$ -
2000	1,173
2001	3,670
2002	3,229
2003	2,959
Thereafter	8,367

	\$ 19,398
	=====

</TABLE>

6. Commitments and Contingencies:

The Company leases office space under various operating leases with terms extending as far as June 30, 2003. The Company has noncancelable annual subleases with affiliates of approximately \$75,000 for the same term as the Company's primary office lease. Rent expense, net of sublease income, was \$484,000, \$447,000 and \$426,000 in 1998, 1997 and 1996, respectively. The Company also leases various office equipment under operating leases. The annual minimum lease payments for the next five years are presented below:

<TABLE>
<CAPTION>

Years Ending December 31, -----	(In thousands) -----
<S>	<C>
1999	\$ 626
2000	637
2001	633
2002	369
2003	133

</TABLE>

On January 29, 1999, the company obtained a commitment for a letter of credit ("LOC") from an U.S. bank. The beneficiary of the LOC is a Canadian bank, and the LOC is used as collateral for an irrevocable letter of guarantee ("ILG") which was furnished to the Canadian federal taxing authority. The ILG was provided on behalf of the Company and its joint venture partners securing possible Canadian federal tax liabilities resulting from the sale of assets in Canada.

F-16

The Company had the following commodity contracts in place as of December 31, 1998, to hedge or otherwise reduce the impact of oil and gas price fluctuations:

Product -----	Volumes/month -----	Fixed Price -----	Duration -----
Natural Gas	100,000 MMBtu	\$2.3450	1/99 - 3/99
Natural Gas	100,000 MMBtu	\$2.1900	1/99 - 4/99
Natural Gas	100,000 MMBtu	\$2.1200	1/99 - 10/99
Natural Gas	170,000 MMBtu	\$2.0900	1/99 - 10/99
Natural Gas	330,000 MMBtu month	\$1.9450	1/99 - 12/99
Natural Gas	220,000 MMBtu	\$2.3100	1/99 - 12/99
Natural Gas	50,000 MMBtu	\$2.0350	2/99 - 4/99
Natural Gas	220,000 MMBtu	\$2.6300 (a)	5/99 - 9/99

(a) Price collar contract. Price ceiling shown, price floor equals \$1.90 per MMBtu.

The fair value of the Company's commodity hedging contracts based on year-end futures pricing would have caused the Company to receive approximately \$776,000 if these contracts had been terminated on December 31, 1998.

At December 31, 1998, Panterra, in which the Company owns a 74% interest, held various hedge contracts covering 39,000 Bbls of future crude oil production. These contracts expire at various dates through May 1999. Panterra will receive fixed prices ranging from 15.68 per Bbl to 16.80 per Bbl. If the open hedging contracts had been liquidated at December 31, 1998, Panterra would have recognized a gain of approximately \$152,000.

The Company seeks to protect its rate of return on acquisitions of producing properties by hedging up to the first 24 months of an acquisition's production at prices approximately equal to or greater than those used in the Company's acquisition evaluation and pricing model. The Company also periodically uses hedging contracts to hedge or otherwise reduce the impact of oil and gas price fluctuations on production from each of its core operating areas. The Company's strategy is to ensure certain minimum levels of operating cash flow and to take advantage of windows of favorable commodity prices. The Company generally attempts to limit its aggregate hedge position to no more than 50% of its total production. The Company seeks to minimize basis risk and indexes the majority of its oil hedges to NYMEX prices and the majority of its gas hedges to various regional index prices associated with pipelines in proximity to the Company's areas of gas production. Including hedges entered into since December 31, 1998, and those detailed above, the Company has hedged approximately 45% of its estimated 1999 gas production at an average fixed price of \$2.10 per MMBtu, approximately 9% of its estimated 1999 oil production at an average fixed price of \$15.11 per Bbl and approximately 8% of its estimated 2000 oil production at an average fixed price of \$14.76 per Bbl. The Company has also purchased options resulting in price collars on approximately 7% of the Company's estimated 1999 gas production with price ceilings between \$2.00 and \$2.63 per MMBtu and price floors between \$1.50 and \$1.90 per MMBtu.

7. Compensation Plans:

In January 1992, the Company adopted two compensation plans for key employees. A cash bonus plan not to exceed 50% of the participants' aggregate base salaries was adopted, and any awards are based on performance. A net profits interest bonus plan allows participants to receive an aggregate 10% net profits interest after the Company has recovered 100% of its investment in various pools of oil and gas wells completed or acquired during the year. This interest is increased to 20% after the Company recovers 200% of its investment. The Company records compensation expense once it recovers its investment and net profits attributable to the properties are payable to the employees. The Company recorded compensation expense of \$229,000 in 1998 and \$416,000 in 1997 relating to net profits attributable to these properties.

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Through September 1992 the Company had a restricted stock bonus plan ("Plan") covering officers and key employees. Participants have the option at any time to sell shares acquired under the Plan to the Company at their fair market values. At December 31, 1998, there were 28,455 shares issued and outstanding under the Plan.

In March 1992 the Company adopted a stock appreciation rights ("SAR") plan for officers and directors. SARs vest over a four-year period, with payment occurring five years after the date of grant. The SAR plan replaced the restricted stock bonus plan. Between 1993 and 1996 the Company awarded a total of 171,412 share rights with values ranging from \$11.50 to \$14.00 per share. Compensation expense was reduced by \$197,000 in 1998 under the SAR plan. Compensation expense recognized under the SAR plan was \$161,000 and \$1,567,000 in 1997 and 1996, respectively. In November 1996 the Company terminated future awards under the Company's SAR plan and capped the value of the share rights under the SAR plan at the then fair market value of the Company's common stock of \$20.50 per share. The resulting liability is classified as current and long-term in the consolidated balance sheets, based on expected payment dates. SAR compensation expense recorded after the termination of future awards relates to the vesting of SARs outstanding at the time of the termination of future awards and to the fluctuation of the stock price below the capped price of \$20.50.

The Company has a defined contribution pension plan ("401(k) Plan") qualified under the Employee Retirement Income Security Act of 1974. This 401(k) Plan allows eligible employees to contribute up to 9% of their base salaries. The Company matches each employee's contributions up to 6% of the employee's base salary and also may make additional contributions at its discretion. The Company's contributions to the 401(k) Plan amounted to \$269,000, \$231,000 and \$199,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

During 1996 the Company established the St. Mary Land & Exploration Company Stock Option Plan and the St. Mary Land & Exploration Company Incentive Stock Option Plan (collectively, the "Option Plans"). The Option Plans grant options to purchase shares of the Company's common stock to eligible employees, contractors, and current and former members of the Board of Directors. The Company has reserved 700,000 shares of its own common stock for issuance under the Option Plans. The Company intends to increase the number of shares of common stock available for issuance under the Option Plans and to seek shareholder approval of such increase in 1999. During 1996 options to purchase 256,598

shares of the Company's common stock were granted under the Option Plans at an exercise price of \$20.50 in connection with the termination of future awards under the Company's SAR plan. Also during 1996, options to purchase 42,880 shares were granted under the Option Plans at an exercise price \$24.875. The vesting periods of these options vary from 0 to 3 years, and the options are exercisable for the period from five to ten years after the date of grant. No options under the Option Plans were exercised during the year ended December 31, 1996. In 1997 14,072 options under the Option Plans were exercised at \$20.50 per share, and an additional 74,057 and 107,423 options were granted at \$29.375 and \$35.00 per share, respectively. During the year ended December 31, 1998, 251,774 options were granted and no options were exercised under the Option Plans. All options granted to date under the Option Plans have been granted at exercise prices equal to the respective market prices of the Company's common stock on the grant dates.

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In 1990 and 1991 the Company granted certain officers options to acquire 54,614 shares of common stock at an exercise price of \$3.30 per share. The options are now fully vested and expire ten years from the respective dates of grant. In 1997 34,614 of these options were exercised, leaving 20,000 options outstanding. None of these options were exercised in 1998.

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

<TABLE>
<CAPTION>

	For the Years Ended December 31,					
	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	479,343	\$ 24.80	354,092	\$ 18.38	54,614	\$ 3.30
Granted	251,774	18.50	181,480	32.70	299,478	21.13
Exercised	-	-	-	-	-	-
Forfeited	9,899	28.63	48,686	8.27	-	-
			7,543	20.50		
Outstanding at end of year	721,218	\$ 22.55	479,343	\$ 24.80	354,092	\$ 18.38
Options exercisable at year end	164,670	\$ 18.41	129,173	\$ 17.84	145,576	\$ 14.05
Weighted average fair value of options granted during the year	\$ 8.16		\$ 15.05		\$ 8.06	

</TABLE>

A summary of additional information related to the options outstanding as of December 31, 1998 follows:

<TABLE>
<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	

<S>	<C>	<C>	<C>	<C>	<C>	
\$ 3.30 -	\$ 3.30	20,000	2.0 years	\$ 3.30	20,000	\$ 3.30
18.50 -	18.50	251,774	10.0 years	18.50	-	-
20.50 -	24.88	273,558	5.4 years	21.15	144,670	20.50
29.38	35.00	175,886	8.6 years	32.69	-	-
Total		721,218	7.7 years	22.55	164,670	18.41

</TABLE>

F-19

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

The fair value of options is measured at the date of grant using the Black-Scholes option-pricing model. The fair value of options granted in 1998 was estimated using the following weighted-average assumptions: risk-free interest rate of 4.6%; dividend yield of 1.08%; volatility factor of the expected market price of the Company's common stock of 40.16%; and expected life of the options of 7.5 years. The fair value of options granted in 1997 was estimated using the following weighted-average assumptions: risk-free interest rate of 5.7%; dividend yield of .49%; volatility factor of the expected market price of the Company's common stock of 37.29%; and expected life of the options of 7.1 years. The fair value of the options granted in 1996 was estimated using the following weighted-average assumptions: risk-free interest rate of 6.2%; dividend yield of .76%; volatility factor of the expected market price of the Company's common stock of 37.88%; and expected life of the options of 4.8 years.

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Had compensation cost been determined based on the fair value at grant dates for stock option awards consistent with SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

<S>		Pro Forma for the Years Ended December 31,		
		1998	1997	1996
		(In thousands, except per share amounts)		
		<C>	<C>	<C>
Net income (loss) applicable to common stock	As reported	\$ (8,797)	\$ 23,109	\$ 10,326
	Pro forma	\$ (9,682)	\$ 22,443	\$ 9,607
Basic earnings (loss) per share	As reported	\$ (.81)	\$ 2.18	\$ 1.18
	Pro forma	\$ (.89)	\$ 2.11	\$ 1.10
Diluted earnings (loss) per share	As reported	\$ (.81)	\$ 2.15	\$ 1.17
	Pro forma	\$ (.89)	\$ 2.09	\$ 1.09

</TABLE>

The effects of applying SFAS No. 123 in the pro forma disclosure are not necessarily indicative of actual future amounts, and SFAS No. 123 does not apply to awards granted prior to 1995. Additional awards in future years are anticipated.

On September 18, 1997, the Board of Directors approved the St. Mary Land & Exploration Company Employee Stock Purchase Plan ("Stock Purchase Plan"), which became effective January 1, 1998. Under the Stock Purchase Plan eligible employees may purchase shares of the Company's common stock through payroll deductions of up to 15% of eligible compensation. The purchase price of the stock is 85% of the lower of the fair market value of the stock on the first or last day of the purchase period. The Company has set aside 500,000 shares of its common stock to be available for issuance under the Stock Purchase Plan, and 8,424 shares were sold under the Stock Purchase Plan in 1998. No compensation expense was recorded in 1998 related to the plan.

8. Pension and Other Postretirement Benefits

The Company's employees participate in a non-contributory pension plan covering substantially all employees who meet age and service requirements (the qualified plan). The Company also has a supplemental non-contributory pension plan covering certain management employees (the nonqualified plan) and a postretirement non-contributory health care plan. The Company's disclosures about pension and other postretirement benefits is as follows:

<TABLE>
<CAPTION>

	Pension Plans		Other Benefits	
	December 31,		December 31,	
	1998	1997	1998	1997
	(In thousands)		(In thousands)	
<S>	<C>	<C>	<C>	<C>
Change in benefit obligations:				
Benefit obligation at beginning of year	\$ 1,926	\$ 1,330	\$ 141	\$ 110
Service Cost	201	192	24	19
Interest Cost	151	100	11	9
Actuarial gain	472	330	9	3
Benefits paid	(280)	(26)	-	-
Benefit obligation at end of year	\$ 2,470	\$ 1,926	\$ 185	\$ 141
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 932	\$ 874	-	-
Actual return on plan assets	179	84	-	-
Employer contribution	381	-	-	-
Benefits paid	(280)	(26)	-	(4)
Fair value of plan assets at end of year	\$ 1,212	\$ 932	\$ -	\$ (4)
Funded Status	\$ (1,258)	\$ (994)	\$ (185)	\$ (145)
Unrecognized net actuarial loss	867	576	64	57
Unrecognized prior service cost	(43)	(50)	-	-
Prepaid (accrued) benefit cost	\$ (434)	\$ (468)	\$ (121)	\$ (88)

</TABLE>

The Company's nonqualified pension plan was the only pension plan with an accumulated benefit obligation in excess of plan assets. The plan's accumulated benefit obligation was \$274,000 at December 31, 1998, and \$271,000 at December 31, 1997. There are no plan assets in the nonqualified plan due to the nature of the plan. The Company's other plan for postretirement benefits also has no plan assets. The aggregate benefit obligation for that plan is \$121,000 as of December 31, 1998, and \$88,000 as of December 31, 1997.

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

<TABLE>
<CAPTION>

Pension Plans	Other Benefits
December 31,	December 31,

	1998	1997	1998	1997
	(In thousands)		(In thousands)	
<S>	<C>	<C>	<C>	<C>
Weighted-average assumptions:				
Discount rate	6.50%	7.00%	7.00%	7.00%
Expected return on plan assets	5.00%	5.00%	N/A	N/A
Rate of compensation increase	8.00%	8.00%	N/A	N/A

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 6 percent for 2003 and remain at that level thereafter.

<TABLE>
<CAPTION>

	Pension Plans		Other Benefits	
	December 31,		December 31,	
	1998	1997	1998	1997
<S>	(In thousands)		(In thousands)	
	<C>	<C>	<C>	<C>
Components of net periodic benefit cost:				
Service cost	\$ 201	\$ 192	\$ 24	\$ 19
Interest cost	151	100	11	9
Expected return on plan assets	(179)	(84)	-	-
Amortization of prior service cost	174	21	-	-
Recognized net actuarial loss	-	-	2	2
Net periodic benefit cost	\$ 347	\$ 229	\$ 37	\$ 30

</TABLE>

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The Company has one nonpension postretirement benefit plan; a noncontributory health care plan.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1% change in assumed health care cost trend rates would have the following effects (in thousands):

<TABLE>
<CAPTION>

	1% Increase	1% Decrease
<S>	<C>	<C>
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 11	\$ 4
Effect on the health care component of the accumulated postretirement benefit obligation	\$ (37)	\$ 29

</TABLE>

F-22

9. Sale of Oklahoma Properties:

On December 15, 1998, the Company closed the sale of a package of non-strategic properties to ONEOK Resources Company for a purchase price of \$22,201,000. The Company received \$22,117,000 in cash proceeds, net of transaction costs and customary closing adjustments made to reflect post-effective date revenues and expenses. The transaction was consummated pursuant to a Purchase and Sale Agreement dated November 12, 1998, effective as of September 1, 1998. The assets sold consist of producing oil and gas wells and undeveloped leasehold acreage within eight fields located in Beckham and Roger Mills counties, Oklahoma.

The majority of the proceeds from this property sale were used to reduce the Company's outstanding bank debt in anticipation of re-deploying this capital in the Company's drilling, exploration and acquisition programs in 1999.

10. Investment in Russian Joint Venture:

In September 1991 the Company, acquired a 22% interest in The Limited Liability Company Chernogorskoye through Anderman Smith International-Chernogorskoye (the "Partnership"), collectively, the "Russian

joint venture"). The Company's interest in the Russian joint venture was reduced to 18% in 1993. The Russian joint venture is developing the Chernogorskoye field in western Siberia. On December 16, 1996, the Company executed an Acquisition Agreement to sell its interest in the Russian joint venture to Khanty Mansiysk Oil Corporation ("KMOC"), formerly Ural Petroleum Corporation. In accordance with the terms of the Acquisition Agreement, the Company received cash consideration of \$5,608,000 before transaction costs, KMOC common stock valued at \$1,869,000, and a receivable in a form equivalent to a retained production payment of approximately \$11,217,000 plus interest at 10% per annum from the limited liability company formed to hold the Russian joint venture interest. The Company has accrued an obligation of \$1,083,000 for commissions to be paid when proceeds are received on the note leaving net proceeds of \$10,134,000. Company's receivable is collateralized by the partnership interest sold. The Company has the right, subject to certain conditions, to require KMOC to purchase the Company's receivable from the net proceeds of an initial public offering of KMOC common stock. Alternatively, the Company may elect to convert all or a portion of its receivable into KMOC common stock immediately prior to an initial public offering of KMOC common stock or on or after March 10, 2000, whichever occurs first. The transaction closed on February 12, 1997, and the Company recorded a gain on the sale of \$9,671,000. The Company's equity in income for the Russian joint venture for 1997 through the date of sale was \$203,000. Uncertain economic conditions in Russia and lower oil prices have affected the realizability of the convertible receivable. As a result, the Company has reduced the carrying amount of the receivable to its minimum conversion value, incurring a charge to operations of \$4,553,000 for the year ended December 31, 1998.

Summarized financial information of the Russian joint venture for the last full year owned by the Company is shown below:

<TABLE>
<CAPTION>

For the Year Ended
December 31, 1996

(Unaudited, in thousands)

<S>
<C>
Income Statement:
Oil and gas revenues \$ 60,367
Operating expenses (44,752)
Interest and other expenses (9,199)

Net income \$ 6,416
=====

</TABLE>

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11. Real Estate Assets:

In a prior year the Company made the decision to sell its remaining real estate projects. Accordingly, the Company's real estate activities since that time have been presented as discontinued operations in the consolidated statements of income. The Company's remaining real estate assets consist of land held for sale with a carrying cost of \$1,095,000 and \$1,149,000 as of December 31, 1998 and 1997, respectively, which in the opinion of management is less than the estimated net realizable values.

12. Disclosures About Oil and Gas Producing Activities:

Costs Incurred in Oil and Gas Producing Activities:

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

<TABLE>
<CAPTION>

For the Years Ended
December 31,

1998 1997 1996

(In thousands)

<S>
<C>
Development costs \$ 32,191 \$ 39,030 \$ 16,709
Exploration costs:
 Domestic 17,767 15,311 11,910
 International - 16 84
Acquisitions:
 Proved 4,204 27,291 20,957
 Unproved 3,693 7,565 2,941

Total	\$ 57,855	\$ 89,213	\$ 52,601
	=====	=====	=====
Russian joint venture, equity method (a)	\$ -	\$ -	\$ 3,881
	=====	=====	=====

</TABLE>

- -----

(a) In February 1997, the Company sold its interest in the Russian joint venture (see note 10).

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Oil and Gas Reserve Quantities (Unaudited):

The reserve information as of December 31, 1998, 1997, 1996 and 1995 was prepared by the Company and Ryder Scott Company. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of proved producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available.

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

Presented below is a summary of the changes in estimated domestic reserves of the Company and its share of the Russian joint venture reserves:

<TABLE>

<CAPTION>

	For the Years Ended December 31,					
	1998		1997		1996	
	Oil or Condensate	Gas	Oil or Condensate	Gas	Oil or Condensate	Gas
	(MMcf)	(MMcf)	(MMcf)	(MMcf)	(MMcf)	(MMcf)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total proved U.S. reserves:						
Developed and undeveloped:						
Beginning of year	11,493	196,230	10,691	127,057	7,509	75,705
Revisions of previous estimates	(2,437)	(42,430)	(502)	(7,486)	706	6,706
Discoveries and extensions	336	38,744	1,203	77,876	1,343	44,018
Purchases of minerals in place	679	1,225	1,328	24,809	2,625	16,894
Sales of reserves	(182)	(35,724)	(39)	(3,126)	(306)	(703)
Production	(1,275)	(25,440)	(1,188)	(22,900)	(1,186)	(15,563)
End of year (a)	8,614	132,605	11,493	196,230	10,691	127,057
Proved developed U.S. reserves:						
Beginning of year	10,268	168,229	10,015	100,027	6,829	66,230
End of year	7,723	112,189	10,268	168,229	10,015	100,027
Russian joint venture reserves:						
End of year (b)	-	-	-	-	7,146	2,444

</TABLE>

- -----

(a) At December 31, 1998, 1997 and 1996, includes approximately 2,022, 1,982 and 1,622 MMcf, respectively representing the Company's underproduced gas balancing position.

(b) In February 1997, the Company sold its interest in the Russian joint venture (see note 10).

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

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

Future cash inflows and future production and development costs are determined by applying benchmark prices and costs, including transportation and

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

The assumptions used to compute the standardized measure are those prescribed by the FASB and, as such, do not necessarily reflect the Company's expectations of actual revenues to be derived from those reserves, nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates are the basis for the valuation process.

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

<TABLE>
<CAPTION>

				As of December 31,		
				1998	1997	1996
				(In Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Future cash inflows				\$328,630	\$629,001	\$691,945
Future production and development costs				(128,120)	(202,503)	(196,677)
Future income taxes				(39,471)	(120,742)	(155,805)
				-----	-----	-----
Future net cash flows				161,039	305,756	339,463
10% annual discount				(59,093)	(118,409)	(136,233)
				-----	-----	-----
Standardized measure of discounted future net cash flows				\$101,946	\$187,347	\$203,230
				=====	=====	=====
Russian joint venture standardized measure of discounted future net cash flows (a)				\$ -	\$ -	\$ 23,681
				=====	=====	=====

</TABLE>

- - - - -

(a) In February 1997, the Company sold its interest in the Russian joint venture (see note 10).

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

<TABLE>
<CAPTION>

				For the Years Ended December 31,		
				1998 (a)	1997	1996
				(In thousands)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Standardized measure, beginning of year				\$187,347	\$203,230	\$ 87,699
Sales of oil and gas produced, net of production costs				(53,643)	(60,506)	(43,877)
Net changes in prices and production costs				(78,974)	(132,465)	71,882
Extensions, discoveries and other, net of production costs				36,495	112,698	90,974
Purchase of minerals in place				5,548	40,647	26,241
Development costs incurred during the year				12,964	11,305	6,833
Changes in estimated future development costs				1,641	(2,998)	(1,166)
Revisions of previous quantity estimates				(39,303)	(8,885)	19,350
Accretion of discount				26,152	29,646	12,019
Sales of reserves in place				(26,435)	(5,493)	(1,224)
Net change in income taxes				50,994	19,089	(61,459)
Other				(20,840)	(18,921)	(4,042)
				-----	-----	-----
Standardized measure, end of year				\$101,946	\$187,347	\$203,230

</TABLE>

=====

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(a) The standardized measure for the year ended December 31, 1998, was based on a year-end gas price of \$1.86 per MMBtu and a year-end oil price of \$12.05 per BbL. Using these prices the present value of future net revenues discounted at 10% before tax is \$125,126,000.

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SIGNATURES

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

ST. MARY LAND & EXPLORATION COMPANY

(Registrant)

Date: November 12, 1999

By: /s/ MARK A. HELLERSTEIN

Mark A. Hellerstein, President, Chief Executive Officer, and Director

GENERAL POWER OF ATTORNEY

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

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

Signature	Title	Date
* ----- Thomas E. Congdon	Chairman of the Board of Directors	November 12, 1999
/s/ MARK A. HELLERSTEIN ----- Mark A. Hellerstein	President, Chief Executive Officer, and Director	November 12, 1999
* ----- Ronald D. Boone	Executive Vice President, Chief Operating Officer and Director	November 12, 1999

Signature Title Date

* ----- Richard C. Norris	Vice President-Finance, Secretary and Treasurer	November 12, 1999
* ----- Garry A. Wilkening	Vice President-Administration and Controller	November 12, 1999
* ----- Larry W. Bickle	Director	November 12, 1999
* ----- David C. Dudley	Director	November 12, 1999
* ----- Richard C. Kraus	Director	November 12, 1999
* ----- R. James Nicholson	Director	November 12, 1999
* ----- Arend J. Sandbulte	Director	November 12, 1999
* ----- John M. Seidl	Director	November 12, 1999
* By: /s/ MARK A. HELLERSTEIN ----- Mark A. Hellerstein, Attorney-in-Fact		November 12, 1999

DEED OF TRUST, ASSIGNMENT OF RENTS
AND SECURITY AGREEMENT

THIS DEED OF TRUST, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT (hereinafter referred to as the "Deed of Trust") made and entered into as of this 23rd day of November, 1998, by and between LISBON VALLEY MINING CO. LLC, a Utah limited liability company (hereinafter referred to as "Grantor") whose mailing address is 1776 Lincoln Street, Suite 900, Denver, Colorado 80203 and STEWART TITLE GUARANTY COMPANY, a Texas corporation (hereinafter referred to as "Trustee") whose address is 455 East, 500 South, Salt Lake City, Utah 84111, for the benefit of ST. MARY MINERALS INC., a Colorado corporation (hereinafter referred to as "Beneficiary") whose address is 1776 Lincoln Street, Suite 1100, Denver, Colorado 80203.

ARTICLE I.
GRANT

Section 1.1. Grant. Grantor, in consideration of the indebtedness herein recited and the trust herein created, does hereby unconditionally and irrevocably grant, assign and convey unto Trustee, with power of sale and right of entry and possession, the real estate, minerals and water rights located in San Juan County, State of Utah, and more particularly described in Exhibit A attached hereto and incorporated herein, which, with the property hereinafter described, is referred to herein as the "Property."

TOGETHER WITH:

a. All buildings and improvements, now or hereafter located thereon, all privileges and other rights now or hereafter made appurtenant thereto including, without limitation, all right, title and interest of Grantor in and to all streets, roads and public places, opened or proposed, and all easements, rights-of-way, public or private, now or hereafter used in connection with the Property, including all rights of ingress and egress to and from adjoining property, all strips or gores of land, alleys, passages, and all estates, rights, titles, interests, privileges, tenements, hereditaments, and appurtenances, and all oil, gas, minerals, water, surface and subsurface rights whatsoever in any way belonging, relating or appertaining to the Property or which hereafter shall in any way belong, relate or be appurtenant thereto, whether now owned or hereafter acquired by Grantor, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all the estate, right, title, interest, property, possession, claim and demand whatsoever, at law and in equity, of Grantor of, in and to the same; and all proceeds of any sales or other dispositions of the Property, and also all the estate, right, title and interest of Grantor, either at law or in equity, of, in and to the Property and every part thereof; and

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b. All right, title and interest of Grantor in and to all fixtures, fittings, furnishings, apparatus, equipment and machinery, and all renewals or replacements thereof or articles in substitution thereof; and all proceeds and profits thereof; it being understood and agreed that all of the estate, right, title and interest of Grantor in and to all property of any nature whatsoever, now or hereafter situated on the Property or intended to be used in connection with the operation thereof, shall be deemed to be fixtures and an accession to the freehold and a part of the realty as between the parties hereto, and all persons claiming by, through or under them, and shall be deemed to be a portion of the security for the indebtedness herein mentioned and secured by this Deed of Trust. If the lien of this Deed of Trust on any fixtures or personal property be subject to a lease agreement, conditional sale agreement or chattel mortgage covering such property, then in the event of any default hereunder all the rights, title and interest of Grantor in and to any and all deposits made thereon or therefor are hereby assigned to Trustee, together with the benefit of any payments now or hereafter made thereon. There is also transferred, set over and assigned by Grantor to Trustee hereby all leases and use agreements of machinery, equipment and other personal property of Grantor in the categories hereinabove set forth, under which Grantor is the lessee of, or entitled to use, such items, and Grantor agrees to execute and deliver to Beneficiary specific separate assignments to Beneficiary of such leases and agreements when requested by Beneficiary; but nothing herein shall obligate Beneficiary to perform any obligations of Grantor under such leases or agreements unless it so chooses, which obligations Grantor hereby covenants and agrees to well and punctually perform. The items set forth in this Subsection are sometimes hereinafter separately referred to as the "Collateral"; and

c. All rents, income, profits, revenues, royalties, bonuses, rights, accounts, contract rights, general intangibles and benefits under any and all leases or tenancies now existing or hereafter created on or in any way related to the Property or any part thereof, with the right, after an Event of Default (as hereinafter defined), to receive and apply the same to such indebtedness, and, after an Event of Default, Beneficiary may demand, sue for and recover such payments but shall not be required to do so; and

d. All interest which Grantor has or may hereafter have in the proceeds of insurance in effect with respect to the Property; and

e. Any judgments, awards of damages, payments, and settlements, including interest thereon, hereafter made as a result of or in lieu of any taking of the Property or any part thereof or interest therein under the power of eminent domain, or for any damage (whether caused by such taking or otherwise), including interest thereon, to the Property or the improvements thereon or any part thereof or interest therein, including any award for change of grade of streets; and

f. All proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims; and

g. All leases and leasehold rights of any kind or nature whatsoever affecting the Property or in any way related thereto; and

h. All oil, gas and minerals, and all water, ditch, well and reservoir rights which are appurtenant to or which have been or may be used in connection with the Property; and

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i. All oil, gas, minerals, crops, timber, trees and landscaping features now or hereafter located on, in, under or above the Property; and

j. All surface, subsurface, development and mining rights associated with the Property, whether now or hereafter created; and

k. All other or greater rights and interests of every nature in, with respect to or related to the Property or in the possession or use thereof and in the income therefrom, whether now owned or subsequently acquired by Grantor.

TO HAVE AND TO HOLD such Property unto Trustee, subject only to (a) the rights of Lisbon Copper Ltd. under that certain Second Amendment of Option Agreement dated December 4, 1997, (b) the rights of the lessors of the leases included in the Property, (c) the paramount rights of the United States and (d) the liens and encumbrances of Beneficiary and liens and encumbrances of record on the date hereof (hereinafter referred to as the "Permitted Exceptions"); and Grantor does hereby bind itself, its successors and assigns to warrant and forever defend, all and singular, such Property unto Trustee, its successors, substitutes and assigns, against all persons whomsoever claiming or to claim the same or any part thereof.

Section 1.2. Security Agreement. Grantor makes the foregoing grant to Trustee to hold the Property in trust for the benefit of Beneficiary and for the purposes and upon the terms and conditions hereinafter set forth. This instrument is and shall be construed as both a Deed of Trust and Security Agreement and to the extent that any of the Property, including but without limitation, the Collateral, is deemed to be personal property or fixtures, or property not subject to an encumbrance upon real estate, Grantor hereby grants unto Beneficiary a security interest in and to such property.

Section 1.3. Release. If Grantor shall pay or cause to be paid to the holder of the Note (defined below) the principal and interest to become due thereupon at the time and in the manner stipulated therein, and shall pay or cause to be paid all other sums payable hereunder and all indebtedness hereby secured, then, in such case, the estate, right, title and interest of Trustee and Beneficiary in the Property shall cease, terminate and become void, and upon proof being given to the satisfaction of Beneficiary that the Note, together with interest thereon have been paid or satisfied, and upon payment of all fees, costs, charges, expenses and liabilities chargeable or incurred or to be incurred by Trustee or Beneficiary, and of any other sums as herein provided, this conveyance shall be released in due form at the expense of Grantor, otherwise it shall remain in full force and effect.

ARTICLE II.
OBLIGATIONS SECURED

This Deed of Trust is given to secure to Beneficiary the following:

a. That certain convertible promissory note dated effective as of October 1, 1997 payable jointly and severally by Summo Minerals Corporation and Summo USA Corporation to the order of Beneficiary in the original principal amount of \$2,950,000 or, if greater or less, the aggregate principal amount of all loans made by Beneficiary to either Summo Minerals Corporation or Summo USA Corporation, together with any extensions, modifications, or renewals thereof (herein referred to as the "Note", the terms and provisions of which are expressly incorporated herein by this reference);

b. Any other indebtedness by Grantor, Summo Minerals Corporation or Summo USA Corporation to Beneficiary, now or hereafter arising under the terms hereof or in any other instrument constituting additional security for the Note; and

c. The performance by Grantor, Summo Minerals Corporation or Summo USA Corporation of all the terms, covenants and agreements on their part to be performed under the Note, this Deed of Trust, the Pledge and Security Agreement of even date executed by Grantor concurrently herewith and any other instrument now or hereafter executed by Grantor, Summo Minerals Corporation or Summo USA Corporation as security for payment of the indebtedness secured hereby (hereafter collectively called the "Security Documents").

ARTICLE III.
TITLE AND AUTHORITY

Section 3.1. Title.

a. Grantor hereby covenants, represents and warrants that Grantor owns and has good and indefeasible title to an indefeasible fee simple estate in the real estate described in Exhibit A hereto subject to no liens, charges, or encumbrances except for the Permitted Exceptions; that Grantor has full power and authority to grant, bargain, sell and convey the Property in the manner and form herein done or intended hereafter to be done; that this Deed of Trust is and shall remain a valid and enforceable first lien on the Property subject only to the Permitted Exceptions; that Grantor and its successors and assigns warrant and agree to defend the same forever against the lawful claims and demands of all persons or entities whatsoever; and that this covenant shall not be extinguished by any exercise of power of sale, foreclosure or sale hereof but shall run with the land. Nothing in this Section 3.1(a), however, shall be deemed to be a representation or a warranty that any of the unpatented mining claims contains a discovery of minerals.

b. Subject to the Permitted Exceptions, Grantor has and shall maintain title to the Collateral, including any additions or replacements thereto, free of all security interests, liens and encumbrances other than the security interest granted to Beneficiary and other than as disclosed to and accepted by Beneficiary in writing and Grantor has the right to subject the Collateral to the security interest hereunder.

Section 3.2. Further Acts. Grantor shall, at Grantor's sole cost and without expense to Beneficiary, execute, acknowledge and deliver all and every such further acts, deeds, documents, agreements, conveyances, deeds of trust, assignments, notices of assignments, transfers and assurances as Beneficiary shall from time to time require for assuring, conveying, assigning, transferring and confirming unto Trustee or Beneficiary the Property and rights hereby conveyed or assigned or intended now or hereafter so to be or which Grantor may be or may hereafter become bound to convey or assign to Trustee or Beneficiary, or for carrying out the intention of facilitating the performance of the terms of the Security Documents or for filing, registering or recording the Security Documents and, on demand, shall execute and deliver, and hereby authorizes Beneficiary to execute in the name of Grantor, to the extent it may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments to evidence more effectively the lien hereof upon the Collateral. Grantor shall give advance notice in writing to Beneficiary of any proposed change in Grantor's name, identity, or structure and shall execute and deliver to Beneficiary, prior to or concurrently with the occurrence of any such change, all additional financing statements that Beneficiary may require to establish and maintain the validity and priority of Beneficiary's security interest with respect to any of the Property, including the Collateral.

Section 3.3. Fees. Grantor shall pay all filing or recording fees and

all reasonable expenses incident to the preparation, execution and acknowledgment of this Deed of Trust, any deed of trust supplemental hereto, any Security Document and other security instrument with respect to the Collateral, and any instrument of additional security, and all federal, state, county and municipal stamp taxes and other taxes, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Note, this Deed of Trust, any deed of trust supplemental hereto, any Security Document and other security instrument with respect to the Collateral, or any instrument of further assurance.

Section 3.4. Due Authorization. Each individual who executes this document on behalf of Grantor represents and warrants to Beneficiary that such execution has been duly authorized by all necessary corporate, partnership, or other action on the part of Grantor.

ARTICLE IV.
TAXES AND ASSESSMENTS

Section 4.1. Payment. Grantor shall pay, prior to delinquency, all real property taxes and assessments, general and special, and all other taxes and assessments of any kind or nature whatsoever affecting or relating to the Property. Grantor shall also pay when due all non-governmental levies or assessments such as maintenance charges or fees and charges resulting from covenants, conditions, or restrictions affecting the Property which are assessed or imposed upon the Property, or become due and payable, and which create, may create, or appear to create a lien prior and superior to the lien of this Deed of Trust upon the Property or any part thereof. Grantor shall furnish Beneficiary with official receipts of the appropriate taxing authority, or other proof satisfactory to Beneficiary, evidencing payment thereof.

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Section 4.2. Contest of Validity. Notwithstanding Section 4.1 above, Grantor may contest the validity of any tax or assessment which it is obligated to pay under the terms of this Deed of Trust by appropriate legal and administrative proceedings. No default shall be declared hereunder as long as Grantor, in good faith, and by appropriate proceedings, is contesting the amount or validity of such tax, assessment or charge; provided that Grantor, before instituting any such contest, gives Beneficiary notice of its intention to do so and so long as the proceedings maintained by Grantor at all times effectively stay or prevent any official or judicial sale of the Property under execution or otherwise. Upon conclusion of any such proceedings, Grantor shall forthwith discharge any liability for taxes and assessments and all penalties, interest and costs in connection therewith.

ARTICLE V.
MAINTENANCE; COMPLIANCE WITH LAW

Section 5.1. Maintenance, Repair, Waste. Grantor shall at all times maintain and keep the Property in good operating order and condition and shall promptly make, from time to time, all repairs, renewals, restorations, replacements, additions and improvements in connection therewith which are or may be reasonably required. Any improvements on the Property shall not be removed, demolished or substantially altered without the prior written consent of Beneficiary. Grantor shall pay all claims for labor performed and for materials furnished for any such improvements when due. Grantor shall not commit any waste or permit impairment or deterioration of the Property. Grantor shall not make any change in the use of the Property without the prior written consent of Beneficiary. Grantor shall permit Trustee or Beneficiary or its agents the opportunity to inspect the Property, including the interior of any structures, at any reasonable time.

Section 5.2. Compliance with Law. Grantor shall comply with all requirements of all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court, covenants, conditions and restrictions applicable to Grantor or to the Property or any part thereof or to the use thereof, including, but not limited to, environmental laws, municipal ordinances, building and zoning regulations, and restrictions and covenants of record, and shall pay all fees or charges of any kind in connection therewith.

ARTICLE VI.
INSURANCE

Section 6.1 Fire and Extended Coverage; Liability. Grantor shall keep all buildings, improvements and Collateral now or hereafter situated on the Property insured against loss or damage by fire and other hazards as may be required by Beneficiary. Grantor shall also provide liability insurance with such limits for personal injury and death and property damage as Beneficiary may

require.

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Section 6.2. Waiver of Subrogation. The policy must contain a provision to the effect that any waiver of subrogation rights by the insured does not void the coverage and any other special endorsements as may be required by the terms of any leases assigned as security for the indebtedness secured by this Deed of Trust.

Section 6.3. Delivery of Policies. Grantor shall deliver all policies and certificates, including additional and renewal policies, to Beneficiary or other evidence of the existence of such insurance which is satisfactory to Beneficiary and, in the case of insurance about to expire, shall deliver renewal policies not less than thirty (30) days prior to their respective dates of expiration. A certificate as to liability coverage, as distinguished from submission of original policies, will be acceptable.

Section 6.4. Additional Insurance. Any provision herein to the contrary notwithstanding, Beneficiary may require such other or additional insurance as it shall from time to time deem necessary or advisable in its sole discretion.

Section 6.5. Restriction on Separate Insurance. Grantor shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained hereunder unless Beneficiary is included thereon under a Standard Mortgagee Clause acceptable to Beneficiary. Grantor shall immediately notify Beneficiary whenever any such separate insurance is taken out and shall promptly deliver to Beneficiary true and complete copies of the policy or policies of such insurance. In the event of a foreclosure or other transfer of title to the Property in lieu of foreclosure, or by purchase at the foreclosure sale, all interest in any insurance policies in force shall pass to Beneficiary, transferee or purchaser as the case may be.

ARTICLE VII.
CASUALTY OR CONDEMNATION

Section 7.1. Casualty. Grantor shall promptly notify Beneficiary of any loss whether covered by insurance or not. In case of loss or damage by fire or other casualty, Beneficiary is authorized (i) to settle and adjust any claim under insurance policies which insure against such risks or (ii) to allow Grantor to agree with the insurance company or companies on the amount to be paid in regard to such loss. In either case, Beneficiary is authorized to collect and receipt for any such insurance money. Such insurance proceeds may, at the option of Beneficiary, in the event of a total loss be applied in the reduction of the indebtedness secured hereby, whether due or not; if less than a total loss, such proceeds shall be held by Beneficiary without any allowance of interest and, if an Event of Default does not then exist and if no condition then exists which will, with the passage of time, the giving of notice, or both, constitute an Event of Default, shall be used to reimburse Grantor for the cost of rebuilding or restoration of the buildings or improvements on the Property.

Section 7.2. Loss During Foreclosure. In case of loss after foreclosure proceedings have been instituted and not cured or redeemed, the proceeds of any such insurance policy or policies, if not applied as aforesaid in rebuilding or restoring the buildings or improvements, shall be used to pay the

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amount due Beneficiary and the balance, if any, shall be paid to the owner of the equity of redemption if he shall then be entitled to the same. In case of a judicial foreclosure of this Deed of Trust, the court in its decree may provide that the mortgagee's clause attached to each of said insurance policies may be canceled and that the decree creditor may cause a new loss clause to be attached to each of said policies making the loss thereunder payable to said decree creditor; and any such foreclosure decree may further provide that in case of one or more redemptions under said decree, pursuant to the statute in such case made and provided, then and in every such case, each successive redemptory may cause the preceding loss clause attached to each insurance policy to be canceled and a new loss clause to be attached hereto, making the loss thereunder payable to such redemptory. In the event of foreclosure sale, Beneficiary is hereby authorized, without consent of Grantor, to assign any and all insurance policies to the purchaser at the sale, or to take such other steps as Beneficiary may deem advisable, to cause the interest of such purchaser to be protected by any of the said insurance policies.

7.3. Condemnation. Grantor, immediately upon obtaining knowledge of the institution of any proceeding for the condemnation of the Property or any portion thereof, shall notify Beneficiary of the pendency thereof. Grantor hereby assigns, transfers and sets over unto Beneficiary all compensation, rights of action, the entire proceeds of any award and any claim for damages for any of the Property taken or damaged under the power of eminent domain or by condemnation or by sale in lieu thereof. Beneficiary may, at its option, commence, appear in and prosecute, in its own name or in the name of Grantor, any action or proceeding, or make any compromise or settlement in connection with such condemnation, taking under the power of eminent domain, or sale in lieu thereof. After deducting therefrom all of its expenses, including attorneys' fees, Beneficiary may elect to apply the proceeds of the award upon or in reduction of the indebtedness secured hereby, whether due or not, or hold such proceeds without any allowance of interest and make such proceeds available for restoration or rebuilding of the Property. If the proceeds are made available by Beneficiary to reimburse Grantor for the cost of such rebuilding or restoration, any surplus which may remain out of such award after payment of such cost of rebuilding or restoration shall at the option of Beneficiary be applied on account of the indebtedness secured hereby or be paid to Grantor. Grantor agrees to execute such further assignments of any compensation, awards, damages, rights of action and proceeds as Beneficiary may require.

ARTICLE VIII.
MECHANICS' OR OTHER LIENS AND ENCUMBRANCES

Section 8.1. No Liens. Grantor shall pay when due all obligations, lawful claims or demands of any person which, if unpaid, might result in, or permit the creation of, a lien or encumbrance on the Property, the Collateral or on the rents, issues, income and profits arising therefrom, whether such lien would be senior or subordinate hereto, including, but without limiting the generality of the foregoing, all claims of mechanics, materialmen, laborers and others for work or labor performed, or materials or supplies furnished in connection with any work of demolition, alteration, improvement of or construction upon the Property. Grantor shall not mortgage, pledge, assign or otherwise create, or

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permit the creation of, any security interest in the Property or the Collateral other than created hereby, whether superior or subordinate, without the express prior written permission of Beneficiary.

Section 8.2. Right to Contest. Grantor shall have the right to contest in good faith the validity of any such lien or encumbrance provided Grantor shall first deposit with Beneficiary a bond or other security satisfactory to Beneficiary in such amount as Beneficiary shall reasonably require but not more than one hundred fifty percent (150%) of the amount of the claim and provided further that Grantor shall thereafter diligently proceed to cause such lien to be removed and discharged. If Grantor shall fail to discharge any such lien, then, in addition to any other right or remedy of Beneficiary, Beneficiary may, but shall not be obligated to, discharge the same either by paying the amount claimed to be due or by depositing in court a bond in the amount required by statute, or otherwise giving security for such claim, or by taking such action as may be prescribed by law. Grantor shall guard every part of the Property and Collateral from removal, destruction and damage and shall not do or suffer to be done any act whereby the value of any part of the Property may be lessened.

Section 8.3. Beneficiary Right to Intervene. If the interest of Beneficiary in the Property or the superiority of such interest is endangered or attacked, directly or indirectly, Grantor hereby authorizes Beneficiary, at Grantor's expense, to take all necessary and proper steps for the defense of such interest or the superiority thereof, including the employment of counsel, the prosecution or defense of litigation, and the compromise or discharge of claims made against such interest or the superiority thereof.

ARTICLE IX.
ASSIGNMENT OF RENTS

Section 9.1. Assignment. Grantor hereby absolutely assigns and transfers to Beneficiary all of the rents, royalties, issues, profits, revenues, income and other benefits ("Rents and Profits") of the Property or arising from the use and enjoyment of all or any portion thereof. Grantor irrevocably appoints Beneficiary its special attorney-in-fact to demand, receive, and enforce payment, to give receipt, release, and satisfaction, and to sue, in the name of Grantor or Beneficiary, for all such Rents and Profits and to apply the same to the indebtedness secured hereby.

Section 9.2. Collection. Notwithstanding the above, Grantor shall have

the right to collect, use and enjoy such Rents and Profits prior to an Event of Default under this Deed of Trust or the Note. Upon any Event of Default under this Deed of Trust or the Note, Beneficiary may enter upon and take possession of the Property and collect such Rents and Profits, including those past due and unpaid, and apply the same, less costs and expenses, upon any indebtedness secured hereby, and in such order and to such notes as Beneficiary may determine. Grantor shall not execute, without the prior written consent of Beneficiary, an assignment or transfer of any of its right, title and interest in the Rents and Profits.

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ARTICLE X.
SALE OF PROPERTY OR COLLATERAL

Section 10.1. Due on Sale. If the Property or any part thereof or interest therein, whether legal or equitable, is sold, assigned, transferred, conveyed, mortgaged, or otherwise alienated by Grantor, whether voluntarily or involuntarily or by operation of law, or that if the management thereof is changed in either or any case without the prior written consent of Beneficiary, Beneficiary, at its option, may declare the Note and all other obligations secured hereunder to be forthwith due and payable. Any change in the beneficial ownership of Grantor or in the legal or equitable title of the Property or in the beneficial ownership of the Property, whether or not of record and whether or not for consideration or sale, shall be deemed a transfer of an interest in the Property.

Section 10.2. Beneficiary Right to Deal with Transferee; No Release of Grantor. In the event ownership of the Property or any part thereof becomes vested in a person or persons other than Grantor, without the prior written approval of Beneficiary, Beneficiary may, without notice to Grantor, waive such default and deal with such successor or successors in interest with reference to this Deed of Trust and the Note in the same manner as with Grantor, without in any way releasing, discharging or otherwise affecting the liability of Grantor hereunder or under the indebtedness hereby secured. No sale of the Property, no forbearance on the part of Beneficiary, no extension of the time for the payment of the indebtedness hereby secured or any change in the terms thereof consented to by Beneficiary shall in any way whatsoever operate to release, discharge, modify, change or affect the original liability of Grantor herein, either in whole or in part. Any deed conveying the Property or any part thereof, if approved by Beneficiary in writing, shall provide that the grantee thereunder assumes all of Grantor's obligations under this Deed of Trust, the Note and all other Security Documents. In the event such deed shall not contain such assumption, Beneficiary shall have all rights reserved to it hereunder in the event of a default or if Beneficiary shall not elect to exercise such rights and remedies, the grantee under such deed shall nevertheless be deemed to have assumed such obligations by acquiring the Property or such portion thereof subject to this Deed of Trust.

Section 10.3. Collateral. Grantor shall not voluntarily, involuntarily or by operation of law sell, assign, transfer or otherwise dispose of the Collateral or any interest therein and shall not otherwise do or permit anything to be done or occur that may impair the Collateral as security hereunder except that so long as this Deed of Trust is not in default, Grantor shall be permitted to sell or otherwise dispose of the Collateral when absolutely worn out, inadequate, unserviceable or unnecessary for use in the operation of the Property in the conduct of the business of Grantor, upon replacing the same or substituting for the same other Collateral at least equal in value to the initial value of that disposed of and in such a manner so that such Collateral shall be subject to the security interest created hereby and so that the security interest of Beneficiary hereunder shall be the first priority security interest in the Collateral. Nothing in this Section 10.3, however, shall prevent Grantor from abandoning any unpatented mining claims when Grantor reasonably determines that such claims are no longer necessary for the operation of the Property. In the event the Collateral is sold in connection with the sale of the Property, Grantor shall require, as a condition of the sale, that the buyer specifically agree to assume Grantor's obligations as to the security interest herein granted and to

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execute whatever agreements and filings deemed necessary by Beneficiary to maintain its perfected security interest in the Collateral.

ARTICLE XI.

INDEMNIFICATION

Grantor shall appear in and defend any suit, action or proceeding arising out of or in connection with the Property, the Collateral, the Note, this Deed of Trust or the other Security Documents that might in any way, in the sole judgment of Beneficiary, affect the value of the Property, the title to the Property, the validity, lien or priority of any of the Security Documents, or the rights and powers of Trustee or Beneficiary. Grantor shall, at all times, indemnify, hold harmless and on demand, reimburse Beneficiary for any and all liability, loss, damage, expense or cost, including cost of evidence of title and attorneys' fees, arising out of or incurred in connection with any such suit, action or proceeding. Grantor shall pay the cost of collection of any indebtedness secured hereby, including reasonable attorneys' fees, whether or not suit is brought and shall pay reasonable cost of suit, cost of evidence of title and reasonable attorneys' fees in any proceeding or suit brought by Trustee or Beneficiary to foreclose this Deed of Trust. Grantor shall further pay all cost and expense, including attorneys' fees, which Beneficiary may incur in connection with any other effort or action (whether or not litigation or foreclosure is involved) to enforce or defend Beneficiary's rights and remedies under each and every one of the Security Documents. The sum of any such expenditures shall be secured by this Deed of Trust and the other Security Documents and shall bear interest at the Default Rate provided in the Note and shall be due and payable on demand.

ARTICLE XII. PRESERVATION OF PROPERTY

If Grantor fails to make any payment or do any act required by this Deed of Trust or the Note or by any prior encumbrance, lien, reservation, restriction, condition, or covenant affecting the Property, then Beneficiary may, without obligation or notice, make any payment or do any act to the extent necessary to protect the Property. In so doing, Grantor shall not be released from any obligation created under this Deed of Trust. Any payments made by Beneficiary and the costs and expenses, including attorneys' fees, incurred by Beneficiary by doing any act as provided in this article shall become additional principal under the Note and shall bear interest at the Default Rate and shall be immediately due and payable from Grantor to Beneficiary. Nothing herein contained shall prevent any such failure to perform on the part of Grantor from constituting an Event of Default (as hereinafter defined).

ARTICLE XIII. PERFORMANCE UNDER SECURITY DOCUMENTS

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Grantor will promptly and strictly perform and comply with all agreements, covenants, conditions and prohibitions required of, made by, or imposed upon Grantor under the terms of each and every one of the Security Documents. In the event Grantor suffers or permits to occur any breach or default under the provisions of any of the Security Documents, such breach or default shall constitute an Event of Default hereunder and at the option of Beneficiary, and without notice to Grantor, all unpaid indebtedness secured by this Deed of Trust shall become due and payable as in the case of other Events of Default. Grantor will further, from time to time at the request of Beneficiary, supply Beneficiary with a current inventory of the Collateral in such detail as Beneficiary may require.

ARTICLE XIV. EVENTS OF DEFAULT

Any one or more of the following events shall be deemed to be an Event of Default hereunder as well as under the Note and the Security Documents:

Section 14.1. Default Under Note. Any "Event of Default" as defined in the Note.

Section 14.2. Failure to Perform. The failure by Grantor to properly and timely perform, comply with, or observe any of the non-monetary terms, covenants, conditions or agreements in the Note, this Deed of Trust or any other Security Documents and such failure continues for more than ten days after notice thereof from Beneficiary.

Section 14.3. Condemnation. The taking of the Property or any portion thereof through condemnation (which term when used herein shall include any damage or taking by any governmental authority or any other authority authorized by the laws of the state where the land is located or the United States of America) either temporarily or for a period in excess of thirty (30) days, or

permanently.

Section 14.4. Priority Lien Claim. The assertion (except by the owner of an encumbrance expressly excepted from Grantor's warranty of title herein) of any claim of priority over this Deed of Trust, by title, lien, or otherwise, unless within thirty (30) days after such assertion either Grantor causes the assertion to be withdrawn or Beneficiary approves of such claim of priority in writing.

Section 14.5. Dissolution. The dissolution, termination, or liquidation of Grantor or of any other person or entity directly or indirectly liable for the payment of the Note.

Section 14.6. Other. The occurrence of any other event designated as a default or an Event of Default under any other provision of this Deed of Trust or in any of the Security Documents.

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ARTICLE XV.
REMEDIES

Immediately upon or at any time after the occurrence of any of the Events of Default as defined in Article XIV of this Deed of Trust, Beneficiary may exercise any one or more of the cumulative, concurrent, and nonexclusive remedies which are listed below or which are listed in any other Security Document or which are otherwise available at law or in equity whether like or unlike the remedies so listed, and Beneficiary may exercise such remedy or remedies in such sequence or combination as Beneficiary may determine in Beneficiary's sole discretion:

Section 15.1. Performance of Defaulted Obligations. Although Beneficiary shall not be required to do so, Beneficiary may make any payment or perform any other obligation under the Note, this Deed of Trust or any of the Security Documents which Grantor has failed to make or perform, and Grantor hereby irrevocably appoints Beneficiary as a true and lawful attorney-in-fact for Grantor with authority to make any such payment and perform any such obligation in the name of Grantor and on behalf of Grantor. All payments made and expenses (including attorneys' fees) incurred by Beneficiary pursuant to this section, together with interest thereon at the Default Rate (as defined in the Note) from the date paid or incurred until repaid, will be part of Grantor's indebtedness to Beneficiary and will be immediately due and payable by Grantor to Beneficiary or, at Beneficiary's election, may be added to the unpaid principal balance of the Note and shall be secured by this Deed of Trust and the other Security Documents. In lieu of advancing Beneficiary's own funds for such purposes, Beneficiary may use any funds of Grantor which may be in Beneficiary's possession, including but not limited to undisbursed loan proceeds, insurance or condemnation proceeds, and amounts deposited for other purposes. Any payment by Beneficiary made pursuant to this section or in any other section of this Deed of Trust or of the Note or any other Security Document shall not excuse or constitute a waiver by Beneficiary of any default by Grantor.

Section 15.2. Specific Performance and Injunctive Relief. Notwithstanding the availability of legal remedies, Beneficiary shall be entitled to obtain specific performance, mandatory or prohibitory injunctive relief, or other equitable relief requiring Grantor to cure or refrain from repeating any default.

Section 15.3. Acceleration of Secured Obligations. Beneficiary may, without notice or demand, declare all of Grantor's indebtedness to Beneficiary secured hereunder or by any of the Security Documents immediately due and payable in full, including, but not limited to, the entire unpaid principal balance of the Note and all unpaid interest accrued thereon.

Section 15.4. Possession of Property. In the case of any Event of Default or upon the abandonment thereof by Grantor, Beneficiary may enter and take possession of the Property without seeking or obtaining the appointment of a receiver, may employ a managing agent for the Property, and may operate, lease or rent all or any part of the Property, either in Beneficiary's name or in the name of Grantor, and may collect the rents, issues, and profits of the Property. Any revenues collected

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by Beneficiary under this section will be applied first toward payment of all

costs and expenses (in cluding attorneys' fees) incurred by Beneficiary, together with interest thereon at the Default Rate (as defined in the Note) from the date paid or incurred until repaid, then to late charges, if any, then to accrued interest and the balance, if any, will be applied against Grantor's indebtedness to Beneficiary and principal under the Note until it has been paid in full.

Section 15.5. Enforcement of Security Interests. Beneficiary may exercise all rights of a secured party under the Utah Uniform Commercial Code with respect to all or any part of the Collateral, including, but not limited to, taking possession of, holding, and selling the Collateral and enforcing or otherwise realizing upon any other property in which Beneficiary has a security interest. Any requirement for reasonable notice of the time and place of any public sale or of the time after which any private sale or other disposition is to be made will be satisfied by Beneficiary's giving of such notice to Grantor at least five days prior to the time of any public sale or the time after which any private sale or other intended disposition is to be made.

Section 15.6. Foreclosure Against Property. Beneficiary may foreclose this Deed of Trust, insofar as it encumbers the Property, including Collateral, either by judicial action or through Trustee. Foreclosure through Trustee will be initiated by the filing with Trustee of a Notice of Election and Demand for Sale. Trustee shall then comply with such notice requirements of the laws of Utah as then apply with respect to such sale and shall file the required notice for record in each county wherein the Property or any portion thereof is situated. Beneficiary shall also deposit with Trustee the Note and all documents evidencing the indebtedness and expenditures secured hereby. Trustee shall then proceed to foreclosure and shall sell and dispose of the Property, including the Collateral (en masse or in separate parcels, as Trustee may think best), in the manner then provided by applicable law. Any sale conducted by Trustee pursuant to this section may be conducted at any door or entrance to, or room within, any building temporarily or permanently being used as a courthouse in the county in which the real property described in Exhibit A hereto is located or at or within any building in which the office of the clerk and recorder of said county is then located or at any other location then permitted by applicable law; provided, however, that the actual place of sale shall be designated in the Notice of Sale. Beneficiary may purchase the Property, including the Collateral, or any part thereof, and may bid in any part or all of the indebtedness secured hereby and it shall not be obligatory upon the purchaser(s) at any such sale to see to the application of the purchase money. The person conducting the sale may, for any cause he deems expedient, postpone the sale from time until it shall be completed and, in every case notice of postponement shall be given by public declaration thereof by such person at the time and place last appointed for the sale; provided, if the sale is postponed for longer than one day beyond the date designated in the Notice of Sale, notice thereof shall be given in the same manner as the original Notice of Sale. Nothing in this section dealing with foreclosure procedures or specifying particular actions to be taken by Beneficiary or by Trustee shall be deemed to conflict with the minimum requirements or procedures now or hereafter specified or provided by Utah law and any such conflict shall be resolved in favor of the requirements of Utah law applicable at the time of foreclosure.

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Section 15.7. Expenses of Trustee's Sale or Foreclosure. In the event all or any part of the Property shall be sold by Trustee pursuant to the provisions of this article or in the event that this Deed of Trust shall be foreclosed by appropriate proceedings in a court of competent jurisdiction, there shall be allocated and included as part of the obligations secured hereby, together with interest thereon at the Default Rate (as defined in the Note), all expenses which may be paid or incurred by or on behalf of Trustee or Beneficiary as court costs, filing fees, attorneys' fees, appraisers' fees, outlays for documentary and expert evidence, stenographers' charges, mailing and publication costs, costs for service of process, and costs (which may be estimates as to items to be expended after entry of the decree) of procuring all such abstracts of title, foreclosure certificates, title searches and examinations, title insurance policies, and similar data and assurances with respect to title as Beneficiary may deem reasonably necessary either to prosecute such suit or to evidence to bidders at the sale which may be had pursuant to such proceedings the true condition of the title to or the value of the Property, together with and including a reasonable compensation to Trustee. All expenditures and expenses of the nature mentioned in this section, and such expenses and fees as may be incurred in the protection of the Property and the maintenance of the lien of this Deed of Trust, including the fees of any attorney employed by Beneficiary or Trustee in any litigation or proceedings affecting this Deed of Trust, the Note or the Property, including but not limited to foreclosure, probate and bankruptcy proceedings or in preparation for the commencement or defense of any such litigation or proceeding or threatened litigation or proceeding, shall be immediately due and payable by Grantor to Beneficiary or Trustee, whoever or whichever will pay, has paid, or is owed the same.

Section 15.8. Proceeds of Trustee's or Foreclosure Sale. The purchase money, proceeds or avails of any sale made under or by virtue of this Deed of Trust, together with any other sums which then may be held by Trustee or Beneficiary under this Deed of Trust, shall be applied as follows:

First: To the payment of the costs and expenses of such sale, including reasonable compensation to Trustee, its agents and counsel, and of all expenses, liabilities and advances made or incurred by Trustee or Beneficiary under this Deed of Trust or respect to such sale, and of all other advances made by Beneficiary and all taxes or assessments, except any taxes, assessments or other charges subject to which the Property shall have been sold, together with interest at the Default Rate (as defined in the Note).

Second: To the payment of the whole amount then due, owing or unpaid upon the Note for accrued interest.

Third: To the payment of the whole amount then due, owing or unpaid upon the Note for unpaid principal.

Fourth: To the payment of any other sums required to be paid pursuant to any provisions of the Note or the Security Documents.

Fifth: To the payment of the surplus, if any, to the party entitled thereto.

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Section 15.9. Appointment of Receiver. Beneficiary shall be entitled, as a matter of right and without regard to the value of any security for the indebtedness secured hereunder or by any of the other Security Documents, or the solvency of any person or entity liable therefor, to the appointment of a receiver for the Property upon ex parte application to any court of competent jurisdiction, or otherwise. Grantor freely and knowingly waives any right to any hearing or notice of hearing prior to the appointment of a receiver. Such receiver and his/her agents shall be empowered: (a) to take possession of the Property and any and all assets used in connection therewith; (b) to exclude Grantor and Grantor's agents, servants, and employees from the Property; (c) to collect the rents, issues, profits, and income therefrom; (d) to operate the Property and complete any construction which may be in progress; (e) to do such maintenance and make such repairs and alterations as the receiver deems necessary; (f) to use all stores of materials, supplies, and maintenance equipment on the Property and replace such items at the expense of the receivership estate; (g) to pay all taxes and assessments against the Property, all premiums for insurance thereon, all utility and other operating expenses, and all sums due under any prior or subsequent encumbrance; and (h) generally do anything which Grantor could legally do if Grantor were in possession of the Property. All expenses incurred by the receiver or his/her agents shall constitute a part of the indebtedness secured hereunder or by any of the other Security Documents. Any revenues collected by the receiver shall be applied first to the expenses of the receivership, including attorneys' fees incurred by the receiver and by Beneficiary, together with interest thereon at the Default Rate (as defined in the Note) from the date first paid or incurred until repaid, and the balance shall be applied toward the indebtedness secured hereunder or by any of the other Security Documents or in such other manner as the receivership court may direct. Unless sooner terminated with the express consent of Beneficiary, any such receivership shall continue until the indebtedness secured hereunder or by any of the other Security Documents has been discharged in full or until title to the Property has passed after foreclosure sale and all applicable periods of redemption have expired.

Section 15.10. Effect of Sale. Upon the completion of any sale or sales made by Trustee under or by virtue of this Deed of Trust, Trustee shall execute and deliver to the accepted purchaser or purchasers a good and sufficient deed or deeds, conveying, assigning and transferring the Property, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. After the expiration of any appropriate statutory period of redemption, any such sale or sales made under or by virtue of this Deed of Trust whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, shall operate to divest all the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Grantor in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against Grantor and against any and all persons claiming or who may claim the same or any part thereof from, through or under Grantor.

Section 15.11. Waiver and Release. Grantor hereby irrevocably and unconditionally waives and releases, to the extent permitted by law: (a) all benefits that might accrue to Grantor by virtue of any present or future law

exempting the Property from attachment, levy or sale on execution or providing for any appraisalment, valuation, stay of execution, redemption, exemption from civil

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process or extension of time for payment; (b) all notices of any Event of Default or of Trustee's exercise of any right, remedy, or recourse provided under the Security Documents; and (c) any right to a marshalling of assets or a sale in inverse order of alienation.

Section 15.12. Acquisition of Property by Beneficiary. Upon any sale made under or by virtue of this Deed of Trust, whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, Beneficiary may bid for and acquire the Property or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the indebtedness secured by this Deed of Trust the net sales price after deducting therefrom the expenses of the sale and the cost of the action and any other sums which Beneficiary is authorized to deduct under this Deed of Trust. Beneficiary upon so acquiring the Property, or any part thereof, shall be entitled to hold, lease, rent, operate, manage and sell the same in any manner provided by applicable laws.

ARTICLE XVI.

NOTICES

Notices. Any notice or demand in connection with this Deed of Trust shall be in writing and shall be deemed to have been duly given when (a) delivered by hand, (b) sent by facsimile (with receipt confirmed), provided that a copy is promptly thereafter mailed by first-class prepaid certified mail, return receipt requested, (c) received by the addressee, if sent with delivery receipt requested by Express Mail, Federal Express, or other express delivery service or first-class prepaid certified mail, in each case to the appropriate addresses and facsimile numbers as a party may designate as to itself by notice to the other parties.

ARTICLE XVII.

MISCELLANEOUS TERMS AND CONDITIONS

Section 17.1. Future Consent. The granting of consent by Beneficiary to any transaction where such consent is required by the terms hereof shall not be deemed a waiver of the right to require consent to future or successive transactions.

Section 17.2. Gender. As used herein, the singular shall include the plural, the plural includes the singular, words of one gender shall include another gender.

Section 17.3. Powers of Trustee. From time to time upon written request of Beneficiary and presentation of this Deed of Trust for endorsement and without affecting the personal liability of any person for payment of any indebtedness or performance of the obligations secured hereby, Trustee may, without liability therefor and without notice: release or reconvey all or any part of the Property; consent to the making of any map or plat thereof; join in granting any easement thereon; join in any declaration of covenants and restrictions; or join in any extension agreement or any agreement subordinating the lien or charge hereof. Trustee or Beneficiary may from time to time apply in any

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court of competent jurisdiction for aid and direction in the execution of the trusts hereunder and the enforcement of the rights and remedies available hereunder, and Trustee or Beneficiary may obtain orders or decrees directing or confirming or approving acts in the execution of such trusts and the enforcement of such remedies. Trustee has no obligation to notify any party of any pending sale or any action or proceeding unless held or commenced and maintained by Trustee under this Deed of Trust. Grantor shall pay to Trustee reasonable compensation and reimbursement for services and expenses in the enforcement of the trusts created hereunder, including reasonable attorneys' fees. Grantor shall indemnify Trustee and Beneficiary against all losses, claims, demands and liabilities which either may incur, suffer or sustain in the execution of the trusts created hereunder or in the performance of any act required or permitted hereunder or by law.

Section 17.4. Marshalling of Assets. Grantor on its own behalf and on

behalf of its successors and assigns hereby expressly waives all rights to require a marshalling of assets by Trustee or Beneficiary or to require Trustee or Beneficiary to first resort to the sale of any portion of the Property which might have been retained by Grantor before foreclosing upon and selling any other portion as may be conveyed by Grantor subject to this Deed of Trust.

Section 17.5. Partial Release. Without affecting the liability of any other person for the payment of any indebtedness herein mentioned (including Grantor should it convey such Property) and without affecting the lien or priority hereof upon any property not released, Beneficiary may, without notice, release any person so liable, extend the maturity or modify the terms of any such obligation, or grant other indulgences, release or reconvey or cause to be released or reconveyed at any time all or any part of the Property, take or release any other security or make compositions or other arrangements with debtors. Beneficiary may also accept additional security, either concurrently herewith or hereafter, and sell the same or otherwise realize thereon either before, concurrently with, or after sale hereunder.

Section 17.6. Beneficiary's Consent. Except as otherwise expressly provided herein, in any instance hereunder where Beneficiary's approval or consent is required or the exercise of Beneficiary's judgment is required, the granting or denial of such approval or consent and the exercise of such judgment shall be within the sole discretion of Beneficiary, and Beneficiary shall not for any reason or to any extent be required to grant such approval or consent or exercise such judgment in any particular manner regardless of the reasonableness of either the request or Beneficiary's judgment.

Section 17.7. Non-Waiver.

a. By accepting payment of any sum secured hereby after its due date or late performance of any obligation secured hereby, Beneficiary shall not waive its right against any person obligated directly or indirectly hereunder or on any indebtedness hereby secured either to require prompt payment when due of all other sums so secured or to declare default for failure to make such prompt payment. No exercise of any right or remedy by Trustee or Beneficiary hereunder shall constitute a waiver of any other right or remedy herein contained or provided by law.

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b. No delay or omission of Trustee or Beneficiary in the exercise of any right, power or remedy accruing hereunder or arising otherwise shall impair any such right, power, or remedy or be construed to be a waiver of any default or acquiescence therein.

c. Receipts of rents, awards and any other monies or evidences thereof pursuant to the provisions of this Deed of Trust and any disposition of the same by Trustee or Beneficiary shall not constitute a waiver of the power of sale or right of foreclosure by Trustee or Beneficiary in an Event of Default or failure of performance by Grantor of any covenant or agreement contained in this Deed of Trust, the Note or the Security Documents.

Section 17.8. Paragraph Headings. The headings of each paragraph are for information and convenience only and do not limit or construe the contents of any provision hereof.

Section 17.9. Severability. In the event any one or more of the provisions contained in this Deed of Trust or the application thereof to any person or circumstances shall to any extent be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Deed of Trust, but the remainder of this Deed of Trust or the application of such term to persons or circumstances other than those as to which it is invalid, illegal or unenforceable shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

Section 17.10. Successors-in-Interest. This Deed of Trust applies to, inures to the benefit of, and is binding not only on the parties hereto, but also on their successors and assigns. Nothing herein contained shall be deemed as the consent of Beneficiary to any assignment, conveyance or other transfer of Grantor's interest in the Property. The term "Beneficiary" shall mean the holder and owner, including pledgees, of the Note, whether or not named as Beneficiary herein.

Section 17.11. Modifications. This Deed of Trust may not be amended, modified or changed nor shall any waiver of any provisions hereof be effective except only by an instrument in writing and signed by the party against whom enforcement of any waiver, amendment, change, modification or discharge is sought. However, in the event any provision hereunder conflicts with applicable laws, such provision shall be deemed to conform thereto.

Section 17.12. Governing Law. This Deed of Trust shall be construed according to and governed by the laws of the State of Utah.

Section 17.13. Future Advances. Upon request by Grantor, at Beneficiary's option and in Beneficiary's sole discretion, Beneficiary may make future advances to Grantor. Such future advances, with interest thereon, shall be secured by this Deed of Trust and all of the Security Documents when such advances are evidenced by promissory notes stating that said notes are secured hereby; however, nothing contained herein shall in any way obligate Beneficiary to make any such future advances as mentioned herein.

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Section 17.14. Rights Cumulative, Concurrent and Nonexclusive. Beneficiary shall have all rights, remedies and recourses granted in the Security Documents and available at law or in equity (including, without limitation, those granted by the Uniform Commercial Code as adopted in the State of Utah and applicable to the Property, or any portion thereto) and the same (a) shall be cumulative and concurrent, (b) may be pursued separately, successively or concurrently against Grantor or others obligated for the indebtedness, or any part thereof or against any one or more of them, or against the Property, at the sole discretion of Beneficiary, (c) may be exercised as often as occasion therefor shall arise, it being agreed by Grantor that the exercise or failure to exercise any of the same shall in no event be construed as a waiver or release thereof or of any other right, remedy or recourse, and (d) are intended to be, and shall be, nonexclusive.

Section 17.15. No Third Party Rights. No person shall be a third party beneficiary of any provision of the Note, this Deed of Trust, or any other Security Document. All such provisions favoring Beneficiary are intended solely for the benefit of Beneficiary, and no third party shall be entitled to assume or expect that Beneficiary will waive or consent to modification of any such provision.

Section 17.16. Inspections. Beneficiary and its agents, representatives and workmen are authorized to enter at any reasonable time upon or on any part of the Property for the purpose of inspecting the same and for the purpose of performing any of the acts it or Grantor is authorized to perform under the terms of this Deed of Trust or any other instrument which secures the Note.

Section 17.17. Priority of Leases. To the extent Grantor has the right under the terms of any existing lease of all or any part of the Property to make such lease subordinate to the lien of this Deed of Trust, Grantor will, at Beneficiary's request and Grantor's expense, take such action as may be required to effect such subordination.

Section 17.18. Successor Trustee. Beneficiary may appoint a successor trustee at any time by filing of record in the office of the county recorder of each county in which the Property or any part thereof is situated, a substitution of trustee. From the time the substitution is filed for record, the new trustee shall succeed to all the powers, duties, authority and title of the trustee named herein or of any successor trustee. Each substitution shall be executed and acknowledged, and notice thereof shall be given and proof thereof made, in the manner provided by law.

Section 17.19. Authority of Signatories. The individuals executing this Deed of Trust and all other Security Documents represent and warrant that they are fully authorized to and legally capable of executing this Deed of Trust and all other Security Documents on behalf of Grantor and that the execution of such documents is binding upon all parties holding an ownership interest in the Property.

Section 17.20. Power of Attorney. Whenever a power of attorney is conferred upon Beneficiary hereunder, it is understood and agreed that such power of attorney is conferred with full power of substitution and Beneficiary may elect in its sole discretion to exercise such power itself or to delegate such power or any part thereof to one or more sub-agents.

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Section 17.21. Statute of Limitations. Grantor hereby waives the pleading of any statute of limitations as a defense to any obligation secured by this Deed of Trust or any of the Security Documents to the full extent permitted by law.

Section 17.22. Time of Essence. Time is of the essence hereof in

connection with all obligations of Grantor herein or in the Note or any other Security Document constituting additional security for the Note.

IN WITNESS WHEREOF, this instrument has been executed by Grantor as of the date first above written.

GRANTOR:

LISBON VALLEY MINING CO. LLC,
a Utah limited liability company
Tax I.D. #84-1422662

By: Summo USA Corporation, its
Managing Member

By: _____
Gregory A. Hahn, President and CEO

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

Subscribed and sworn to before me this ____ day of November, 1998.

WITNESS my hand and official seal.

My commission expires:

Notary Public

DEED OF TRUST, ASSIGNMENT OF RENTS
AND SECURITY AGREEMENT

THIS DEED OF TRUST, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT (hereinafter referred to as the "Deed of Trust") made and entered into as of this 23rd day of November, 1998, by and between LISBON VALLEY MINING CO. LLC, a Utah limited liability company (hereinafter referred to as "Grantor") whose mailing address is 1776 Lincoln Street, Suite 900, Denver, Colorado 80203 and STEWART TITLE GUARANTY COMPANY, a Texas corporation (hereinafter referred to as "Trustee") whose address is 455 East, 500 South, Salt Lake City, Utah 84111, for the benefit of ST. MARY MINERALS INC., a Colorado corporation (hereinafter referred to as "Beneficiary") whose address is 1776 Lincoln Street, Suite 1100, Denver, Colorado 80203.

ARTICLE I.
GRANT

Section 1.1. Grant. Grantor, in consideration of the indebtedness herein recited and the trust herein created, does hereby unconditionally and irrevocably grant, assign and convey unto Trustee, with power of sale and right of entry and possession, the real estate, minerals and water rights located in San Juan County, State of Utah, and more particularly described in Exhibit A attached hereto and incorporated herein, which, with the property hereinafter described, is referred to herein as the "Property."

TOGETHER WITH:

a. All buildings and improvements, now or hereafter located thereon, all privileges and other rights now or hereafter made appurtenant thereto including, without limitation, all right, title and interest of Grantor in and to all streets, roads and public places, opened or proposed, and all easements, rights-of-way, public or private, now or hereafter used in connection with the Property, including all rights of ingress and egress to and from adjoining property, all strips or gores of land, alleys, passages, and all estates, rights, titles, interests, privileges, tenements, hereditaments, and appurtenances, and all oil, gas, minerals, water, surface and subsurface rights whatsoever in any way belonging, relating or appertaining to the Property or which hereafter shall in any way belong, relate or be appurtenant thereto, whether now owned or hereafter acquired by Grantor, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all the estate, right, title, interest, property, possession, claim and demand whatsoever, at law and in equity, of Grantor of, in and to the same; and all proceeds of any sales or other dispositions of the Property, and also all the estate, right, title and interest of Grantor, either at law or in equity, of, in and to the Property and every part thereof; and

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b. All right, title and interest of Grantor in and to all fixtures, fittings, furnishings, apparatus, equipment and machinery, and all renewals or replacements thereof or articles in substitution thereof; and all proceeds and profits thereof; it being understood and agreed that all of the estate, right, title and interest of Grantor in and to all property of any nature whatsoever, now or hereafter situated on the Property or intended to be used in connection with the operation thereof, shall be deemed to be fixtures and an accession to the freehold and a part of the realty as between the parties hereto, and all persons claiming by, through or under them, and shall be deemed to be a portion of the security for the indebtedness herein mentioned and secured by this Deed of Trust. If the lien of this Deed of Trust on any fixtures or personal property be subject to a lease agreement, conditional sale agreement or chattel mortgage covering such property, then in the event of any default hereunder all the rights, title and interest of Grantor in and to any and all deposits made thereon or therefor are hereby assigned to Trustee, together with the benefit of any payments now or hereafter made thereon. There is also transferred, set over and assigned by Grantor to Trustee hereby all leases and use agreements of machinery, equipment and other personal property of Grantor in the categories hereinabove set forth, under which Grantor is the lessee of, or entitled to use, such items, and Grantor agrees to execute and deliver to Beneficiary specific separate assignments to Beneficiary of such leases and agreements when requested by Beneficiary; but nothing herein shall obligate Beneficiary to perform any obligations of Grantor under such leases or agreements unless it so chooses, which obligations Grantor hereby covenants and agrees to well and punctually perform. The items set forth in this Subsection are sometimes hereinafter separately referred to as the "Collateral"; and

c. All rents, income, profits, revenues, royalties, bonuses, rights, accounts, contract rights, general intangibles and benefits under any and all leases or tenancies now existing or hereafter created on or in any way related to the Property or any part thereof, with the right, after an Event of Default (as hereinafter defined), to receive and apply the same to such indebtedness, and, after an Event of Default, Beneficiary may demand, sue for and recover such payments but shall not be required to do so; and

d. All interest which Grantor has or may hereafter have in the proceeds of insurance in effect with respect to the Property; and

e. Any judgments, awards of damages, payments, and settlements, including interest thereon, hereafter made as a result of or in lieu of any taking of the Property or any part thereof or interest therein under the power of eminent domain, or for any damage (whether caused by such taking or otherwise), including interest thereon, to the Property or the improvements thereon or any part thereof or interest therein, including any award for change of grade of streets; and

f. All proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims; and

g. All leases and leasehold rights of any kind or nature whatsoever affecting the Property or in any way related thereto; and

h. All oil, gas and minerals, and all water, ditch, well and reservoir rights which are appurtenant to or which have been or may be used in connection with the Property; and

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i. All oil, gas, minerals, crops, timber, trees and landscaping features now or hereafter located on, in, under or above the Property; and

j. All surface, subsurface, development and mining rights associated with the Property, whether now or hereafter created; and

k. All other or greater rights and interests of every nature in, with respect to or related to the Property or in the possession or use thereof and in the income therefrom, whether now owned or subsequently acquired by Grantor.

TO HAVE AND TO HOLD such Property unto Trustee, subject only to (a) the rights of Lisbon Copper Ltd. under that certain Second Amendment of Option Agreement dated December 4, 1997, (b) the rights of the lessors of the leases included in the Property, (c) the paramount rights of the United States and (d) the liens and encumbrances of Beneficiary and liens and encumbrances of record on the date hereof (hereinafter referred to as the "Permitted Exceptions"); and Grantor does hereby bind itself, its successors and assigns to warrant and forever defend, all and singular, such Property unto Trustee, its successors, substitutes and assigns, against all persons whomsoever claiming or to claim the same or any part thereof.

Section 1.2. Security Agreement. Grantor makes the foregoing grant to Trustee to hold the Property in trust for the benefit of Beneficiary and for the purposes and upon the terms and conditions hereinafter set forth. This instrument is and shall be construed as both a Deed of Trust and Security Agreement and to the extent that any of the Property, including but without limitation, the Collateral, is deemed to be personal property or fixtures, or property not subject to an encumbrance upon real estate, Grantor hereby grants unto Beneficiary a security interest in and to such property.

Section 1.3. Release. If Grantor shall pay or cause to be paid to the holder of the Note (defined below) the principal and interest to become due thereupon at the time and in the manner stipulated therein, and shall pay or cause to be paid all other sums payable hereunder and all indebtedness hereby secured, then, in such case, the estate, right, title and interest of Trustee and Beneficiary in the Property shall cease, terminate and become void, and upon proof being given to the satisfaction of Beneficiary that the Note, together with interest thereon have been paid or satisfied, and upon payment of all fees, costs, charges, expenses and liabilities chargeable or incurred or to be incurred by Trustee or Beneficiary, and of any other sums as herein provided, this conveyance shall be released in due form at the expense of Grantor, otherwise it shall remain in full force and effect.

ARTICLE II.
OBLIGATIONS SECURED

This Deed of Trust is given to secure to Beneficiary the following:

a. That certain convertible promissory note dated effective as of October 1, 1997 payable jointly and severally by Summo Minerals Corporation and Summo USA Corporation to the order of Beneficiary in the original principal amount of \$2,950,000 or, if greater or less, the aggregate principal amount of all loans made by Beneficiary to either Summo Minerals Corporation or Summo USA Corporation, together with any extensions, modifications, or renewals thereof (herein referred to as the "Note", the terms and provisions of which are expressly incorporated herein by this reference);

b. Any other indebtedness by Grantor, Summo Minerals Corporation or Summo USA Corporation to Beneficiary, now or hereafter arising under the terms hereof or in any other instrument constituting additional security for the Note; and

c. The performance by Grantor, Summo Minerals Corporation or Summo USA Corporation of all the terms, covenants and agreements on their part to be performed under the Note, this Deed of Trust, the Pledge and Security Agreement of even date executed by Grantor concurrently herewith and any other instrument now or hereafter executed by Grantor, Summo Minerals Corporation or Summo USA Corporation as security for payment of the indebtedness secured hereby (hereafter collectively called the "Security Documents").

ARTICLE III.
TITLE AND AUTHORITY

Section 3.1. Title.

a. Grantor hereby covenants, represents and warrants that Grantor owns and has good and indefeasible title to an indefeasible fee simple estate in the real estate described in Exhibit A hereto subject to no liens, charges, or encumbrances except for the Permitted Exceptions; that Grantor has full power and authority to grant, bargain, sell and convey the Property in the manner and form herein done or intended hereafter to be done; that this Deed of Trust is and shall remain a valid and enforceable first lien on the Property subject only to the Permitted Exceptions; that Grantor and its successors and assigns warrant and agree to defend the same forever against the lawful claims and demands of all persons or entities whatsoever; and that this covenant shall not be extinguished by any exercise of power of sale, foreclosure or sale hereof but shall run with the land. Nothing in this Section 3.1(a), however, shall be deemed to be a representation or a warranty that any of the unpatented mining claims contains a discovery of minerals.

b. Subject to the Permitted Exceptions, Grantor has and shall maintain title to the Collateral, including any additions or replacements thereto, free of all security interests, liens and encumbrances other than the security interest granted to Beneficiary and other than as disclosed to and accepted by Beneficiary in writing and Grantor has the right to subject the Collateral to the security interest hereunder.

Section 3.2. Further Acts. Grantor shall, at Grantor's sole cost and without expense to Beneficiary, execute, acknowledge and deliver all and every such further acts, deeds, documents, agreements, conveyances, deeds of trust, assignments, notices of assignments, transfers and assurances as Beneficiary shall from time to time require for assuring, conveying, assigning, transferring and confirming unto Trustee or Beneficiary the Property and rights hereby conveyed or assigned or intended now or hereafter so to be or which Grantor may be or may hereafter become bound to convey or assign to Trustee or Beneficiary, or for carrying out the intention of facilitating the performance of the terms of the Security Documents or for filing, registering or recording the Security Documents and, on demand, shall execute and deliver, and hereby authorizes Beneficiary to execute in the name of Grantor, to the extent it may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments to evidence more effectively the lien hereof upon the Collateral. Grantor shall give advance notice in writing to Beneficiary of any proposed change in Grantor's name, identity, or structure and shall execute and deliver to Beneficiary, prior to or concurrently with the occurrence of any such change, all additional financing statements that Beneficiary may require to establish and maintain the validity and priority of Beneficiary's security interest with respect to any of the Property, including the Collateral.

Section 3.3. Fees. Grantor shall pay all filing or recording fees and

all reasonable expenses incident to the preparation, execution and acknowledgment of this Deed of Trust, any deed of trust supplemental hereto, any Security Document and other security instrument with respect to the Collateral, and any instrument of additional security, and all federal, state, county and municipal stamp taxes and other taxes, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Note, this Deed of Trust, any deed of trust supplemental hereto, any Security Document and other security instrument with respect to the Collateral, or any instrument of further assurance.

Section 3.4. Due Authorization. Each individual who executes this document on behalf of Grantor represents and warrants to Beneficiary that such execution has been duly authorized by all necessary corporate, partnership, or other action on the part of Grantor.

ARTICLE IV.
TAXES AND ASSESSMENTS

Section 4.1. Payment. Grantor shall pay, prior to delinquency, all real property taxes and assessments, general and special, and all other taxes and assessments of any kind or nature whatsoever affecting or relating to the Property. Grantor shall also pay when due all non-governmental levies or assessments such as maintenance charges or fees and charges resulting from covenants, conditions, or restrictions affecting the Property which are assessed or imposed upon the Property, or become due and payable, and which create, may create, or appear to create a lien prior and superior to the lien of this Deed of Trust upon the Property or any part thereof. Grantor shall furnish Beneficiary with official receipts of the appropriate taxing authority, or other proof satisfactory to Beneficiary, evidencing payment thereof.

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Section 4.2. Contest of Validity. Notwithstanding Section 4.1 above, Grantor may contest the validity of any tax or assessment which it is obligated to pay under the terms of this Deed of Trust by appropriate legal and administrative proceedings. No default shall be declared hereunder as long as Grantor, in good faith, and by appropriate proceedings, is contesting the amount or validity of such tax, assessment or charge; provided that Grantor, before instituting any such contest, gives Beneficiary notice of its intention to do so and so long as the proceedings maintained by Grantor at all times effectively stay or prevent any official or judicial sale of the Property under execution or otherwise. Upon conclusion of any such proceedings, Grantor shall forthwith discharge any liability for taxes and assessments and all penalties, interest and costs in connection therewith.

ARTICLE V.
MAINTENANCE; COMPLIANCE WITH LAW

Section 5.1. Maintenance, Repair, Waste. Grantor shall at all times maintain and keep the Property in good operating order and condition and shall promptly make, from time to time, all repairs, renewals, restorations, replacements, additions and improvements in connection therewith which are or may be reasonably required. Any improvements on the Property shall not be removed, demolished or substantially altered without the prior written consent of Beneficiary. Grantor shall pay all claims for labor performed and for materials furnished for any such improvements when due. Grantor shall not commit any waste or permit impairment or deterioration of the Property. Grantor shall not make any change in the use of the Property without the prior written consent of Beneficiary. Grantor shall permit Trustee or Beneficiary or its agents the opportunity to inspect the Property, including the interior of any structures, at any reasonable time.

Section 5.2. Compliance with Law. Grantor shall comply with all requirements of all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court, covenants, conditions and restrictions applicable to Grantor or to the Property or any part thereof or to the use thereof, including, but not limited to, environmental laws, municipal ordinances, building and zoning regulations, and restrictions and covenants of record, and shall pay all fees or charges of any kind in connection therewith.

ARTICLE VI.
INSURANCE

Section 6.1 Fire and Extended Coverage; Liability. Grantor shall keep all buildings, improvements and Collateral now or hereafter situated on the Property insured against loss or damage by fire and other hazards as may be required by Beneficiary. Grantor shall also provide liability insurance with such limits for personal injury and death and property damage as Beneficiary may

require.

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Section 6.2. Waiver of Subrogation. The policy must contain a provision to the effect that any waiver of subrogation rights by the insured does not void the coverage and any other special endorsements as may be required by the terms of any leases assigned as security for the indebtedness secured by this Deed of Trust.

Section 6.3. Delivery of Policies. Grantor shall deliver all policies and certificates, including additional and renewal policies, to Beneficiary or other evidence of the existence of such insurance which is satisfactory to Beneficiary and, in the case of insurance about to expire, shall deliver renewal policies not less than thirty (30) days prior to their respective dates of expiration. A certificate as to liability coverage, as distinguished from submission of original policies, will be acceptable.

Section 6.4. Additional Insurance. Any provision herein to the contrary notwithstanding, Beneficiary may require such other or additional insurance as it shall from time to time deem necessary or advisable in its sole discretion.

Section 6.5. Restriction on Separate Insurance. Grantor shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained hereunder unless Beneficiary is included thereon under a Standard Mortgagee Clause acceptable to Beneficiary. Grantor shall immediately notify Beneficiary whenever any such separate insurance is taken out and shall promptly deliver to Beneficiary true and complete copies of the policy or policies of such insurance. In the event of a foreclosure or other transfer of title to the Property in lieu of foreclosure, or by purchase at the foreclosure sale, all interest in any insurance policies in force shall pass to Beneficiary, transferee or purchaser as the case may be.

ARTICLE VII.
CASUALTY OR CONDEMNATION

Section 7.1. Casualty. Grantor shall promptly notify Beneficiary of any loss whether covered by insurance or not. In case of loss or damage by fire or other casualty, Beneficiary is authorized (i) to settle and adjust any claim under insurance policies which insure against such risks or (ii) to allow Grantor to agree with the insurance company or companies on the amount to be paid in regard to such loss. In either case, Beneficiary is authorized to collect and receipt for any such insurance money. Such insurance proceeds may, at the option of Beneficiary, in the event of a total loss be applied in the reduction of the indebtedness secured hereby, whether due or not; if less than a total loss, such proceeds shall be held by Beneficiary without any allowance of interest and, if an Event of Default does not then exist and if no condition then exists which will, with the passage of time, the giving of notice, or both, constitute an Event of Default, shall be used to reimburse Grantor for the cost of rebuilding or restoration of the buildings or improvements on the Property.

Section 7.2. Loss During Foreclosure. In case of loss after foreclosure proceedings have been instituted and not cured or redeemed, the proceeds of any such insurance policy or policies, if not applied as aforesaid in rebuilding or restoring the buildings or improvements, shall be used to pay the

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amount due Beneficiary and the balance, if any, shall be paid to the owner of the equity of redemption if he shall then be entitled to the same. In case of a judicial foreclosure of this Deed of Trust, the court in its decree may provide that the mortgagee's clause attached to each of said insurance policies may be canceled and that the decree creditor may cause a new loss clause to be attached to each of said policies making the loss thereunder payable to said decree creditor; and any such foreclosure decree may further provide that in case of one or more redemptions under said decree, pursuant to the statute in such case made and provided, then and in every such case, each successive redemptory may cause the preceding loss clause attached to each insurance policy to be canceled and a new loss clause to be attached hereto, making the loss thereunder payable to such redemptory. In the event of foreclosure sale, Beneficiary is hereby authorized, without consent of Grantor, to assign any and all insurance policies to the purchaser at the sale, or to take such other steps as Beneficiary may deem advisable, to cause the interest of such purchaser to be protected by any of the said insurance policies.

7.3. Condemnation. Grantor, immediately upon obtaining knowledge of the institution of any proceeding for the condemnation of the Property or any portion thereof, shall notify Beneficiary of the pendency thereof. Grantor hereby assigns, transfers and sets over unto Beneficiary all compensation, rights of action, the entire proceeds of any award and any claim for damages for any of the Property taken or damaged under the power of eminent domain or by condemnation or by sale in lieu thereof. Beneficiary may, at its option, commence, appear in and prosecute, in its own name or in the name of Grantor, any action or proceeding, or make any compromise or settlement in connection with such condemnation, taking under the power of eminent domain, or sale in lieu thereof. After deducting therefrom all of its expenses, including attorneys' fees, Beneficiary may elect to apply the proceeds of the award upon or in reduction of the indebtedness secured hereby, whether due or not, or hold such proceeds without any allowance of interest and make such proceeds available for restoration or rebuilding of the Property. If the proceeds are made available by Beneficiary to reimburse Grantor for the cost of such rebuilding or restoration, any surplus which may remain out of such award after payment of such cost of rebuilding or restoration shall at the option of Beneficiary be applied on account of the indebtedness secured hereby or be paid to Grantor. Grantor agrees to execute such further assignments of any compensation, awards, damages, rights of action and proceeds as Beneficiary may require.

ARTICLE VIII.
MECHANICS' OR OTHER LIENS AND ENCUMBRANCES

Section 8.1. No Liens. Grantor shall pay when due all obligations, lawful claims or demands of any person which, if unpaid, might result in, or permit the creation of, a lien or encumbrance on the Property, the Collateral or on the rents, issues, income and profits arising therefrom, whether such lien would be senior or subordinate hereto, including, but without limiting the generality of the foregoing, all claims of mechanics, materialmen, laborers and others for work or labor performed, or materials or supplies furnished in connection with any work of demolition, alteration, improvement of or construction upon the Property. Grantor shall not mortgage, pledge, assign or otherwise create, or

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permit the creation of, any security interest in the Property or the Collateral other than created hereby, whether superior or subordinate, without the express prior written permission of Beneficiary.

Section 8.2. Right to Contest. Grantor shall have the right to contest in good faith the validity of any such lien or encumbrance provided Grantor shall first deposit with Beneficiary a bond or other security satisfactory to Beneficiary in such amount as Beneficiary shall reasonably require but not more than one hundred fifty percent (150%) of the amount of the claim and provided further that Grantor shall thereafter diligently proceed to cause such lien to be removed and discharged. If Grantor shall fail to discharge any such lien, then, in addition to any other right or remedy of Beneficiary, Beneficiary may, but shall not be obligated to, discharge the same either by paying the amount claimed to be due or by depositing in court a bond in the amount required by statute, or otherwise giving security for such claim, or by taking such action as may be prescribed by law. Grantor shall guard every part of the Property and Collateral from removal, destruction and damage and shall not do or suffer to be done any act whereby the value of any part of the Property may be lessened.

Section 8.3. Beneficiary Right to Intervene. If the interest of Beneficiary in the Property or the superiority of such interest is endangered or attacked, directly or indirectly, Grantor hereby authorizes Beneficiary, at Grantor's expense, to take all necessary and proper steps for the defense of such interest or the superiority thereof, including the employment of counsel, the prosecution or defense of litigation, and the compromise or discharge of claims made against such interest or the superiority thereof.

ARTICLE IX.
ASSIGNMENT OF RENTS

Section 9.1. Assignment. Grantor hereby absolutely assigns and transfers to Beneficiary all of the rents, royalties, issues, profits, revenues, income and other benefits ("Rents and Profits") of the Property or arising from the use and enjoyment of all or any portion thereof. Grantor irrevocably appoints Beneficiary its special attorney-in-fact to demand, receive, and enforce payment, to give receipt, release, and satisfaction, and to sue, in the name of Grantor or Beneficiary, for all such Rents and Profits and to apply the same to the indebtedness secured hereby.

Section 9.2. Collection. Notwithstanding the above, Grantor shall have

the right to collect, use and enjoy such Rents and Profits prior to an Event of Default under this Deed of Trust or the Note. Upon any Event of Default under this Deed of Trust or the Note, Beneficiary may enter upon and take possession of the Property and collect such Rents and Profits, including those past due and unpaid, and apply the same, less costs and expenses, upon any indebtedness secured hereby, and in such order and to such notes as Beneficiary may determine. Grantor shall not execute, without the prior written consent of Beneficiary, an assignment or transfer of any of its right, title and interest in the Rents and Profits.

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ARTICLE X.
SALE OF PROPERTY OR COLLATERAL

Section 10.1. Due on Sale. If the Property or any part thereof or interest therein, whether legal or equitable, is sold, assigned, transferred, conveyed, mortgaged, or otherwise alienated by Grantor, whether voluntarily or involuntarily or by operation of law, or that if the management thereof is changed in either or any case without the prior written consent of Beneficiary, Beneficiary, at its option, may declare the Note and all other obligations secured hereunder to be forthwith due and payable. Any change in the beneficial ownership of Grantor or in the legal or equitable title of the Property or in the beneficial ownership of the Property, whether or not of record and whether or not for consideration or sale, shall be deemed a transfer of an interest in the Property.

Section 10.2. Beneficiary Right to Deal with Transferee; No Release of Grantor. In the event ownership of the Property or any part thereof becomes vested in a person or persons other than Grantor, without the prior written approval of Beneficiary, Beneficiary may, without notice to Grantor, waive such default and deal with such successor or successors in interest with reference to this Deed of Trust and the Note in the same manner as with Grantor, without in any way releasing, discharging or otherwise affecting the liability of Grantor hereunder or under the indebtedness hereby secured. No sale of the Property, no forbearance on the part of Beneficiary, no extension of the time for the payment of the indebtedness hereby secured or any change in the terms thereof consented to by Beneficiary shall in any way whatsoever operate to release, discharge, modify, change or affect the original liability of Grantor herein, either in whole or in part. Any deed conveying the Property or any part thereof, if approved by Beneficiary in writing, shall provide that the grantee thereunder assumes all of Grantor's obligations under this Deed of Trust, the Note and all other Security Documents. In the event such deed shall not contain such assumption, Beneficiary shall have all rights reserved to it hereunder in the event of a default or if Beneficiary shall not elect to exercise such rights and remedies, the grantee under such deed shall nevertheless be deemed to have assumed such obligations by acquiring the Property or such portion thereof subject to this Deed of Trust.

Section 10.3. Collateral. Grantor shall not voluntarily, involuntarily or by operation of law sell, assign, transfer or otherwise dispose of the Collateral or any interest therein and shall not otherwise do or permit anything to be done or occur that may impair the Collateral as security hereunder except that so long as this Deed of Trust is not in default, Grantor shall be permitted to sell or otherwise dispose of the Collateral when absolutely worn out, inadequate, unserviceable or unnecessary for use in the operation of the Property in the conduct of the business of Grantor, upon replacing the same or substituting for the same other Collateral at least equal in value to the initial value of that disposed of and in such a manner so that such Collateral shall be subject to the security interest created hereby and so that the security interest of Beneficiary hereunder shall be the first priority security interest in the Collateral. Nothing in this Section 10.3, however, shall prevent Grantor from abandoning any unpatented mining claims when Grantor reasonably determines that such claims are no longer necessary for the operation of the Property. In the event the Collateral is sold in connection with the sale of the Property, Grantor shall require, as a condition of the sale, that the buyer specifically agree to assume Grantor's obligations as to the security interest herein granted and to

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execute whatever agreements and filings deemed necessary by Beneficiary to maintain its perfected security interest in the Collateral.

ARTICLE XI.

INDEMNIFICATION

Grantor shall appear in and defend any suit, action or proceeding arising out of or in connection with the Property, the Collateral, the Note, this Deed of Trust or the other Security Documents that might in any way, in the sole judgment of Beneficiary, affect the value of the Property, the title to the Property, the validity, lien or priority of any of the Security Documents, or the rights and powers of Trustee or Beneficiary. Grantor shall, at all times, indemnify, hold harmless and on demand, reimburse Beneficiary for any and all liability, loss, damage, expense or cost, including cost of evidence of title and attorneys' fees, arising out of or incurred in connection with any such suit, action or proceeding. Grantor shall pay the cost of collection of any indebtedness secured hereby, including reasonable attorneys' fees, whether or not suit is brought and shall pay reasonable cost of suit, cost of evidence of title and reasonable attorneys' fees in any proceeding or suit brought by Trustee or Beneficiary to foreclose this Deed of Trust. Grantor shall further pay all cost and expense, including attorneys' fees, which Beneficiary may incur in connection with any other effort or action (whether or not litigation or foreclosure is involved) to enforce or defend Beneficiary's rights and remedies under each and every one of the Security Documents. The sum of any such expenditures shall be secured by this Deed of Trust and the other Security Documents and shall bear interest at the Default Rate provided in the Note and shall be due and payable on demand.

ARTICLE XII. PRESERVATION OF PROPERTY

If Grantor fails to make any payment or do any act required by this Deed of Trust or the Note or by any prior encumbrance, lien, reservation, restriction, condition, or covenant affecting the Property, then Beneficiary may, without obligation or notice, make any payment or do any act to the extent necessary to protect the Property. In so doing, Grantor shall not be released from any obligation created under this Deed of Trust. Any payments made by Beneficiary and the costs and expenses, including attorneys' fees, incurred by Beneficiary by doing any act as provided in this article shall become additional principal under the Note and shall bear interest at the Default Rate and shall be immediately due and payable from Grantor to Beneficiary. Nothing herein contained shall prevent any such failure to perform on the part of Grantor from constituting an Event of Default (as hereinafter defined).

ARTICLE XIII. PERFORMANCE UNDER SECURITY DOCUMENTS

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Grantor will promptly and strictly perform and comply with all agreements, covenants, conditions and prohibitions required of, made by, or imposed upon Grantor under the terms of each and every one of the Security Documents. In the event Grantor suffers or permits to occur any breach or default under the provisions of any of the Security Documents, such breach or default shall constitute an Event of Default hereunder and at the option of Beneficiary, and without notice to Grantor, all unpaid indebtedness secured by this Deed of Trust shall become due and payable as in the case of other Events of Default. Grantor will further, from time to time at the request of Beneficiary, supply Beneficiary with a current inventory of the Collateral in such detail as Beneficiary may require.

ARTICLE XIV. EVENTS OF DEFAULT

Any one or more of the following events shall be deemed to be an Event of Default hereunder as well as under the Note and the Security Documents:

Section 14.1. Default Under Note. Any "Event of Default" as defined in the Note.

Section 14.2. Failure to Perform. The failure by Grantor to properly and timely perform, comply with, or observe any of the non-monetary terms, covenants, conditions or agreements in the Note, this Deed of Trust or any other Security Documents and such failure continues for more than ten days after notice thereof from Beneficiary.

Section 14.3. Condemnation. The taking of the Property or any portion thereof through condemnation (which term when used herein shall include any damage or taking by any governmental authority or any other authority authorized by the laws of the state where the land is located or the United States of America) either temporarily or for a period in excess of thirty (30) days, or

permanently.

Section 14.4. Priority Lien Claim. The assertion (except by the owner of an encumbrance expressly excepted from Grantor's warranty of title herein) of any claim of priority over this Deed of Trust, by title, lien, or otherwise, unless within thirty (30) days after such assertion either Grantor causes the assertion to be withdrawn or Beneficiary approves of such claim of priority in writing.

Section 14.5. Dissolution. The dissolution, termination, or liquidation of Grantor or of any other person or entity directly or indirectly liable for the payment of the Note.

Section 14.6. Other. The occurrence of any other event designated as a default or an Event of Default under any other provision of this Deed of Trust or in any of the Security Documents.

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ARTICLE XV.
REMEDIES

Immediately upon or at any time after the occurrence of any of the Events of Default as defined in Article XIV of this Deed of Trust, Beneficiary may exercise any one or more of the cumulative, concurrent, and nonexclusive remedies which are listed below or which are listed in any other Security Document or which are otherwise available at law or in equity whether like or unlike the remedies so listed, and Beneficiary may exercise such remedy or remedies in such sequence or combination as Beneficiary may determine in Beneficiary's sole discretion:

Section 15.1. Performance of Defaulted Obligations. Although Beneficiary shall not be required to do so, Beneficiary may make any payment or perform any other obligation under the Note, this Deed of Trust or any of the Security Documents which Grantor has failed to make or perform, and Grantor hereby irrevocably appoints Beneficiary as a true and lawful attorney-in-fact for Grantor with authority to make any such payment and perform any such obligation in the name of Grantor and on behalf of Grantor. All payments made and expenses (including attorneys' fees) incurred by Beneficiary pursuant to this section, together with interest thereon at the Default Rate (as defined in the Note) from the date paid or incurred until repaid, will be part of Grantor's indebtedness to Beneficiary and will be immediately due and payable by Grantor to Beneficiary or, at Beneficiary's election, may be added to the unpaid principal balance of the Note and shall be secured by this Deed of Trust and the other Security Documents. In lieu of advancing Beneficiary's own funds for such purposes, Beneficiary may use any funds of Grantor which may be in Beneficiary's possession, including but not limited to undisbursed loan proceeds, insurance or condemnation proceeds, and amounts deposited for other purposes. Any payment by Beneficiary made pursuant to this section or in any other section of this Deed of Trust or of the Note or any other Security Document shall not excuse or constitute a waiver by Beneficiary of any default by Grantor.

Section 15.2. Specific Performance and Injunctive Relief. Notwithstanding the availability of legal remedies, Beneficiary shall be entitled to obtain specific performance, mandatory or prohibitory injunctive relief, or other equitable relief requiring Grantor to cure or refrain from repeating any default.

Section 15.3. Acceleration of Secured Obligations. Beneficiary may, without notice or demand, declare all of Grantor's indebtedness to Beneficiary secured hereunder or by any of the Security Documents immediately due and payable in full, including, but not limited to, the entire unpaid principal balance of the Note and all unpaid interest accrued thereon.

Section 15.4. Possession of Property. In the case of any Event of Default or upon the abandonment thereof by Grantor, Beneficiary may enter and take possession of the Property without seeking or obtaining the appointment of a receiver, may employ a managing agent for the Property, and may operate, lease or rent all or any part of the Property, either in Beneficiary's name or in the name of Grantor, and may collect the rents, issues, and profits of the Property. Any revenues collected

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by Beneficiary under this section will be applied first toward payment of all

costs and expenses (in cluding attorneys' fees) incurred by Beneficiary, together with interest thereon at the Default Rate (as defined in the Note) from the date paid or incurred until repaid, then to late charges, if any, then to accrued interest and the balance, if any, will be applied against Grantor's indebtedness to Beneficiary and principal under the Note until it has been paid in full.

Section 15.5. Enforcement of Security Interests. Beneficiary may exercise all rights of a secured party under the Utah Uniform Commercial Code with respect to all or any part of the Collateral, including, but not limited to, taking possession of, holding, and selling the Collateral and enforcing or otherwise realizing upon any other property in which Beneficiary has a security interest. Any requirement for reasonable notice of the time and place of any public sale or of the time after which any private sale or other disposition is to be made will be satisfied by Beneficiary's giving of such notice to Grantor at least five days prior to the time of any public sale or the time after which any private sale or other intended disposition is to be made.

Section 15.6. Foreclosure Against Property. Beneficiary may foreclose this Deed of Trust, insofar as it encumbers the Property, including Collateral, either by judicial action or through Trustee. Foreclosure through Trustee will be initiated by the filing with Trustee of a Notice of Election and Demand for Sale. Trustee shall then comply with such notice requirements of the laws of Utah as then apply with respect to such sale and shall file the required notice for record in each county wherein the Property or any portion thereof is situated. Beneficiary shall also deposit with Trustee the Note and all documents evidencing the indebtedness and expenditures secured hereby. Trustee shall then proceed to foreclosure and shall sell and dispose of the Property, including the Collateral (en masse or in separate parcels, as Trustee may think best), in the manner then provided by applicable law. Any sale conducted by Trustee pursuant to this section may be conducted at any door or entrance to, or room within, any building temporarily or permanently being used as a courthouse in the county in which the real property described in Exhibit A hereto is located or at or within any building in which the office of the clerk and recorder of said county is then located or at any other location then permitted by applicable law; provided, however, that the actual place of sale shall be designated in the Notice of Sale. Beneficiary may purchase the Property, including the Collateral, or any part thereof, and may bid in any part or all of the indebtedness secured hereby and it shall not be obligatory upon the purchaser(s) at any such sale to see to the application of the purchase money. The person conducting the sale may, for any cause he deems expedient, postpone the sale from time until it shall be completed and, in every case notice of postponement shall be given by public declaration thereof by such person at the time and place last appointed for the sale; provided, if the sale is postponed for longer than one day beyond the date designated in the Notice of Sale, notice thereof shall be given in the same manner as the original Notice of Sale. Nothing in this section dealing with foreclosure procedures or specifying particular actions to be taken by Beneficiary or by Trustee shall be deemed to conflict with the minimum requirements or procedures now or hereafter specified or provided by Utah law and any such conflict shall be resolved in favor of the requirements of Utah law applicable at the time of foreclosure.

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Section 15.7. Expenses of Trustee's Sale or Foreclosure. In the event all or any part of the Property shall be sold by Trustee pursuant to the provisions of this article or in the event that this Deed of Trust shall be foreclosed by appropriate proceedings in a court of competent jurisdiction, there shall be allocated and included as part of the obligations secured hereby, together with interest thereon at the Default Rate (as defined in the Note), all expenses which may be paid or incurred by or on behalf of Trustee or Beneficiary as court costs, filing fees, attorneys' fees, appraisers' fees, outlays for documentary and expert evidence, stenographers' charges, mailing and publication costs, costs for service of process, and costs (which may be estimates as to items to be expended after entry of the decree) of procuring all such abstracts of title, foreclosure certificates, title searches and examinations, title insurance policies, and similar data and assurances with respect to title as Beneficiary may deem reasonably necessary either to prosecute such suit or to evidence to bidders at the sale which may be had pursuant to such proceedings the true condition of the title to or the value of the Property, together with and including a reasonable compensation to Trustee. All expenditures and expenses of the nature mentioned in this section, and such expenses and fees as may be incurred in the protection of the Property and the maintenance of the lien of this Deed of Trust, including the fees of any attorney employed by Beneficiary or Trustee in any litigation or proceedings affecting this Deed of Trust, the Note or the Property, including but not limited to foreclosure, probate and bankruptcy proceedings or in preparation for the commencement or defense of any such litigation or proceeding or threatened litigation or proceeding, shall be immediately due and payable by Grantor to Beneficiary or Trustee, whoever or whichever will pay, has paid, or is owed the same.

Section 15.8. Proceeds of Trustee's or Foreclosure Sale. The purchase money, proceeds or avails of any sale made under or by virtue of this Deed of Trust, together with any other sums which then may be held by Trustee or Beneficiary under this Deed of Trust, shall be applied as follows:

First: To the payment of the costs and expenses of such sale, including reasonable compensation to Trustee, its agents and counsel, and of all expenses, liabilities and advances made or incurred by Trustee or Beneficiary under this Deed of Trust or respect to such sale, and of all other advances made by Beneficiary and all taxes or assessments, except any taxes, assessments or other charges subject to which the Property shall have been sold, together with interest at the Default Rate (as defined in the Note).

Second: To the payment of the whole amount then due, owing or unpaid upon the Note for accrued interest.

Third: To the payment of the whole amount then due, owing or unpaid upon the Note for unpaid principal.

Fourth: To the payment of any other sums required to be paid pursuant to any provisions of the Note or the Security Documents.

Fifth: To the payment of the surplus, if any, to the party entitled thereto.

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Section 15.9. Appointment of Receiver. Beneficiary shall be entitled, as a matter of right and without regard to the value of any security for the indebtedness secured hereunder or by any of the other Security Documents, or the solvency of any person or entity liable therefor, to the appointment of a receiver for the Property upon ex parte application to any court of competent jurisdiction, or otherwise. Grantor freely and knowingly waives any right to any hearing or notice of hearing prior to the appointment of a receiver. Such receiver and his/her agents shall be empowered: (a) to take possession of the Property and any and all assets used in connection therewith; (b) to exclude Grantor and Grantor's agents, servants, and employees from the Property; (c) to collect the rents, issues, profits, and income therefrom; (d) to operate the Property and complete any construction which may be in progress; (e) to do such maintenance and make such repairs and alterations as the receiver deems necessary; (f) to use all stores of materials, supplies, and maintenance equipment on the Property and replace such items at the expense of the receivership estate; (g) to pay all taxes and assessments against the Property, all premiums for insurance thereon, all utility and other operating expenses, and all sums due under any prior or subsequent encumbrance; and (h) generally do anything which Grantor could legally do if Grantor were in possession of the Property. All expenses incurred by the receiver or his/her agents shall constitute a part of the indebtedness secured hereunder or by any of the other Security Documents. Any revenues collected by the receiver shall be applied first to the expenses of the receivership, including attorneys' fees incurred by the receiver and by Beneficiary, together with interest thereon at the Default Rate (as defined in the Note) from the date first paid or incurred until repaid, and the balance shall be applied toward the indebtedness secured hereunder or by any of the other Security Documents or in such other manner as the receivership court may direct. Unless sooner terminated with the express consent of Beneficiary, any such receivership shall continue until the indebtedness secured hereunder or by any of the other Security Documents has been discharged in full or until title to the Property has passed after foreclosure sale and all applicable periods of redemption have expired.

Section 15.10. Effect of Sale. Upon the completion of any sale or sales made by Trustee under or by virtue of this Deed of Trust, Trustee shall execute and deliver to the accepted purchaser or purchasers a good and sufficient deed or deeds, conveying, assigning and transferring the Property, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. After the expiration of any appropriate statutory period of redemption, any such sale or sales made under or by virtue of this Deed of Trust whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, shall operate to divest all the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Grantor in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against Grantor and against any and all persons claiming or who may claim the same or any part thereof from, through or under Grantor.

Section 15.11. Waiver and Release. Grantor hereby irrevocably and unconditionally waives and releases, to the extent permitted by law: (a) all benefits that might accrue to Grantor by virtue of any present or future law

exempting the Property from attachment, levy or sale on execution or providing for any appraisalment, valuation, stay of execution, redemption, exemption from civil

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process or extension of time for payment; (b) all notices of any Event of Default or of Trustee's exercise of any right, remedy, or recourse provided under the Security Documents; and (c) any right to a marshalling of assets or a sale in inverse order of alienation.

Section 15.12. Acquisition of Property by Beneficiary. Upon any sale made under or by virtue of this Deed of Trust, whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, Beneficiary may bid for and acquire the Property or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the indebtedness secured by this Deed of Trust the net sales price after deducting therefrom the expenses of the sale and the cost of the action and any other sums which Beneficiary is authorized to deduct under this Deed of Trust. Beneficiary upon so acquiring the Property, or any part thereof, shall be entitled to hold, lease, rent, operate, manage and sell the same in any manner provided by applicable laws.

ARTICLE XVI.
NOTICES

Notices. Any notice or demand in connection with this Deed of Trust shall be in writing and shall be deemed to have been duly given when (a) delivered by hand, (b) sent by facsimile (with receipt confirmed), provided that a copy is promptly thereafter mailed by first-class prepaid certified mail, return receipt requested, (c) received by the addressee, if sent with delivery receipt requested by Express Mail, Federal Express, or other express delivery service or first-class prepaid certified mail, in each case to the appropriate addresses and facsimile numbers as a party may designate as to itself by notice to the other parties.

ARTICLE XVII.
MISCELLANEOUS TERMS AND CONDITIONS

Section 17.1. Future Consent. The granting of consent by Beneficiary to any transaction where such consent is required by the terms hereof shall not be deemed a waiver of the right to require consent to future or successive transactions.

Section 17.2. Gender. As used herein, the singular shall include the plural, the plural includes the singular, words of one gender shall include another gender.

Section 17.3. Powers of Trustee. From time to time upon written request of Beneficiary and presentation of this Deed of Trust for endorsement and without affecting the personal liability of any person for payment of any indebtedness or performance of the obligations secured hereby, Trustee may, without liability therefor and without notice: release or reconvey all or any part of the Property; consent to the making of any map or plat thereof; join in granting any easement thereon; join in any declaration of covenants and restrictions; or join in any extension agreement or any agreement subordinating the lien or charge hereof. Trustee or Beneficiary may from time to time apply in any

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court of competent jurisdiction for aid and direction in the execution of the trusts hereunder and the enforcement of the rights and remedies available hereunder, and Trustee or Beneficiary may obtain orders or decrees directing or confirming or approving acts in the execution of such trusts and the enforcement of such remedies. Trustee has no obligation to notify any party of any pending sale or any action or proceeding unless held or commenced and maintained by Trustee under this Deed of Trust. Grantor shall pay to Trustee reasonable compensation and reimbursement for services and expenses in the enforcement of the trusts created hereunder, including reasonable attorneys' fees. Grantor shall indemnify Trustee and Beneficiary against all losses, claims, demands and liabilities which either may incur, suffer or sustain in the execution of the trusts created hereunder or in the performance of any act required or permitted hereunder or by law.

Section 17.4. Marshalling of Assets. Grantor on its own behalf and on

behalf of its successors and assigns hereby expressly waives all rights to require a marshalling of assets by Trustee or Beneficiary or to require Trustee or Beneficiary to first resort to the sale of any portion of the Property which might have been retained by Grantor before foreclosing upon and selling any other portion as may be conveyed by Grantor subject to this Deed of Trust.

Section 17.5. Partial Release. Without affecting the liability of any other person for the payment of any indebtedness herein mentioned (including Grantor should it convey such Property) and without affecting the lien or priority hereof upon any property not released, Beneficiary may, without notice, release any person so liable, extend the maturity or modify the terms of any such obligation, or grant other indulgences, release or reconvey or cause to be released or reconveyed at any time all or any part of the Property, take or release any other security or make compositions or other arrangements with debtors. Beneficiary may also accept additional security, either concurrently herewith or hereafter, and sell the same or otherwise realize thereon either before, concurrently with, or after sale hereunder.

Section 17.6. Beneficiary's Consent. Except as otherwise expressly provided herein, in any instance hereunder where Beneficiary's approval or consent is required or the exercise of Beneficiary's judgment is required, the granting or denial of such approval or consent and the exercise of such judgment shall be within the sole discretion of Beneficiary, and Beneficiary shall not for any reason or to any extent be required to grant such approval or consent or exercise such judgment in any particular manner regardless of the reasonableness of either the request or Beneficiary's judgment.

Section 17.7. Non-Waiver.

a. By accepting payment of any sum secured hereby after its due date or late performance of any obligation secured hereby, Beneficiary shall not waive its right against any person obligated directly or indirectly hereunder or on any indebtedness hereby secured either to require prompt payment when due of all other sums so secured or to declare default for failure to make such prompt payment. No exercise of any right or remedy by Trustee or Beneficiary hereunder shall constitute a waiver of any other right or remedy herein contained or provided by law.

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b. No delay or omission of Trustee or Beneficiary in the exercise of any right, power or remedy accruing hereunder or arising otherwise shall impair any such right, power, or remedy or be construed to be a waiver of any default or acquiescence therein.

c. Receipts of rents, awards and any other monies or evidences thereof pursuant to the provisions of this Deed of Trust and any disposition of the same by Trustee or Beneficiary shall not constitute a waiver of the power of sale or right of foreclosure by Trustee or Beneficiary in an Event of Default or failure of performance by Grantor of any covenant or agreement contained in this Deed of Trust, the Note or the Security Documents.

Section 17.8. Paragraph Headings. The headings of each paragraph are for information and convenience only and do not limit or construe the contents of any provision hereof.

Section 17.9. Severability. In the event any one or more of the provisions contained in this Deed of Trust or the application thereof to any person or circumstances shall to any extent be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Deed of Trust, but the remainder of this Deed of Trust or the application of such term to persons or circumstances other than those as to which it is invalid, illegal or unenforceable shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

Section 17.10. Successors-in-Interest. This Deed of Trust applies to, inures to the benefit of, and is binding not only on the parties hereto, but also on their successors and assigns. Nothing herein contained shall be deemed as the consent of Beneficiary to any assignment, conveyance or other transfer of Grantor's interest in the Property. The term "Beneficiary" shall mean the holder and owner, including pledgees, of the Note, whether or not named as Beneficiary herein.

Section 17.11. Modifications. This Deed of Trust may not be amended, modified or changed nor shall any waiver of any provisions hereof be effective except only by an instrument in writing and signed by the party against whom enforcement of any waiver, amendment, change, modification or discharge is sought. However, in the event any provision hereunder conflicts with applicable laws, such provision shall be deemed to conform thereto.

Section 17.12. Governing Law. This Deed of Trust shall be construed according to and governed by the laws of the State of Utah.

Section 17.13. Future Advances. Upon request by Grantor, at Beneficiary's option and in Beneficiary's sole discretion, Beneficiary may make future advances to Grantor. Such future advances, with interest thereon, shall be secured by this Deed of Trust and all of the Security Documents when such advances are evidenced by promissory notes stating that said notes are secured hereby; however, nothing contained herein shall in any way obligate Beneficiary to make any such future advances as mentioned herein.

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Section 17.14. Rights Cumulative, Concurrent and Nonexclusive. Beneficiary shall have all rights, remedies and recourses granted in the Security Documents and available at law or in equity (including, without limitation, those granted by the Uniform Commercial Code as adopted in the State of Utah and applicable to the Property, or any portion thereto) and the same (a) shall be cumulative and concurrent, (b) may be pursued separately, successively or concurrently against Grantor or others obligated for the indebtedness, or any part thereof or against any one or more of them, or against the Property, at the sole discretion of Beneficiary, (c) may be exercised as often as occasion therefor shall arise, it being agreed by Grantor that the exercise or failure to exercise any of the same shall in no event be construed as a waiver or release thereof or of any other right, remedy or recourse, and (d) are intended to be, and shall be, nonexclusive.

Section 17.15. No Third Party Rights. No person shall be a third party beneficiary of any provision of the Note, this Deed of Trust, or any other Security Document. All such provisions favoring Beneficiary are intended solely for the benefit of Beneficiary, and no third party shall be entitled to assume or expect that Beneficiary will waive or consent to modification of any such provision.

Section 17.16. Inspections. Beneficiary and its agents, representatives and workmen are authorized to enter at any reasonable time upon or on any part of the Property for the purpose of inspecting the same and for the purpose of performing any of the acts it or Grantor is authorized to perform under the terms of this Deed of Trust or any other instrument which secures the Note.

Section 17.17. Priority of Leases. To the extent Grantor has the right under the terms of any existing lease of all or any part of the Property to make such lease subordinate to the lien of this Deed of Trust, Grantor will, at Beneficiary's request and Grantor's expense, take such action as may be required to effect such subordination.

Section 17.18. Successor Trustee. Beneficiary may appoint a successor trustee at any time by filing of record in the office of the county recorder of each county in which the Property or any part thereof is situated, a substitution of trustee. From the time the substitution is filed for record, the new trustee shall succeed to all the powers, duties, authority and title of the trustee named herein or of any successor trustee. Each substitution shall be executed and acknowledged, and notice thereof shall be given and proof thereof made, in the manner provided by law.

Section 17.19. Authority of Signatories. The individuals executing this Deed of Trust and all other Security Documents represent and warrant that they are fully authorized to and legally capable of executing this Deed of Trust and all other Security Documents on behalf of Grantor and that the execution of such documents is binding upon all parties holding an ownership interest in the Property.

Section 17.20. Power of Attorney. Whenever a power of attorney is conferred upon Beneficiary hereunder, it is understood and agreed that such power of attorney is conferred with full power of substitution and Beneficiary may elect in its sole discretion to exercise such power itself or to delegate such power or any part thereof to one or more sub-agents.

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Section 17.21. Statute of Limitations. Grantor hereby waives the pleading of any statute of limitations as a defense to any obligation secured by this Deed of Trust or any of the Security Documents to the full extent permitted by law.

Section 17.22. Time of Essence. Time is of the essence hereof in

connection with all obligations of Grantor herein or in the Note or any other Security Document constituting additional security for the Note.

IN WITNESS WHEREOF, this instrument has been executed by Grantor as of the date first above written.

GRANTOR:

LISBON VALLEY MINING CO. LLC,
a Utah limited liability company
Tax I.D. #84-1422662

By: Summo USA Corporation, its
Managing Member

By: _____
Gregory A. Hahn, President and CEO

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

Subscribed and sworn to before me this ____ day of November, 1998.

WITNESS my hand and official seal.

My commission expires:

Notary Public

DEED OF TRUST, ASSIGNMENT OF RENTS
AND SECURITY AGREEMENT

THIS DEED OF TRUST, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT (hereinafter referred to as the "Deed of Trust") made and entered into as of this 23rd day of November, 1998, by and between LISBON VALLEY MINING CO. LLC, a Utah limited liability company (hereinafter referred to as "Grantor") whose mailing address is 1776 Lincoln Street, Suite 900, Denver, Colorado 80203 and STEWART TITLE GUARANTY COMPANY, a Texas corporation (hereinafter referred to as "Trustee") whose address is 455 East, 500 South, Salt Lake City, Utah 84111, for the benefit of ST. MARY MINERALS INC., a Colorado corporation (hereinafter referred to as "Beneficiary") whose address is 1776 Lincoln Street, Suite 1100, Denver, Colorado 80203.

ARTICLE I.
GRANT

Section 1.1. Grant. Grantor, in consideration of the indebtedness herein recited and the trust herein created, does hereby unconditionally and irrevocably grant, assign and convey unto Trustee, with power of sale and right of entry and possession, the real estate, minerals and water rights located in San Juan County, State of Utah, and more particularly described in Exhibit A attached hereto and incorporated herein, which, with the property hereinafter described, is referred to herein as the "Property."

TOGETHER WITH:

a. All buildings and improvements, now or hereafter located thereon, all privileges and other rights now or hereafter made appurtenant thereto including, without limitation, all right, title and interest of Grantor in and to all streets, roads and public places, opened or proposed, and all easements, rights-of-way, public or private, now or hereafter used in connection with the Property, including all rights of ingress and egress to and from adjoining property, all strips or gores of land, alleys, passages, and all estates, rights, titles, interests, privileges, tenements, hereditaments, and appurtenances, and all oil, gas, minerals, water, surface and subsurface rights whatsoever in any way belonging, relating or appertaining to the Property or which hereafter shall in any way belong, relate or be appurtenant thereto, whether now owned or hereafter acquired by Grantor, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all the estate, right, title, interest, property, possession, claim and demand whatsoever, at law and in equity, of Grantor of, in and to the same; and all proceeds of any sales or other dispositions of the Property, and also all the estate, right, title and interest of Grantor, either at law or in equity, of, in and to the Property and every part thereof; and

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b. All right, title and interest of Grantor in and to all fixtures, fittings, furnishings, apparatus, equipment and machinery, and all renewals or replacements thereof or articles in substitution thereof; and all proceeds and profits thereof; it being understood and agreed that all of the estate, right, title and interest of Grantor in and to all property of any nature whatsoever, now or hereafter situated on the Property or intended to be used in connection with the operation thereof, shall be deemed to be fixtures and an accession to the freehold and a part of the realty as between the parties hereto, and all persons claiming by, through or under them, and shall be deemed to be a portion of the security for the indebtedness herein mentioned and secured by this Deed of Trust. If the lien of this Deed of Trust on any fixtures or personal property be subject to a lease agreement, conditional sale agreement or chattel mortgage covering such property, then in the event of any default hereunder all the rights, title and interest of Grantor in and to any and all deposits made thereon or therefor are hereby assigned to Trustee, together with the benefit of any payments now or hereafter made thereon. There is also transferred, set over and assigned by Grantor to Trustee hereby all leases and use agreements of machinery, equipment and other personal property of Grantor in the categories hereinabove set forth, under which Grantor is the lessee of, or entitled to use, such items, and Grantor agrees to execute and deliver to Beneficiary specific separate assignments to Beneficiary of such leases and agreements when requested by Beneficiary; but nothing herein shall obligate Beneficiary to perform any obligations of Grantor under such leases or agreements unless it so chooses, which obligations Grantor hereby covenants and agrees to well and punctually perform. The items set forth in this Subsection are sometimes hereinafter separately referred to as the "Collateral"; and

c. All rents, income, profits, revenues, royalties, bonuses, rights, accounts, contract rights, general intangibles and benefits under any and all leases or tenancies now existing or hereafter created on or in any way related to the Property or any part thereof, with the right, after an Event of Default (as hereinafter defined), to receive and apply the same to such indebtedness, and, after an Event of Default, Beneficiary may demand, sue for and recover such payments but shall not be required to do so; and

d. All interest which Grantor has or may hereafter have in the proceeds of insurance in effect with respect to the Property; and

e. Any judgments, awards of damages, payments, and settlements, including interest thereon, hereafter made as a result of or in lieu of any taking of the Property or any part thereof or interest therein under the power of eminent domain, or for any damage (whether caused by such taking or otherwise), including interest thereon, to the Property or the improvements thereon or any part thereof or interest therein, including any award for change of grade of streets; and

f. All proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims; and

g. All leases and leasehold rights of any kind or nature whatsoever affecting the Property or in any way related thereto; and

h. All oil, gas and minerals, and all water, ditch, well and reservoir rights which are appurtenant to or which have been or may be used in connection with the Property; and

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i. All oil, gas, minerals, crops, timber, trees and landscaping features now or hereafter located on, in, under or above the Property; and

j. All surface, subsurface, development and mining rights associated with the Property, whether now or hereafter created; and

k. All other or greater rights and interests of every nature in, with respect to or related to the Property or in the possession or use thereof and in the income therefrom, whether now owned or subsequently acquired by Grantor.

TO HAVE AND TO HOLD such Property unto Trustee, subject only to (a) the rights of Lisbon Copper Ltd. under that certain Second Amendment of Option Agreement dated December 4, 1997, (b) the rights of the lessors of the leases included in the Property, (c) the paramount rights of the United States and (d) the liens and encumbrances of Beneficiary and liens and encumbrances of record on the date hereof (hereinafter referred to as the "Permitted Exceptions"); and Grantor does hereby bind itself, its successors and assigns to warrant and forever defend, all and singular, such Property unto Trustee, its successors, substitutes and assigns, against all persons whomsoever claiming or to claim the same or any part thereof.

Section 1.2. Security Agreement. Grantor makes the foregoing grant to Trustee to hold the Property in trust for the benefit of Beneficiary and for the purposes and upon the terms and conditions hereinafter set forth. This instrument is and shall be construed as both a Deed of Trust and Security Agreement and to the extent that any of the Property, including but without limitation, the Collateral, is deemed to be personal property or fixtures, or property not subject to an encumbrance upon real estate, Grantor hereby grants unto Beneficiary a security interest in and to such property.

Section 1.3. Release. If Grantor shall pay or cause to be paid to the holder of the Note (defined below) the principal and interest to become due thereupon at the time and in the manner stipulated therein, and shall pay or cause to be paid all other sums payable hereunder and all indebtedness hereby secured, then, in such case, the estate, right, title and interest of Trustee and Beneficiary in the Property shall cease, terminate and become void, and upon proof being given to the satisfaction of Beneficiary that the Note, together with interest thereon have been paid or satisfied, and upon payment of all fees, costs, charges, expenses and liabilities chargeable or incurred or to be incurred by Trustee or Beneficiary, and of any other sums as herein provided, this conveyance shall be released in due form at the expense of Grantor, otherwise it shall remain in full force and effect.

ARTICLE II.
OBLIGATIONS SECURED

This Deed of Trust is given to secure to Beneficiary the following:

a. That certain convertible promissory note dated effective as of October 1, 1997 payable jointly and severally by Summo Minerals Corporation and Summo USA Corporation to the order of Beneficiary in the original principal amount of \$2,950,000 or, if greater or less, the aggregate principal amount of all loans made by Beneficiary to either Summo Minerals Corporation or Summo USA Corporation, together with any extensions, modifications, or renewals thereof (herein referred to as the "Note", the terms and provisions of which are expressly incorporated herein by this reference);

b. Any other indebtedness by Grantor, Summo Minerals Corporation or Summo USA Corporation to Beneficiary, now or hereafter arising under the terms hereof or in any other instrument constituting additional security for the Note; and

c. The performance by Grantor, Summo Minerals Corporation or Summo USA Corporation of all the terms, covenants and agreements on their part to be performed under the Note, this Deed of Trust, the Pledge and Security Agreement of even date executed by Grantor concurrently herewith and any other instrument now or hereafter executed by Grantor, Summo Minerals Corporation or Summo USA Corporation as security for payment of the indebtedness secured hereby (hereafter collectively called the "Security Documents").

ARTICLE III.
TITLE AND AUTHORITY

Section 3.1. Title.

a. Grantor hereby covenants, represents and warrants that Grantor owns and has good and indefeasible title to an indefeasible fee simple estate in the real estate described in Exhibit A hereto subject to no liens, charges, or encumbrances except for the Permitted Exceptions; that Grantor has full power and authority to grant, bargain, sell and convey the Property in the manner and form herein done or intended hereafter to be done; that this Deed of Trust is and shall remain a valid and enforceable first lien on the Property subject only to the Permitted Exceptions; that Grantor and its successors and assigns warrant and agree to defend the same forever against the lawful claims and demands of all persons or entities whatsoever; and that this covenant shall not be extinguished by any exercise of power of sale, foreclosure or sale hereof but shall run with the land. Nothing in this Section 3.1(a), however, shall be deemed to be a representation or a warranty that any of the unpatented mining claims contains a discovery of minerals.

b. Subject to the Permitted Exceptions, Grantor has and shall maintain title to the Collateral, including any additions or replacements thereto, free of all security interests, liens and encumbrances other than the security interest granted to Beneficiary and other than as disclosed to and accepted by Beneficiary in writing and Grantor has the right to subject the Collateral to the security interest hereunder.

Section 3.2. Further Acts. Grantor shall, at Grantor's sole cost and without expense to Beneficiary, execute, acknowledge and deliver all and every such further acts, deeds, documents, agreements, conveyances, deeds of trust, assignments, notices of assignments, transfers and assurances as Beneficiary shall from time to time require for assuring, conveying, assigning, transferring and confirming unto Trustee or Beneficiary the Property and rights hereby conveyed or assigned or intended now or hereafter so to be or which Grantor may be or may hereafter become bound to convey or assign to Trustee or Beneficiary, or for carrying out the intention of facilitating the performance of the terms of the Security Documents or for filing, registering or recording the Security Documents and, on demand, shall execute and deliver, and hereby authorizes Beneficiary to execute in the name of Grantor, to the extent it may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments to evidence more effectively the lien hereof upon the Collateral. Grantor shall give advance notice in writing to Beneficiary of any proposed change in Grantor's name, identity, or structure and shall execute and deliver to Beneficiary, prior to or concurrently with the occurrence of any such change, all additional financing statements that Beneficiary may require to establish and maintain the validity and priority of Beneficiary's security interest with respect to any of the Property, including the Collateral.

Section 3.3. Fees. Grantor shall pay all filing or recording fees and

all reasonable expenses incident to the preparation, execution and acknowledgment of this Deed of Trust, any deed of trust supplemental hereto, any Security Document and other security instrument with respect to the Collateral, and any instrument of additional security, and all federal, state, county and municipal stamp taxes and other taxes, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Note, this Deed of Trust, any deed of trust supplemental hereto, any Security Document and other security instrument with respect to the Collateral, or any instrument of further assurance.

Section 3.4. Due Authorization. Each individual who executes this document on behalf of Grantor represents and warrants to Beneficiary that such execution has been duly authorized by all necessary corporate, partnership, or other action on the part of Grantor.

ARTICLE IV.
TAXES AND ASSESSMENTS

Section 4.1. Payment. Grantor shall pay, prior to delinquency, all real property taxes and assessments, general and special, and all other taxes and assessments of any kind or nature whatsoever affecting or relating to the Property. Grantor shall also pay when due all non-governmental levies or assessments such as maintenance charges or fees and charges resulting from covenants, conditions, or restrictions affecting the Property which are assessed or imposed upon the Property, or become due and payable, and which create, may create, or appear to create a lien prior and superior to the lien of this Deed of Trust upon the Property or any part thereof. Grantor shall furnish Beneficiary with official receipts of the appropriate taxing authority, or other proof satisfactory to Beneficiary, evidencing payment thereof.

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Section 4.2. Contest of Validity. Notwithstanding Section 4.1 above, Grantor may contest the validity of any tax or assessment which it is obligated to pay under the terms of this Deed of Trust by appropriate legal and administrative proceedings. No default shall be declared hereunder as long as Grantor, in good faith, and by appropriate proceedings, is contesting the amount or validity of such tax, assessment or charge; provided that Grantor, before instituting any such contest, gives Beneficiary notice of its intention to do so and so long as the proceedings maintained by Grantor at all times effectively stay or prevent any official or judicial sale of the Property under execution or otherwise. Upon conclusion of any such proceedings, Grantor shall forthwith discharge any liability for taxes and assessments and all penalties, interest and costs in connection therewith.

ARTICLE V.
MAINTENANCE; COMPLIANCE WITH LAW

Section 5.1. Maintenance, Repair, Waste. Grantor shall at all times maintain and keep the Property in good operating order and condition and shall promptly make, from time to time, all repairs, renewals, restorations, replacements, additions and improvements in connection therewith which are or may be reasonably required. Any improvements on the Property shall not be removed, demolished or substantially altered without the prior written consent of Beneficiary. Grantor shall pay all claims for labor performed and for materials furnished for any such improvements when due. Grantor shall not commit any waste or permit impairment or deterioration of the Property. Grantor shall not make any change in the use of the Property without the prior written consent of Beneficiary. Grantor shall permit Trustee or Beneficiary or its agents the opportunity to inspect the Property, including the interior of any structures, at any reasonable time.

Section 5.2. Compliance with Law. Grantor shall comply with all requirements of all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court, covenants, conditions and restrictions applicable to Grantor or to the Property or any part thereof or to the use thereof, including, but not limited to, environmental laws, municipal ordinances, building and zoning regulations, and restrictions and covenants of record, and shall pay all fees or charges of any kind in connection therewith.

ARTICLE VI.
INSURANCE

Section 6.1 Fire and Extended Coverage; Liability. Grantor shall keep all buildings, improvements and Collateral now or hereafter situated on the Property insured against loss or damage by fire and other hazards as may be required by Beneficiary. Grantor shall also provide liability insurance with such limits for personal injury and death and property damage as Beneficiary may

require.

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Section 6.2. Waiver of Subrogation. The policy must contain a provision to the effect that any waiver of subrogation rights by the insured does not void the coverage and any other special endorsements as may be required by the terms of any leases assigned as security for the indebtedness secured by this Deed of Trust.

Section 6.3. Delivery of Policies. Grantor shall deliver all policies and certificates, including additional and renewal policies, to Beneficiary or other evidence of the existence of such insurance which is satisfactory to Beneficiary and, in the case of insurance about to expire, shall deliver renewal policies not less than thirty (30) days prior to their respective dates of expiration. A certificate as to liability coverage, as distinguished from submission of original policies, will be acceptable.

Section 6.4. Additional Insurance. Any provision herein to the contrary notwithstanding, Beneficiary may require such other or additional insurance as it shall from time to time deem necessary or advisable in its sole discretion.

Section 6.5. Restriction on Separate Insurance. Grantor shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained hereunder unless Beneficiary is included thereon under a Standard Mortgagee Clause acceptable to Beneficiary. Grantor shall immediately notify Beneficiary whenever any such separate insurance is taken out and shall promptly deliver to Beneficiary true and complete copies of the policy or policies of such insurance. In the event of a foreclosure or other transfer of title to the Property in lieu of foreclosure, or by purchase at the foreclosure sale, all interest in any insurance policies in force shall pass to Beneficiary, transferee or purchaser as the case may be.

ARTICLE VII.
CASUALTY OR CONDEMNATION

Section 7.1. Casualty. Grantor shall promptly notify Beneficiary of any loss whether covered by insurance or not. In case of loss or damage by fire or other casualty, Beneficiary is authorized (i) to settle and adjust any claim under insurance policies which insure against such risks or (ii) to allow Grantor to agree with the insurance company or companies on the amount to be paid in regard to such loss. In either case, Beneficiary is authorized to collect and receipt for any such insurance money. Such insurance proceeds may, at the option of Beneficiary, in the event of a total loss be applied in the reduction of the indebtedness secured hereby, whether due or not; if less than a total loss, such proceeds shall be held by Beneficiary without any allowance of interest and, if an Event of Default does not then exist and if no condition then exists which will, with the passage of time, the giving of notice, or both, constitute an Event of Default, shall be used to reimburse Grantor for the cost of rebuilding or restoration of the buildings or improvements on the Property.

Section 7.2. Loss During Foreclosure. In case of loss after foreclosure proceedings have been instituted and not cured or redeemed, the proceeds of any such insurance policy or policies, if not applied as aforesaid in rebuilding or restoring the buildings or improvements, shall be used to pay the

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amount due Beneficiary and the balance, if any, shall be paid to the owner of the equity of redemption if he shall then be entitled to the same. In case of a judicial foreclosure of this Deed of Trust, the court in its decree may provide that the mortgagee's clause attached to each of said insurance policies may be canceled and that the decree creditor may cause a new loss clause to be attached to each of said policies making the loss thereunder payable to said decree creditor; and any such foreclosure decree may further provide that in case of one or more redemptions under said decree, pursuant to the statute in such case made and provided, then and in every such case, each successive redemptory may cause the preceding loss clause attached to each insurance policy to be canceled and a new loss clause to be attached hereto, making the loss thereunder payable to such redemptory. In the event of foreclosure sale, Beneficiary is hereby authorized, without consent of Grantor, to assign any and all insurance policies to the purchaser at the sale, or to take such other steps as Beneficiary may deem advisable, to cause the interest of such purchaser to be protected by any of the said insurance policies.

7.3. Condemnation. Grantor, immediately upon obtaining knowledge of the institution of any proceeding for the condemnation of the Property or any portion thereof, shall notify Beneficiary of the pendency thereof. Grantor hereby assigns, transfers and sets over unto Beneficiary all compensation, rights of action, the entire proceeds of any award and any claim for damages for any of the Property taken or damaged under the power of eminent domain or by condemnation or by sale in lieu thereof. Beneficiary may, at its option, commence, appear in and prosecute, in its own name or in the name of Grantor, any action or proceeding, or make any compromise or settlement in connection with such condemnation, taking under the power of eminent domain, or sale in lieu thereof. After deducting therefrom all of its expenses, including attorneys' fees, Beneficiary may elect to apply the proceeds of the award upon or in reduction of the indebtedness secured hereby, whether due or not, or hold such proceeds without any allowance of interest and make such proceeds available for restoration or rebuilding of the Property. If the proceeds are made available by Beneficiary to reimburse Grantor for the cost of such rebuilding or restoration, any surplus which may remain out of such award after payment of such cost of rebuilding or restoration shall at the option of Beneficiary be applied on account of the indebtedness secured hereby or be paid to Grantor. Grantor agrees to execute such further assignments of any compensation, awards, damages, rights of action and proceeds as Beneficiary may require.

ARTICLE VIII.
MECHANICS' OR OTHER LIENS AND ENCUMBRANCES

Section 8.1. No Liens. Grantor shall pay when due all obligations, lawful claims or demands of any person which, if unpaid, might result in, or permit the creation of, a lien or encumbrance on the Property, the Collateral or on the rents, issues, income and profits arising therefrom, whether such lien would be senior or subordinate hereto, including, but without limiting the generality of the foregoing, all claims of mechanics, materialmen, laborers and others for work or labor performed, or materials or supplies furnished in connection with any work of demolition, alteration, improvement of or construction upon the Property. Grantor shall not mortgage, pledge, assign or otherwise create, or

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permit the creation of, any security interest in the Property or the Collateral other than created hereby, whether superior or subordinate, without the express prior written permission of Beneficiary.

Section 8.2. Right to Contest. Grantor shall have the right to contest in good faith the validity of any such lien or encumbrance provided Grantor shall first deposit with Beneficiary a bond or other security satisfactory to Beneficiary in such amount as Beneficiary shall reasonably require but not more than one hundred fifty percent (150%) of the amount of the claim and provided further that Grantor shall thereafter diligently proceed to cause such lien to be removed and discharged. If Grantor shall fail to discharge any such lien, then, in addition to any other right or remedy of Beneficiary, Beneficiary may, but shall not be obligated to, discharge the same either by paying the amount claimed to be due or by depositing in court a bond in the amount required by statute, or otherwise giving security for such claim, or by taking such action as may be prescribed by law. Grantor shall guard every part of the Property and Collateral from removal, destruction and damage and shall not do or suffer to be done any act whereby the value of any part of the Property may be lessened.

Section 8.3. Beneficiary Right to Intervene. If the interest of Beneficiary in the Property or the superiority of such interest is endangered or attacked, directly or indirectly, Grantor hereby authorizes Beneficiary, at Grantor's expense, to take all necessary and proper steps for the defense of such interest or the superiority thereof, including the employment of counsel, the prosecution or defense of litigation, and the compromise or discharge of claims made against such interest or the superiority thereof.

ARTICLE IX.
ASSIGNMENT OF RENTS

Section 9.1. Assignment. Grantor hereby absolutely assigns and transfers to Beneficiary all of the rents, royalties, issues, profits, revenues, income and other benefits ("Rents and Profits") of the Property or arising from the use and enjoyment of all or any portion thereof. Grantor irrevocably appoints Beneficiary its special attorney-in-fact to demand, receive, and enforce payment, to give receipt, release, and satisfaction, and to sue, in the name of Grantor or Beneficiary, for all such Rents and Profits and to apply the same to the indebtedness secured hereby.

Section 9.2. Collection. Notwithstanding the above, Grantor shall have

the right to collect, use and enjoy such Rents and Profits prior to an Event of Default under this Deed of Trust or the Note. Upon any Event of Default under this Deed of Trust or the Note, Beneficiary may enter upon and take possession of the Property and collect such Rents and Profits, including those past due and unpaid, and apply the same, less costs and expenses, upon any indebtedness secured hereby, and in such order and to such notes as Beneficiary may determine. Grantor shall not execute, without the prior written consent of Beneficiary, an assignment or transfer of any of its right, title and interest in the Rents and Profits.

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ARTICLE X.
SALE OF PROPERTY OR COLLATERAL

Section 10.1. Due on Sale. If the Property or any part thereof or interest therein, whether legal or equitable, is sold, assigned, transferred, conveyed, mortgaged, or otherwise alienated by Grantor, whether voluntarily or involuntarily or by operation of law, or that if the management thereof is changed in either or any case without the prior written consent of Beneficiary, Beneficiary, at its option, may declare the Note and all other obligations secured hereunder to be forthwith due and payable. Any change in the beneficial ownership of Grantor or in the legal or equitable title of the Property or in the beneficial ownership of the Property, whether or not of record and whether or not for consideration or sale, shall be deemed a transfer of an interest in the Property.

Section 10.2. Beneficiary Right to Deal with Transferee; No Release of Grantor. In the event ownership of the Property or any part thereof becomes vested in a person or persons other than Grantor, without the prior written approval of Beneficiary, Beneficiary may, without notice to Grantor, waive such default and deal with such successor or successors in interest with reference to this Deed of Trust and the Note in the same manner as with Grantor, without in any way releasing, discharging or otherwise affecting the liability of Grantor hereunder or under the indebtedness hereby secured. No sale of the Property, no forbearance on the part of Beneficiary, no extension of the time for the payment of the indebtedness hereby secured or any change in the terms thereof consented to by Beneficiary shall in any way whatsoever operate to release, discharge, modify, change or affect the original liability of Grantor herein, either in whole or in part. Any deed conveying the Property or any part thereof, if approved by Beneficiary in writing, shall provide that the grantee thereunder assumes all of Grantor's obligations under this Deed of Trust, the Note and all other Security Documents. In the event such deed shall not contain such assumption, Beneficiary shall have all rights reserved to it hereunder in the event of a default or if Beneficiary shall not elect to exercise such rights and remedies, the grantee under such deed shall nevertheless be deemed to have assumed such obligations by acquiring the Property or such portion thereof subject to this Deed of Trust.

Section 10.3. Collateral. Grantor shall not voluntarily, involuntarily or by operation of law sell, assign, transfer or otherwise dispose of the Collateral or any interest therein and shall not otherwise do or permit anything to be done or occur that may impair the Collateral as security hereunder except that so long as this Deed of Trust is not in default, Grantor shall be permitted to sell or otherwise dispose of the Collateral when absolutely worn out, inadequate, unserviceable or unnecessary for use in the operation of the Property in the conduct of the business of Grantor, upon replacing the same or substituting for the same other Collateral at least equal in value to the initial value of that disposed of and in such a manner so that such Collateral shall be subject to the security interest created hereby and so that the security interest of Beneficiary hereunder shall be the first priority security interest in the Collateral. Nothing in this Section 10.3, however, shall prevent Grantor from abandoning any unpatented mining claims when Grantor reasonably determines that such claims are no longer necessary for the operation of the Property. In the event the Collateral is sold in connection with the sale of the Property, Grantor shall require, as a condition of the sale, that the buyer specifically agree to assume Grantor's obligations as to the security interest herein granted and to

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execute whatever agreements and filings deemed necessary by Beneficiary to maintain its perfected security interest in the Collateral.

ARTICLE XI.

INDEMNIFICATION

Grantor shall appear in and defend any suit, action or proceeding arising out of or in connection with the Property, the Collateral, the Note, this Deed of Trust or the other Security Documents that might in any way, in the sole judgment of Beneficiary, affect the value of the Property, the title to the Property, the validity, lien or priority of any of the Security Documents, or the rights and powers of Trustee or Beneficiary. Grantor shall, at all times, indemnify, hold harmless and on demand, reimburse Beneficiary for any and all liability, loss, damage, expense or cost, including cost of evidence of title and attorneys' fees, arising out of or incurred in connection with any such suit, action or proceeding. Grantor shall pay the cost of collection of any indebtedness secured hereby, including reasonable attorneys' fees, whether or not suit is brought and shall pay reasonable cost of suit, cost of evidence of title and reasonable attorneys' fees in any proceeding or suit brought by Trustee or Beneficiary to foreclose this Deed of Trust. Grantor shall further pay all cost and expense, including attorneys' fees, which Beneficiary may incur in connection with any other effort or action (whether or not litigation or foreclosure is involved) to enforce or defend Beneficiary's rights and remedies under each and every one of the Security Documents. The sum of any such expenditures shall be secured by this Deed of Trust and the other Security Documents and shall bear interest at the Default Rate provided in the Note and shall be due and payable on demand.

ARTICLE XII. PRESERVATION OF PROPERTY

If Grantor fails to make any payment or do any act required by this Deed of Trust or the Note or by any prior encumbrance, lien, reservation, restriction, condition, or covenant affecting the Property, then Beneficiary may, without obligation or notice, make any payment or do any act to the extent necessary to protect the Property. In so doing, Grantor shall not be released from any obligation created under this Deed of Trust. Any payments made by Beneficiary and the costs and expenses, including attorneys' fees, incurred by Beneficiary by doing any act as provided in this article shall become additional principal under the Note and shall bear interest at the Default Rate and shall be immediately due and payable from Grantor to Beneficiary. Nothing herein contained shall prevent any such failure to perform on the part of Grantor from constituting an Event of Default (as hereinafter defined).

ARTICLE XIII. PERFORMANCE UNDER SECURITY DOCUMENTS

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Grantor will promptly and strictly perform and comply with all agreements, covenants, conditions and prohibitions required of, made by, or imposed upon Grantor under the terms of each and every one of the Security Documents. In the event Grantor suffers or permits to occur any breach or default under the provisions of any of the Security Documents, such breach or default shall constitute an Event of Default hereunder and at the option of Beneficiary, and without notice to Grantor, all unpaid indebtedness secured by this Deed of Trust shall become due and payable as in the case of other Events of Default. Grantor will further, from time to time at the request of Beneficiary, supply Beneficiary with a current inventory of the Collateral in such detail as Beneficiary may require.

ARTICLE XIV. EVENTS OF DEFAULT

Any one or more of the following events shall be deemed to be an Event of Default hereunder as well as under the Note and the Security Documents:

Section 14.1. Default Under Note. Any "Event of Default" as defined in the Note.

Section 14.2. Failure to Perform. The failure by Grantor to properly and timely perform, comply with, or observe any of the non-monetary terms, covenants, conditions or agreements in the Note, this Deed of Trust or any other Security Documents and such failure continues for more than ten days after notice thereof from Beneficiary.

Section 14.3. Condemnation. The taking of the Property or any portion thereof through condemnation (which term when used herein shall include any damage or taking by any governmental authority or any other authority authorized by the laws of the state where the land is located or the United States of America) either temporarily or for a period in excess of thirty (30) days, or

permanently.

Section 14.4. Priority Lien Claim. The assertion (except by the owner of an encumbrance expressly excepted from Grantor's warranty of title herein) of any claim of priority over this Deed of Trust, by title, lien, or otherwise, unless within thirty (30) days after such assertion either Grantor causes the assertion to be withdrawn or Beneficiary approves of such claim of priority in writing.

Section 14.5. Dissolution. The dissolution, termination, or liquidation of Grantor or of any other person or entity directly or indirectly liable for the payment of the Note.

Section 14.6. Other. The occurrence of any other event designated as a default or an Event of Default under any other provision of this Deed of Trust or in any of the Security Documents.

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ARTICLE XV.
REMEDIES

Immediately upon or at any time after the occurrence of any of the Events of Default as defined in Article XIV of this Deed of Trust, Beneficiary may exercise any one or more of the cumulative, concurrent, and nonexclusive remedies which are listed below or which are listed in any other Security Document or which are otherwise available at law or in equity whether like or unlike the remedies so listed, and Beneficiary may exercise such remedy or remedies in such sequence or combination as Beneficiary may determine in Beneficiary's sole discretion:

Section 15.1. Performance of Defaulted Obligations. Although Beneficiary shall not be required to do so, Beneficiary may make any payment or perform any other obligation under the Note, this Deed of Trust or any of the Security Documents which Grantor has failed to make or perform, and Grantor hereby irrevocably appoints Beneficiary as a true and lawful attorney-in-fact for Grantor with authority to make any such payment and perform any such obligation in the name of Grantor and on behalf of Grantor. All payments made and expenses (including attorneys' fees) incurred by Beneficiary pursuant to this section, together with interest thereon at the Default Rate (as defined in the Note) from the date paid or incurred until repaid, will be part of Grantor's indebtedness to Beneficiary and will be immediately due and payable by Grantor to Beneficiary or, at Beneficiary's election, may be added to the unpaid principal balance of the Note and shall be secured by this Deed of Trust and the other Security Documents. In lieu of advancing Beneficiary's own funds for such purposes, Beneficiary may use any funds of Grantor which may be in Beneficiary's possession, including but not limited to undisbursed loan proceeds, insurance or condemnation proceeds, and amounts deposited for other purposes. Any payment by Beneficiary made pursuant to this section or in any other section of this Deed of Trust or of the Note or any other Security Document shall not excuse or constitute a waiver by Beneficiary of any default by Grantor.

Section 15.2. Specific Performance and Injunctive Relief. Notwithstanding the availability of legal remedies, Beneficiary shall be entitled to obtain specific performance, mandatory or prohibitory injunctive relief, or other equitable relief requiring Grantor to cure or refrain from repeating any default.

Section 15.3. Acceleration of Secured Obligations. Beneficiary may, without notice or demand, declare all of Grantor's indebtedness to Beneficiary secured hereunder or by any of the Security Documents immediately due and payable in full, including, but not limited to, the entire unpaid principal balance of the Note and all unpaid interest accrued thereon.

Section 15.4. Possession of Property. In the case of any Event of Default or upon the abandonment thereof by Grantor, Beneficiary may enter and take possession of the Property without seeking or obtaining the appointment of a receiver, may employ a managing agent for the Property, and may operate, lease or rent all or any part of the Property, either in Beneficiary's name or in the name of Grantor, and may collect the rents, issues, and profits of the Property. Any revenues collected

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by Beneficiary under this section will be applied first toward payment of all

costs and expenses (in cluding attorneys' fees) incurred by Beneficiary, together with interest thereon at the Default Rate (as defined in the Note) from the date paid or incurred until repaid, then to late charges, if any, then to accrued interest and the balance, if any, will be applied against Grantor's indebtedness to Beneficiary and principal under the Note until it has been paid in full.

Section 15.5. Enforcement of Security Interests. Beneficiary may exercise all rights of a secured party under the Utah Uniform Commercial Code with respect to all or any part of the Collateral, including, but not limited to, taking possession of, holding, and selling the Collateral and enforcing or otherwise realizing upon any other property in which Beneficiary has a security interest. Any requirement for reasonable notice of the time and place of any public sale or of the time after which any private sale or other disposition is to be made will be satisfied by Beneficiary's giving of such notice to Grantor at least five days prior to the time of any public sale or the time after which any private sale or other intended disposition is to be made.

Section 15.6. Foreclosure Against Property. Beneficiary may foreclose this Deed of Trust, insofar as it encumbers the Property, including Collateral, either by judicial action or through Trustee. Foreclosure through Trustee will be initiated by the filing with Trustee of a Notice of Election and Demand for Sale. Trustee shall then comply with such notice requirements of the laws of Utah as then apply with respect to such sale and shall file the required notice for record in each county wherein the Property or any portion thereof is situated. Beneficiary shall also deposit with Trustee the Note and all documents evidencing the indebtedness and expenditures secured hereby. Trustee shall then proceed to foreclosure and shall sell and dispose of the Property, including the Collateral (en masse or in separate parcels, as Trustee may think best), in the manner then provided by applicable law. Any sale conducted by Trustee pursuant to this section may be conducted at any door or entrance to, or room within, any building temporarily or permanently being used as a courthouse in the county in which the real property described in Exhibit A hereto is located or at or within any building in which the office of the clerk and recorder of said county is then located or at any other location then permitted by applicable law; provided, however, that the actual place of sale shall be designated in the Notice of Sale. Beneficiary may purchase the Property, including the Collateral, or any part thereof, and may bid in any part or all of the indebtedness secured hereby and it shall not be obligatory upon the purchaser(s) at any such sale to see to the application of the purchase money. The person conducting the sale may, for any cause he deems expedient, postpone the sale from to time until it shall be completed and, in every case notice of postponement shall be given by public declaration thereof by such person at the time and place last appointed for the sale; provided, if the sale is postponed for longer than one day beyond the date designated in the Notice of Sale, notice thereof shall be given in the same manner as the original Notice of Sale. Nothing in this section dealing with foreclosure procedures or specifying particular actions to be taken by Beneficiary or by Trustee shall be deemed to conflict with the minimum requirements or procedures now or hereafter specified or provided by Utah law and any such conflict shall be resolved in favor of the requirements of Utah law applicable at the time of foreclosure.

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Section 15.7. Expenses of Trustee's Sale or Foreclosure. In the event all or any part of the Property shall be sold by Trustee pursuant to the provisions of this article or in the event that this Deed of Trust shall be foreclosed by appropriate proceedings in a court of competent jurisdiction, there shall be allocated and included as part of the obligations secured hereby, together with interest thereon at the Default Rate (as defined in the Note), all expenses which may be paid or incurred by or on behalf of Trustee or Beneficiary as court costs, filing fees, attorneys' fees, appraisers' fees, outlays for documentary and expert evidence, stenographers' charges, mailing and publication costs, costs for service of process, and costs (which may be estimates as to items to be expended after entry of the decree) of procuring all such abstracts of title, foreclosure certificates, title searches and examinations, title insurance policies, and similar data and assurances with respect to title as Beneficiary may deem reasonably necessary either to prosecute such suit or to evidence to bidders at the sale which may be had pursuant to such proceedings the true condition of the title to or the value of the Property, together with and including a reasonable compensation to Trustee. All expenditures and expenses of the nature mentioned in this section, and such expenses and fees as may be incurred in the protection of the Property and the maintenance of the lien of this Deed of Trust, including the fees of any attorney employed by Beneficiary or Trustee in any litigation or proceedings affecting this Deed of Trust, the Note or the Property, including but not limited to foreclosure, probate and bankruptcy proceedings or in preparation for the commencement or defense of any such litigation or proceeding or threatened litigation or proceeding, shall be immediately due and payable by Grantor to Beneficiary or Trustee, whoever or whichever will pay, has paid, or is owed the same.

Section 15.8. Proceeds of Trustee's or Foreclosure Sale. The purchase money, proceeds or avails of any sale made under or by virtue of this Deed of Trust, together with any other sums which then may be held by Trustee or Beneficiary under this Deed of Trust, shall be applied as follows:

First: To the payment of the costs and expenses of such sale, including reasonable compensation to Trustee, its agents and counsel, and of all expenses, liabilities and advances made or incurred by Trustee or Beneficiary under this Deed of Trust or respect to such sale, and of all other advances made by Beneficiary and all taxes or assessments, except any taxes, assessments or other charges subject to which the Property shall have been sold, together with interest at the Default Rate (as defined in the Note).

Second: To the payment of the whole amount then due, owing or unpaid upon the Note for accrued interest.

Third: To the payment of the whole amount then due, owing or unpaid upon the Note for unpaid principal.

Fourth: To the payment of any other sums required to be paid pursuant to any provisions of the Note or the Security Documents.

Fifth: To the payment of the surplus, if any, to the party entitled thereto.

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Section 15.9. Appointment of Receiver. Beneficiary shall be entitled, as a matter of right and without regard to the value of any security for the indebtedness secured hereunder or by any of the other Security Documents, or the solvency of any person or entity liable therefor, to the appointment of a receiver for the Property upon ex parte application to any court of competent jurisdiction, or otherwise. Grantor freely and knowingly waives any right to any hearing or notice of hearing prior to the appointment of a receiver. Such receiver and his/her agents shall be empowered: (a) to take possession of the Property and any and all assets used in connection therewith; (b) to exclude Grantor and Grantor's agents, servants, and employees from the Property; (c) to collect the rents, issues, profits, and income therefrom; (d) to operate the Property and complete any construction which may be in progress; (e) to do such maintenance and make such repairs and alterations as the receiver deems necessary; (f) to use all stores of materials, supplies, and maintenance equipment on the Property and replace such items at the expense of the receivership estate; (g) to pay all taxes and assessments against the Property, all premiums for insurance thereon, all utility and other operating expenses, and all sums due under any prior or subsequent encumbrance; and (h) generally do anything which Grantor could legally do if Grantor were in possession of the Property. All expenses incurred by the receiver or his/her agents shall constitute a part of the indebtedness secured hereunder or by any of the other Security Documents. Any revenues collected by the receiver shall be applied first to the expenses of the receivership, including attorneys' fees incurred by the receiver and by Beneficiary, together with interest thereon at the Default Rate (as defined in the Note) from the date first paid or incurred until repaid, and the balance shall be applied toward the indebtedness secured hereunder or by any of the other Security Documents or in such other manner as the receivership court may direct. Unless sooner terminated with the express consent of Beneficiary, any such receivership shall continue until the indebtedness secured hereunder or by any of the other Security Documents has been discharged in full or until title to the Property has passed after foreclosure sale and all applicable periods of redemption have expired.

Section 15.10. Effect of Sale. Upon the completion of any sale or sales made by Trustee under or by virtue of this Deed of Trust, Trustee shall execute and deliver to the accepted purchaser or purchasers a good and sufficient deed or deeds, conveying, assigning and transferring the Property, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. After the expiration of any appropriate statutory period of redemption, any such sale or sales made under or by virtue of this Deed of Trust whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, shall operate to divest all the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Grantor in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against Grantor and against any and all persons claiming or who may claim the same or any part thereof from, through or under Grantor.

Section 15.11. Waiver and Release. Grantor hereby irrevocably and unconditionally waives and releases, to the extent permitted by law: (a) all benefits that might accrue to Grantor by virtue of any present or future law

exempting the Property from attachment, levy or sale on execution or providing for any appraisalment, valuation, stay of execution, redemption, exemption from civil

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process or extension of time for payment; (b) all notices of any Event of Default or of Trustee's exercise of any right, remedy, or recourse provided under the Security Documents; and (c) any right to a marshalling of assets or a sale in inverse order of alienation.

Section 15.12. Acquisition of Property by Beneficiary. Upon any sale made under or by virtue of this Deed of Trust, whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, Beneficiary may bid for and acquire the Property or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the indebtedness secured by this Deed of Trust the net sales price after deducting therefrom the expenses of the sale and the cost of the action and any other sums which Beneficiary is authorized to deduct under this Deed of Trust. Beneficiary upon so acquiring the Property, or any part thereof, shall be entitled to hold, lease, rent, operate, manage and sell the same in any manner provided by applicable laws.

ARTICLE XVI.
NOTICES

Notices. Any notice or demand in connection with this Deed of Trust shall be in writing and shall be deemed to have been duly given when (a) delivered by hand, (b) sent by facsimile (with receipt confirmed), provided that a copy is promptly thereafter mailed by first-class prepaid certified mail, return receipt requested, (c) received by the addressee, if sent with delivery receipt requested by Express Mail, Federal Express, or other express delivery service or first-class prepaid certified mail, in each case to the appropriate addresses and facsimile numbers as a party may designate as to itself by notice to the other parties.

ARTICLE XVII.
MISCELLANEOUS TERMS AND CONDITIONS

Section 17.1. Future Consent. The granting of consent by Beneficiary to any transaction where such consent is required by the terms hereof shall not be deemed a waiver of the right to require consent to future or successive transactions.

Section 17.2. Gender. As used herein, the singular shall include the plural, the plural includes the singular, words of one gender shall include another gender.

Section 17.3. Powers of Trustee. From time to time upon written request of Beneficiary and presentation of this Deed of Trust for endorsement and without affecting the personal liability of any person for payment of any indebtedness or performance of the obligations secured hereby, Trustee may, without liability therefor and without notice: release or reconvey all or any part of the Property; consent to the making of any map or plat thereof; join in granting any easement thereon; join in any declaration of covenants and restrictions; or join in any extension agreement or any agreement subordinating the lien or charge hereof. Trustee or Beneficiary may from time to time apply in any

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court of competent jurisdiction for aid and direction in the execution of the trusts hereunder and the enforcement of the rights and remedies available hereunder, and Trustee or Beneficiary may obtain orders or decrees directing or confirming or approving acts in the execution of such trusts and the enforcement of such remedies. Trustee has no obligation to notify any party of any pending sale or any action or proceeding unless held or commenced and maintained by Trustee under this Deed of Trust. Grantor shall pay to Trustee reasonable compensation and reimbursement for services and expenses in the enforcement of the trusts created hereunder, including reasonable attorneys' fees. Grantor shall indemnify Trustee and Beneficiary against all losses, claims, demands and liabilities which either may incur, suffer or sustain in the execution of the trusts created hereunder or in the performance of any act required or permitted hereunder or by law.

Section 17.4. Marshalling of Assets. Grantor on its own behalf and on

behalf of its successors and assigns hereby expressly waives all rights to require a marshalling of assets by Trustee or Beneficiary or to require Trustee or Beneficiary to first resort to the sale of any portion of the Property which might have been retained by Grantor before foreclosing upon and selling any other portion as may be conveyed by Grantor subject to this Deed of Trust.

Section 17.5. Partial Release. Without affecting the liability of any other person for the payment of any indebtedness herein mentioned (including Grantor should it convey such Property) and without affecting the lien or priority hereof upon any property not released, Beneficiary may, without notice, release any person so liable, extend the maturity or modify the terms of any such obligation, or grant other indulgences, release or reconvey or cause to be released or reconveyed at any time all or any part of the Property, take or release any other security or make compositions or other arrangements with debtors. Beneficiary may also accept additional security, either concurrently herewith or hereafter, and sell the same or otherwise realize thereon either before, concurrently with, or after sale hereunder.

Section 17.6. Beneficiary's Consent. Except as otherwise expressly provided herein, in any instance hereunder where Beneficiary's approval or consent is required or the exercise of Beneficiary's judgment is required, the granting or denial of such approval or consent and the exercise of such judgment shall be within the sole discretion of Beneficiary, and Beneficiary shall not for any reason or to any extent be required to grant such approval or consent or exercise such judgment in any particular manner regardless of the reasonableness of either the request or Beneficiary's judgment.

Section 17.7. Non-Waiver.

a. By accepting payment of any sum secured hereby after its due date or late performance of any obligation secured hereby, Beneficiary shall not waive its right against any person obligated directly or indirectly hereunder or on any indebtedness hereby secured either to require prompt payment when due of all other sums so secured or to declare default for failure to make such prompt payment. No exercise of any right or remedy by Trustee or Beneficiary hereunder shall constitute a waiver of any other right or remedy herein contained or provided by law.

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b. No delay or omission of Trustee or Beneficiary in the exercise of any right, power or remedy accruing hereunder or arising otherwise shall impair any such right, power, or remedy or be construed to be a waiver of any default or acquiescence therein.

c. Receipts of rents, awards and any other monies or evidences thereof pursuant to the provisions of this Deed of Trust and any disposition of the same by Trustee or Beneficiary shall not constitute a waiver of the power of sale or right of foreclosure by Trustee or Beneficiary in an Event of Default or failure of performance by Grantor of any covenant or agreement contained in this Deed of Trust, the Note or the Security Documents.

Section 17.8. Paragraph Headings. The headings of each paragraph are for information and convenience only and do not limit or construe the contents of any provision hereof.

Section 17.9. Severability. In the event any one or more of the provisions contained in this Deed of Trust or the application thereof to any person or circumstances shall to any extent be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Deed of Trust, but the remainder of this Deed of Trust or the application of such term to persons or circumstances other than those as to which it is invalid, illegal or unenforceable shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

Section 17.10. Successors-in-Interest. This Deed of Trust applies to, inures to the benefit of, and is binding not only on the parties hereto, but also on their successors and assigns. Nothing herein contained shall be deemed as the consent of Beneficiary to any assignment, conveyance or other transfer of Grantor's interest in the Property. The term "Beneficiary" shall mean the holder and owner, including pledgees, of the Note, whether or not named as Beneficiary herein.

Section 17.11. Modifications. This Deed of Trust may not be amended, modified or changed nor shall any waiver of any provisions hereof be effective except only by an instrument in writing and signed by the party against whom enforcement of any waiver, amendment, change, modification or discharge is sought. However, in the event any provision hereunder conflicts with applicable laws, such provision shall be deemed to conform thereto.

Section 17.12. Governing Law. This Deed of Trust shall be construed according to and governed by the laws of the State of Utah.

Section 17.13. Future Advances. Upon request by Grantor, at Beneficiary's option and in Beneficiary's sole discretion, Beneficiary may make future advances to Grantor. Such future advances, with interest thereon, shall be secured by this Deed of Trust and all of the Security Documents when such advances are evidenced by promissory notes stating that said notes are secured hereby; however, nothing contained herein shall in any way obligate Beneficiary to make any such future advances as mentioned herein.

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Section 17.14. Rights Cumulative, Concurrent and Nonexclusive. Beneficiary shall have all rights, remedies and recourses granted in the Security Documents and available at law or in equity (including, without limitation, those granted by the Uniform Commercial Code as adopted in the State of Utah and applicable to the Property, or any portion thereto) and the same (a) shall be cumulative and concurrent, (b) may be pursued separately, successively or concurrently against Grantor or others obligated for the indebtedness, or any part thereof or against any one or more of them, or against the Property, at the sole discretion of Beneficiary, (c) may be exercised as often as occasion therefor shall arise, it being agreed by Grantor that the exercise or failure to exercise any of the same shall in no event be construed as a waiver or release thereof or of any other right, remedy or recourse, and (d) are intended to be, and shall be, nonexclusive.

Section 17.15. No Third Party Rights. No person shall be a third party beneficiary of any provision of the Note, this Deed of Trust, or any other Security Document. All such provisions favoring Beneficiary are intended solely for the benefit of Beneficiary, and no third party shall be entitled to assume or expect that Beneficiary will waive or consent to modification of any such provision.

Section 17.16. Inspections. Beneficiary and its agents, representatives and workmen are authorized to enter at any reasonable time upon or on any part of the Property for the purpose of inspecting the same and for the purpose of performing any of the acts it or Grantor is authorized to perform under the terms of this Deed of Trust or any other instrument which secures the Note.

Section 17.17. Priority of Leases. To the extent Grantor has the right under the terms of any existing lease of all or any part of the Property to make such lease subordinate to the lien of this Deed of Trust, Grantor will, at Beneficiary's request and Grantor's expense, take such action as may be required to effect such subordination.

Section 17.18. Successor Trustee. Beneficiary may appoint a successor trustee at any time by filing of record in the office of the county recorder of each county in which the Property or any part thereof is situated, a substitution of trustee. From the time the substitution is filed for record, the new trustee shall succeed to all the powers, duties, authority and title of the trustee named herein or of any successor trustee. Each substitution shall be executed and acknowledged, and notice thereof shall be given and proof thereof made, in the manner provided by law.

Section 17.19. Authority of Signatories. The individuals executing this Deed of Trust and all other Security Documents represent and warrant that they are fully authorized to and legally capable of executing this Deed of Trust and all other Security Documents on behalf of Grantor and that the execution of such documents is binding upon all parties holding an ownership interest in the Property.

Section 17.20. Power of Attorney. Whenever a power of attorney is conferred upon Beneficiary hereunder, it is understood and agreed that such power of attorney is conferred with full power of substitution and Beneficiary may elect in its sole discretion to exercise such power itself or to delegate such power or any part thereof to one or more sub-agents.

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Section 17.21. Statute of Limitations. Grantor hereby waives the pleading of any statute of limitations as a defense to any obligation secured by this Deed of Trust or any of the Security Documents to the full extent permitted by law.

Section 17.22. Time of Essence. Time is of the essence hereof in

connection with all obligations of Grantor herein or in the Note or any other Security Document constituting additional security for the Note.

IN WITNESS WHEREOF, this instrument has been executed by Grantor as of the date first above written.

GRANTOR:

LISBON VALLEY MINING CO. LLC,
a Utah limited liability company
Tax I.D. #84-1422662

By: Summo USA Corporation, its
Managing Member

By: _____
Gregory A. Hahn, President and CEO

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

Subscribed and sworn to before me this ____ day of November, 1998.

WITNESS my hand and official seal.

My commission expires:

Notary Public

DEED OF TRUST, ASSIGNMENT OF RENTS
AND SECURITY AGREEMENT

THIS DEED OF TRUST, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT (hereinafter referred to as the "Deed of Trust") made and entered into as of this 23rd day of November, 1998, by and between LISBON VALLEY MINING CO. LLC, a Utah limited liability company (hereinafter referred to as "Grantor") whose mailing address is 1776 Lincoln Street, Suite 900, Denver, Colorado 80203 and STEWART TITLE GUARANTY COMPANY, a Texas corporation (hereinafter referred to as "Trustee") whose address is 455 East, 500 South, Salt Lake City, Utah 84111, for the benefit of ST. MARY MINERALS INC., a Colorado corporation (hereinafter referred to as "Beneficiary") whose address is 1776 Lincoln Street, Suite 1100, Denver, Colorado 80203.

ARTICLE I.
GRANT

Section 1.1. Grant. Grantor, in consideration of the indebtedness herein recited and the trust herein created, does hereby unconditionally and irrevocably grant, assign and convey unto Trustee, with power of sale and right of entry and possession, the real estate, minerals and water rights located in San Juan County, State of Utah, and more particularly described in Exhibit A attached hereto and incorporated herein, which, with the property hereinafter described, is referred to herein as the "Property."

TOGETHER WITH:

a. All buildings and improvements, now or hereafter located thereon, all privileges and other rights now or hereafter made appurtenant thereto including, without limitation, all right, title and interest of Grantor in and to all streets, roads and public places, opened or proposed, and all easements, rights-of-way, public or private, now or hereafter used in connection with the Property, including all rights of ingress and egress to and from adjoining property, all strips or gores of land, alleys, passages, and all estates, rights, titles, interests, privileges, tenements, hereditaments, and appurtenances, and all oil, gas, minerals, water, surface and subsurface rights whatsoever in any way belonging, relating or appertaining to the Property or which hereafter shall in any way belong, relate or be appurtenant thereto, whether now owned or hereafter acquired by Grantor, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all the estate, right, title, interest, property, possession, claim and demand whatsoever, at law and in equity, of Grantor of, in and to the same; and all proceeds of any sales or other dispositions of the Property, and also all the estate, right, title and interest of Grantor, either at law or in equity, of, in and to the Property and every part thereof; and

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b. All right, title and interest of Grantor in and to all fixtures, fittings, furnishings, apparatus, equipment and machinery, and all renewals or replacements thereof or articles in substitution thereof; and all proceeds and profits thereof; it being understood and agreed that all of the estate, right, title and interest of Grantor in and to all property of any nature whatsoever, now or hereafter situated on the Property or intended to be used in connection with the operation thereof, shall be deemed to be fixtures and an accession to the freehold and a part of the realty as between the parties hereto, and all persons claiming by, through or under them, and shall be deemed to be a portion of the security for the indebtedness herein mentioned and secured by this Deed of Trust. If the lien of this Deed of Trust on any fixtures or personal property be subject to a lease agreement, conditional sale agreement or chattel mortgage covering such property, then in the event of any default hereunder all the rights, title and interest of Grantor in and to any and all deposits made thereon or therefor are hereby assigned to Trustee, together with the benefit of any payments now or hereafter made thereon. There is also transferred, set over and assigned by Grantor to Trustee hereby all leases and use agreements of machinery, equipment and other personal property of Grantor in the categories hereinabove set forth, under which Grantor is the lessee of, or entitled to use, such items, and Grantor agrees to execute and deliver to Beneficiary specific separate assignments to Beneficiary of such leases and agreements when requested by Beneficiary; but nothing herein shall obligate Beneficiary to perform any obligations of Grantor under such leases or agreements unless it so chooses, which obligations Grantor hereby covenants and agrees to well and punctually perform. The items set forth in this Subsection are sometimes hereinafter separately referred to as the "Collateral"; and

c. All rents, income, profits, revenues, royalties, bonuses, rights, accounts, contract rights, general intangibles and benefits under any and all leases or tenancies now existing or hereafter created on or in any way related to the Property or any part thereof, with the right, after an Event of Default (as hereinafter defined), to receive and apply the same to such indebtedness, and, after an Event of Default, Beneficiary may demand, sue for and recover such payments but shall not be required to do so; and

d. All interest which Grantor has or may hereafter have in the proceeds of insurance in effect with respect to the Property; and

e. Any judgments, awards of damages, payments, and settlements, including interest thereon, hereafter made as a result of or in lieu of any taking of the Property or any part thereof or interest therein under the power of eminent domain, or for any damage (whether caused by such taking or otherwise), including interest thereon, to the Property or the improvements thereon or any part thereof or interest therein, including any award for change of grade of streets; and

f. All proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims; and

g. All leases and leasehold rights of any kind or nature whatsoever affecting the Property or in any way related thereto; and

h. All oil, gas and minerals, and all water, ditch, well and reservoir rights which are appurtenant to or which have been or may be used in connection with the Property; and

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i. All oil, gas, minerals, crops, timber, trees and landscaping features now or hereafter located on, in, under or above the Property; and

j. All surface, subsurface, development and mining rights associated with the Property, whether now or hereafter created; and

k. All other or greater rights and interests of every nature in, with respect to or related to the Property or in the possession or use thereof and in the income therefrom, whether now owned or subsequently acquired by Grantor.

TO HAVE AND TO HOLD such Property unto Trustee, subject only to (a) the rights of Lisbon Copper Ltd. under that certain Second Amendment of Option Agreement dated December 4, 1997, (b) the rights of the lessors of the leases included in the Property, (c) the paramount rights of the United States and (d) the liens and encumbrances of Beneficiary and liens and encumbrances of record on the date hereof (hereinafter referred to as the "Permitted Exceptions"); and Grantor does hereby bind itself, its successors and assigns to warrant and forever defend, all and singular, such Property unto Trustee, its successors, substitutes and assigns, against all persons whomsoever claiming or to claim the same or any part thereof.

Section 1.2. Security Agreement. Grantor makes the foregoing grant to Trustee to hold the Property in trust for the benefit of Beneficiary and for the purposes and upon the terms and conditions hereinafter set forth. This instrument is and shall be construed as both a Deed of Trust and Security Agreement and to the extent that any of the Property, including but without limitation, the Collateral, is deemed to be personal property or fixtures, or property not subject to an encumbrance upon real estate, Grantor hereby grants unto Beneficiary a security interest in and to such property.

Section 1.3. Release. If Grantor shall pay or cause to be paid to the holder of the Note (defined below) the principal and interest to become due thereupon at the time and in the manner stipulated therein, and shall pay or cause to be paid all other sums payable hereunder and all indebtedness hereby secured, then, in such case, the estate, right, title and interest of Trustee and Beneficiary in the Property shall cease, terminate and become void, and upon proof being given to the satisfaction of Beneficiary that the Note, together with interest thereon have been paid or satisfied, and upon payment of all fees, costs, charges, expenses and liabilities chargeable or incurred or to be incurred by Trustee or Beneficiary, and of any other sums as herein provided, this conveyance shall be released in due form at the expense of Grantor, otherwise it shall remain in full force and effect.

ARTICLE II.
OBLIGATIONS SECURED

This Deed of Trust is given to secure to Beneficiary the following:

a. That certain convertible promissory note dated effective as of October 1, 1997 payable jointly and severally by Summo Minerals Corporation and Summo USA Corporation to the order of Beneficiary in the original principal amount of \$2,950,000 or, if greater or less, the aggregate principal amount of all loans made by Beneficiary to either Summo Minerals Corporation or Summo USA Corporation, together with any extensions, modifications, or renewals thereof (herein referred to as the "Note", the terms and provisions of which are expressly incorporated herein by this reference);

b. Any other indebtedness by Grantor, Summo Minerals Corporation or Summo USA Corporation to Beneficiary, now or hereafter arising under the terms hereof or in any other instrument constituting additional security for the Note; and

c. The performance by Grantor, Summo Minerals Corporation or Summo USA Corporation of all the terms, covenants and agreements on their part to be performed under the Note, this Deed of Trust, the Pledge and Security Agreement of even date executed by Grantor concurrently herewith and any other instrument now or hereafter executed by Grantor, Summo Minerals Corporation or Summo USA Corporation as security for payment of the indebtedness secured hereby (hereafter collectively called the "Security Documents").

ARTICLE III.
TITLE AND AUTHORITY

Section 3.1. Title.

a. Grantor hereby covenants, represents and warrants that Grantor owns and has good and indefeasible title to an indefeasible fee simple estate in the real estate described in Exhibit A hereto subject to no liens, charges, or encumbrances except for the Permitted Exceptions; that Grantor has full power and authority to grant, bargain, sell and convey the Property in the manner and form herein done or intended hereafter to be done; that this Deed of Trust is and shall remain a valid and enforceable first lien on the Property subject only to the Permitted Exceptions; that Grantor and its successors and assigns warrant and agree to defend the same forever against the lawful claims and demands of all persons or entities whatsoever; and that this covenant shall not be extinguished by any exercise of power of sale, foreclosure or sale hereof but shall run with the land. Nothing in this Section 3.1(a), however, shall be deemed to be a representation or a warranty that any of the unpatented mining claims contains a discovery of minerals.

b. Subject to the Permitted Exceptions, Grantor has and shall maintain title to the Collateral, including any additions or replacements thereto, free of all security interests, liens and encumbrances other than the security interest granted to Beneficiary and other than as disclosed to and accepted by Beneficiary in writing and Grantor has the right to subject the Collateral to the security interest hereunder.

Section 3.2. Further Acts. Grantor shall, at Grantor's sole cost and without expense to Beneficiary, execute, acknowledge and deliver all and every such further acts, deeds, documents, agreements, conveyances, deeds of trust, assignments, notices of assignments, transfers and assurances as Beneficiary shall from time to time require for assuring, conveying, assigning, transferring and confirming unto Trustee or Beneficiary the Property and rights hereby conveyed or assigned or intended now or hereafter so to be or which Grantor may be or may hereafter become bound to convey or assign to Trustee or Beneficiary, or for carrying out the intention of facilitating the performance of the terms of the Security Documents or for filing, registering or recording the Security Documents and, on demand, shall execute and deliver, and hereby authorizes Beneficiary to execute in the name of Grantor, to the extent it may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments to evidence more effectively the lien hereof upon the Collateral. Grantor shall give advance notice in writing to Beneficiary of any proposed change in Grantor's name, identity, or structure and shall execute and deliver to Beneficiary, prior to or concurrently with the occurrence of any such change, all additional financing statements that Beneficiary may require to establish and maintain the validity and priority of Beneficiary's security interest with respect to any of the Property, including the Collateral.

Section 3.3. Fees. Grantor shall pay all filing or recording fees and

all reasonable expenses incident to the preparation, execution and acknowledgment of this Deed of Trust, any deed of trust supplemental hereto, any Security Document and other security instrument with respect to the Collateral, and any instrument of additional security, and all federal, state, county and municipal stamp taxes and other taxes, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Note, this Deed of Trust, any deed of trust supplemental hereto, any Security Document and other security instrument with respect to the Collateral, or any instrument of further assurance.

Section 3.4. Due Authorization. Each individual who executes this document on behalf of Grantor represents and warrants to Beneficiary that such execution has been duly authorized by all necessary corporate, partnership, or other action on the part of Grantor.

ARTICLE IV.
TAXES AND ASSESSMENTS

Section 4.1. Payment. Grantor shall pay, prior to delinquency, all real property taxes and assessments, general and special, and all other taxes and assessments of any kind or nature whatsoever affecting or relating to the Property. Grantor shall also pay when due all non-governmental levies or assessments such as maintenance charges or fees and charges resulting from covenants, conditions, or restrictions affecting the Property which are assessed or imposed upon the Property, or become due and payable, and which create, may create, or appear to create a lien prior and superior to the lien of this Deed of Trust upon the Property or any part thereof. Grantor shall furnish Beneficiary with official receipts of the appropriate taxing authority, or other proof satisfactory to Beneficiary, evidencing payment thereof.

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Section 4.2. Contest of Validity. Notwithstanding Section 4.1 above, Grantor may contest the validity of any tax or assessment which it is obligated to pay under the terms of this Deed of Trust by appropriate legal and administrative proceedings. No default shall be declared hereunder as long as Grantor, in good faith, and by appropriate proceedings, is contesting the amount or validity of such tax, assessment or charge; provided that Grantor, before instituting any such contest, gives Beneficiary notice of its intention to do so and so long as the proceedings maintained by Grantor at all times effectively stay or prevent any official or judicial sale of the Property under execution or otherwise. Upon conclusion of any such proceedings, Grantor shall forthwith discharge any liability for taxes and assessments and all penalties, interest and costs in connection therewith.

ARTICLE V.
MAINTENANCE; COMPLIANCE WITH LAW

Section 5.1. Maintenance, Repair, Waste. Grantor shall at all times maintain and keep the Property in good operating order and condition and shall promptly make, from time to time, all repairs, renewals, restorations, replacements, additions and improvements in connection therewith which are or may be reasonably required. Any improvements on the Property shall not be removed, demolished or substantially altered without the prior written consent of Beneficiary. Grantor shall pay all claims for labor performed and for materials furnished for any such improvements when due. Grantor shall not commit any waste or permit impairment or deterioration of the Property. Grantor shall not make any change in the use of the Property without the prior written consent of Beneficiary. Grantor shall permit Trustee or Beneficiary or its agents the opportunity to inspect the Property, including the interior of any structures, at any reasonable time.

Section 5.2. Compliance with Law. Grantor shall comply with all requirements of all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court, covenants, conditions and restrictions applicable to Grantor or to the Property or any part thereof or to the use thereof, including, but not limited to, environmental laws, municipal ordinances, building and zoning regulations, and restrictions and covenants of record, and shall pay all fees or charges of any kind in connection therewith.

ARTICLE VI.
INSURANCE

Section 6.1 Fire and Extended Coverage; Liability. Grantor shall keep all buildings, improvements and Collateral now or hereafter situated on the Property insured against loss or damage by fire and other hazards as may be required by Beneficiary. Grantor shall also provide liability insurance with such limits for personal injury and death and property damage as Beneficiary may

require.

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Section 6.2. Waiver of Subrogation. The policy must contain a provision to the effect that any waiver of subrogation rights by the insured does not void the coverage and any other special endorsements as may be required by the terms of any leases assigned as security for the indebtedness secured by this Deed of Trust.

Section 6.3. Delivery of Policies. Grantor shall deliver all policies and certificates, including additional and renewal policies, to Beneficiary or other evidence of the existence of such insurance which is satisfactory to Beneficiary and, in the case of insurance about to expire, shall deliver renewal policies not less than thirty (30) days prior to their respective dates of expiration. A certificate as to liability coverage, as distinguished from submission of original policies, will be acceptable.

Section 6.4. Additional Insurance. Any provision herein to the contrary notwithstanding, Beneficiary may require such other or additional insurance as it shall from time to time deem necessary or advisable in its sole discretion.

Section 6.5. Restriction on Separate Insurance. Grantor shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained hereunder unless Beneficiary is included thereon under a Standard Mortgagee Clause acceptable to Beneficiary. Grantor shall immediately notify Beneficiary whenever any such separate insurance is taken out and shall promptly deliver to Beneficiary true and complete copies of the policy or policies of such insurance. In the event of a foreclosure or other transfer of title to the Property in lieu of foreclosure, or by purchase at the foreclosure sale, all interest in any insurance policies in force shall pass to Beneficiary, transferee or purchaser as the case may be.

ARTICLE VII.
CASUALTY OR CONDEMNATION

Section 7.1. Casualty. Grantor shall promptly notify Beneficiary of any loss whether covered by insurance or not. In case of loss or damage by fire or other casualty, Beneficiary is authorized (i) to settle and adjust any claim under insurance policies which insure against such risks or (ii) to allow Grantor to agree with the insurance company or companies on the amount to be paid in regard to such loss. In either case, Beneficiary is authorized to collect and receipt for any such insurance money. Such insurance proceeds may, at the option of Beneficiary, in the event of a total loss be applied in the reduction of the indebtedness secured hereby, whether due or not; if less than a total loss, such proceeds shall be held by Beneficiary without any allowance of interest and, if an Event of Default does not then exist and if no condition then exists which will, with the passage of time, the giving of notice, or both, constitute an Event of Default, shall be used to reimburse Grantor for the cost of rebuilding or restoration of the buildings or improvements on the Property.

Section 7.2. Loss During Foreclosure. In case of loss after foreclosure proceedings have been instituted and not cured or redeemed, the proceeds of any such insurance policy or policies, if not applied as aforesaid in rebuilding or restoring the buildings or improvements, shall be used to pay the

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amount due Beneficiary and the balance, if any, shall be paid to the owner of the equity of redemption if he shall then be entitled to the same. In case of a judicial foreclosure of this Deed of Trust, the court in its decree may provide that the mortgagee's clause attached to each of said insurance policies may be canceled and that the decree creditor may cause a new loss clause to be attached to each of said policies making the loss thereunder payable to said decree creditor; and any such foreclosure decree may further provide that in case of one or more redemptions under said decree, pursuant to the statute in such case made and provided, then and in every such case, each successive redemptory may cause the preceding loss clause attached to each insurance policy to be canceled and a new loss clause to be attached hereto, making the loss thereunder payable to such redemptory. In the event of foreclosure sale, Beneficiary is hereby authorized, without consent of Grantor, to assign any and all insurance policies to the purchaser at the sale, or to take such other steps as Beneficiary may deem advisable, to cause the interest of such purchaser to be protected by any of the said insurance policies.

7.3. Condemnation. Grantor, immediately upon obtaining knowledge of the institution of any proceeding for the condemnation of the Property or any portion thereof, shall notify Beneficiary of the pendency thereof. Grantor hereby assigns, transfers and sets over unto Beneficiary all compensation, rights of action, the entire proceeds of any award and any claim for damages for any of the Property taken or damaged under the power of eminent domain or by condemnation or by sale in lieu thereof. Beneficiary may, at its option, commence, appear in and prosecute, in its own name or in the name of Grantor, any action or proceeding, or make any compromise or settlement in connection with such condemnation, taking under the power of eminent domain, or sale in lieu thereof. After deducting therefrom all of its expenses, including attorneys' fees, Beneficiary may elect to apply the proceeds of the award upon or in reduction of the indebtedness secured hereby, whether due or not, or hold such proceeds without any allowance of interest and make such proceeds available for restoration or rebuilding of the Property. If the proceeds are made available by Beneficiary to reimburse Grantor for the cost of such rebuilding or restoration, any surplus which may remain out of such award after payment of such cost of rebuilding or restoration shall at the option of Beneficiary be applied on account of the indebtedness secured hereby or be paid to Grantor. Grantor agrees to execute such further assignments of any compensation, awards, damages, rights of action and proceeds as Beneficiary may require.

ARTICLE VIII.
MECHANICS' OR OTHER LIENS AND ENCUMBRANCES

Section 8.1. No Liens. Grantor shall pay when due all obligations, lawful claims or demands of any person which, if unpaid, might result in, or permit the creation of, a lien or encumbrance on the Property, the Collateral or on the rents, issues, income and profits arising therefrom, whether such lien would be senior or subordinate hereto, including, but without limiting the generality of the foregoing, all claims of mechanics, materialmen, laborers and others for work or labor performed, or materials or supplies furnished in connection with any work of demolition, alteration, improvement of or construction upon the Property. Grantor shall not mortgage, pledge, assign or otherwise create, or

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permit the creation of, any security interest in the Property or the Collateral other than created hereby, whether superior or subordinate, without the express prior written permission of Beneficiary.

Section 8.2. Right to Contest. Grantor shall have the right to contest in good faith the validity of any such lien or encumbrance provided Grantor shall first deposit with Beneficiary a bond or other security satisfactory to Beneficiary in such amount as Beneficiary shall reasonably require but not more than one hundred fifty percent (150%) of the amount of the claim and provided further that Grantor shall thereafter diligently proceed to cause such lien to be removed and discharged. If Grantor shall fail to discharge any such lien, then, in addition to any other right or remedy of Beneficiary, Beneficiary may, but shall not be obligated to, discharge the same either by paying the amount claimed to be due or by depositing in court a bond in the amount required by statute, or otherwise giving security for such claim, or by taking such action as may be prescribed by law. Grantor shall guard every part of the Property and Collateral from removal, destruction and damage and shall not do or suffer to be done any act whereby the value of any part of the Property may be lessened.

Section 8.3. Beneficiary Right to Intervene. If the interest of Beneficiary in the Property or the superiority of such interest is endangered or attacked, directly or indirectly, Grantor hereby authorizes Beneficiary, at Grantor's expense, to take all necessary and proper steps for the defense of such interest or the superiority thereof, including the employment of counsel, the prosecution or defense of litigation, and the compromise or discharge of claims made against such interest or the superiority thereof.

ARTICLE IX.
ASSIGNMENT OF RENTS

Section 9.1. Assignment. Grantor hereby absolutely assigns and transfers to Beneficiary all of the rents, royalties, issues, profits, revenues, income and other benefits ("Rents and Profits") of the Property or arising from the use and enjoyment of all or any portion thereof. Grantor irrevocably appoints Beneficiary its special attorney-in-fact to demand, receive, and enforce payment, to give receipt, release, and satisfaction, and to sue, in the name of Grantor or Beneficiary, for all such Rents and Profits and to apply the same to the indebtedness secured hereby.

Section 9.2. Collection. Notwithstanding the above, Grantor shall have

the right to collect, use and enjoy such Rents and Profits prior to an Event of Default under this Deed of Trust or the Note. Upon any Event of Default under this Deed of Trust or the Note, Beneficiary may enter upon and take possession of the Property and collect such Rents and Profits, including those past due and unpaid, and apply the same, less costs and expenses, upon any indebtedness secured hereby, and in such order and to such notes as Beneficiary may determine. Grantor shall not execute, without the prior written consent of Beneficiary, an assignment or transfer of any of its right, title and interest in the Rents and Profits.

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ARTICLE X.
SALE OF PROPERTY OR COLLATERAL

Section 10.1. Due on Sale. If the Property or any part thereof or interest therein, whether legal or equitable, is sold, assigned, transferred, conveyed, mortgaged, or otherwise alienated by Grantor, whether voluntarily or involuntarily or by operation of law, or that if the management thereof is changed in either or any case without the prior written consent of Beneficiary, Beneficiary, at its option, may declare the Note and all other obligations secured hereunder to be forthwith due and payable. Any change in the beneficial ownership of Grantor or in the legal or equitable title of the Property or in the beneficial ownership of the Property, whether or not of record and whether or not for consideration or sale, shall be deemed a transfer of an interest in the Property.

Section 10.2. Beneficiary Right to Deal with Transferee; No Release of Grantor. In the event ownership of the Property or any part thereof becomes vested in a person or persons other than Grantor, without the prior written approval of Beneficiary, Beneficiary may, without notice to Grantor, waive such default and deal with such successor or successors in interest with reference to this Deed of Trust and the Note in the same manner as with Grantor, without in any way releasing, discharging or otherwise affecting the liability of Grantor hereunder or under the indebtedness hereby secured. No sale of the Property, no forbearance on the part of Beneficiary, no extension of the time for the payment of the indebtedness hereby secured or any change in the terms thereof consented to by Beneficiary shall in any way whatsoever operate to release, discharge, modify, change or affect the original liability of Grantor herein, either in whole or in part. Any deed conveying the Property or any part thereof, if approved by Beneficiary in writing, shall provide that the grantee thereunder assumes all of Grantor's obligations under this Deed of Trust, the Note and all other Security Documents. In the event such deed shall not contain such assumption, Beneficiary shall have all rights reserved to it hereunder in the event of a default or if Beneficiary shall not elect to exercise such rights and remedies, the grantee under such deed shall nevertheless be deemed to have assumed such obligations by acquiring the Property or such portion thereof subject to this Deed of Trust.

Section 10.3. Collateral. Grantor shall not voluntarily, involuntarily or by operation of law sell, assign, transfer or otherwise dispose of the Collateral or any interest therein and shall not otherwise do or permit anything to be done or occur that may impair the Collateral as security hereunder except that so long as this Deed of Trust is not in default, Grantor shall be permitted to sell or otherwise dispose of the Collateral when absolutely worn out, inadequate, unserviceable or unnecessary for use in the operation of the Property in the conduct of the business of Grantor, upon replacing the same or substituting for the same other Collateral at least equal in value to the initial value of that disposed of and in such a manner so that such Collateral shall be subject to the security interest created hereby and so that the security interest of Beneficiary hereunder shall be the first priority security interest in the Collateral. Nothing in this Section 10.3, however, shall prevent Grantor from abandoning any unpatented mining claims when Grantor reasonably determines that such claims are no longer necessary for the operation of the Property. In the event the Collateral is sold in connection with the sale of the Property, Grantor shall require, as a condition of the sale, that the buyer specifically agree to assume Grantor's obligations as to the security interest herein granted and to

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execute whatever agreements and filings deemed necessary by Beneficiary to maintain its perfected security interest in the Collateral.

ARTICLE XI.

INDEMNIFICATION

Grantor shall appear in and defend any suit, action or proceeding arising out of or in connection with the Property, the Collateral, the Note, this Deed of Trust or the other Security Documents that might in any way, in the sole judgment of Beneficiary, affect the value of the Property, the title to the Property, the validity, lien or priority of any of the Security Documents, or the rights and powers of Trustee or Beneficiary. Grantor shall, at all times, indemnify, hold harmless and on demand, reimburse Beneficiary for any and all liability, loss, damage, expense or cost, including cost of evidence of title and attorneys' fees, arising out of or incurred in connection with any such suit, action or proceeding. Grantor shall pay the cost of collection of any indebtedness secured hereby, including reasonable attorneys' fees, whether or not suit is brought and shall pay reasonable cost of suit, cost of evidence of title and reasonable attorneys' fees in any proceeding or suit brought by Trustee or Beneficiary to foreclose this Deed of Trust. Grantor shall further pay all cost and expense, including attorneys' fees, which Beneficiary may incur in connection with any other effort or action (whether or not litigation or foreclosure is involved) to enforce or defend Beneficiary's rights and remedies under each and every one of the Security Documents. The sum of any such expenditures shall be secured by this Deed of Trust and the other Security Documents and shall bear interest at the Default Rate provided in the Note and shall be due and payable on demand.

ARTICLE XII. PRESERVATION OF PROPERTY

If Grantor fails to make any payment or do any act required by this Deed of Trust or the Note or by any prior encumbrance, lien, reservation, restriction, condition, or covenant affecting the Property, then Beneficiary may, without obligation or notice, make any payment or do any act to the extent necessary to protect the Property. In so doing, Grantor shall not be released from any obligation created under this Deed of Trust. Any payments made by Beneficiary and the costs and expenses, including attorneys' fees, incurred by Beneficiary by doing any act as provided in this article shall become additional principal under the Note and shall bear interest at the Default Rate and shall be immediately due and payable from Grantor to Beneficiary. Nothing herein contained shall prevent any such failure to perform on the part of Grantor from constituting an Event of Default (as hereinafter defined).

ARTICLE XIII. PERFORMANCE UNDER SECURITY DOCUMENTS

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Grantor will promptly and strictly perform and comply with all agreements, covenants, conditions and prohibitions required of, made by, or imposed upon Grantor under the terms of each and every one of the Security Documents. In the event Grantor suffers or permits to occur any breach or default under the provisions of any of the Security Documents, such breach or default shall constitute an Event of Default hereunder and at the option of Beneficiary, and without notice to Grantor, all unpaid indebtedness secured by this Deed of Trust shall become due and payable as in the case of other Events of Default. Grantor will further, from time to time at the request of Beneficiary, supply Beneficiary with a current inventory of the Collateral in such detail as Beneficiary may require.

ARTICLE XIV. EVENTS OF DEFAULT

Any one or more of the following events shall be deemed to be an Event of Default hereunder as well as under the Note and the Security Documents:

Section 14.1. Default Under Note. Any "Event of Default" as defined in the Note.

Section 14.2. Failure to Perform. The failure by Grantor to properly and timely perform, comply with, or observe any of the non-monetary terms, covenants, conditions or agreements in the Note, this Deed of Trust or any other Security Documents and such failure continues for more than ten days after notice thereof from Beneficiary.

Section 14.3. Condemnation. The taking of the Property or any portion thereof through condemnation (which term when used herein shall include any damage or taking by any governmental authority or any other authority authorized by the laws of the state where the land is located or the United States of America) either temporarily or for a period in excess of thirty (30) days, or

permanently.

Section 14.4. Priority Lien Claim. The assertion (except by the owner of an encumbrance expressly excepted from Grantor's warranty of title herein) of any claim of priority over this Deed of Trust, by title, lien, or otherwise, unless within thirty (30) days after such assertion either Grantor causes the assertion to be withdrawn or Beneficiary approves of such claim of priority in writing.

Section 14.5. Dissolution. The dissolution, termination, or liquidation of Grantor or of any other person or entity directly or indirectly liable for the payment of the Note.

Section 14.6. Other. The occurrence of any other event designated as a default or an Event of Default under any other provision of this Deed of Trust or in any of the Security Documents.

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ARTICLE XV.
REMEDIES

Immediately upon or at any time after the occurrence of any of the Events of Default as defined in Article XIV of this Deed of Trust, Beneficiary may exercise any one or more of the cumulative, concurrent, and nonexclusive remedies which are listed below or which are listed in any other Security Document or which are otherwise available at law or in equity whether like or unlike the remedies so listed, and Beneficiary may exercise such remedy or remedies in such sequence or combination as Beneficiary may determine in Beneficiary's sole discretion:

Section 15.1. Performance of Defaulted Obligations. Although Beneficiary shall not be required to do so, Beneficiary may make any payment or perform any other obligation under the Note, this Deed of Trust or any of the Security Documents which Grantor has failed to make or perform, and Grantor hereby irrevocably appoints Beneficiary as a true and lawful attorney-in-fact for Grantor with authority to make any such payment and perform any such obligation in the name of Grantor and on behalf of Grantor. All payments made and expenses (including attorneys' fees) incurred by Beneficiary pursuant to this section, together with interest thereon at the Default Rate (as defined in the Note) from the date paid or incurred until repaid, will be part of Grantor's indebtedness to Beneficiary and will be immediately due and payable by Grantor to Beneficiary or, at Beneficiary's election, may be added to the unpaid principal balance of the Note and shall be secured by this Deed of Trust and the other Security Documents. In lieu of advancing Beneficiary's own funds for such purposes, Beneficiary may use any funds of Grantor which may be in Beneficiary's possession, including but not limited to undisbursed loan proceeds, insurance or condemnation proceeds, and amounts deposited for other purposes. Any payment by Beneficiary made pursuant to this section or in any other section of this Deed of Trust or of the Note or any other Security Document shall not excuse or constitute a waiver by Beneficiary of any default by Grantor.

Section 15.2. Specific Performance and Injunctive Relief. Notwithstanding the availability of legal remedies, Beneficiary shall be entitled to obtain specific performance, mandatory or prohibitory injunctive relief, or other equitable relief requiring Grantor to cure or refrain from repeating any default.

Section 15.3. Acceleration of Secured Obligations. Beneficiary may, without notice or demand, declare all of Grantor's indebtedness to Beneficiary secured hereunder or by any of the Security Documents immediately due and payable in full, including, but not limited to, the entire unpaid principal balance of the Note and all unpaid interest accrued thereon.

Section 15.4. Possession of Property. In the case of any Event of Default or upon the abandonment thereof by Grantor, Beneficiary may enter and take possession of the Property without seeking or obtaining the appointment of a receiver, may employ a managing agent for the Property, and may operate, lease or rent all or any part of the Property, either in Beneficiary's name or in the name of Grantor, and may collect the rents, issues, and profits of the Property. Any revenues collected

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by Beneficiary under this section will be applied first toward payment of all

costs and expenses (in cluding attorneys' fees) incurred by Beneficiary, together with interest thereon at the Default Rate (as defined in the Note) from the date paid or incurred until repaid, then to late charges, if any, then to accrued interest and the balance, if any, will be applied against Grantor's indebtedness to Beneficiary and principal under the Note until it has been paid in full.

Section 15.5. Enforcement of Security Interests. Beneficiary may exercise all rights of a secured party under the Utah Uniform Commercial Code with respect to all or any part of the Collateral, including, but not limited to, taking possession of, holding, and selling the Collateral and enforcing or otherwise realizing upon any other property in which Beneficiary has a security interest. Any requirement for reasonable notice of the time and place of any public sale or of the time after which any private sale or other disposition is to be made will be satisfied by Beneficiary's giving of such notice to Grantor at least five days prior to the time of any public sale or the time after which any private sale or other intended disposition is to be made.

Section 15.6. Foreclosure Against Property. Beneficiary may foreclose this Deed of Trust, insofar as it encumbers the Property, including Collateral, either by judicial action or through Trustee. Foreclosure through Trustee will be initiated by the filing with Trustee of a Notice of Election and Demand for Sale. Trustee shall then comply with such notice requirements of the laws of Utah as then apply with respect to such sale and shall file the required notice for record in each county wherein the Property or any portion thereof is situated. Beneficiary shall also deposit with Trustee the Note and all documents evidencing the indebtedness and expenditures secured hereby. Trustee shall then proceed to foreclosure and shall sell and dispose of the Property, including the Collateral (en masse or in separate parcels, as Trustee may think best), in the manner then provided by applicable law. Any sale conducted by Trustee pursuant to this section may be conducted at any door or entrance to, or room within, any building temporarily or permanently being used as a courthouse in the county in which the real property described in Exhibit A hereto is located or at or within any building in which the office of the clerk and recorder of said county is then located or at any other location then permitted by applicable law; provided, however, that the actual place of sale shall be designated in the Notice of Sale. Beneficiary may purchase the Property, including the Collateral, or any part thereof, and may bid in any part or all of the indebtedness secured hereby and it shall not be obligatory upon the purchaser(s) at any such sale to see to the application of the purchase money. The person conducting the sale may, for any cause he deems expedient, postpone the sale from time until it shall be completed and, in every case notice of postponement shall be given by public declaration thereof by such person at the time and place last appointed for the sale; provided, if the sale is postponed for longer than one day beyond the date designated in the Notice of Sale, notice thereof shall be given in the same manner as the original Notice of Sale. Nothing in this section dealing with foreclosure procedures or specifying particular actions to be taken by Beneficiary or by Trustee shall be deemed to conflict with the minimum requirements or procedures now or hereafter specified or provided by Utah law and any such conflict shall be resolved in favor of the requirements of Utah law applicable at the time of foreclosure.

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Section 15.7. Expenses of Trustee's Sale or Foreclosure. In the event all or any part of the Property shall be sold by Trustee pursuant to the provisions of this article or in the event that this Deed of Trust shall be foreclosed by appropriate proceedings in a court of competent jurisdiction, there shall be allocated and included as part of the obligations secured hereby, together with interest thereon at the Default Rate (as defined in the Note), all expenses which may be paid or incurred by or on behalf of Trustee or Beneficiary as court costs, filing fees, attorneys' fees, appraisers' fees, outlays for documentary and expert evidence, stenographers' charges, mailing and publication costs, costs for service of process, and costs (which may be estimates as to items to be expended after entry of the decree) of procuring all such abstracts of title, foreclosure certificates, title searches and examinations, title insurance policies, and similar data and assurances with respect to title as Beneficiary may deem reasonably necessary either to prosecute such suit or to evidence to bidders at the sale which may be had pursuant to such proceedings the true condition of the title to or the value of the Property, together with and including a reasonable compensation to Trustee. All expenditures and expenses of the nature mentioned in this section, and such expenses and fees as may be incurred in the protection of the Property and the maintenance of the lien of this Deed of Trust, including the fees of any attorney employed by Beneficiary or Trustee in any litigation or proceedings affecting this Deed of Trust, the Note or the Property, including but not limited to foreclosure, probate and bankruptcy proceedings or in preparation for the commencement or defense of any such litigation or proceeding or threatened litigation or proceeding, shall be immediately due and payable by Grantor to Beneficiary or Trustee, whoever or whichever will pay, has paid, or is owed the same.

Section 15.8. Proceeds of Trustee's or Foreclosure Sale. The purchase money, proceeds or avails of any sale made under or by virtue of this Deed of Trust, together with any other sums which then may be held by Trustee or Beneficiary under this Deed of Trust, shall be applied as follows:

First: To the payment of the costs and expenses of such sale, including reasonable compensation to Trustee, its agents and counsel, and of all expenses, liabilities and advances made or incurred by Trustee or Beneficiary under this Deed of Trust or respect to such sale, and of all other advances made by Beneficiary and all taxes or assessments, except any taxes, assessments or other charges subject to which the Property shall have been sold, together with interest at the Default Rate (as defined in the Note).

Second: To the payment of the whole amount then due, owing or unpaid upon the Note for accrued interest.

Third: To the payment of the whole amount then due, owing or unpaid upon the Note for unpaid principal.

Fourth: To the payment of any other sums required to be paid pursuant to any provisions of the Note or the Security Documents.

Fifth: To the payment of the surplus, if any, to the party entitled thereto.

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Section 15.9. Appointment of Receiver. Beneficiary shall be entitled, as a matter of right and without regard to the value of any security for the indebtedness secured hereunder or by any of the other Security Documents, or the solvency of any person or entity liable therefor, to the appointment of a receiver for the Property upon ex parte application to any court of competent jurisdiction, or otherwise. Grantor freely and knowingly waives any right to any hearing or notice of hearing prior to the appointment of a receiver. Such receiver and his/her agents shall be empowered: (a) to take possession of the Property and any and all assets used in connection therewith; (b) to exclude Grantor and Grantor's agents, servants, and employees from the Property; (c) to collect the rents, issues, profits, and income therefrom; (d) to operate the Property and complete any construction which may be in progress; (e) to do such maintenance and make such repairs and alterations as the receiver deems necessary; (f) to use all stores of materials, supplies, and maintenance equipment on the Property and replace such items at the expense of the receivership estate; (g) to pay all taxes and assessments against the Property, all premiums for insurance thereon, all utility and other operating expenses, and all sums due under any prior or subsequent encumbrance; and (h) generally do anything which Grantor could legally do if Grantor were in possession of the Property. All expenses incurred by the receiver or his/her agents shall constitute a part of the indebtedness secured hereunder or by any of the other Security Documents. Any revenues collected by the receiver shall be applied first to the expenses of the receivership, including attorneys' fees incurred by the receiver and by Beneficiary, together with interest thereon at the Default Rate (as defined in the Note) from the date first paid or incurred until repaid, and the balance shall be applied toward the indebtedness secured hereunder or by any of the other Security Documents or in such other manner as the receivership court may direct. Unless sooner terminated with the express consent of Beneficiary, any such receivership shall continue until the indebtedness secured hereunder or by any of the other Security Documents has been discharged in full or until title to the Property has passed after foreclosure sale and all applicable periods of redemption have expired.

Section 15.10. Effect of Sale. Upon the completion of any sale or sales made by Trustee under or by virtue of this Deed of Trust, Trustee shall execute and deliver to the accepted purchaser or purchasers a good and sufficient deed or deeds, conveying, assigning and transferring the Property, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. After the expiration of any appropriate statutory period of redemption, any such sale or sales made under or by virtue of this Deed of Trust whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, shall operate to divest all the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Grantor in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against Grantor and against any and all persons claiming or who may claim the same or any part thereof from, through or under Grantor.

Section 15.11. Waiver and Release. Grantor hereby irrevocably and unconditionally waives and releases, to the extent permitted by law: (a) all benefits that might accrue to Grantor by virtue of any present or future law

exempting the Property from attachment, levy or sale on execution or providing for any appraisalment, valuation, stay of execution, redemption, exemption from civil

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process or extension of time for payment; (b) all notices of any Event of Default or of Trustee's exercise of any right, remedy, or recourse provided under the Security Documents; and (c) any right to a marshalling of assets or a sale in inverse order of alienation.

Section 15.12. Acquisition of Property by Beneficiary. Upon any sale made under or by virtue of this Deed of Trust, whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, Beneficiary may bid for and acquire the Property or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the indebtedness secured by this Deed of Trust the net sales price after deducting therefrom the expenses of the sale and the cost of the action and any other sums which Beneficiary is authorized to deduct under this Deed of Trust. Beneficiary upon so acquiring the Property, or any part thereof, shall be entitled to hold, lease, rent, operate, manage and sell the same in any manner provided by applicable laws.

ARTICLE XVI.

NOTICES

Notices. Any notice or demand in connection with this Deed of Trust shall be in writing and shall be deemed to have been duly given when (a) delivered by hand, (b) sent by facsimile (with receipt confirmed), provided that a copy is promptly thereafter mailed by first-class prepaid certified mail, return receipt requested, (c) received by the addressee, if sent with delivery receipt requested by Express Mail, Federal Express, or other express delivery service or first-class prepaid certified mail, in each case to the appropriate addresses and facsimile numbers as a party may designate as to itself by notice to the other parties.

ARTICLE XVII.

MISCELLANEOUS TERMS AND CONDITIONS

Section 17.1. Future Consent. The granting of consent by Beneficiary to any transaction where such consent is required by the terms hereof shall not be deemed a waiver of the right to require consent to future or successive transactions.

Section 17.2. Gender. As used herein, the singular shall include the plural, the plural includes the singular, words of one gender shall include another gender.

Section 17.3. Powers of Trustee. From time to time upon written request of Beneficiary and presentation of this Deed of Trust for endorsement and without affecting the personal liability of any person for payment of any indebtedness or performance of the obligations secured hereby, Trustee may, without liability therefor and without notice: release or reconvey all or any part of the Property; consent to the making of any map or plat thereof; join in granting any easement thereon; join in any declaration of covenants and restrictions; or join in any extension agreement or any agreement subordinating the lien or charge hereof. Trustee or Beneficiary may from time to time apply in any

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court of competent jurisdiction for aid and direction in the execution of the trusts hereunder and the enforcement of the rights and remedies available hereunder, and Trustee or Beneficiary may obtain orders or decrees directing or confirming or approving acts in the execution of such trusts and the enforcement of such remedies. Trustee has no obligation to notify any party of any pending sale or any action or proceeding unless held or commenced and maintained by Trustee under this Deed of Trust. Grantor shall pay to Trustee reasonable compensation and reimbursement for services and expenses in the enforcement of the trusts created hereunder, including reasonable attorneys' fees. Grantor shall indemnify Trustee and Beneficiary against all losses, claims, demands and liabilities which either may incur, suffer or sustain in the execution of the trusts created hereunder or in the performance of any act required or permitted hereunder or by law.

Section 17.4. Marshalling of Assets. Grantor on its own behalf and on

behalf of its successors and assigns hereby expressly waives all rights to require a marshalling of assets by Trustee or Beneficiary or to require Trustee or Beneficiary to first resort to the sale of any portion of the Property which might have been retained by Grantor before foreclosing upon and selling any other portion as may be conveyed by Grantor subject to this Deed of Trust.

Section 17.5. Partial Release. Without affecting the liability of any other person for the payment of any indebtedness herein mentioned (including Grantor should it convey such Property) and without affecting the lien or priority hereof upon any property not released, Beneficiary may, without notice, release any person so liable, extend the maturity or modify the terms of any such obligation, or grant other indulgences, release or reconvey or cause to be released or reconveyed at any time all or any part of the Property, take or release any other security or make compositions or other arrangements with debtors. Beneficiary may also accept additional security, either concurrently herewith or hereafter, and sell the same or otherwise realize thereon either before, concurrently with, or after sale hereunder.

Section 17.6. Beneficiary's Consent. Except as otherwise expressly provided herein, in any instance hereunder where Beneficiary's approval or consent is required or the exercise of Beneficiary's judgment is required, the granting or denial of such approval or consent and the exercise of such judgment shall be within the sole discretion of Beneficiary, and Beneficiary shall not for any reason or to any extent be required to grant such approval or consent or exercise such judgment in any particular manner regardless of the reasonableness of either the request or Beneficiary's judgment.

Section 17.7. Non-Waiver.

a. By accepting payment of any sum secured hereby after its due date or late performance of any obligation secured hereby, Beneficiary shall not waive its right against any person obligated directly or indirectly hereunder or on any indebtedness hereby secured either to require prompt payment when due of all other sums so secured or to declare default for failure to make such prompt payment. No exercise of any right or remedy by Trustee or Beneficiary hereunder shall constitute a waiver of any other right or remedy herein contained or provided by law.

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b. No delay or omission of Trustee or Beneficiary in the exercise of any right, power or remedy accruing hereunder or arising otherwise shall impair any such right, power, or remedy or be construed to be a waiver of any default or acquiescence therein.

c. Receipts of rents, awards and any other monies or evidences thereof pursuant to the provisions of this Deed of Trust and any disposition of the same by Trustee or Beneficiary shall not constitute a waiver of the power of sale or right of foreclosure by Trustee or Beneficiary in an Event of Default or failure of performance by Grantor of any covenant or agreement contained in this Deed of Trust, the Note or the Security Documents.

Section 17.8. Paragraph Headings. The headings of each paragraph are for information and convenience only and do not limit or construe the contents of any provision hereof.

Section 17.9. Severability. In the event any one or more of the provisions contained in this Deed of Trust or the application thereof to any person or circumstances shall to any extent be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Deed of Trust, but the remainder of this Deed of Trust or the application of such term to persons or circumstances other than those as to which it is invalid, illegal or unenforceable shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

Section 17.10. Successors-in-Interest. This Deed of Trust applies to, inures to the benefit of, and is binding not only on the parties hereto, but also on their successors and assigns. Nothing herein contained shall be deemed as the consent of Beneficiary to any assignment, conveyance or other transfer of Grantor's interest in the Property. The term "Beneficiary" shall mean the holder and owner, including pledgees, of the Note, whether or not named as Beneficiary herein.

Section 17.11. Modifications. This Deed of Trust may not be amended, modified or changed nor shall any waiver of any provisions hereof be effective except only by an instrument in writing and signed by the party against whom enforcement of any waiver, amendment, change, modification or discharge is sought. However, in the event any provision hereunder conflicts with applicable laws, such provision shall be deemed to conform thereto.

Section 17.12. Governing Law. This Deed of Trust shall be construed according to and governed by the laws of the State of Utah.

Section 17.13. Future Advances. Upon request by Grantor, at Beneficiary's option and in Beneficiary's sole discretion, Beneficiary may make future advances to Grantor. Such future advances, with interest thereon, shall be secured by this Deed of Trust and all of the Security Documents when such advances are evidenced by promissory notes stating that said notes are secured hereby; however, nothing contained herein shall in any way obligate Beneficiary to make any such future advances as mentioned herein.

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Section 17.14. Rights Cumulative, Concurrent and Nonexclusive. Beneficiary shall have all rights, remedies and recourses granted in the Security Documents and available at law or in equity (including, without limitation, those granted by the Uniform Commercial Code as adopted in the State of Utah and applicable to the Property, or any portion thereto) and the same (a) shall be cumulative and concurrent, (b) may be pursued separately, successively or concurrently against Grantor or others obligated for the indebtedness, or any part thereof or against any one or more of them, or against the Property, at the sole discretion of Beneficiary, (c) may be exercised as often as occasion therefor shall arise, it being agreed by Grantor that the exercise or failure to exercise any of the same shall in no event be construed as a waiver or release thereof or of any other right, remedy or recourse, and (d) are intended to be, and shall be, nonexclusive.

Section 17.15. No Third Party Rights. No person shall be a third party beneficiary of any provision of the Note, this Deed of Trust, or any other Security Document. All such provisions favoring Beneficiary are intended solely for the benefit of Beneficiary, and no third party shall be entitled to assume or expect that Beneficiary will waive or consent to modification of any such provision.

Section 17.16. Inspections. Beneficiary and its agents, representatives and workmen are authorized to enter at any reasonable time upon or on any part of the Property for the purpose of inspecting the same and for the purpose of performing any of the acts it or Grantor is authorized to perform under the terms of this Deed of Trust or any other instrument which secures the Note.

Section 17.17. Priority of Leases. To the extent Grantor has the right under the terms of any existing lease of all or any part of the Property to make such lease subordinate to the lien of this Deed of Trust, Grantor will, at Beneficiary's request and Grantor's expense, take such action as may be required to effect such subordination.

Section 17.18. Successor Trustee. Beneficiary may appoint a successor trustee at any time by filing of record in the office of the county recorder of each county in which the Property or any part thereof is situated, a substitution of trustee. From the time the substitution is filed for record, the new trustee shall succeed to all the powers, duties, authority and title of the trustee named herein or of any successor trustee. Each substitution shall be executed and acknowledged, and notice thereof shall be given and proof thereof made, in the manner provided by law.

Section 17.19. Authority of Signatories. The individuals executing this Deed of Trust and all other Security Documents represent and warrant that they are fully authorized to and legally capable of executing this Deed of Trust and all other Security Documents on behalf of Grantor and that the execution of such documents is binding upon all parties holding an ownership interest in the Property.

Section 17.20. Power of Attorney. Whenever a power of attorney is conferred upon Beneficiary hereunder, it is understood and agreed that such power of attorney is conferred with full power of substitution and Beneficiary may elect in its sole discretion to exercise such power itself or to delegate such power or any part thereof to one or more sub-agents.

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Section 17.21. Statute of Limitations. Grantor hereby waives the pleading of any statute of limitations as a defense to any obligation secured by this Deed of Trust or any of the Security Documents to the full extent permitted by law.

Section 17.22. Time of Essence. Time is of the essence hereof in

connection with all obligations of Grantor herein or in the Note or any other Security Document constituting additional security for the Note.

IN WITNESS WHEREOF, this instrument has been executed by Grantor as of the date first above written.

GRANTOR:

LISBON VALLEY MINING CO. LLC,
a Utah limited liability company
Tax I.D. #84-1422662

By: Summo USA Corporation, its
Managing Member

By: _____
Gregory A. Hahn, President and CEO

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

Subscribed and sworn to before me this ____ day of November, 1998.

WITNESS my hand and official seal.

My commission expires:

Notary Public

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of St. Mary Land & Exploration Company and Subsidiaries on Form S-8 (File No. 333-61850 and File No. 333-58273) of our report dated March 3, 1997, except for the effects of adopting Statement of Financial Accounting Standards No. 128, "Earnings Per Share," as discussed in Note 1, as to which the date is March 19, 1998, on our audit of the financial statements of St. Mary Land & Exploration Company and Subsidiaries for the year ended December 31, 1996, which report is included in this Annual Report on Form 10-K/A-2.

PricewaterhouseCoopers LLP

Denver, Colorado
October 1, 1999

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of St. Mary Land & Exploration Company and Subsidiaries on Form S-8 (File No. 333-61850 and File No. 333-58273) of our report dated March 3, 1997, except for the effects of adopting Statement of Financial Accounting Standards No. 128, "Earnings Per Share," as discussed in Note 1, as to which the date is March 19, 1998, on our audit of the financial statements of St. Mary Land & Exploration Company and Subsidiaries for the year ended December 31, 1996, which report is included in this Annual Report on Form 10-K/A-2.

PricewaterhouseCoopers LLP

Denver, Colorado
October 1, 1999

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