As filed with the Securities and Exchange Commission on August 19, 1999
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

Delaware	1311	41-0518430
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1776 Lincoln Street, Suite 1100
Denver, Colorado 80203
(303) 861-8140
(Address, including Zip Code, and telephone number, including area code, of registrant's principal executive offices)

Mark A. Hellerstein
President and Chief Executive Officer
St. Mary Land & Exploration Company
1776 Lincoln Street, Suite 1100
Denver, Colorado 80203
(303) 861-8140
(Name, address, including Zip Code, and telephone number, including area code, of agent for service)

copies to:

Roger C. Cohen	Gregory C. Hill
Ballard Spahr Andrews & Ingersoll, LLP	Locke Liddell & Sapp LLP
1225 17th Street, Suite 2300	3400 Chase Tower
Denver, Colorado 80202-5596	600 Travis
(303) 299-7304	Houston, Texas 77002-3095
	(713) 226-1187

Approximate date of commencement of proposed sale of securities to the public: As soon as practicable after this registration statement becomes effective and the effective time of the merger of a wholly owned subsidiary of the registrant with and into King Ranch Energy, Inc. as described in the Agreement and Plan of Merger dated July 27, 1999.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

CALCULATION OF REGISTRATION FEE

<TABLE>
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Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price(2)	Amount of registration fee (3)
<S>	<C>	<C>	<C>	<C>
Common stock, $.01 par value	2,666,252 shares(1)	N/A	$46,782,000	$13,006

</TABLE>

(1) The maximum number of shares of St. Mary Land & Exploration Company common stock issuable in connection with the merger in exchange for shares of King Ranch Energy, Inc. common stock.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f)(2) under the Securities Act, based on the book value as of June 30, 1999 of the shares of King Ranch Energy, Inc. common stock to be received by St. Mary Land & Exploration Company in the merger.

(3) Calculated pursuant to Section 6(b) of the Securities Act as .000278 of $46,782,000.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

ST. MARY LAND & EXPLORATION COMPANY/KING RANCH, INC.
JOINT PROXY/CONSENT STATEMENT

ST. MARY LAND & EXPLORATION COMPANY PROSPECTUS

The boards of directors of St. Mary Land & Exploration Company and King Ranch, Inc. have approved a merger agreement whereby St. Mary will acquire King Ranch Energy, Inc., which is King Ranch's oil and gas business subsidiary. Before the merger all shares of King Ranch Energy common stock will be distributed on a pro rata basis to the King Ranch stockholders provided that all other conditions to the merger have been satisfied. In the merger, King Ranch stockholders will receive 6.4988 shares of St. Mary common stock for each share of King Ranch Energy common stock owned, plus cash in lieu of fractional shares.

We cannot complete the merger unless St. Mary's stockholders vote to approve the issuance of common stock in the merger and King Ranch Energy's stockholders consent to the merger agreement. The meeting for the vote and the forum for consent will be held as follows:

<TABLE>

<S>	<C>
For St. Mary stockholders:	For King Ranch Energy stockholders:
Thursday, September 30, 1999 10:00 a.m., local time Norwest Bank Forum Room 1740 Broadway Denver, Colorado	_____, September ____, 1999 _____ p.m., local time _____ Houston, Texas

</TABLE>

To vote at the St. Mary meeting please either attend the meeting or complete and sign the enclosed proxy card and return it promptly in the accompanying envelope. The St. Mary board of directors recommends voting "FOR" approval of the St. Mary common stock issuance. To consent at the King Ranch forum please sign and deliver the enclosed consent form at the forum. The King Ranch board of directors recommends consenting to the merger agreement.

- _____	_____
Thomas E. Congdon	Abraham Zaleznik
Chairman of the Board	Chairman of the Board
St. Mary Land & Exploration Company	King Ranch, Inc.

See "Risk Factors" beginning on page 9.

Neither the SEC nor any state securities regulators have approved the merger or the St. Mary common stock to be issued as discussed in this document or determined if this document is accurate or adequate. Any representation to the contrary is a criminal offense.

This document is dated August _____, 1999 and is first being mailed with accompanying forms of proxy and consent to stockholders on August _____, 1999.

[For St. Mary booklet only]
[St. Mary logo]

ST. MARY LAND & EXPLORATION COMPANY
NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

DATE:

Thursday, September 30, 1999

TIME:

10:00 a.m., local time

PLACE:

Norwest Bank Forum Room
1740 Broadway
Denver, Colorado

PURPOSE:

To vote on a proposal to issue a total of 2,666,252 shares of St. Mary common stock under the merger agreement whereby St. Mary is to acquire King Ranch Energy, Inc.

Only stockholders of record on August 13, 1999 may vote at the meeting.

Your vote is important. Please either attend the meeting or promptly complete, sign, date and return your proxy card in the enclosed envelope. Any stockholder who returns their proxy can revoke it at any time before the vote is taken at the meeting.

By Order of the Board of Directors

Richard C. Norris
Secretary

Denver, Colorado
August _____, 1999

[For King Ranch booklet only]

[King Ranch, Inc. Letterhead]

NOTICE OF DISTRIBUTION
AND STOCKHOLDER FORUM

As you know, on July 27, 1999, King Ranch entered into a merger agreement with St. Mary Land & Exploration Company, pursuant to which St. Mary has agreed to acquire King Ranch Energy. As contemplated by this merger agreement, shares of King Ranch Energy common stock will be distributed on a pro rata basis to King Ranch stockholders of record as of [_____], 1999. The distribution will take place on [_____], 1999, provided that all other conditions to the merger have been satisfied. Prior to the distribution, shares of King Ranch Energy common stock will be divided into two classes, which will have corresponding rights and preferences with the two existing classes of King Ranch common stock. In the distribution, holders of voting common stock of King Ranch will receive shares of voting common stock of King Ranch Energy, and holders of non-voting common stock of King Ranch will receive shares of non-voting common stock of King Ranch Energy. Physical stock certificates will not be delivered to King Ranch stockholders, but will be held in escrow by King Ranch pending the closing of the merger.

On [_____], 1999, immediately following the distribution, we will hold a stockholders forum at [_____], Houston, Texas, at [_____] a.m., which shall be held for the following purposes:

- Answer any questions that you or your advisors may have about the distribution of King Ranch Energy common stock and the acquisition of King Ranch Energy by St. Mary.

- Obtain the written consent of the holders of a majority of the King Ranch Energy voting common stock to the merger of King Ranch Energy and St. Mary.

For purposes of convenience, you may submit your written consent to King Ranch prior to the stockholder forum by completing, signing and returning the written consent in the enclosed envelope. Voting instructions are included on the written consent. If you submit a written consent prior to the King Ranch Energy stockholder forum, the written consent will not be effective until immediately after such stockholder forum. Any such consent

may be withdrawn at any time prior to its effectiveness by providing written notice of withdrawal.

By order of the Board of Directors,

Jack Hunt
Chief Executive Officer

[_____], 1999

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SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should carefully read this document and the documents we refer you to. See "Where You Can Find More Information" on page 91.

THE COMPANIES

St. Mary Land & Exploration Company
1776 Lincoln Street, Suite 1100
Denver, Colorado 80203
(303) 861-8140

St. Mary is a publicly-held independent energy company engaged in the exploration, development, acquisition and production of natural gas and crude oil. St. Mary's operations are focused in the following five core U.S. operating areas:

- the Mid-Continent region in western Oklahoma and northern Texas,
- the ArkLaTex region that spans northern Louisiana and portions of eastern Texas, Arkansas and Mississippi,
- southern Louisiana,
- the Williston Basin in eastern Montana and western North Dakota, and
- the Permian Basin in eastern New Mexico and western Texas.

King Ranch Energy, Inc.
1415 Louisiana, Suite 2300
Houston, Texas 77002
(713) 752-0101

King Ranch Energy is the oil and gas exploration and production business subsidiary of King Ranch, with operations located primarily in the following areas:

- onshore in:
  - Texas,
  - Oklahoma,

  - Louisiana,
  - North Dakota, and
  - Utah, and
- in the Gulf of Mexico, offshore Texas and Louisiana.

King Ranch is a privately-held company engaged primarily in ranching,

agricultural and energy development businesses. It owns the historic 825,000 acre "King Ranch" in South Texas.

THE MERGER TRANSACTION (SEE PAGE 20)

Before the merger all shares of King Ranch Energy common stock will be distributed on a pro rata basis to King Ranch stockholders provided that all other conditions to the merger have been satisfied. In the distribution, each King Ranch stockholder will receive the same number of shares of voting and/or non-voting King Ranch Energy common stock as such stockholder currently holds in King Ranch. In the merger, St. Mary will acquire King Ranch Energy and St. Mary will issue shares of St. Mary common stock in exchange for King Ranch Energy common stock. The merger agreement is attached to this document as Annex A. We encourage you to read the merger agreement since it is the legal document that governs the merger.

WHAT KING RANCH STOCKHOLDERS WILL RECEIVE IN THE MERGER

As a result of the merger, King Ranch stockholders will receive 6.4988 shares of St. Mary common stock for each share of King Ranch Energy common stock that they own, plus cash in lieu of any fractional shares. The total of 2,666,252 shares of St. Mary common stock to be issued will represent approximately 19.4% of the outstanding shares of St. Mary common stock after the merger.

ST. MARY STOCKHOLDERS MEETING (SEE PAGE 11)

The St. Mary stockholders meeting to vote on the issuance of St. Mary common stock in the merger will take place on September 30, 1999 in Denver, Colorado. The time and address of the meeting is on page 10.

VOTING RECOMMENDATION TO ST. MARY STOCKHOLDERS

The St. Mary board of directors believes that the merger is advisable and in the best interests of St. Mary and its stockholders and recommends that St. Mary stockholders vote "For" approval of the issuance of St. Mary common stock in the merger.

ST. MARY STOCKHOLDER VOTE REQUIRED TO APPROVE THE STOCK ISSUANCE

Approval of the issuance of St. Mary common stock in the merger requires the affirmative vote of the holders of a majority of the shares of St. Mary common stock represented in person or by proxy at the St. Mary stockholders meeting. St. Mary directors, executive officers and their affiliates have the power to vote a total of approximately 2.1% of the shares of St. Mary common stock entitled to vote at the meeting. Thomas E. Congdon, St. Mary's Chairman of the Board, and members of his immediate family own approximately 12% of the shares entitled to vote at the meeting. While no formal arrangements exist, these extended family members may be inclined to act in concert with Mr. Congdon on approving the merger.

KING RANCH STOCKHOLDERS FORUM (SEE PAGE 13)

The King Ranch stockholders forum to discuss the merger and obtain consents to the merger will take place on September _____, 1999 in Houston, Texas. The time and address of the forum is on page _____.

CONSENT RECOMMENDATION TO KING RANCH ENERGY STOCKHOLDERS

The King Ranch board of directors believes that the merger agreement is advisable and in the best interests of King Ranch and King Ranch Energy and recommends that King Ranch Energy stockholders consent to the merger agreement.

KING RANCH ENERGY STOCKHOLDER CONSENT REQUIRED FOR THE MERGER AGREEMENT

Following the distribution, and once all other conditions to the merger have been satisfied, the holders of King Ranch Energy voting common stock will be asked to consent to the merger. The holders of a majority of the shares of King Ranch Energy voting common stock must consent to the merger. King Ranch directors, executive officers and their affiliates will have the power to vote a total of approximately 13.8% of the shares of King Ranch Energy voting common stock. King Ranch has obtained from Stephen J. Kleberg, John D. Alexander, Jr., and James H. Clement, Jr., members of the King Ranch board of directors, who will have the right to vote a total of 13.8% of the shares of King Ranch Energy voting common stock, commitments to:

- consent to the merger agreement, and

- recommend, subject to their fiduciary obligations, to the members of their immediate families who will hold King Ranch Energy voting common stock that they consent to the merger agreement.

OPINIONS OF FINANCIAL ADVISORS (SEE PAGE 32)

In deciding to approve the merger, each board of directors considered the opinion of its financial advisor. St. Mary received an opinion from Deutsche Bank Securities Inc. that the share exchange ratio whereby the shares of King Ranch Energy common stock will be converted into the right to receive 2,666,252 shares of St. Mary common stock is fair to St. Mary from a financial point of view. King Ranch received an opinion from Nesbitt Burns Securities Inc. that the consideration to be received in the merger by the King Ranch stockholders is fair to the King Ranch stockholders from a financial point of view. These opinions are attached to this document as Annex B and Annex C. We encourage you to read these opinions.

ST. MARY STOCK TRANSFER RESTRICTIONS UNDER THE MERGER AGREEMENT (SEE PAGE 63)

The merger agreement provides that King Ranch stockholders will generally not be able to sell any of the shares of St. Mary common stock issued to them in the merger for two years after the completion of the merger, except in connection with an acquisition of St. Mary. However, if during those two years Thomas E. Congdon or his affiliates sell any shares of St. Mary common stock, the King Ranch stockholders will then be able to sell a percentage of their St. Mary shares which corresponds to the percentage sold by the Congdon group.

ST. MARY MARKET PRICE INFORMATION

St. Mary common stock is publicly traded and quoted on the Nasdaq National Market System under the symbol "MARY." On July 27, 1999, the last full trading day before the public announcement of the merger agreement, the closing price per share of St. Mary common stock as reported on the Nasdaq National Market system was $22.625. On August _____, 1999, the most recent practicable trading day before the printing of this document, the closing price per share of St. Mary common stock as reported on the Nasdaq National Market system was $_____. We encourage you to check publicly available sources for the current market price of St. Mary common stock. Shares of King Ranch Energy common stock are not publicly traded and there are not public sources of the market value of King Ranch Energy common stock.

SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL DATA

The following selected unaudited pro forma combined financial data has been derived from and should be read with the Unaudited Pro Forma Condensed Combined Financial Statements and related notes beginning on page 95. This information is based on the historical financial statements of St. Mary and King Ranch Energy. It gives effect to the merger using the purchase method of accounting for business combinations as if the merger had been completed at the beginning of the periods presented and as of June 30, 1999.

This information is for illustrative purposes only. The companies may have performed differently had they merged as of the assumed dates. Therefore, you should not rely on this information as being indicative of the historical results that would have been achieved had the

companies merged as of the assumed dates or the future results that the combined company will experience after the merger.

<TABLE>
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	Six Months Ended June 30, 1999	Year Ended December 31, 1998
	(thousands of dollars, except per share amounts)	
<S>	<C>	<C>
Total operating revenues	$ 50,894	$ 118,151
Total operating expenses	$ 42,818	$ 125,525
Net income (loss) from continuing operations	$ 5,053	$ (5,105)
Basic net income (loss) per share from continuing operations	$ 0.37	$ (0.37)
Diluted net income (loss) per share from continuing operations	$ 0.37	$ (0.37)
Cash dividends per share	$ 0.10	$ 0.20

</TABLE>

<TABLE>
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	June 30, 1999
	(thousands of dollars)
<S>	<C>
Total assets	$ 234,329
Long-term debt	$ 20,087
Total stockholders' equity	$ 178,905

</TABLE>

COMPARATIVE PER SHARE DATA

The following table presents comparative per common share data for St. Mary and King Ranch Energy on an historical basis, and on a pro forma combined basis to reflect the merger under the purchase method of accounting as if the merger had been completed at the beginning of the periods presented and as of June 30, 1999.

<TABLE>
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	Six Months Ended June 30, 1999	Year Ended December 31, 1998
<S>	<C>	<C>
Net income (loss) per common share		
St. Mary historical		
Basic	$ 0.19	$ (0.81)
Diluted	$ 0.19	$ (0.81)
King Ranch Energy historical	$ (1,568)	$ (7,119)
St. Mary/King Ranch Energy pro forma combined		
Basic	$ 0.37	$ (0.37)
Diluted	$ 0.37	$ (0.37)
King Ranch Energy pro forma equivalent(1)		
Basic	$ 987	$ (987)
Diluted	$ 987	$ (987)

</TABLE>

<TABLE>
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	Six Months Ended June 30, 1999	Year Ended December 31, 1998
<S>	<C>	<C>
Cash dividends per common share		
St. Mary historical	$ 0.10	$ 0.20
King Ranch Energy historical	$ --	$ 4,655
St. Mary/King Ranch Energy pro forma combined	$ 0.10	$ 0.20
King Ranch Energy pro forma equivalent(1)	$ 266.63	$ 533.25

</TABLE>

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	June 30, 1999
<S>	<C>
Book value per common share	
St. Mary historical	$ 12.31
King Ranch Energy historical	$ 46,782
St. Mary/King Ranch Energy pro forma combined	$ 12.84
King Ranch Energy pro forma equivalent(1)	$ 34,235

</TABLE>

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(1) The King Ranch Energy pro forma equivalent represents the St. Mary/King Ranch pro forma combined book value, cash dividend or net income (loss) per common share multiplied by an Exchange Ratio of 2,666.252.

REGULATORY REQUIREMENTS (SEE PAGE 61)

The merger is exempt from the pre-merger reporting and waiting period requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

APPRAISAL RIGHTS (SEE PAGE 15)

Under Delaware law St. Mary stockholders do not have dissenters' appraisal rights in connection with the merger. Under Delaware law King Ranch Energy stockholders who do not consent to the merger have a right to obtain in cash the appraised fair value of their pro rata interest in King Ranch Energy in lieu of the shares of St. Mary common stock to be issued to them under the merger agreement.

Under the merger agreement, if dissenters' appraisal rights are exercised with respect to more than 5% of the shares of King Ranch Energy common stock, St. Mary will not have to complete the merger. However, if appraisal rights are exercised with respect to more than 5% but less than 10% of the shares, King Ranch has the option of satisfying this condition by paying the appraised fair value in excess of $19.76 per corresponding share of St. Mary common stock.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER (SEE PAGE 57)

The merger has been structured as a "tax-free reorganization" for Federal income tax purposes. Therefore, after receipt of King Ranch Energy common stock, King Ranch stockholders generally should not recognize any gain or loss for Federal income tax purposes on the receipt of St. Mary common stock in exchange for their pro rata interests in King Ranch Energy under to the merger agreement. In addition, King Ranch Energy and St. Mary, as well as the St. Mary stockholders, will not recognize gain or loss as a result of the merger.

In order for St. Mary to proceed with the merger, all shares of King Ranch Energy common stock will be distributed to the King Ranch stockholders before the exchange of King Ranch Energy common stock for St. Mary common stock at the merger closing. This

distribution will result in a taxable gain to a subsidiary of King Ranch, which is not expected to be material to King Ranch on a consolidated basis.

Opinions from King Ranch's outside counsel and the independent accounting firm of Ernst & Young LLP concerning the Federal income tax consequences of the merger have been filed with the SEC as exhibits to the registration statement relating to this document.

RISK FACTORS

In addition to the other information contained in this document, the following matters should be considered carefully.

ST. MARY MAY NOT BE ABLE TO SUCCESSFULLY INTEGRATE KING RANCH ENERGY'S BUSINESS OPERATIONS

The integration and consolidation of the assets and operations of St. Mary and King Ranch Energy after the merger will present significant management challenges for St. Mary. St. Mary cannot assure you that it will be able to successfully integrate the St. Mary and King Ranch Energy business operations or that the combined company will realize any of the anticipated benefits of the merger.

THE ST. MARY STOCK TO BE ISSUED UNDER THE MERGER AGREEMENT GENERALLY CANNOT BE TRANSFERRED FOR TWO YEARS

The merger agreement provides that the King Ranch stockholders will generally not be able to sell any of the shares of the St. Mary common stock issued to them in the merger for two years after the completion of the merger, except in connection with any acquisition of St. Mary or dispositions by Thomas E. Congdon, St. Mary's Chairman of the Board, and his affiliates. We cannot assure the King Ranch stockholders that the public trading market price of St. Mary common stock after the two-year restriction period has elapsed will be the same or greater than the current market price.

ST. MARY MAY INADVERTENTLY ACQUIRE PROPERTIES WITH ENVIRONMENTAL CONTAMINATION OR OTHER PROBLEMS

St. Mary intends to continue making acquisitions of oil and gas properties such as those which are owned by King Ranch Energy. Although St. Mary

performs a review of acquired properties that it believes is consistent with industry practices, existing or potential environmental problems with properties may not be discovered until after an acquisition has been completed. The merger agreement for St. Mary's acquisition of King Ranch Energy provides that King Ranch must indemnify St. Mary if its representations and warranties about the environmental status of King Ranch Energy's properties are inaccurate.

ST. MARY MAY NOT BE ABLE TO ADEQUATELY REPLACE ITS OIL AND GAS RESERVES

Except to the extent that St. Mary conducts successful exploration or development activities or acquires properties containing proved oil and gas reserves, the estimated net proved reserves of St. Mary will generally decline as reserves are produced. We cannot assure you that St. Mary's planned development and exploration projects and acquisition activities will result in significant additional reserves or that St. Mary will have continuing success drilling productive wells.

Many of St. Mary's oil and gas properties are operated by third parties and as a result St. Mary has limited control over the nature and timing of exploration and development of those properties or the manner in which operations are conducted. A significant portion of St. Mary's cash flow is attributable to royalty interests on its southern Louisiana fee properties. A fee property means that St. Mary holds the most extensive interest that can be owned in land, including surface and mineral (including oil and gas) rights. Without continued exploration and development of the fee properties, which St. Mary has only a limited ability to control, production and cash flow from these properties will decline.

ST. MARY'S TECHNOLOGY SYSTEMS MAY NOT BE READY FOR THE YEAR 2000

St. Mary has not completed a comprehensive analysis of the operational problems and costs that would be reasonably likely to result from any failure of the technology systems of St. Mary or of other parties with which St. Mary has significant relationships to be Year 2000 compliant by January 1, 2000. St. Mary has completed significant upgrades and testing of its systems and believes that they are Year 2000 compliant. Responses from our major business partners also indicate that they will be Year 2000 compliant. However, we cannot assure you that the Year 2000 issue will not have a material adverse effect on St. Mary's financial condition, results of operations or cash flows.

ST. MARY'S SHAREHOLDER RIGHTS PLAN MAY MAKE IT MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE ST. MARY

In July 1999 the St. Mary board of directors adopted a shareholder rights plan. The plan makes it more difficult for a third party to acquire control of St. Mary without approval of the board of directors, even if the acquisition would be at a premium to the current market price of St. Mary common stock. Under the plan the St. Mary board of directors may decide in accordance with its fiduciary obligations that the terms of a potential acquisition do not reflect the long-term value of St. Mary and pursuant to the plan may thereafter, if the terms are not improved, make the acquisition impracticable for the potential acquirer.

THE ST. MARY STOCKHOLDERS MEETING

The St. Mary board of directors is using this document as a proxy statement to solicit proxies from the holders of St. Mary common stock for use at the St. Mary stockholders meeting for the purpose of voting on the issuance of St. Mary common stock in the merger. The St. Mary board of directors recommends that St. Mary stockholders vote "For" approval of the stock issuance in the merger.

We are first mailing this document and accompanying forms of proxy to the St. Mary stockholders on or about August ____, 1999.

DATE, TIME AND PLACE

Thursday, September 30, 1999
10:00 a.m., local time
Norwest Bank Forum Room
1740 Broadway
Denver, Colorado

PURPOSE

The purpose of the St. Mary stockholders meeting is to vote on a proposal to issue a total of 2,666,252 shares of St. Mary common stock under the merger agreement.

St. Mary common stock trades on the Nasdaq National Market. Stockholder approval of the St. Mary stock issuance is required by Nasdaq rules because the number of shares of St. Mary common stock that are to be issued in the merger is more than 20% of the number of shares of St. Mary common stock that will be outstanding immediately before the completion of the merger.

RECORD DATE AND SHARES ENTITLED TO VOTE

The record date for shares entitled to vote is August 13, 1999. Stockholders entitled to vote are St. Mary stockholders at the close of business on the record date. As of the record date there were 11,097,968 shares of St. Mary common stock entitled to vote.

A quorum of stockholders is necessary to hold a valid meeting. The presence in person or by proxy at the meeting of the holders of one-third of the shares of St. Mary common stock entitled to vote at the meeting is a quorum. Abstentions and broker "non-votes" count as present for establishing a quorum. A broker non-vote occurs on a matter when a broker is not permitted to vote on that matter without instruction from the beneficial owner of the shares and no instruction is given. Shares held by St. Mary in its treasury are not entitled to vote and do not count toward a quorum.

A total of approximately 2.1% of the shares of St. Mary common stock entitled to consent to the merger will be beneficially owned by St. Mary directors, executive officers and their affiliates. These individuals have indicated that they will vote in favor of the issuance of St. Mary common stock in the merger as recommended by the St. Mary board of directors.

VOTE NECESSARY TO APPROVE THE ST. MARY STOCK ISSUANCE

Approval of the St. Mary stock issuance in the merger requires the affirmative vote by the holders of a majority of shares of stock represented in person or proxy at the meeting. Abstentions and broker non-votes will have the same effect as a vote against the stock issuance.

PROXIES

You may vote in person at the meeting or by proxy. We recommend that you vote by proxy even if you plan to attend the meeting. You can always change your vote at the meeting.

Voting instructions are included on your proxy card. If you properly give your proxy and submit it to us in time to vote, one of the individuals named as your proxy will vote your shares as you have directed. You may also abstain from voting.

To vote by proxy, complete, sign, date and return your proxy card in the enclosed envelope. If you submit your proxy but do not make a specific choice, your proxy will follow the recommendations of the St. Mary board of directors and vote your shares "For" approval of the issuance of St. Mary common stock in the merger, and in its discretion as to any other business that may properly come before the meeting.

You may revoke your proxy before it is voted by:

- submitting a new proxy with a later date,

- notifying St. Mary's Secretary in writing before the meeting that you have revoked your proxy, or

- voting in person at the meeting.

If you plan to attend a meeting and wish to vote in person, we will give you a ballot at the meeting.

PROXY SOLICITATION

St. Mary will pay its own costs of soliciting proxies. In addition to this mailing, St. Mary employees may solicit the proxies personally, electronically or by telephone.

APPRAISAL RIGHTS

St. Mary is a Delaware corporation. Under Delaware law, St. Mary stockholders do not have dissenters' appraisal rights in connection with the merger since the merger involves a wholly owned subsidiary of St. Mary.

STOCK OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

For information about St. Mary stock ownership of principal stockholders and management, you should read St. Mary's 1998 Annual Report on Form 10-K incorporated by reference into this document. See "Where You Can Find More Information" on page 91.

THE DISTRIBUTION AND THE KING RANCH ENERGY STOCKHOLDERS FORUM

As contemplated by the merger agreement, shares of King Ranch Energy common stock will be distributed on a pro rata basis to King Ranch stockholders prior to the merger. Prior to the distribution, shares of King Ranch Energy common stock will be divided into two classes, which will have corresponding rights and preferences with the two existing classes of King Ranch common stock. In the distribution, each King Ranch stockholder will receive the same number of shares of voting and/or non-voting King Ranch Energy common stock as such stockholder currently holds in King Ranch. Following the distribution, but immediately prior to the merger, each King Ranch stockholder will hold the same number of shares of stock of King Ranch and King Ranch Energy. Physical stock certificates will not be delivered to King Ranch stockholders, but will be held in escrow by King Ranch pending the closing of the merger.

The King Ranch board or directors is using this document as a consent solicitation statement to solicit consents from persons who will hold shares of King Ranch Energy voting common stock after the distribution. The King Ranch board of directors recommends that such King Ranch Energy stockholders consent to the merger agreement.

This document is also a prospectus for the St. Mary common stock to be issued to the King Ranch Energy stockholders under the merger agreement. We are first mailing this document and accompanying form of consent to the King Ranch stockholders on or about August ____, 1999.

DATE, TIME AND PLACE OF STOCKHOLDERS FORUM

_____, September _____, 1999

____ p.m., local time

_____
Houston, Texas

PURPOSES OF STOCKHOLDERS FORUM

The purposes of the King Ranch Energy stockholders forum are to:

- Answer any questions that King Ranch stockholders or their advisors may have about the distribution of King Ranch Energy common stock and the acquisition of King Ranch Energy by St. Mary, and

- Obtain the written consent of the holders of a majority of the King Ranch Energy voting common stock to the merger of King Ranch Energy and St. Mary.

RECORD DATE AND SHARES ENTITLED TO CONSENT

The record date for the distribution of shares of King Ranch Energy to King Ranch stockholders is August __, 1999. Following the distribution, 42,938 shares of voting common stock and 367,328 shares of non-voting common stock of King Ranch Energy will be outstanding. Record holders of King Ranch Energy voting common stock on the date of the stockholders forum will be entitled to consent to the merger agreement.

A total of approximately 13.8% of the shares of King Ranch Energy voting common stock will be beneficially owned by King Ranch directors, executive officers and their affiliates. King Ranch has obtained from Stephen J. Kleberg, John D. Alexander, Jr., and James H. Clement, Jr., members of the King Ranch board of directors who will have the right to vote a total of 13.8% of the shares of King Ranch Energy voting common stock, commitments to:

- consent to the merger agreement, and

- recommend, subject to their fiduciary obligations, to the members of their immediate families who will hold King Ranch Energy voting common stock that they consent to the merger agreement.

CONSENT NECESSARY FOR THE MERGER AGREEMENT

Approval of the merger agreement requires the written consent of the holders of a majority of the shares of King Ranch Energy voting common stock.

WRITTEN CONSENTS

You will be asked to submit a written consent at the King Ranch Energy stockholders forum. For purposes of convenience, you may submit your written consent to King Ranch prior to the stockholders forum by completing, signing and returning the written consent in the enclosed envelope. Instructions are included on the written consent.

If you submit a written consent prior to the King Ranch Energy stockholder forum, the written consent will not be effective until immediately after the forum. Any such consent may be withdrawn at any time prior to its effectiveness by providing written notice of withdrawal to Stephen Pettit at 1415 Louisiana, Suite 2300, Houston, Texas 77002.

CONSENT SOLICITATION

King Ranch will pay the costs of soliciting consents. In addition to this mailing, King Ranch employees may solicit the consents personally, electronically or by telephone.

APPRAISAL RIGHTS

King Ranch Energy is a Delaware corporation. Under Delaware law, King Ranch Energy stockholders who do not consent to the merger will be entitled to dissenters' appraisal rights which unless waived give them the right to obtain in cash the appraised fair value of their shares of King Ranch Energy common stock in lieu of the shares of St. Mary common stock to be issued under the merger agreement.

Under the merger agreement, if dissenters' appraisal rights are exercised with respect to more than 5% of the shares of King Ranch Energy common stock, St. Mary will not have to complete the merger. However, if appraisal rights are exercised with respect to more than 5% but less than 10% of the shares, King Ranch has the option of satisfying this condition by paying the appraised fair value in excess of $19.76 per corresponding share of St. Mary common stock.

The following is a brief summary of the statutory procedures under Section 262 of the Delaware General Corporation Law which must be strictly followed by a stockholder who wishes to perfect appraisal rights in connection with the merger. This summary is qualified in its entirety by reference to Section 262 of the Delaware General Corporation Law which is attached to this document as Annex D. If a stockholder fails to comply with the procedural requirements of the Delaware General Corporation Law, appraisal rights will be forfeited.

If a King Ranch Energy stockholder were to assert appraisal rights, then within 120 days after the completion of the merger, St. Mary or the King Ranch Energy stockholder would be entitled to file a petition in the Delaware Chancery Court demanding a determination of the fair value of the King Ranch Energy shares as to which a timely demand for appraisal had been made. St. Mary is under no obligation to, and there is no present intention that St. Mary will, file a petition with respect to the appraisal of the fair value of any shares. Accordingly, it would be the obligation of a dissenting King Ranch Energy stockholder to initiate all necessary action to perfect any appraisal rights within the time prescribed in Section 262. King Ranch Energy stockholders who elect to exercise appraisal rights should mail or deliver their written demands to:

Richard C. Norris, Secretary
St. Mary Land & Exploration Company
1776 Lincoln Street, Suite 1100
Denver, Colorado 80203

Within 10 days after the completion of the merger, St. Mary shall notify each King Ranch Energy stockholder entitled to appraisal rights that the merger has been completed, which notice shall set forth the effective date of the merger and shall include a copy of the applicable provisions of the Delaware General Corporation Law. Within 20 days after the date of mailing of such notice, King Ranch Energy stockholders who are eligible to exercise their appraisal rights and desire to do so must deliver a written demand for appraisal to St. Mary at the address set forth in the immediately preceding paragraph. Although appraisal rights will only be available to King Ranch Energy stockholders who do not consent to the merger, the failure to consent to the merger will not constitute such demand.

The written demand for appraisal should specify the holder's name and

mailing address, the number of shares covered by the demand, and that the holder is thereby demanding appraisal of such shares.

If a petition for an appraisal were timely filed, after a hearing on such petition, the Delaware Chancery Court would appraise the "fair value" of the appraisal shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. The fair value of the appraisal shares as determined under Section 262 could be more than, the same as, or less than the value of the shares of St. Mary common stock such holders would receive pursuant to the merger agreement if they did not seek appraisal of the appraisal shares. The Delaware Supreme Court has stated that "proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court" should be considered in the appraisal proceedings. The Delaware Chancery Court would determine the amount of interest, if any, to be paid upon the amounts to be received in respect of the appraisal shares. The costs of the action may be determined by the Delaware Chancery Court and charged to the parties as the Delaware Chancery Court deems equitable.

Any King Ranch Energy stockholders who seek appraisal would not, after the consummation of the merger, be entitled to vote the appraisal shares for any purpose or be entitled to the payment of dividends or other distributions on the appraisal shares.

If the King Ranch Energy stockholders who seek appraisal properly demanded appraisal of their appraisal shares but failed to perfect, or effectively withdrew or lost, their right to appraisal, as provided in the Delaware General Corporation Law, the appraisal shares would be converted into the right to receive the shares of St. Mary common stock in accordance with the merger agreement. A stockholder will fail to perfect, or effectively lose or withdraw, his or her right to appraisal if among other things no petition for appraisal is filed within 120 days after the completion of the merger, or if the stockholder withdraws his or her demand for appraisal. No

appraisal proceeding pending in the Delaware Court of Chancery will be dismissed without the approval of the court, and any such approval would be conditioned upon such terms as the court deems just.

INTERESTS OF CERTAIN PERSONS IN THE MERGER

In considering the recommendation of the King Ranch board of directors for the consent to the merger agreement, King Ranch stockholders should be aware that certain members of King Ranch and King Ranch Energy management and the King Ranch board of directors have interests in the merger that may be different from, or in addition to, the interests of the stockholders of King Ranch and King Ranch Energy generally.

REPRESENTATION ON THE ST. MARY BOARD OF DIRECTORS

St. Mary has agreed that upon the completion of the merger it will cause Jack Hunt and William Gardiner to become members of the St. Mary board of directors for a period of two years. Mr. Hunt is President and Chief Executive Officer and a director of King Ranch. Mr. Gardiner is Chief Financial Officer of King Ranch. Should Mr. Hunt or Mr. Gardiner become unavailable to act as a St. Mary director, John Alexander and James Clement will take their place.

TERMINATION OF KING RANCH ENERGY EMPLOYEES; SEVERANCE ARRANGEMENTS

St. Mary does not intend to employ almost all of the King Ranch Energy employees following the merger but rather intends to utilize St. Mary employees or new employees to manage the business and properties of King Ranch Energy. King Ranch Energy has existing severance agreements with six senior management employees, including Thomas F. Fiorito, President, and William Silk, Jr., Senior Vice President of Exploration and Production, which provide for lump sum payments of varying amounts upon the termination of their employment which will occur upon completion of the merger.

Following the execution of the merger agreement, the employment of a substantial number of King Ranch Energy employees was terminated, including four of its senior management employees, and all such employees received a severance package. See "The Merger Transaction--Termination of King Ranch Energy Employees" and "The Merger Agreement--Other Agreements--King Ranch Energy Employee Severance Payments."

INDEMNIFICATION OF OFFICERS AND DIRECTORS

Under the merger agreement, the provisions in the King Ranch Energy certificate of incorporation and bylaws for the indemnification of King Ranch

Energy officers and directors, including Jack Hunt and Abraham Zaleznik, who are also directors of King Ranch, will survive the merger for a period of two years.

STOCK OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table contains information about the ownership of King Ranch voting common stock as of the record date by:

- each person who is the beneficial owner of more than 5% of the outstanding shares of King Ranch common stock,
- each King Ranch director,
- each King Ranch executive officer, and
- all King Ranch directors and executive officers as a group.

<TABLE>
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Stockholder	Shares Beneficially Owned	Percentage of Total
<S>	<C>	<C>
John D. Alexander, Jr.	4,501(1)	10.5%
James H. Clement, Jr.	498(2)	1.2%
Stephen J. Kleberg	927	2.2%
Ogden M. Phipps	1,501(3)	3.5%
Yarborough KRI L.P 200 North Loraine, Suite 1400 Midland, Texas 79701	3,049	7.1%
Richard Greer Sugden P.O. Box 70 Wilson, Wyoming 83014	2,809	6.5%
The Helen K. Groves Revocable Trust 700 N. St. Mary's, Suite 1200 San Antonio, Texas 78205	2,164	5.0%
Directors and Executive Officers as a Group	5,926	13.8%

</TABLE>

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(1) Includes 2,357 shares of King Ranch voting common stock held by private trusts or custodianships for minors which Mr. Alexander serves as a trustee or custodian, and beneficial ownership of such shares is not acknowledged.

(2) Includes 249 shares of King Ranch voting common stock held by a family limited partnership of which Mr. Clement serves as a manager.

(3) All 1,501 shares of King Ranch voting common stock are held by private trusts or custodianships for minors which Mr. Phipps serves as a trustee or custodian, and beneficial ownership of such shares is not acknowledged. Mr. Alexander also serves as a trustee or custodian of these private trusts or custodianships for minors, and the 1,501 shares of King Ranch voting common stock are included in the 2,357 shares referenced in footnote 1 above.

THE MERGER TRANSACTION

BACKGROUND OF THE MERGER

The managements of each of St. Mary and King Ranch Energy continually review their company's positions in light of the changing competitive environment of the oil and gas industry with the objective of determining what alternatives are available to further enhance shareholder value. In recent years the managements of both St. Mary and King Ranch Energy have had conversations with a number of other companies regarding a range of options to improve their competitive positions, including acquisitions or dispositions of assets, possible partnerships, alliances or other significant transactions.

On January 9, 1998, Mark A. Hellerstein, St. Mary's President and

Chief Executive Officer, met with representatives of Deutsche Bank Securities Inc. At the meeting, Deutsche Bank Securities indicated that they were aware of a sizeable Houston-based oil and gas exploration and production company that was interested in a possible stock-for-stock business combination transaction. At that time King Ranch Energy was privately considering identifying a comparable company with which to enter into a strategic alliance on a tax-free basis.

On January 28, 1998, St. Mary entered into an oral agreement to retain Deutsche Bank Securities as financial advisor to St. Mary in a possible business combination transaction with the company previously referred to by Deutsche Bank Securities. Deutsche Bank Securities indicated that the company was King Ranch Energy, and arranged a dinner meeting between St. Mary and King Ranch Energy senior executives on February 4, 1998.

On February 4, 1998, Mr. Hellerstein, Ronald D. Boone, St. Mary's Executive Vice President and Chief Operating Officer, David L. Henry, then St. Mary's Chief Financial Officer, and Douglas W. York, St. Mary's Vice President of Acquisitions and Reservoir Engineering, had a dinner meeting at the South Texas location of the King Ranch with Jack Hunt, King Ranch's Chief Executive Officer, and William Gardiner, King Ranch's President and Chief Financial Officer. This meeting served primarily as an initial orientation in which the representatives of both St. Mary and King Ranch Energy presented an overview of their companies and what each company could contribute to a combination. Mr. Hunt and Mr. Gardiner discussed various structural and other issues that would be important to King Ranch Energy in a business combination transaction.

On March 12, 1998, St. Mary formalized its retention of Deutsche Bank Securities as financial advisor for a possible transaction with King Ranch Energy. At that time Deutsche Bank Securities provided St. Mary with preliminary information regarding King Ranch Energy based on their meetings with King Ranch Energy management personnel and Mr. Gardiner.

On March 25, 1998, St. Mary senior executives met with representatives of King Ranch Energy in Houston. Representing King Ranch Energy were Thomas F. Fiorito, President, William Silk, Jr., Senior Vice President of Exploration and Production, Brian P. Romere, Vice

President of Finance and Controller, Larry L. Worden, then Vice President and General Counsel of King Ranch, and Mr. Gardiner. Representing St. Mary were Mark A. Hellerstein, Ronald D. Boone, David L. Henry and Douglas W. York. At the meeting the King Ranch Energy executives presented a detailed overview of King Ranch Energy, including its history, pending oil and gas acquisitions, core areas, prospects, current drilling activity and its current business plan. After the King Ranch Energy presentation, St. Mary representatives indicated that for discussions to progress, they would need to conduct a detailed review of King Ranch Energy's oil and gas properties. The King Ranch Energy executives responded that before involving other King Ranch Energy employees in the negotiation process, a mutually acceptable range for the possible company valuations and for the relative ownerships by the King Ranch Energy and St. Mary shareholders of a combined company would need to be established.

On April 14, 1998, Mr. Hellerstein and Mr. Boone met with Mr. Hunt and Mr. Gardiner in Houston. At that meeting Mr. Hellerstein and Mr. Boone presented a written proposal outlining a framework for a merger transaction between St. Mary and King Ranch Energy. The St. Mary proposal outlined among other things a stock-for-stock merger based on the net asset value of King Ranch Energy as determined by outside petroleum engineers, and the additional issuance of warrants to acquire St. Mary common stock.

On April 17, 1998, Deutsche Bank Securities made a presentation on the St. Mary merger proposal to Mr. Gardiner prior to a King Ranch Energy board of directors meeting.

On May 28, 1998, Deutsche Bank Securities contacted Mr. Hunt. Mr. Hunt indicated that he was not comfortable with the warrant component of St. Mary's April 14 proposal and that he was also concerned that King Ranch Energy would have to establish retention bonuses for employees if St. Mary were allowed a full technical review of King Ranch Energy's oil and gas properties. Mr. Hunt concluded that in view of the lack of an acceptable valuation range for a merger with St. Mary, further pursuit of a possible merger was a relatively low priority for King Ranch Energy.

On July 16, 1998, at a regular meeting of the St. Mary board of directors Mr. Hellerstein reported that St. Mary management had decided that the warrant value component of its proposed acquisition of King Ranch Energy should not be replaced with stock value and that therefore they would discontinue an active pursuit of a merger transaction with King Ranch Energy.

In September 1998, King Ranch retained Nesbitt Burns Securities Inc.

to explore possible strategic alternatives with respect to King Ranch Energy.

On October 23, 1998, Deutsche Bank Securities informed Mr. Hellerstein that King Ranch Energy had retained Nesbitt Burns to identify suitable merger candidates and also had retained Ryder Scott Company, L.P. to analyze King Ranch Energy's oil and gas reserves.

On November 11, 1998, Mr. Hellerstein met with representatives of Nesbitt Burns. Nesbitt Burns indicated that they were planning to hold discussions with a group of companies on a possible transaction with King Ranch Energy, but were waiting on King Ranch Energy's oil and gas reserve engineering analysis before formally beginning that process. In addition, Nesbitt Burns explained that King Ranch Energy was interested in a stock-for-stock transaction and that King Ranch Energy expected the relative ownership by King Ranch Energy shareholders of the combined entity to be based on the net relative asset values of King Ranch Energy and the acquiring company.

On November 18, 1998, at a regular meeting of the St. Mary board of directors, Mr. Hellerstein reported that it was St. Mary management's impression that the likelihood of completing an acquisition of King Ranch Energy on terms acceptable to St. Mary was diminished in view of King Ranch Energy's retention of Nesbitt Burns to contact a number of companies.

On January 11, 1999, Deutsche Bank Securities informed Mr. Hellerstein that Nesbitt Burns did not include St. Mary on the list of companies identified by Nesbitt Burns as possible suitable candidates for a transaction with King Ranch Energy.

On February 23, 1999, Deutsche Bank Securities informed Mr. Hellerstein that Nesbitt Burns had contacted Deutsche Bank Securities and indicated that King Ranch Energy was not satisfied with the other companies with which preliminary discussions had been held and that St. Mary's prior interest compared favorably to the interests of those other companies.

On March 3, 1999, Mr. Hellerstein, Milam Randolph Pharo, St. Mary's Vice President - Land and Legal, and Richard C. Norris, St. Mary's Vice President - Finance, met with Nesbitt Burns. Nesbitt Burns indicated that King Ranch Energy was holding discussions with a small number of companies concerning an acquisition and that if St. Mary remained interested in acquiring King Ranch Energy, time was of the essence. Nesbitt Burns also explained that King Ranch Energy remained interested in a relative net asset value transaction and that the King Ranch Energy needed an estimated valuation from St. Mary before proceeding further. Mr. Hellerstein responded that St. Mary remained willing to enter into a relative net asset value stock-for-stock transaction, but that a specific quantitative analysis could not be given until St. Mary had additional technical information concerning King Ranch Energy's oil and gas reserves. Nesbitt Burns then indicated that St. Mary representatives would be allowed to visit King Ranch Energy's data room in Houston for two days.

On March 8-10, 1999, St. Mary exchanged data with Nesbitt Burns concerning oil and gas reserves and net asset book values. As a result, St. Mary became concerned about the valuation of the reserves of the significant Flour Bluff field acquired by King Ranch Energy in February 1999.

On March 16 and 17, 1999, Mr. Boone and St. Mary technical personnel visited King Ranch Energy's offices in Houston to review King Ranch Energy geologic prospects. In

addition, Mr. York further reviewed the reserve engineering. St. Mary's preliminary analysis raised some concerns about King Ranch Energy's geologic prospects, but in general St. Mary was of the initial impression that the properties involved opportunities for St. Mary to enhance production and reserves.

On March 25, 1999, at a regular St. Mary board of directors meeting Mr. Hellerstein updated the directors as to the status of discussions between St. Mary and King Ranch Energy and discussed the anticipated strategic benefits from the potential acquisition. Mr. Hunt and Mr. Gardiner then met with the St. Mary directors at a luncheon meeting. Mr. Hellerstein advised Mr. Hunt that St. Mary planned in approximately two weeks to deliver a written proposal outlining the terms of a merger.

On April 12, 1999, Mr. Hellerstein met with Nesbitt Burns to discuss a King Ranch Energy transaction and St. Mary's net asset value calculations. For expediency in preparing the proposal letter outlining the terms of a merger, St. Mary had decided to use the Flour Bluff reserve amounts it had estimated in February 1999 in connection with a possible acquisition of King

Ranch Energy but it agreed with Nesbitt Burns that the Flour Bluff reserves would be re-estimated by Ryder Scott prior to the determination of final net asset values for purposes of a final merger agreement.

On April 14, 1999, Mr. Hellerstein sent the proposal letter to Mr. Hunt which outlined terms for a merger transaction. The letter contemplated that the merger would be a stock-for-stock transaction based on the relative net asset valuations of St. Mary and King Ranch Energy which in turn would be based on the valuation of their proved and probable oil and gas reserves as of December 31, 1998.

On April 21, 1999, Mr. Hunt called Mr. Hellerstein and indicated that King Ranch Energy was generally comfortable with the basic merger framework set forth in the April 14 proposal letter, but that some changes would be necessary which Nesbitt Burns would discuss with St. Mary. Mr. Hunt asked for two additional weeks to consider a formal letter of intent and to arrange for a meeting of the King Ranch, Inc. board of directors. Reciprocal confidentiality agreements with respect to the exchange of information between the parties were entered into in February 1999 and April 1999.

On April 30, 1999, Mr. Hunt sent a letter to Mr. Hellerstein which included a draft letter of intent setting forth general terms of the proposed merger which generally followed St. Mary's proposal letter of April 14. In the following week, St. Mary and King Ranch Energy and their counsel negotiated the provisions of the letter of intent.

On May 3, 1999, Mr. Congdon, Mr. Hellerstein and Mr. Boone attended a meeting of the King Ranch, Inc. board of directors. At that meeting the St. Mary senior executives presented an overview of St. Mary and answered questions. Mr. Congdon and Mr. Hellerstein met that afternoon with Mr. Hunt and Mr. Gardiner to further negotiate the provisions of the letter of intent.

On May 7, 1999, St. Mary and King Ranch finalized and executed the letter of intent, which was non-binding and subject to the negotiation and execution of a final merger agreement. The letter of intent contemplated that the shares of King Ranch Energy would be distributed to King Ranch stockholders immediately prior to the merger, in part to address St. Mary's significant concerns over having a single holder of the shares to be issued as consideration for King Ranch Energy.

On May 10, 1999 officers of St. Mary and King Ranch, and their financial and legal advisors, met by telephone to establish procedures for each company to carry out a due diligence investigation of the other. During the succeeding thirty days senior management of St. Mary spent extensive time at the offices and on the properties of King Ranch Energy reviewing the geologic, engineering, environmental, land, financial and legal aspects of King Ranch Energy's business and assets. During this period St. Mary also met with King Ranch Energy's independent petroleum engineers to review reserve valuations. Management of King Ranch during this period also visited the offices of St. Mary and met with its independent engineers for due diligence purposes.

On May 21, 1999, at a regular meeting of the St. Mary board of directors, Mr. Hellerstein informed the directors that the non-binding letter of intent had been executed and discussed the terms of the merger contemplated by the letter of intent.

On June 3, 1999, Ballard Spahr Andrews & Ingersoll, LLP, counsel to St. Mary, delivered a draft of the merger agreement to Locke Liddell & Sapp LLP, counsel to King Ranch. On June 11, 1999, Locke Liddell & Sapp provided written comments on this draft to Ballard Spahr and in the following weeks St. Mary and King Ranch Energy and their counsel continued to resolve the legal provisions of the merger agreement.

On June 17, 1999 Mr. Hellerstein, Mr. Boone and a representative of Deutsche Bank Securities met in Houston with Mr. Hunt, Mr. Gardiner and a representative of Nesbitt Burns to discuss St. Mary's due diligence findings on King Ranch Energy. At that meeting St. Mary proposed a material reduction in the number of St. Mary shares to be issued for King Ranch Energy based principally on St. Mary's evaluation of King Ranch Energy's oil and gas reserves and 1999 capital expenditures. No agreement was reached on any adjustment. It was agreed that King Ranch would consider St. Mary's proposal, and the extensive materials it had presented in support of that proposal, and respond subsequently.

On June 23, 1999 Nesbitt Burns delivered to Deutsche Bank Securities a response to the June 17 St. Mary purchase price adjustment proposal along with extensive materials in support of that response. The response involved a substantial increase in the purchase price for King Ranch Energy from that proposed by St. Mary on June 17.

On July 2, 1999 St. Mary senior engineering personnel and a representative of Deutsche Bank Securities met with senior King Ranch Energy personnel to discuss technical differences in

the evaluations by the parties of King Ranch Energy's oil and gas reserves. This meeting resulted in agreement on a number of matters relating to the reserves.

On July 12, 1999 Mr. Hunt and Mr. Gardiner met in Denver with Mr. Hellerstein, Mr. Boone and a representative of Deutsche Bank Securities to discuss the remaining purchase price and related issues. Agreement was reached that day on those issues, subject to the approval of the boards of directors of both companies, and that agreement is reflected in the merger agreement.

On July 14, 1999 St. Mary's legal counsel met with King Ranch's legal counsel to work on completing the merger agreement to reflect the agreements reached by the parties on July 12 and also to complete the agreements previously reached on other matters. Revision of the merger agreement to reflect these matters identified various other less substantive issues.

On July 23, 1999, Mr. Hellerstein sent a letter to Mr. Hunt, which reaffirmed St. Mary's concerns over having a single holder of the shares to be issued as consideration for King Ranch Energy, which concerns were relevant in evaluating whether St. Mary would proceed with the transaction, and in which Mr. Hellerstein expressed appreciation that King Ranch had agreed to distribute the shares of King Ranch Energy common stock to its stockholders to facilitate the transaction. This letter confirmed to the King Ranch board of directors that the distribution of King Ranch Energy common stock to the King Ranch stockholders was a material consideration for St. Mary to proceed with the merger.

On July 23, 1999 there was a telephone conference among Mr. Hellerstein, Mr. Boone, Mr. Hunt and Mr. Gardiner, along with the legal and financial advisors of both companies, during which final agreement was reached on all remaining open matters. A merger agreement reflecting that final agreement was circulated by the parties on July 25, 1999.

At a special meeting of the St. Mary board of directors on July 23, 1999, Mr. Hellerstein and Mr. Boone reviewed the strategic benefits of a merger with King Ranch Energy and the status of the transaction, Deutsche Bank Securities reviewed its fairness opinion with the St. Mary board, and Ballard Spahr made a presentation on the terms and conditions of the merger agreement. After due consideration, the St. Mary board of directors unanimously approved the merger agreement and the related merger matters described in this document, subject to receipt of the final Deutsche Bank Securities fairness opinion. On July 27, 1999 Deutsche Bank Securities delivered its final fairness opinion to the St. Mary board of directors and the board adopted a resolution giving final approval to the merger.

At a special meeting of the King Ranch board of directors on July 27, 1999, Mr. Hunt and Mr. Gardiner reviewed the strategic benefits of a merger of King Ranch Energy with St. Mary and the status of the transaction, Nesbitt Burns delivered its fairness opinion to the King Ranch board, and Locke Liddell & Sapp made a presentation on the terms and conditions of the merger agreement. After due consideration, the King Ranch board of directors approved the merger agreement, subject to stockholder approval, and determined to recommend that the King Ranch stockholders vote to approve the merger agreement.

Following the approval of their boards of directors, St. Mary and King Ranch executed the merger agreement and St. Mary issued a press release after the close of markets on July 27, 1999.

OUR REASONS FOR THE MERGER

We believe that by combining the two companies we can create substantially more stockholder value than could be achieved by the companies on their own. This is the fundamental reason for the merger.

Simply having a bigger company is not a reason for us to merge. To create stockholder value, the combined company must be better. As we explain below, we believe that by combining the assets and businesses of St. Mary and King Ranch Energy we can increase profits and returns.

The expected benefits of the merger fall broadly into three categories:

- exploration and production enhancements,

- savings through the reduction of personnel and other operating synergies, and

- capital productivity improvements.

We believe these benefits depend on the merger and are not available to the companies on their own.

EXPLORATION AND PRODUCTION ENHANCEMENTS

St. Mary continually seeks acquisitions of oil and gas properties or companies that would afford opportunities to expand St. Mary's existing core areas where it has proprietary geologic knowledge or to gain a significant acreage and production foothold in a new U.S. basin which is suitable for enhanced exploration and production using St. Mary's technical expertise.

For St. Mary, the acquisition of King Ranch Energy represents an opportunity to obtain complementary properties to its existing core areas, expansion of its Gulf Coast properties and a foothold in the offshore Gulf of Mexico. Specifically, St. Mary management believes that with King Ranch Energy's inventory of leaseholds and seismic surveys there are significant opportunities for St. Mary to increase production and reserves from King Ranch Energy using St. Mary exploration and reservoir expertise.

OPERATING SYNERGIES

We believe we can run the combined company efficiently. By operating synergies we mean increases in production and revenues, decreases in unit costs and overall overhead expense, and other benefits made possible by combining operations.

These benefits should come from streamlining the combined organization, which we can run with less management, administrative and overhead cost than two separate organizations.

Specifically, although King Ranch Energy's offshore and Gulf Coast properties may require additional technical personnel to operate, most of King Ranch Energy's other onshore properties can be managed by St. Mary through its existing offices and existing personnel. Thus, it is practicable for St. Mary to plan not to continue over the long term the employment of most of King Ranch Energy's management and administrative employees. Although St. Mary plans to add approximately 15 people on a permanent basis, it expects to reduce the overhead associated with the King Ranch properties by half. Additional synergy benefits should come from exploring for oil and gas more efficiently in regions where the companies operate separately today.

CAPITAL PRODUCTIVITY IMPROVEMENTS

We also believe the combined company can use its capital more profitably than either company on its own. St. Mary expects that by combining the assets of King Ranch Energy with those of St. Mary it will have a stronger presence in those U.S. basins with optimal potential for future oil and gas discoveries and production. As a result, we believe the combined company will be able to maintain or improve earnings while spending less on capital projects overall.

FACTORS CONSIDERED BY, AND RECOMMENDATION OF, THE ST. MARY BOARD OF DIRECTORS

At a meeting of the St. Mary board of directors held on July 23, 1999, after due consideration, the St. Mary board unanimously:

- determined that the merger agreement and the issuance of St. Mary common stock in the merger are advisable and in the best interests of St. Mary and its stockholders,

- approved the merger agreement and the related transactions, and

- determined to recommend that the St. Mary stockholders approve the issuance of St. Mary common stock in the merger.

Therefore, the St. Mary board recommends that the St. Mary stockholders vote "For" the approval of the issuance of St. Mary common stock in the merger.

In approving the transaction and making this recommendation, the St. Mary board consulted with St. Mary's management as well as St. Mary's outside legal counsel and financial advisor, and considered the following material factors:

- All the reasons described above under "Our Reasons for the Merger," including the exploration and production enhancements, relative net asset valuations and cash flow, operating synergies and capital productivity improvements expected to be available to the combined company,

- Alternatives to the merger by presently pursuing a comparable acquisition of or a business combination or joint venture with an entity other than King Ranch Energy and the St. Mary board's conclusion that a transaction with King Ranch Energy is more feasible, and is expected to yield greater benefits, than the likely presently available alternatives. The St. Mary board reached this conclusion for reasons including King Ranch Energy's interest in pursuing a transaction with St. Mary, St. Mary's view that the transaction could be acceptably completed from a timing standpoint, and St. Mary management's assessment of the alternatives and the expected benefits of the merger and compatibility of the companies as described under "Our Reasons for the Merger" above,

- The fact that those persons who are St. Mary stockholders before the merger would hold 80.6% of the outstanding stock of the combined company after the merger,

- Comparisons of historical and projected financial measures for St. Mary and King Ranch Energy, including earnings, return on capital employed and cash flow, and comparisons of historical operational measures for St. Mary and King Ranch Energy, including oil and gas reserve replacement, and oil and gas production,

- Current industry, economic and market conditions, including current prices for crude oil. The St. Mary board considered that oil and gas prices generally fluctuate and that when prices fall, companies must improve the performance of their internal operations to maintain profitability. The St. Mary board considered it likely that a recurrence of low prices would lead to further consolidation in the oil and gas industry because, as explained under "Our Reasons for the Merger," combining operations can help companies save money, strengthen the combined balance sheet and operate more efficiently,

- The ability to complete the merger as a tax-free reorganization for U.S. federal income tax purposes,

- The terms and conditions of the merger agreement, including the conditions to closing and the termination fees payable under certain circumstances (see "The Merger Agreement--Conditions to Closing" and "The Merger Agreement--Termination of the Merger Agreement"),

- The analyses and presentations of Deutsche Bank Securities, and Deutsche Bank Securities's written opinion to the effect that, as of July 23, 1999, and based upon and subject to the various matters set forth in its opinion, the share exchange ratio whereby the shares of King Ranch Energy common stock will be converted into the right to receive 2,666,252 shares of St. Mary common stock is fair to St. Mary from a financial point of view,

- The composition of the combined company's board of directors, and

- The challenges of combining the businesses of two major corporations of this size and the attendant risk of not achieving the expected cost savings and other benefits, as discussed under "Cautionary Information About Forward-Looking Statements", and of diverting management focus and resources from other strategic opportunities and operational matters for an extended period of time.

In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the St. Mary board of directors did not find it useful to and did not attempt to quantify, rank or otherwise assign relative weights to these factors. The St. Mary board relied on the experience and expertise of Deutsche Bank Securities, its financial advisor, for quantitative analysis of the financial terms of the merger. See "Opinion of Financial Advisor--Opinion of St. Mary Financial Advisor." In addition, the St. Mary board did not undertake to make

any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the St. Mary board's ultimate determination, but rather the St. Mary board conducted an overall analysis of the factors described above, including thorough discussions with and questioning of St. Mary's management and legal, financial and accounting advisors. In considering the factors described above, individual members of the St. Mary board may have given different weight to different factors.

The St. Mary board considered all these factors as a whole, and overall considered the factors to be favorable to and to support its determination. However, the general view of the St. Mary board was that the last factor constituted an uncertainty or risk relating to the transaction, and that the other reasons and factors described above were generally favorable.

FACTORS CONSIDERED BY, AND RECOMMENDATION OF, THE KING RANCH BOARD OF DIRECTORS

At a meeting of the King Ranch board of directors held on July 27, 1999, after due consideration, the King Ranch board:

- determined that the merger agreement and the consideration of St. Mary common stock to be received in the merger are advisable and in the best interests of King Ranch and the King Ranch stockholders,

- approved the merger agreement and the related transactions, and

- determined to recommend that the King Ranch stockholders, who will hold shares of King Ranch Energy voting common stock following the distribution, consent to the merger agreement.

Therefore, the King Ranch board recommends that the holders of King Ranch Energy voting common stock consent to the merger agreement.

In approving the transaction and making this recommendation, the King Ranch board consulted with King Ranch Energy's management as well as King Ranch's outside legal counsel and financial advisor, and considered the following material factors:

- All the reasons described above under "Our Reasons for the Merger," including the exploration and production enhancements, relative net asset valuation and cash flow, operating synergies and capital productivity improvements expected to be available to the combined company,

- Alternatives to the merger by presently pursuing a comparable acquisition of or a business combination or joint venture with an entity other than St. Mary and the King Ranch board's conclusion that a transaction with St. Mary is more feasible, and is expected to yield greater benefits, than the likely presently available alternatives. The King Ranch board reached this conclusion for reasons including St. Mary's interest in pursuing a transaction with King Ranch Energy, King Ranch's view that the transaction could be acceptably completed from a timing standpoint, and King Ranch Energy management's assessment of the alternatives and the expected benefits of the merger and compatibility of the companies as described under "Our Reasons for the Merger" above,

- The fact that 19.4% of the outstanding stock of the combined company would be the consideration for King Ranch Energy,

- Comparisons of historical and projected financial measures for St. Mary and King Ranch Energy, including earnings, return on capital employed and cash flow, and comparisons of historical operational measures for St. Mary and King Ranch Energy, including oil and gas reserve replacement, and oil and gas production,

- Current industry, economic and market conditions, including current prices for crude oil. The King Ranch board considered that oil and gas prices generally fluctuate and that when prices fall, companies must improve the performance of their internal operations to maintain profitability. The King Ranch board considered it likely that a recurrence of low prices would lead to further consolidation in the oil and gas industry because, as explained under "Our Reasons for the Merger," combining operations can help companies save money, strengthen the

combined balance sheet and operate more efficiently,

- The ability to complete the merger as a tax-free reorganization for U.S. federal income tax purposes,

- The fact that the distribution of King Ranch Energy common stock to the King Ranch stockholders will result in a taxable gain to a subsidiary of King Ranch which should not be material to King Ranch on a consolidated basis,

- The terms and conditions of the merger agreement, including the conditions to closing and the termination fees payable under certain circumstances (see "The Merger Agreement--Conditions to the Completion of the Merger" and "The Merger Agreement--Termination of the Merger Agreement"),

- The analyses and presentations of Nesbitt Burns, and Nesbitt Burn's written opinion to the effect that, as of July 27, 1999, and based upon and subject to the various matters set forth in its opinion, the number of shares of St. Mary common stock to be received in the merger by the King Ranch stockholders is fair to the King Ranch stockholders from a financial point of view,

- The composition of the combined company's board of directors,

- The risks of the July 27, 1999 termination of a number of King Ranch Energy employees prior to stockholder approval of the merger agreement, and

- The challenges of combining the businesses of two major corporations of this size and the attendant risk of not achieving the expected cost savings and other benefits, as discussed under "Cautionary Information About Forward-Looking Statements", and of diverting management focus and resources from other strategic opportunities and operational matters for an extended period of time.

In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the King Ranch board of directors did not find it useful to and did not attempt to quantify, rank or otherwise assign relative weights to these factors. The King Ranch board relied on the experience and expertise of Nesbitt Burns, its financial advisor, for quantitative analysis of the financial terms of the merger. See "Opinion of Financial Advisor--Opinion of King Ranch Financial Advisor." In addition, the King Ranch board did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the King Ranch board's ultimate determination, but rather the King Ranch board conducted an overall analysis of the factors described above, including thorough discussions with and questioning of King Ranch Energy's management and legal, financial and accounting advisors. In considering the factors described above, individual members of the King Ranch board may have given different weight to different factors.

The King Ranch board considered all these factors as a whole, and overall considered the factors to be favorable to and to support its determination. However, the general view of the King Ranch board was that the last two factors constituted uncertainties or risks relating to the transaction, and that the other reasons and factors described above were generally favorable.

OPINIONS OF FINANCIAL ADVISORS

OPINION OF ST. MARY'S FINANCIAL ADVISOR

Deutsche Bank Securities Inc. has acted as financial advisor to St. Mary in connection with the merger. At the July 23, 1999 meeting of the St. Mary board of directors, Deutsche Bank delivered its oral opinion, subsequently confirmed in writing as of the July 27, 1999, to the St. Mary board of directors to the effect that, as of the date of such opinion, based upon and subject to the assumptions made, matters considered and limits of the review undertaken by Deutsche Bank, the share exchange ratio between St. Mary and the King Ranch Energy stockholders was fair, from a financial point of view, to St. Mary stockholders.

THE FULL TEXT OF DEUTSCHE BANK'S WRITTEN OPINION, DATED JULY 27, 1999, WHICH SETS FORTH, AMONG OTHER THINGS, THE ASSUMPTIONS MADE, MATTERS CONSIDERED AND LIMITS ON THE REVIEW UNDERTAKEN BY DEUTSCHE bANK IN CONNECTION

WITH THE OPINION, IS ATTACHED AS APPENDIX B TO THIS DOCUMENT AND IS INCORPORATED HEREIN BY REFERENCE. ST. MARY STOCKHOLDERS ARE URGED TO READ DEUTSCHE BANK'S OPINION IN ITS ENTIRETY. THE SUMMARY OF DEUTSCHE BANK'S OPINION SET FORTH IN THIS DOCUMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF DEUTSCHE BANK'S OPINION.

In connection with Deutsche Bank's role as financial advisor to St. Mary, and in arriving at its opinion, Deutsche Bank has, among other things:

- reviewed certain publicly available financial information and other information concerning King Ranch Energy and St. Mary,

- reviewed certain internal analyses and other information furnished to it by King Ranch Energy and St. Mary,

- held discussions with the members of the senior managements of St. Mary and King Ranch Energy regarding the businesses and prospects of their respective companies and the joint prospects of a combined company,

- reviewed the reported prices and trading activity for the common stock of St. Mary,

- compared certain financial data for King Ranch Energy and St. Mary, and certain stock market information for St. Mary, with similar information for selected companies whose securities are publicly traded,

- reviewed the financial terms of selected recent business combinations which it deemed comparable in whole or in part,

- reviewed the terms of the merger agreement and certain related documents, and

- performed such other studies and analyses and considered such other factors as it deemed appropriate.

In preparing its opinion, Deutsche Bank did not independently verify any information, whether publicly available or furnished to it, concerning King Ranch Energy or St. Mary, including, without limitation, any financial information, forecasts or projections considered in connection with the rendering of its opinion. Accordingly, for purposes of its opinion, Deutsche Bank relied upon the accuracy and completeness of all such information. Deutsche Bank did not conduct a physical inspection of any of the properties or assets, and did not prepare or obtain any independent evaluation or appraisal of any of the assets or liabilities, of King Ranch Energy or St. Mary. With respect to the financial forecasts and projections, including analyses and forecasts of certain cost savings, operating efficiencies, revenue effects and financial synergies expected by St. Mary to be achieved as a result of the merger, made available to Deutsche Bank and used in its analyses, Deutsche Bank has assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of St. Mary. In rendering its opinion, Deutsche Bank expressed no view as to the reasonableness of such forecasts and projections, including such synergies, or the assumptions on which they are based. Deutsche Bank's opinion was necessarily based upon economic, market and other conditions as in effect on, and the information made available to Deutsche Bank as of, the date of its opinion.

For purposes of rendering its opinion, Deutsche Bank has assumed that in all respects material to its analysis:

- the representations and warranties of each party in the merger agreement are true and correct,

- each party to the merger agreement will perform all of the covenants and agreements to be performed by it under the merger agreement,

- all conditions to the obligations of each party to the merger agreement to consummate the merger will be satisfied without any waiver thereof, and

- all approvals and consents required in connection with the consummation of the transactions contemplated by the merger agreement will be obtained.

In addition, Deutsche Bank has been advised by St. Mary, and accordingly has assumed for purposes of its opinion, that the merger will be tax-free to each St. Mary and King Ranch.

Set forth below is a brief summary of certain financial analyses performed by Deutsche Bank in connection with its opinion and reviewed with the St. Mary board of directors at its

meeting on July 23, 1999.

ANALYSIS OF SELECTED PUBLICLY TRADED COMPANIES. Deutsche Bank compared certain financial information and commonly used valuation measurements for King Ranch Energy to corresponding information and measurements for a group of four publicly traded exploration and production companies (consisting of Bellwether Exploration Company, Callon Petroleum Company, PANACO, Inc. and Remington Oil & Gas Corporation (collectively, the "Selected KRE Comparable Companies")). Deutsche Bank also compared certain financial information and commonly used valuation measurements for St. Mary to corresponding information and measurements for a group of six publicly traded exploration and production companies (consisting of Key Production Company, Inc., Belco Oil & Gas Corp., HS Resources, Inc., Patina Oil & Gas Corporation, Tom Brown, Inc. and Titan Exploration, Inc. (collectively, the "Selected St. Mary Comparable Companies")).

Such financial information and valuation measurements included:

- common equity market valuation,
- capitalization ratios,
- operating performance,
- ratios of common equity market value as adjusted for debt and cash ("Total Enterprise Value") to earnings before interest expense, income taxes, depreciation, amortization and exploration ("EBITDAX") and to SEC pre-tax PV-10, which is the value of future net cash flows from proved reserves before taxes discounted at 10% at December 31, 1998, and year end proved reserves, and
- ratios of common equity market prices per share ("Equity Value") to operating cash flow per share.

To calculate the trading multiples for King Ranch Energy and the Selected KRE Comparable Companies and for St. Mary and the Selected St. Mary Comparable Companies, Deutsche Bank used publicly available information concerning historical and projected financial performance, including published historical financial information and operating cash flow estimates reported by the Institutional Brokers Estimate System ("IBES"). IBES is a data service that monitors and publishes compilations of earnings and cash flow estimates by selected research analysts regarding companies of interest to institutional investors.

Deutsche Bank compared the King Ranch Energy multiples of Total Enterprise Value implied by the share exchange ratio with the following calculated multiples for Selected KRE Comparable Companies:

<TABLE>
<CAPTION>

		Selected KRE Comparable Companies		
	King Ranch Energy Implied	Low	Median	High
<S>	<C>	<C>	<C>	<C>
12/31/98-Latest Twelve Month EBITDAX	2.01x	5.09x	6.99x	8.96x
1998 Year End SEC Pre-Tax PV-10	1.06x	1.50x	1.73x	2.00x
1998 Year End Proved Reserves	$0.94	$1.10	$1.30	$1.54

</TABLE>

Deutsche Bank further calculated that the multiple of Equity Value to 1999 estimated operating cash flow per share was 2.35x for King Ranch Energy compared to a range of 1.02x to 6.43x, with a median of 3.91x, for the Selected KRE Comparable Companies.

Deutsche Bank compared St. Mary actual multiples of Total Enterprise Value with the following calculated multiples for Selected St. Mary Comparable Companies:

<TABLE>
<CAPTION>

	Selected St. Mary Comparable Companies

	St. Mary Actual	Low	Median	High
<S>	<C>	<C>	<C>	<C>
12/31/98-Latest Twelve Month EBITDAX	5.22x	5.65x	7.04x	11.02x
1998 Year End SEC Pre-Tax PV-10	2.13x	0.87x	1.40x	2.09x
1998 Year End Proved Reserves	$1.44	$0.60	$0.97	$1.45

</TABLE>

Deutsche Bank further calculated that the multiple of Equity Value to 1999 estimated operating cash flow per share was 2.35x for St. Mary compared to a range of 1.00x to 10.39x, with a median of 5.78x, for the Selected St. Mary Comparable Companies.

None of the companies utilized as a comparison is identical to King Ranch Energy or St. Mary. Accordingly, the analysis of the publicly traded comparable companies is not simply mathematical. Rather, it involves complex considerations and qualitative judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could effect the public trading value of the comparable companies.

ANALYSIS OF SELECTED PRECEDENT TRANSACTIONS. Deutsche Bank reviewed the financial terms, to the extent publicly available, of 9 proposed, pending or completed mergers and acquisition transactions of greater than $10 million since January 1, 1996 involving exploration and production companies with a similar asset mix to King Ranch Energy (the "Selected KRE Corporate Transactions"). Deutsche Bank utilized estimated reserve value and proved reserves to determine reserve value to proved reserves in order to estimate a total enterprise value

for King Ranch Energy and compared them to corresponding reserve value to proved reserves for the merger, based on the share exchange ratio. Deutsche Bank calculated that total enterprise value divided by estimated proved reserves was $.84 for the merger compared to a range of $0.80 to $1.66, with a median of $1.02, for the Selected KRE Corporate Transactions.

Deutsche Bank reviewed the financial terms, to the extent publicly available, of 55 proposed pending or completed asset sale transactions of greater than $10 million since January 1, 1996 involving producing properties within the three operating regions of King Ranch Energy (the "Selected KRE Asset Transactions"). Deutsche Bank utilized estimated reserve value and proved reserves to determine a multiple of reserve value to proved reserves in order to estimate a total enterprise value for King Ranch Energy and compared them to corresponding reserve value to proved reserves for the merger, based on the share exchange ratio. Deutsche Bank calculated that the total enterprise value to estimated proved reserves was $.84 for the merger compared to the following multiples for the Selected KRE Asset Transactions:

<TABLE>
<CAPTION>

Operating Region	25th Percentile	Median	75th Percentile
<S>	<C>	<C>	<C>
Gulf of Mexico - Offshore	$0.86	$0.99	$1.24
Texas - Onshore	$0.58	$0.75	$0.80
Oklahoma / Rocky Mountains - Utah/North Dakota	$0.51	$0.71	$0.83

</TABLE>

Deutsche Bank reviewed the financial terms, to the extent publicly available, of 8 proposed, pending or completed mergers and acquisition transactions of greater than $10 million since January 1, 1996 involving exploration and production companies with a similar asset mix to St. Mary (the "Selected St. Mary Corporate Transactions"). Deutsche Bank utilized estimated reserve value and proved reserves to determine a total enterprise value multiple of proved reserves and compared them to the corresponding multiple for St. Mary. Deutsche Bank calculated that the multiple of total enterprise value to year end proved reserves was 1.44 for St. Mary compared to a range of 0.61 to 1.36, with a median of 1.00, for Selected St. Mary Corporate Transactions.

Deutsche Bank reviewed the financial terms, to the extent publicly available, of 40 proposed pending or completed asset sale transactions of greater than $10 million since January 1, 1996 involving producing properties within the five operating regions of St. Mary (the "Selected St. Mary Asset Transactions"). Deutsche Bank utilized estimated reserve value and proved reserves and compared them to corresponding multiples for St. Mary. Deutsche Bank calculated that the multiple of total enterprise value to year end proved reserves was 1.44 for St. Mary compared to the following multiples for the Selected St. Mary asset Transactions:

Operating Region	25th Percentile	Median	75th Percentile
Rockies - Williston Basin	$0.42	$0.67	$0.78
Mid-Continent	$0.69	$0.92	$1.03
Permian Basin	$0.65	$0.75	$0.80
ArkLaTex Region	$0.69	$0.72	$0.77
South Louisiana	$0.85	$1.07	$1.28

All multiples for each of the Selected KRE Corporate Transactions, Selected KRE Asset Transactions, the Selected St. Mary Corporate Transactions and the Selected St. Mary Asset Transactions were based on John S. Herold Inc. data and public information available at the time of announcement of such transactions, without taking into account differing market and other conditions during the three and one half-year period during which such transactions occurred.

Because the reasons for and circumstances surrounding each of the precedent transactions analyzed were so diverse, and due to the inherent differences between the operations and financial conditions of King Ranch Energy and St. Mary and the companies involved in each of the Selected KRE Corporate Transactions, Selected KRE Asset Transactions, the Selected St. Mary Corporate Transactions and the Selected St. Mary Asset Transactions, Deutsche Bank believes that a comparable transaction analysis is not simply mathematical. Rather, it involves complex considerations and qualitative judgments, reflected in Deutsche Bank's opinion, concerning differences between the characteristics of these transactions and the merger that could affect the value of the subject companies and businesses and King Ranch Energy and St. Mary.

CONTRIBUTION ANALYSIS. Deutsche Bank analyzed the relative contributions of St. Mary and King Ranch Energy, as compared to St. Mary and King Ranch Energy's relative ownership after the merger of approximately 80.64% and 19.36% respectively of the outstanding capital of the combined company, to the pro forma income statement of the combined company, based on managements' projections for their respective companies. The analysis showed that on a pro forma combined basis (excluding (1) the effect of any synergies that may be realized as a result of the merger, and (2) non-recurring expenses relating to the merger), based on 1999 and 2000 estimates for St. Mary and King Ranch Energy, St. Mary and King Ranch Energy would account for approximately the following percentages of the combined company for the following:

	St. Mary	King Ranch
1999E EBITDAX	62.00%	38.00%
2000E EBITDAX	70.30%	29.70%
2001E EBITDAX	75.50%	24.50%
1999E Operating Cash Flow Per Share	58.90%	41.10%
2000E Operating Cash Flow Per Share	65.00%	35.00%

	St. Mary	King Ranch
2001E Operating Cash Flow Per Share	74.10%	25.90%
1999E Production	63.10%	36.90%
2000E Production	71.40%	28.60%
2001E Production	74.70%	25.30%

DISCOUNTED CASH FLOW ANALYSIS. Deutsche Bank performed a discounted cash flow analysis for both King Ranch Energy and St. Mary. Deutsche Bank calculated the discounted cash flow values for each of King Ranch Energy and St. Mary as the sum of the net present values of (1) the estimated future cash flow that King Ranch Energy or St. Mary will generate for the period

described below, plus (2) the value of King Ranch Energy or St. Mary at the end of such period. The estimated future cash flows were based on the financial projections for King Ranch Energy for the years 1999 through 2005 prepared by King Ranch Energy's management and for St. Mary for the years 1999 through 2004 prepared by St. Mary's management. The terminal value of King Ranch Energy was calculated based on projected EBITDAX for 2005 and a range of multiples of 3.0x, 4.0x and 5.0x. The terminal value of St. Mary was calculated based on projected EBITDAX for 2004 and a range of multiples of 4.0x, 5.0x and 6.0x. Deutsche Bank used discount rates ranging from 10.0% to 14.0%. Deutsche Bank used such discount rates based on its judgment of the estimated weighted average cost of capital of Selected KRE Comparable Companies and Selected St. Mary Comparable Companies, and used such multiples based on its review of the trading characteristics of the common stock of Selected KRE Comparable Companies and Selected St. Mary Comparable Companies. This analysis indicated a range of values of $63.0 million to $77.6 million for the King Ranch Energy depletion case and a range of values of $183.6 million to $371.9 million for St. Mary.

The foregoing summary describes all analyses and factors that Deutsche Bank deemed material in its presentation to St. Mary board of directors, but is not a comprehensive description of all analyses performed and factors considered by Deutsche Bank in connection with preparing its opinion. The preparation of a fairness opinion is a complex process involving the application of subjective business judgment in determining the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not readily susceptible to summary description. Deutsche Bank's analyses must be considered as a whole and considering any portion of such analyses and of the factors considered without considering all analyses and factors could create a misleading view of the process underlying the opinion. In arriving at its fairness determination, Deutsche Bank did not assign specific weights to any particular analyses.

In conducting its analyses and arriving at its opinions, Deutsche Bank utilized a variety of generally accepted valuation methods. The analyses were prepared solely for the purpose of enabling Deutsche Bank to provide its opinion to the St. Mary board of directors as to the fairness to St. Mary of the share exchange ratio and does not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently

subject to uncertainty. In connection with its analyses, Deutsche Bank made, and was provided by St. Mary management with, numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond St. Mary's or King Ranch Energy's control. Analyses based on estimates or forecasts of future results are not necessarily indicative of actual past or future values or results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of St. Mary, King Ranch Energy or their respective advisors, neither St. Mary nor Deutsche Bank nor any other person assumes responsibility if future results or actual values are materially different from these forecasts or assumptions.

The terms of the merger were determined through negotiations between St. Mary and King Ranch and were approved by the St. Mary board of directors. Although Deutsche Bank provided advice to St. Mary during the course of these negotiations, the decision to enter into the merger was solely that of the St. Mary board of directors. As described above, the opinion and presentation of Deutsche Bank to the St. Mary board of directors were only one of a number of factors taken into consideration by the St. Mary board of directors in making its determination to approve the merger. Deutsche Bank's opinion was provided to the St. Mary board of directors to assist it in connection with its consideration of the merger and does not constitute a recommendation to any holder of St. Mary Common Stock as to how to vote with respect to the merger.

St. Mary selected Deutsche Bank as financial advisor in connection with the merger based on Deutsche Bank's qualifications, expertise, reputation and experience in mergers and acquisitions. St. Mary has retained BT Alex. Brown Incorporated pursuant to an engagement letter agreement dated March 11, 1999. Deutsche Bank is the successor to the investment banking and client advisory businesses of BT Alex. Brown and has assumed BT Alex. Brown's rights and responsibilities under the engagement letter. As compensation for Deutsche Bank's services in connection with the merger, St. Mary has paid Deutsche Bank a cash fee of $175,000 and has agreed to pay an additional cash fee of $675,000 if the merger is consummated. Regardless of whether the merger is consummated, St. Mary has agreed to reimburse Deutsche Bank for reasonable fees and disbursements of Deutsche Bank's counsel and all of Deutsche Bank's reasonable travel and other out-of-pocket expenses incurred in connection with the merger or otherwise arising out of the retention of Deutsche Bank under the engagement letter. St. Mary has also agreed to indemnify Deutsche Bank and certain related persons to the full extent lawful

against certain liabilities, including certain liabilities under the federal securities laws arising out of its engagement of the merger.

Deutsche Bank is an internationally recognized investment banking firm experienced in providing advice in connection with mergers and acquisitions and related transactions. Deutsche Bank has previously advised and executed natural gas hedging transactions for St. Mary. Deutsche Bank and its affiliates may actively trade securities of St. Mary for their own account or the account of their customers and, accordingly, may from time to time hold a long or short position in such securities.

OPINION OF KING RANCH'S FINANCIAL ADVISOR

King Ranch retained Nesbitt Burns to act as its financial advisor with respect to considering strategic alternatives for King Ranch Energy. On July 27, 1999, the King Ranch board held a meeting to evaluate the proposed merger. At this meeting Nesbitt Burns rendered its opinion that, as of that date and based upon and subject to the limitations and assumptions set forth in its opinion, the consideration to be received by the shareholders of King Ranch in connection with the merger was fair from a financial point of view to the shareholders of King Ranch.

THE FULL TEXT OF THE OPINION, WHICH DESCRIBES, AMONG OTHER THINGS, THE ASSUMPTIONS MADE, MATTERS CONSIDERED AND QUALIFICATIONS AND LIMITATIONS ON THE REVIEW UNDERTAKEN BY NESBITT BURNS IS ATTACHED AS APPENDIX C TO THIS DOCUMENT AND IS INCORPORATED IN THIS DOCUMENT BY REFERENCE. THE SUMMARY OF THE FAIRNESS OPINION SET FORTH IN THIS DOCUMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE OPINION. THE KING RANCH SHAREHOLDERS ARE URGED TO READ NESBITT BURNS' OPINION CAREFULLY AND IN ITS ENTIRETY. THE FAIRNESS OPINION WAS PROVIDED TO THE KING RANCH BOARD AND ADDRESSES ONLY THE FAIRNESS FROM A FINANCIAL POINT OF VIEW OF THE CONSIDERATION TO BE RECEIVED BY THE KING RANCH SHAREHOLDERS AND DOES NOT ADDRESS ANY OTHER ASPECT OF THE MERGER OR ANY RELATED TRANSACTION AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY SHAREHOLDER AS TO HOW TO WHETHER TO CONSENT TO THE MERGER.

In arriving at its opinion, Nesbitt Burns, among other things:

- reviewed certain publicly available business and financial information relating to King Ranch, King Ranch Energy and St. Mary,

- reviewed certain internal financial and operating information, including financial forecasts of the respective results of operations of King Ranch Energy and St. Mary as well as certain estimates of the expected operational and financial benefits expected to result from the merger, prepared and provided by the managements of King Ranch, King Ranch Energy and St. Mary,

- held discussions with certain senior officers, directors and other representatives and advisors of King Ranch, King Ranch Energy and St. Mary concerning their respective strategic objectives, businesses, operations, assets, financial condition and prospects before and after giving effect to the merger and the expected synergies described in the bullet point set forth above,

- reviewed the reported prices and trading activity for St. Mary common stock,

- considered, to the extent publicly available, the financial terms of certain other similar transactions recently effected which Nesbitt Burns considered relevant in evaluating the transaction contemplated by the merger agreement,

- analyzed certain financial, stock market and other publicly available information

relating to the businesses of other companies whose operations Nesbitt Burns considered relevant in evaluating those of King Ranch Energy and St. Mary,

- participated in discussions and negotiations among representatives of King Ranch, King Ranch Energy and St. Mary and their respective legal and financial advisors,

- reviewed the draft merger agreement and certain related agreements, and

- conducted such other analyses, inquiries and examinations and considered such other financial, engineering, economic and market criteria as Nesbitt Burns deemed appropriate in arriving at its opinion.

In rendering its opinion, Nesbitt Burns assumed and relied upon, without independent verification, the accuracy, fair representation and completeness of all financial and other information, data, advice, opinions and representations publicly available or furnished to or otherwise reviewed by or discussed with Nesbitt Burns and its opinion is conditioned upon such accuracy, fairness and completeness. With respect to financial forecasts, the expected synergies and other information provided to or otherwise reviewed by or discussed with Nesbitt Burns by management of King Ranch, King Ranch Energy or St. Mary, Nesbitt Burns assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of King Ranch's, King Ranch Energy's or St. Mary's management as to the expected future financial performance of King Ranch Energy or St. Mary, as the case may be. Subject to the exercise of professional judgment and except as expressly described in the fairness opinion, Nesbitt Burns has not assumed any responsibility or attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions and representations. Nesbitt Burns has further assumed that the merger will be accounted for as a purchase under generally accepted accounting principles and that it will qualify as a tax-free reorganization for U.S. Federal income tax purposes.

Nesbitt Burns has not made or been provided with an independent evaluation of the assets or liabilities (contingent or otherwise) of King Ranch, King Ranch Energy, or St. Mary nor did it make any physical inspection of the properties or assets of King Ranch, King Ranch Energy or St. Mary. The Nesbitt Burns opinion is based upon the condition and prospects, financial and otherwise, of King Ranch Energy and St. Mary as they were reflected in the information and documents reviewed by Nesbitt Burns and as they were represented to Nesbitt Burns in discussions with management of King Ranch, King Ranch Energy and St. Mary.

For the purpose of rendering the opinion, Nesbitt Burns assumed that the final form of the transaction documents, including the merger agreement, is substantially similar to the form in which they were reviewed by Nesbitt Burns and that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the merger, no restriction, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the merger.

The fairness opinion was necessarily rendered on the basis of information available, including financial and securities markets, economic and general business and financial

conditions and other conditions and circumstances existing and disclosed to Nesbitt Burns, as of the date of the opinion.

The fairness opinion does not address the merits of the underlying decision by King Ranch to engage in the merger and is not intended to be and does not constitute a recommendation to any stockholder of King Ranch Energy as to whether such stockholder should consent to the proposed merger or any matter related thereto. Nesbitt Burns is not expressing any opinion as to the prices at which the St. Mary common stock will trade following the announcement or consummation of the Merger.

ANALYSES OF NESBITT BURNS

In performing its analyses, Nesbitt Burns made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of any party involved. Any estimates contained in the analyses performed by Nesbitt Burns are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the Nesbitt Burns opinion was among several factors taken into consideration by the King Ranch board in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the King Ranch board or management of King Ranch with respect to the fairness of the consideration.

The following is a summary of the material financial analyses

presented by Nesbitt Burns to the King Ranch board on July 27, 1999 in connection with the rendering of its opinion on that date. The summary below is not a complete description of the analyses underlying the Nesbitt Burns opinion or the presentation made by Nesbitt Burns to the King Ranch board, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Nesbitt Burns did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Nesbitt Burns believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

ANALYSIS OF SELECTED ASSET ACQUISITION TRANSACTIONS. In order to approximate the value of King Ranch Energy, Nesbitt Burns reviewed publicly available information for eighteen asset acquisitions that had been announced between April 1998 and July 1999. Each transaction involved primarily Gulf Coast oil and gas properties and the value of each transaction was below $250 million. The following transactions were reviewed (in each case the first-named company is the acquiror and the second-named company is the seller of the assets): Mitchell Energy & Development Corp./Occidental Petroleum Corp.; Union Pacific Resources Group Inc./Occidental Petroleum Corp.; Swift Energy Company/Sonat Inc.; Enron Oil & Gas Co./Union Pacific Resources Group Inc.; Collins & Ware Inc./Union Pacific Resources Group Inc.; Chancellor Group, Inc./Union Pacific Resources Group Inc.; Clayton Williams Energy, Inc./Sonat Inc.; Samson Investment Co./Nuevo Energy Company; The Houston Exploration Company/Chevron Corp.; EnerVest Management Co. L.C./Coho Energy, Inc.; Canadian Occidental Petroleum Ltd./Royal Dutch and Shell Group; Castle Energy Corp./United Energy plc; Coastal Corp./Titan Exploration, Inc.; Coastal Corp./undisclosed seller; Louis Dreyfus Natural Gas Corp./undisclosed seller; Phillips Petroleum Co./Kelley Oil & Gas Corp.; Prize Energy Corp./Pioneer Natural Resources Co.; and undisclosed seller/MCN Energy Group Inc. Nesbitt Burns considered the assets transferred in these transactions to be similar, but not identical, to the assets of King Ranch Energy.

For each of these transactions Nesbitt Burns derived the implied value per thousand cubic feet equivalent ("MCFE") of proved reserves, using a 6.0 MCF of natural gas to 1.0 barrel of oil conversion ratio as of the completion date of each transaction. The weighted average of the implied reserve values per MCFE for the eighteen transactions was determined by dividing the sum of proved reserves sold in each of these transactions by the sum of the values attributed to the reserves in each transaction. Nesbitt Burns applied the multiples of equivalent reserves to King Ranch Energy's proved reserves of 65 billion cubic feet equivalent ("ABCFE") as determined as of December 31, 1998 by third party engineers for purposes of the merger analysis. Nesbitt Burns determined an asset reference value range implied by these multiples. After deducting current obligations of King Ranch Energy and due diligence value adjustments to King Ranch Energy of $11.8 million and $4.0 million, respectively, and adding current assets of King Ranch Energy of $10.9 million, the indicated equity reference value range of King Ranch Energy was $23.8 million to $84.6 million. The following table sets forth the low, high and weighted average implied reserve values per MCFE of these transactions and the implied equity value of King Ranch Energy derived therefrom:

<TABLE>
<CAPTION>

	Implied Value of Proved Reserves per MCFE	Implied King Ranch Energy Equity Value (in $ millions)
<S>	<C>	<C>
Low	$0.44	23.8
Weighted Average	$0.73	42.7
High	$1.37	84.6

</TABLE>

ANALYSIS OF SELECTED CORPORATE TRANSACTIONS. In order to approximate the stand-alone value of King Ranch Energy, Nesbitt Burns also reviewed publicly available information for nine

change of control transactions that had been announced between April 1996 and July 1999. Each transaction involved oil and gas companies with substantial interests in the Gulf Coast and the value of each transaction was below $200 million. The following transactions were reviewed (in each case the first-named company is the acquiror and the second-named company is the acquired company or parent of the acquired corporate entity): Burlington Resources Inc./Gulfstream Resources; Forcenergy Inc./ Great Western Resources; Domain Energy Corp./ El Paso Natural Gas Co.; Alliance Resources plc/LaTex Resources Inc.; Forcenergy Inc./ Convest Energy Corp. and Edisto Resources Corp.; PANACO, Inc./ Goldking Companies, Inc.; Seagull Energy Corp./BRG Petroleum Inc.; Texoil, Inc./Cliffwood Oil & Gas Corp.; and Energen Corporation and Westport Oil and Gas/ TOTAL S.A. Nesbitt Burns considered these transactions to be similar to the merger but none of these transactions are identical to the merger.

For each of these transactions Nesbitt Burns derived the implied reserve values per MCFE as of the completion date of each transaction. The weighted average of the implied reserve values per MCFE for the nine transactions was determined by dividing the sum of proved reserves of the target by the sum of value attributed to the reserves in each transaction. Nesbitt Burns applied the multiples of equivalent reserves to King Ranch Energy's proved reserves of 65.4 BCFE as determined as of December 31, 1998 by third party engineers for purposes of the merger analysis. Nesbitt Burns determined an asset reference value range implied by these multiples. After deducting current obligations of King Ranch Energy and due diligence value adjustments to King Ranch Energy of $11.8 million and $4.0 million, respectively, and adding current assets of King Ranch Energy of $10.9 million, the indicated equity reference value range of King Ranch Energy was $21.8 million to $83.3 million. The following table sets forth the low, high and weighted average implied value per unit of proved reserves of these transactions and the implied equity value of King Ranch Energy derived therefrom:

<TABLE>
<CAPTION>

	Implied Value per MCFE of Proved Reserves	Implied King Ranch Energy Equity Value (in $ millions)
<S>	<C>	<C>
Low	$0.41	21.8
Weighted Average	$0.87	51.9
High	$1.35	83.3

</TABLE>

COMPARABLE COMPANY ANALYSIS - KING RANCH ENERGY. Nesbitt Burns compared selected operating results of King Ranch Energy to the publicly available corresponding data for the following companies that Nesbitt Burns determined were comparable to King Ranch Energy based on their size, location and nature of operations:

- Bellwether Exploration Co.
- Callon Petroleum Corp.
- Chieftan International
- Meridian Resource Corp.
- Edge Petroleum Corp.
- Newfield Exploration Co.
- PANACO Inc.
- Stone Energy Corp.
- Swift Energy Co.

Nesbitt Burns calculated and analyzed ratios based on certain relevant historical publicly available data and upon projected financial criteria as published by various third-party equity research analysts. The following ratios were determined:

- Enterprise value/LTM EBITDAX,

- Enterprise value/1999 estimated EBITDAX,

- Enterprise value/MCFE (proved SEC reserves as of 12/31/98),

- Enterprise value/SEC-10 (based on proved reserves as of 12/31/98),

- Price/1999 estimated cash flow, and

- Price/2000 estimated cash flow.

For purposes of this section, "LTM EBITDAX" means the latest twelve months of earnings before deducting interest income and expense, income taxes, depreciation, depletion, amortization, and exploration expenses; and "SEC-10" means future after-tax cash flows of proved reserves determined by year-end commodity prices, operating expenses and development costs discounted at 10%. Certain multiples were adjusted based on Nesbitt Burns' market research to account for King Ranch Energy's industry-low reserve life index.

Nesbitt Burns applied appropriate benchmark multiples to King Ranch Energy's LTM and 1999 estimated EBITDAX, year-end SEC proved reserves, SEC-10 value and 1999 and 2000 estimated cash flow. Nesbitt Burns determined an asset reference value range for King Ranch Energy implied by these multiples. After deducting current obligations of King Ranch Energy and due diligence value adjustments to King Ranch Energy of $11.8 million and $4.0 million, respectively, and adding current assets of King Ranch Energy of $10.9 million, the indicated equity reference value range of King Ranch Energy was $10.0 million to $203.1 million. The following table sets forth the low, mean and high implied equity value of King Ranch Energy for each of the above ratios based on the nine comparable companies:

Implied King Ranch Energy Equity Value (in $ millions)

<TABLE>
<CAPTION>

	EV/LTM BITDAX	EV/1999E EBITDAX	EV/MCFE	EV/SEC-10	P/CF 1999E	P/CF 2000E
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Low	55.2	54.9	50.3	62.0	27.0	10.0
Mean	83.2	68.8	88.0	91.2	123.5	59.1
High	111.3	82.8	137.6	135.5	203.1	91.3

</TABLE>

COMPARABLE COMPANY ANALYSIS - ST. MARY. Nesbitt Burns compared selected operating results of St. Mary to the publicly available corresponding data for the following companies that Nesbitt Burns determined were comparable to St. Mary based on their size, location and nature of operations:

- Bellwether Exploration Co.
- Callon Petroleum Corp.
- Basin Exploration Inc.
- Comstock Resources Inc.
- Key Production Company
- Titan Exploration Inc.
- Tom Brown Inc.
- Stone Energy Corp.
- Swift Energy Co.

Nesbitt Burns calculated and analyzed the same ratios for St. Mary and these nine companies based on certain relevant historical publicly available data and upon projected financial criteria as published by independent third-party equity research analysts.

Nesbitt Burns applied these benchmark multiples to St. Mary's LTM and 1999 estimated EBITDAX, year-end SEC proved reserves, SEC-10 value and 1999 and 2000 estimated cash flow. Nesbitt Burns determined an asset reference value range implied by these multiples. After deducting current and long-term obligations $41.7 million and adding current and other assets of St. Mary and due diligence adjustments to St. Mary of $42.4 million and $12.4 million, respectively, the indicated equity reference value range of St. Mary was $8.28 to $44.00 per share. The following table sets forth the low, mean and high implied equity value of St. Mary for each of the ratios

based on the nine comparable companies on an aggregate and per share basis:

Implied St. Mary Equity Value (in $ millions)

<TABLE>
<CAPTION>

	EV/LTM EBITDAX	EV/1999E EBITDAX	EV/MCFE	EV/SEC-10	P/CF 1999E	P/CF 2000E
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Low	197.5	196.4	92.0	103.0	107.0	116.4
Mean	343.2	301.7	235.9	177.7	234.8	266.1
High	488.6	413.6	432.9	313.3	400.4	481.1

</TABLE>

Implied St. Mary Equity Value per Share

<TABLE>
<CAPTION>

	EV/LTM EBITDAX	EV/1999E EBITDAX	EV/MCFE	EV/SEC-10	P/CF 1999E	P/CF 2000E
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Low	$17.78	$17.69	$8.28	$9.28	$9.64	$10.48
Mean	$30.91	$27.17	$21.25	$16.00	$21.15	$23.97
High	$44.00	$37.25	$38.99	$28.22	$36.06	$43.33

</TABLE>

COMPARABLE COMPANY ANALYSIS - KING RANCH ENERGY PRO FORMA. The above equity values for each company indicated the following range of implied King Ranch Energy pro forma ownership in St. Mary:

Pro Forma Ownership

<TABLE>
<CAPTION>

	EV/LTM EBITDAX	EV/1999E EBITDAX	EV/MCFE	EV/SEC-10	P/CF 1999E	P/CF 2000E
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Low	18.6%	16.7%	24.1%	30.2%	20.1%	7.9%
Mean	19.5%	18.6%	27.2%	33.9%	34.5%	18.2%
High	21.8%	21.8%	35.3%	37.6%	33.6%	15.9%

</TABLE>

DISCOUNTED CASH FLOW ANALYSIS - KING RANCH ENERGY. Nesbitt Burns conducted a discounted cash flow analysis for the purpose of determining the equity reference value range of King Ranch Energy. Nesbitt Burns calculated the net present value of estimates of future after-tax cash flows through 2014 for King Ranch Energy's oil and gas reserve assets based on reserve estimates by independent engineers.

Nesbitt Burns evaluated two scenarios in which the principal variables were oil and gas prices. The two pricing scenarios were based on benchmarks for spot sales of West Texas Intermediate crude oil and for spot price sales of Henry Hub gas ("Pricing Case I" and "Pricing Case II"). Nesbitt Burns applied appropriate quality and transportation adjustments to these benchmarks. Benchmark oil prices for Pricing Cases I and II were projected to be $17.00 and $19.00 per barrel, respectively, for 1999 and were escalated annually thereafter at the rate of 3.0%. Benchmark gas prices for Pricing Cases I and II were projected to be $2.20 and $2.40 per MCFE, respectively, for 1999 and were escalated annually thereafter at the rate of 3.0%. Operating and capital costs were escalated at 3.0% per year after 1999.

The discount rates ranged from 8 to 12 percent.

Assuming a carry-over of King Ranch Energy's existing tax positions, and applying reserve and capital spending risk factors ranging from 100% to 35%, depending on reserve

category, the discounted cash flow analysis indicated a range of asset reference values. After deducting current obligations of King Ranch Energy and due diligence value adjustments to King Ranch Energy of $11.8 million and $4.0 million, respectively, and adding current assets of King Ranch Energy of $10.9 million, the indicated equity reference value ranges of King Ranch Energy were $48.5 million to $54.6 million for Pricing Case I and $55.6 million to $62.9 million for Pricing Case II.

Implied King Ranch Energy Equity Value (in $ millions)

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>
Discount Rate	8%	9%	10%	11%	12%
Pricing Case I	54.6	52.9	51.3	49.8	48.5
Pricing Case II	62.9	60.9	59.0	57.2	55.6

</TABLE>

DISCOUNTED CASH FLOW ANALYSIS - ST. MARY. Nesbitt Burns conducted a discounted cash flow analysis for the purpose of determining the equity reference value range of St. Mary. Nesbitt Burns calculated the net present value of estimates of future after-tax cash flows for St. Mary's oil and gas reserve assets based on reserve estimates by independent engineers as well as the estimated after-tax cash flows derived from reserves added by St. Mary's projected capital spending program.

Nesbitt Burns evaluated two scenarios using the same variables and benchmarks as under the King Ranch Energy analysis. Assuming a carry-over of St. Mary's existing tax positions, applying reserve and capital spending risk factors ranging from 100% to 35%, depending on reserve category, and applying a terminal value of 5 times 2004 discretionary cash flow, the discounted cash flow analysis indicated a range of asset reference values. After deducting current and long-term obligations $41.7 million and adding current and other assets of St. Mary and due diligence adjustments to St. Mary of $42.4 million and $12.4 million, respectively, the indicated equity reference value ranges of St. Mary were $245.8 million to $300.2 million for pricing Case I, $314.6 million to $379.8 million for Pricing Case II, $22.14 to $27.03 per share for Pricing Case I and $28.33 to $34.20 per share for Pricing Case II.

Implied Equity Value of St. Mary (in $ millions)

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>
Discount Rate	8%	9%	10%	11%	12%
Pricing Case I	300.2	285.4	271.5	258.3	245.8
Pricing Case II	379.8	362.1	345.4	329.5	314.6

</TABLE>

Implied Equity Value of St. Mary per Share

<TABLE>
<CAPTION>

Discount Rate	8%	9%	10%	11%	12%
Pricing Case I	27.03	25.70	24.45	23.26	22.14
Pricing Case II	34.20	32.61	31.10	29.68	28.33

DISCOUNTED CASH FLOW ANALYSIS - KING RANCH ENERGY PRO FORMA. The above equity values for each company indicated the following range of implied King Ranch Energy pro forma ownership in St. Mary:

Pro Forma Ownership

Discount Rate	8%	9%	10%	11%	12%
Pricing Case I	15.4%	15.6%	15.9%	16.2%	16.5%
Pricing Case II	14.2%	14.4%	14.6%	14.8%	15.0%

PRO FORMA ACCRETION/DILUTION ANALYSIS. Nesbitt Burns analyzed certain pro forma effects which could result from the mergers based on discussions with the management of King Ranch and St. Mary. This analysis indicated that the merger is expected to be dilutive to the forecasted cash flow and earnings per share to King Ranch Energy in 1999 and, to a lesser extent, 2000 but accretive to the forecasted cash flow and earnings per share of St. Mary in the same period.

* * * * *

King Ranch retained Nesbitt Burns based upon its experience and expertise. Nesbitt Burns is an internationally recognized investment banking and advisory firm. As part of its investment banking business, Nesbitt Burns is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

In the ordinary course of its business, Nesbitt Burns and certain of its affiliates may actively trade the securities of St. Mary for their account or for the account of its customers and, accordingly, may at any time hold a long or short position in such securities. Nesbitt Burns has in the past provided certain financial advisory and investment banking services to King Ranch and may continue to do so and have received, and may receive, compensation for the rendering of such services.

Nesbitt Burns has been engaged to act as financial advisor to King Ranch in connection with the merger and will receive a fee from King Ranch for their services, a significant portion of which is contingent on the consummation of the merger. King Ranch also agreed to indemnify Nesbitt Burns for certain liabilities in connection with its engagement.

COMPARISON OF KING RANCH AND ST. MARY STOCKHOLDER RIGHTS

King Ranch is a Texas corporation and St. Mary and King Ranch Energy are Delaware corporations. Because King Ranch Energy is a subsidiary of King Ranch, at the present time the rights of King Ranch stockholders to their proportionate interests in King Ranch Energy result from their rights as King Ranch stockholders. The rights of King Ranch stockholders under the King Ranch articles of incorporation and bylaws with respect to their proportionate interests in King Ranch Energy prior to the merger and prior to the distribution to them of the King Ranch Energy Shares are substantially similar to the rights

that they will have under the St. Mary certificate of incorporation and bylaws and the Nasdaq Stock Market corporate governance rules with respect to the shares of St. Mary common stock to be issued to them in the merger.

Material differences between King Ranch and St. Mary stockholder rights are summarized in the following chart. Copies of the King Ranch articles of incorporation and bylaws, King Ranch Energy certificate of incorporation and bylaws, and the St. Mary certificate of incorporation and bylaws are filed with the SEC as exhibits to the registration statement related to this document and will be sent to King Ranch stockholders upon request. See "Where You Can Find More Information" on page 91. The summary in the following chart is not intended to be complete and is qualified by reference to Texas law, Delaware law, the Nasdaq Stock Market corporate governance rules, the King Ranch articles of incorporation and bylaws, the King Ranch Energy certificate of incorporation and bylaws, and the St. Mary certificate of incorporation and bylaws.

<TABLE>

<S> KING RANCH STOCKHOLDER RIGHTS	<C> ST. MARY STOCKHOLDER RIGHTS
GENERAL CORPORATE GOVERNANCE	
The rights of King Ranch stockholders are governed by Texas law and the King Ranch articles of incorporation and bylaws.	The rights of St. Mary stockholders are currently governed by Delaware law, the St. Mary certificate of incorporation and bylaws and the Nasdaq Stock Market corporate governance rules.
Upon completion of the merger, the rights of King Ranch stockholders with respect to the shares of St. Mary common stock issued to them in the merger after the distribution to them of the King Ranch Energy shares will be governed by Delaware law, the St. Mary certificate of incorporation and bylaws and the Nasdaq Stock Market corporate governance rules.	
AUTHORIZED CAPITAL STOCK	
The King Ranch articles of incorporation authorize King Ranch to issue up to 228,075 shares of 5% Cumulative Preferred Stock, 42,938 shares of Class A Common Stock, and 544,320 shares of Class B Common Stock.	The St. Mary certificate of incorporation authorizes St. Mary to issue up to 50,000,000 shares of common stock.
NUMBER OF DIRECTORS	
The King Ranch bylaws provide that the number of directors may be designated by the King Ranch board of directors. King Ranch currently has nine directors.	The St. Mary bylaws provide that the number of directors may be determined by the St. Mary board of directors, but there must be at least 3 directors. The St. Mary board of directors currently consists of nine directors. If the merger is completed, Jack Hunt and William Gardiner will be appointed to the St.Mary board of directors for a total of eleven directors. The Nasdaq Stock Market requires that St. Mary have at least two independent directors. St. Mary currently has six independent directors. If the merger is completed and Mr. Hunt and Mr. Gardiner are appointed to the St. Mary board of directors, St. Mary will have eight independent directors.

KING RANCH STOCKHOLDER RIGHTS	ST. MARY STOCKHOLDER RIGHTS
QUORUM TO HOLD A STOCKHOLDER MEETING	
The King Ranch bylaws provide that the presence at a meeting in person or by proxy of the holders of a majority	The St. Mary bylaws provide that the presence at a meeting in person or by proxy of the holders of one-third of the shares of St. Mary

of the shares of the King Ranch common stock entitled to vote at the meeting is a quorum.	common stock entitled to vote at the meeting is a quorum.
STOCKHOLDER APPROVAL WITHOUT A MEETING	
Under Texas law, stockholder approval of a matter may be obtained without a meeting only by the unanimous written consent of all stockholders, unless the articles of incorporation provide otherwise. The King Ranch articles of incorporation do not provide otherwise.	Under Delaware law, stockholder approval of a matter may be obtained without a meeting by the written consent of the holders of outstanding stock representing the number of shares necessary to approve such matter if a meeting were held at which all shares entitled to vote were present and voted.
SPECIAL MEETINGS OF STOCKHOLDERS	
Under Texas law and King Ranch's articles of incorporation, special meetings of stockholders can be called on the request of: - the president of the corporation, - the board of directors, - such other person(s) as are authorized in the King Ranch articles of incorporation or bylaws, or - the holders of at least 20% of the shares entitled to vote at the proposed meeting.	The St. Mary bylaws provide that special meetings of stockholders can be called on the request of: - two directors, or - the holders of a majority of common stock.

KING RANCH STOCKHOLDER RIGHTS	ST. MARY STOCKHOLDER RIGHTS
AMENDMENTS TO ARTICLES OR CERTIFICATE OF INCORPORATION	
Under the King Ranch articles of incorporation, an amendment to the articles of incorporation requires the approval of the holders of at least two-thirds of the outstanding Class A Common Stock.	Under Delaware law, an amendment to the certificate of incorporation requires the approval of the holders of at least a majority of the outstanding shares entitled to vote.
LIMITATION OF DIRECTOR LIABILITY	
The King Ranch articles of incorporation provide that a director of King Ranch will not be personally liable to King Ranch or its stockholders for monetary damages for any act or omission in his capacity as a director, except to the extent otherwise expressly provided by Texas statute.	The St. Mary certificate of incorporation provides that no director of St. Mary will be liable to St. Mary or its stockholders for breach of fiduciary duty as a director except for: - a breach of the duty of loyalty to St. Mary or its stockholders, - acts in bad faith or which involve intentional misconduct or a knowing violation of law, - authorizing unlawful dividend payments, or - any transaction where the director derived an improper personal benefit.

KING RANCH STOCKHOLDER RIGHTS	ST. MARY STOCKHOLDER RIGHTS
REMOVAL OF DIRECTORS	

Under the King Ranch articles of incorporation, any director(s) or the entire board of directors may be removed, with or without cause, at any shareholder meeting called expressly for that purpose.	Under Delaware law, any St. Mary director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares entitled to vote at an election of directors.

STOCKHOLDER APPROVAL OF MERGERS AND SIMILAR TRANSACTIONS

Under Texas law, the merger of a corporation or a similar transaction must generally be approved by the holders of at least two-thirds of the outstanding shares (or class or series of shares) entitled to vote, unless the corporation's articles of incorporation provide otherwise.	Under Delaware law, the merger of a corporation or similar transaction must generally be approved by the holders of at least a majority of all outstanding shares entitled to vote.

APPRAISAL RIGHTS

Under Texas law, stockholders which dissent to a merger of their corporation have the right to obtain in cash the appraised fair value of their shares in lieu of the consideration be received in the merger, subject to exceptions.	Under Delaware law, appraisal rights in connection with a merger are not available for holders of qualifying national market system securities, subject to exceptions. Since St. Mary common stock is quoted on the Nasdaq National Market System, appraisal rights are generally not available to St. Mary stockholders.

KING RANCH STOCKHOLDER RIGHTS	ST. MARY STOCKHOLDER RIGHTS

NASDAQ STOCKHOLDER APPROVAL RULES

King Ranch is not subject to the Nasdaq stockholder approval rules applicable to St. Mary as discussed in the right column.	The Nasdaq Stock Market requires St. Mary to obtain stockholder approval for the following items: - a stock option or purchase plan under which stock may be acquired by officers or directors, - the issuance of stock which will result in a change in control of St. Mary, - the issuance of stock for the acquisition of stock or assets of another company where either: - a director, officer or substantial stockholder has a 5% or more interest in the company or assets to be acquired and the issuance of stock could increase the outstanding common shares or voting power of St. Mary by 5% or more, or - the issuance of stock could increase the outstanding common shares or voting power of St. Mary by 20% or more.

KING RANCH STOCKHOLDER RIGHTS ST. MARY STOCKHOLDER RIGHTS

ANTI-TAKEOVER STATUTES	
Texas has not enacted any specific anti-takeover statutes, which typically apply to publicly traded companies. Since King Ranch Energy is a privately held company it does not qualify for the three-year moratorium on takeover transactions under the Delaware anti-takeover statute applicable to St. Mary as discussed in the right column.	Under the Delaware anti-takeover statute, a person becomes an "interested stockholder" subject to a three-year takeover moratorium once that person acquires 15% or more of a Delaware corporation. A qualifying publicly held corporation cannot enter into a merger or similar transaction with an interested stockholder for a period of three years after that person became an interested stockholder unless: - the board of directors approved the acquisition of stock or the merger transaction prior to the time that the person became an interested stockholder, - the person owned at least 85% of the stock of the corporation at the time the person became an interested stockholder, or - the merger transaction is approved by the board of directors and the holders of two-thirds of the stock which is not owned by the interested stockholder. These provisions have the effect of discouraging hostile takeovers of publicly held Delaware corporations such as St. Mary, even if the acquisition would be at a premium to the current market price.

KING RANCH STOCKHOLDER RIGHTS	ST. MARY STOCKHOLDER RIGHTS
SHAREHOLDER RIGHTS PLAN	
King Ranch Energy does not have a shareholder rights plan.	St. Mary adopted a shareholder rights plan in July 1999, under which St. Mary has issued to its stockholders rights to purchase from St. Mary shares of common stock if there is a potential takeover transaction not approved by the St. Mary board of directors. The merger and the related agreements and transactions with King Ranch Energy do not trigger the St. Mary shareholder rights plan since the St. Mary board of directors has approved the merger. The shareholder rights plan makes it more difficult for a third party to acquire St. Mary without approval of the board of directors, even if the acquisition would be at a premium to the current market price.

</TABLE>

ACCOUNTING TREATMENT

St. Mary and King Ranch Energy expect that the merger will be

accounted for using the purchase method of accounting for business combinations. Under the purchase accounting method, the merger will be treated as an acquisition of King Ranch Energy by St. Mary and St. Mary will allocate the total acquisition cost among the acquired assets and liabilities based on their fair values as of the date the merger is completed. St. Mary's total acquisition cost will reflect a discount to the publicly traded market price of the St. Mary common stock to be issued in the merger, as determined at the time of the announcement of the merger. The discount is attributable to the number of shares to be issued in comparison to the historical trading volumes of St. Mary stock and the fact that resale of such stock will generally not be permitted for a period of two years after completion of the merger. The reported income of St. Mary will include the operations of King Ranch Energy after the merger, based on the cost of the acquisition to St. Mary. See "Unaudited Pro Forma Condensed Combined Financial Statements".

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of the material U.S. Federal income tax consequences of the distribution of the stock of King Ranch Energy and the merger of St. Mary Acquisition Corporation into King Ranch Energy to the King Ranch stockholders, who hold the shares of King Ranch Energy common stock as a capital asset. This summary is based on the Internal Revenue Code of 1986, as amended, the corresponding Treasury Regulations, administrative rulings, and court decisions, all as in effect as of the date hereof and all of which are subject to

change at any time, possibly with retroactive effect. This summary is not a complete description of all the tax consequences of the distribution of the stock of King Ranch Energy to the King Ranch stockholders and the subsequent merger and, in particular, does not address U.S. Federal income tax considerations applicable to stockholders subject to special treatment under U.S. Federal income tax law, which would include, for example, non-U.S. persons, financial institutions, dealers in securities, insurance companies, tax-exempt entities, and stockholders who are subject to the alternative minimum tax provisions of the Internal Revenue Code of 1986, as amended. In addition, no information is provided with respect to the tax consequences of the distribution of the stock of King Ranch Energy or the subsequent merger under applicable foreign, state or local laws.

HOLDERS OF KING RANCH STOCK ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE FEDERAL INCOME AND OTHER TAX CONSEQUENCES OF THE DISTRIBUTION OF THE KING RANCH ENERGY STOCK TO THE KING RANCH STOCKHOLDERS AND THE SUBSEQUENT MERGER TO THEM, INCLUDING THE EFFECTS OF STATE, LOCAL AND FOREIGN TAX LAWS.

OPINION OF COUNSEL

The obligation of King Ranch, King Ranch Energy, St. Mary and St. Mary Acquisition Corporation to effect the merger is conditioned upon, among other things, the receipt of an opinion of Locke Liddell & Sapp LLP in the case of King Ranch and King Ranch Energy, dated as of the date of the distribution of the stock of King Ranch Energy and the subsequent merger, respectively, and based on the facts, representations and assumptions set forth in the opinion that the merger of St. Mary Acquisition Corporation with and into King Ranch Energy, when consummated, should qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

An opinion of counsel is not binding on the Internal Revenue Service or the courts, and no assurance can be given that the Internal Revenue Service will not challenge the tax treatment of the distribution of the stock of King Ranch Energy to the stockholders of King Ranch or the subsequent merger. Further, the opinion of Locke Liddell & Sapp LLP is dependent upon future events, such as St. Mary and St. Mary Acquisition Corporation continuing to own and conduct the historic business of King Ranch Energy after the merger, the result of which will not be reviewed by counsel. King Ranch, King Ranch Energy, St. Mary and St. Mary Acquisition Corporation have represented to Locke Liddell & Sapp LLP that they are not currently aware of any facts or circumstances that will cause the representations that they have made to counsel to be untrue or incorrect in any material respect.

THE FEDERAL TAX CONSEQUENCES OF THE KING RANCH ENERGY STOCK DISTRIBUTION

Neither King Ranch nor King Ranch Energy has received a ruling from the Internal Revenue Service that the distribution of the stock of King Ranch Energy to the King Ranch stockholders will qualify as a tax-free distribution to the shareholders of King Ranch under Section 355(a) of the Code nor will such a ruling be requested. However, King Ranch has received the opinions of Locke Liddell & Sapp LLP and Ernst & Young LLP that the distribution of the stock of King Ranch Energy should not be taxable to the shareholders of King Ranch. The

opinions of Locke Liddell & Sapp LLP and Ernst & Young LLP were based upon various assumptions and conditioned upon certain representations made by King Ranch, King Ranch Energy, St. Mary and St. Mary Acquisition Corporation as to factual matters. These opinions were also based upon, among other things, representation letters provided by King Ranch, King Ranch Energy, St. Mary and St. Mary Acquisition Corporation containing customary statements relating to certain technical requirements under the Internal Revenue Code of 1986, as amended, including statements by St. Mary and St. Mary Acquisition Corporation concerning the continuation of the historical business of King Ranch Energy and the use of certain assets of King Ranch Energy after the merger, the result of which will not be reviewed by counsel.

Based upon the opinions of Locke Liddell & Sapp LLP and Ernst & Young LLP, King Ranch believes that the distribution of the stock of King Ranch Energy to the King Ranch stockholders will have the following effects:

- The King Ranch stockholders should recognize no gain or loss (and no amount should be included in their income) as a result of the receipt of the King Ranch Energy stock;

- The aggregate adjusted tax basis of the King Ranch Energy stock and King Ranch stock in the hands of each King Ranch stockholder will be the same as the adjusted tax basis of the King Ranch stock held by such King Ranch stockholder immediately prior to the distribution of the King Ranch Energy stock and will be allocated in proportion to the respective fair market values of the King Ranch Energy stock and King Ranch stock owned by such King Ranch stockholder (if the King Ranch stockholder holds blocks of King Ranch stock that were purchased at different times or for different prices, such allocation must be separately calculated for each of such blocks of King Ranch stock), and

- The holding period of the King Ranch Energy stock received from King Ranch by a King Ranch stockholder will include the holding period of the King Ranch stock held by such King Ranch stockholder immediately before the King Ranch Energy stock, provided that such King Ranch stockholder held the King Ranch stock as a capital asset on the date of the distribution of the King Ranch Energy stock.

As a result of the distribution of the stock of King Ranch Energy to the King Ranch stockholders and the subsequent merger, King Ranch will be required under Section 355(e) of the Internal Revenue Code of 1986, as amended, to recognize taxable gain in an amount equal to the excess, if any, of the fair market value of the King Ranch Energy stock distributed to the King Ranch stockholders over King Ranch's adjusted tax basis in such King Ranch Energy stock immediately prior to the stock distribution. There can be no assurance that the Internal Revenue Service will agree with King Ranch's determination of the fair market value of the King Ranch Energy stock distributed to King Ranch's stockholders or King Ranch's resulting tax liability from such stock distribution.

ALLOCATION OF TAX BASIS TO KING RANCH ENERGY STOCK. As stated above, the aggregate adjusted tax basis of the King Ranch Energy stock and the King Ranch stock in the hands of each

King Ranch stockholder will be the same as the adjusted tax basis of the King Ranch stock held by such King Ranch stockholder immediately prior to the distribution of the King Ranch Energy stock and will be allocated in proportion to the respective fair market values of the King Ranch Energy stock and the King Ranch stock owned by such King Ranch stockholder (if the King Ranch stockholder holds blocks of King Ranch stock that were purchased at different times or for different prices, such allocation must be separately calculated for each of such blocks of King Ranch stock).

FEDERAL INCOME TAX RISKS OF KING RANCH ENERGY STOCK DISTRIBUTION. As stated above, an opinion of counsel is not binding upon the Internal Revenue Service or the courts and there can be no assurance that the Internal Revenue Service or the courts will agree with King Ranch's determination that the distribution of the King Ranch Energy stock will be tax-free to the stockholders of King Ranch. If the stock distribution does not qualify as a tax-free distribution to the King Ranch stockholders under Section 355(a) of the Internal Revenue Code of 1986, as amended, each King Ranch stockholder would be treated as having received a taxable dividend in an amount equal to the fair market value of the King Ranch Energy stock received to the extent of such stockholder's pro rata share of King Ranch's current and accumulated earnings and profits (including any earnings and profits attributable to any gain that King Ranch recognizes for Federal income tax purposes in connection

with the stock distribution). In addition, the adjusted tax basis of the King Ranch stock held by such King Ranch stockholder would be reduced to the extent that the amount received by such King Ranch stockholder exceeded his or her pro rata share of King Ranch current and accumulated earnings and profits. In the event the adjusted tax basis of the King Ranch stockholder was reduced to zero, such King Ranch stockholder would be required to recognize taxable gain to the extent that the amount received by such King Ranch's stockholder exceeded the adjusted tax basis of the King Ranch stock held by such King Ranch stockholder.

THE MERGER

Locke Liddell & Sapp LLP, counsel for King Ranch Energy, has delivered an opinion of the description of the Federal income tax consequences of the merger to King Ranch Energy and the King Ranch Energy stockholders which sets forth the material Federal income tax consequences of the merger to King Ranch Energy and the King Ranch Energy stockholders. This opinion is based upon, among other things, representation letters provided by King Ranch, King Ranch Energy, St. Mary and St. Mary Acquisition Corporation containing customary statements relating to certain technical requirements under the Internal Revenue Code of 1986, as amended, including statements by St. Mary and St. Mary Acquisition Corporation concerning the continuation of the historical business of King Ranch Energy and the use of certain assets of King Ranch Energy after the merger.

Based upon the representation letters provided to Locke Liddell & Sapp LLP, which will be confirmed by King Ranch, King Ranch Energy, St. Mary and St. Mary Acquisition Corporation prior to the closing of the merger, it is the opinion of Locke Liddell & Sapp LLP that the merger should qualify as a reorganization under Section 368(a) of the Code. Accordingly, no gain or loss should be recognized by King Ranch Energy or the King Ranch

Energy stockholders.

FEDERAL INCOME TAX RISKS OF MERGER. If the merger does not qualify as a reorganization within the meaning of Section 368(a) of the Code, the merger would be treated as a taxable exchange for Federal income tax purposes. In such an event, each King Ranch Energy stockholder would be required to recognize gain or loss equal to the difference between (1) the sum of the fair market value of the St. Mary stock received by such King Ranch Energy stockholder plus any cash received by such King Ranch Energy stockholder in lieu of fractional shares of St. Mary stock, if any, and (2) the adjusted tax basis of the King Ranch Energy stock held by such King Ranch Energy stockholder immediately before the Merger.

The highest marginal individual Federal income tax rate (which applies to ordinary income and gain from the sale or exchange of capital assets held for one year or less) is 39.6%. The maximum regular Federal income tax rate on capital gains derived by individual taxpayers generally is 20% for sales and exchanges of capital assets held for more than one year. All net capital gain of a corporate taxpayer is subject to tax at ordinary corporate income tax rates of up to 35%.

REGULATORY MATTERS

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, some acquisition transactions may not be completed until notifications have been given, required information has been furnished to the Antitrust Division of the Justice Department and the FTC, and specified waiting period requirements have been satisfied. However, the merger is exempt from the pre-merger reporting and waiting period requirements of the Hart-Scott-Rodino Act since:

- the merger involves the acquisition of King Ranch Energy which holds primarily oil and gas properties that have a value of less than $500 million and the value of the other assets of King Ranch Energy is less than $15 million, and

- the St. Mary common stock to be held after the merger by any individual shareholder of King Ranch will have a value of less than $15 million and be less than 15% of the outstanding shares of St. Mary common stock.

At any time before or after the completion of the merger, the Antitrust Division, the FTC or another third party could seek to enjoin or rescind the merger on antitrust grounds. In addition, at any time before or after the completion of the merger, any state could take action under state antitrust laws that it deems necessary or desirable in the public interest. We do not believe that the merger will violate any antitrust laws. However, we cannot assure you that there will be no challenge to the merger on antitrust grounds, or if such a challenge is made, what the result will be. See "The Merger Agreement--Conditions to Closing " on page 69.

TERMINATION OF KING RANCH ENERGY EMPLOYEES

Following the execution of the merger agreement, the employment of a substantial number of King Ranch Energy employees was terminated, including four senior management employees. All such employees received a severance package. The remaining King Ranch Energy employees have been told either that they will not be retained by St. Mary following the merger or a short transition period, or that they will be required to relocate to another city. Thus, if the merger is not completed for any reason, King Ranch Energy will either be required to incur substantial costs in hiring and training new employees or to liquidate its assets.

THE MERGER AGREEMENT

The following summary of the merger agreement is qualified by reference to the complete text of the merger agreement, which is attached as Annex A and incorporated in this document by reference.

STRUCTURE OF THE MERGER

Under the merger agreement, a St. Mary subsidiary will merge into King Ranch Energy so that King Ranch Energy becomes a wholly owned subsidiary of St. Mary.

TIMING OF CLOSING

The closing will occur on the first business day after the conditions to closing of the merger agreement have been satisfied or waived, unless the parties agree to a different date. We expect that the foregoing will occur immediately after the meeting of the stockholders of St. Mary and King Ranch Energy, if they approve the transaction, and that immediately after the closing of the merger we will file a merger certificate with the Delaware Secretary of State and the Colorado Secretary of State at which time the merger will be effective.

MERGER CONSIDERATION

The merger agreement provides that the total number of shares of King Ranch Energy common stock outstanding immediately prior to the completion of the merger will be converted into a total of 2,666,252 shares of St. Mary common stock. Certificates representing the shares of St. Mary common stock to be issued in the merger will be delivered pro rata to the King Ranch Energy stockholders, after all shares of King Ranch Energy common stock have been distributed on a pro rata basis to the King Ranch stockholders, at the closing of the merger in exchange for their surrender of all King Ranch Energy common stock certificates.

RESTRICTIONS ON THE TRANSFER OF ST. MARY COMMON STOCK TO BE ISSUED IN THE MERGER

The merger agreement provides that King Ranch stockholders will generally not be able to sell or transfer any of the shares of St. Mary common stock issued to them in the merger for two years after the completion of the merger. However, if during those two years Thomas E. Congdon or certain persons or entities related to him sell any shares of St. Mary common stock, the King Ranch stockholders will then be able to sell a percentage of their St. Mary shares which corresponds to the percentage sold by Mr. Congdon or such persons or entities. Mr. Congdon has delivered a letter to St. Mary indicating that members of the Congdon group have no current intention to sell any of their shares of St. Mary.

The foregoing restriction on transfer does not prevent transfers pursuant to the laws of decent and distribution or for customary estate planning purposes. It also does not prevent transfer in connection with any acquisition of St. Mary or in response to certain tender offers for St. Mary stock.

Even if the two-year transfer restriction under the merger agreement is modified due to sales by the Congdon group, persons who are deemed under the Securities Act of 1933 to be "affiliates" of King Ranch or King Ranch Energy prior to the merger may resell their St. Mary common stock only in transactions allowed by Rule 145 under the Securities Act, or as otherwise permitted under the Securities Act. Persons who may be deemed to be affiliates of King Ranch or King Ranch Energy generally include individuals that may control King Ranch or King Ranch Energy, and may include certain officers and directors of King Ranch and King Ranch Energy.

In general, Rule 145 requires that for one year following the completion of the merger any resales of St. Mary common stock by an affiliate of King Ranch or King Ranch Energy must be through unsolicited "brokers'

transactions" or in transactions directly with a "market maker," as those terms are defined under the Securities Act. In addition, the number of shares to be resold by an affiliate within any three-month period may generally not exceed the greater of 1% of the outstanding shares of St. Mary common stock or the average weekly trading volume of such stock during the preceding four calendar weeks. Further, St. Mary must continue to meet SEC informational reporting requirements, which it expects to do.

After the end of one year from the completion of the merger, Rule 145 would allow resales of St. Mary common stock by an affiliate of King Ranch or King Ranch Energy without the above manner-of-sale or volume limitations, as long as St. Mary continues to meet SEC reporting requirements and provided that such person is not then an affiliate of St. Mary. Two years after the completion of the merger, an affiliate of King Ranch or King Ranch Energy may resell St. Mary common stock without any restrictions so long as such person has not been an affiliate of St. Mary in the prior three months.

This document does not cover any resales of the St. Mary common stock to be issued to the stockholders of King Ranch Energy upon completion of the merger, and no person is authorized to make any use of this document in connection with any such resale.

ST. MARY BOARD OF DIRECTORS AFTER THE MERGER

CHANGE IN THE ST. MARY BOARD OF DIRECTORS

Under the merger agreement, St. Mary will take the necessary corporate actions so that, as of the closing:

- The St. Mary board size will be increased from nine to eleven, and
- Two individuals will be appointed as new directors of St. Mary. The two new directors will be Jack Hunt, President of King Ranch, and William Gardiner, Chief Financial Officer of King Ranch.

In addition, for two years after the closing date St. Mary must use commercially reasonable efforts at each annual meeting of St. Mary stockholders to cause Mr. Hunt and Mr. Gardiner or their replacements to be elected to the St. Mary board of directors.

INFORMATION ABOUT DESIGNEES FOR ST. MARY BOARD OF DIRECTORS

JACK HUNT. Mr. Hunt, 54, is a director and the President and Chief Executive Officer of King Ranch, having been elected a director in April 1995, and as President and Chief Executive Officer in May 1995. He was employed for the prior fourteen years by Tejon Ranch Co., a publicly-held land development and agribusiness company, serving as its president for nine years prior to April 1995. Mr. Hunt currently serves as a trustee on the board of trustees of Baylor College of Medicine and was appointed by the Governor of Texas as a director of the Texas Water Development Board. Mr. Hunt also currently serves as a director of the Texas Coastal Coordination Council.

WILLIAM GARDINER. Mr. Gardiner, 45, is the Vice President and Chief Financial Officer of King Ranch. He has served in this position since his date of hire on April 15, 1996. Prior to his employment with King Ranch, Mr. Gardiner served as the Executive Vice President and Chief Financial Officer of CRSS, Inc., a publicly traded independent power producer. Mr. Gardiner was employed by CRSS for approximately twenty years.

Information about the nine current St. Mary directors is contained in the 1998 annual report that St. Mary has filed with the SEC and incorporated in this document by reference. See "Where You Can Find More Information" on page 91.

REPRESENTATIONS AND WARRANTIES

The merger agreement contains substantially reciprocal disclosure representations and warranties made by St. Mary and King Ranch Energy to each other. The most significant of these relate to:

- organization and good standing of the companies,
- corporate authorization to enter into the merger agreement,
- absence of any conflict of the merger agreement with organizational documents, law or other material agreements of the companies,
- capitalization,

- financial statements,
- absence of undisclosed material liabilities,
- litigation,
- compliance with laws,
- title to properties and assets,
- oil and gas leases and wells,
- absence of material adverse changes,
- tax matters,
- environmental compliance,
- employee benefits plans,
- Year 2000 matters,
- finders or advisors,
- King Ranch ownership of King Ranch Energy and the corporate authorization of the distribution of King Ranch Energy common stock to the King Ranch stockholders before the stockholders meeting and the merger,
- St. Mary filings with the SEC, and
- general full disclosure of all material facts.

The representations and warranties in the merger agreement will survive the closing for a period of one year after the closing, except that:

- representations and warranties will survive the closing for a period of two years after the closing to the extent that any inaccuracy in any representation or warranty involves a claim by a third party, and
- representations and warranties related to taxes or employee benefit plans will survive the closing until 90 days after the applicable statute of limitations period for such matters has expired.

COVENANTS

The merger agreement contains various covenants by the parties. Some of the significant covenants are summarized below.

INTERIM OPERATIONS OF ST. MARY AND KING RANCH ENERGY

Both St. Mary and King Ranch Energy have agreed to separate covenants that place restrictions on the companies and their subsidiaries until the closing. In general, St. Mary and its subsidiaries and King Ranch Energy and its subsidiaries are required to conduct their business in the ordinary course consistent with past practices and to use all reasonable efforts to preserve intact their business organizations and relationships with third parties, except that King Ranch Energy will substantially reduce (and may possible eliminate) its drilling, exploration, development and related activities provided it can do so without penalty or materially breaching a written commitment, contract or agreement. King Ranch Energy must give St. Mary written notice if King Ranch Energy elects not to pursue a material drilling, exploration, development or related opportunity presented by a third party prior to closing. St. Mary has the right to pursue such an opportunity at its own expense. The companies have also agreed to some specific restrictions which are subject to exceptions described in the merger agreement. The following table summarizes the more significant of these restrictions on each company:

<TABLE>
<CAPTION>

RESTRICTION	ST. MARY	KING RANCH ENERGY
<S>	<C>	<C>
making capital or other expenditures in excess of specified amounts	-	-

declaring dividends, except for the regular quarterly cash dividends by St. Mary	-	-
splitting, combining or reclassifying its capital stock	-	-
redeeming or repurchasing its capital stock, except under St. Mary's current share repurchase program, which is not to be expanded or altered	-	-

<CAPTION>

RESTRICTION	ST. MARY	KING RANCH ENERGY
<S>	<C>	<C>
issuing equity securities, options or other securities convertible into or exercisable for equity securities	-	-
amending its organizational documents, except to comply with obligations under the merger agreement or law	-	-
acquiring another company	No restriction	-
disposing of assets, except in the ordinary course of business	No restriction	-
making investments or loans or incurring any new debt or paying down debt, except in the ordinary course of business	No restriction	-
taking any action which would prevent the merger from qualifying as a tax-free reorganization	-	-
increasing compensation or benefits of senior employees	No restriction	-
changing its accounting methods or making a material income tax election	No restriction	-

</TABLE>

OTHER COVENANTS

The merger agreement contains other substantially reciprocal covenants of the parties, including covenants to cooperate with each other and use reasonable efforts to do all things necessary or advisable under the merger agreement and applicable laws to complete the merger.

OTHER AGREEMENTS

KING RANCH TRADEMARK AND BRAND

St. Mary has agreed that as soon as possible following the closing it will not use the names "King Ranch," "King Ranch Energy," "King Ranch Oil & Gas," Running W," or any confusingly similar name in connection with its business. Accordingly, after the merger the name of King Ranch Energy will be changed to St. Mary Energy Company.

KING RANCH ENERGY EMPLOYEE SEVERANCE PAYMENTS

Following the execution of the merger agreement, the employment of a substantial number of King Ranch Energy employees was terminated. All such employees received a severance package.

King Ranch has agreed to reimburse King Ranch Energy or St. Mary up to a maximum of $850,000 for severance payments made to:

- King Ranch Energy employees not offered continued employment by St. Mary and who remain employed by King Ranch Energy until closing or an earlier date as agreed upon by King Ranch Energy and St. Mary (including employees terminated following the execution of the merger agreement), and

- King Ranch Energy employees whose employment is continued by St. Mary after the closing for a transition period of six months or less.

St. Mary shall be liable for all severance payments in excess of this

$850,000 threshold.

The severance packages described above were established by King Ranch and St. Mary, and include a lump sum severance payment together with the provision of out-placement services. Except for contractual severance payments made to six senior management employees, the severance payments were based on at least two weeks salary for each year of service to King Ranch Energy, with a minimum of one month of salary.

RETAINED LITIGATION

King Ranch has agreed that it will retain all liability associated with, and responsibility for the defense of, the Pi Energy Corporation litigation described in Note 6 of the Notes to Consolidated Financial Statements of King Ranch Energy contained in this document, as well as liability for all other currently pending and threatened King Ranch Energy litigation as described in the disclosure schedules to the merger agreement.

CONSENT COMMITMENTS BY PRINCIPAL KING RANCH ENERGY STOCKHOLDERS

King Ranch agreed to obtain from Stephen J. Kleberg, John D. Alexander, Jr., and James H. Clement, Jr., members of the King Ranch board of directors who will have the right to vote a total of 13.8 % of the outstanding shares of King Ranch Energy voting common stock following the distribution, commitments to:

- consent to the merger agreement, and

- recommend, subject to their fiduciary obligations, to the members of their immediate families who will hold King Ranch Energy voting common stock that they consent to the merger agreement.

NO SOLICITATION BY KING RANCH AND KING RANCH ENERGY OF OTHER ACQUISITION PROPOSALS

King Ranch and King Ranch Energy have agreed that each company and their representatives will not take action to solicit or encourage a proposal for an acquisition of King Ranch Energy by any company other than St. Mary.

Restricted actions include engaging in discussions or negotiations with any party regarding an alternative acquisition proposal and the furnishing of nonpublic information about King Ranch Energy to another party. However, King Ranch or King Ranch Energy may respond to an unsolicited alternative acquisition inquiry by another party if and to the extent that such response is required by the fiduciary duties of King Ranch and King Ranch Energy directors under applicable law and is based on the advice of outside legal counsel, and if St. Mary is promptly notified.

INDEMNIFICATION

St. Mary and King Ranch have agreed to generally reciprocal indemnification provisions. Under these provisions, St. Mary or King Ranch will indemnify the other party in the event of losses resulting from an inaccuracy in a St. Mary or King Ranch representation or warranty under the merger agreement. In addition, King Ranch has agreed to indemnify St. Mary against any claim by a third party arising out of an act or omission of King Ranch Energy occurring before the merger, and King Ranch has agreed to indemnify St. Mary for any loss relating to retained litigation against King Ranch Energy existing at the time of the merger. St. Mary has agreed to indemnify King Ranch against any claim by a third party arising out of an act or omission of St. Mary occurring after the merger.

Neither St. Mary nor King Ranch will be liable for indemnification to the other on account of any loss which does not exceed $100,000. For any loss which exceeds $100,000, the full amount of the loss will be reimbursed. At such time as all losses under $100,000 total more than $600,000, thereafter all losses must be reimbursed including the first $600,000 of such losses. In no event however will the liability of King Ranch or of St. Mary for indemnification exceed $25 million. King Ranch's liability to St. Mary for any retained litigation of King Ranch Energy will not be affected by the foregoing limitations.

CONDITIONS TO CLOSING

MUTUAL CLOSING CONDITIONS

The obligations of each party to complete the merger are subject to the satisfaction or waiver of the following conditions:

- approval by the St. Mary stockholders of the issuance of St. Mary common stock under the merger agreement and

approval by the King Ranch stockholders of the merger agreement,

- absence of any legal prohibition on completion of the merger,

- St. Mary's registration statement on Form S-4 relating to this document being declared effective by the SEC,

- approval for quotation on the Nasdaq National Market of the shares of St. Mary common stock to be issued under the merger agreement,

- the distribution by King Ranch before the merger of all shares of King Ranch Energy common stock to the King Ranch stockholders,

- accuracy as of the closing of the representations and warranties made by the other party to the extent specified in the merger agreement, and

- performance in all material respects by the other party of the obligations required to be performed by it at or prior to closing.

ADDITIONAL CLOSING CONDITIONS FOR ST. MARY'S BENEFIT

St. Mary's obligation to complete the merger is also subject to the following significant conditions for St. Mary's benefit:

- the reimbursement of King Ranch Energy by King Ranch for the net amount of any funds transferred by King Ranch Energy to King Ranch from May 31, 1999 to the closing date,

- the cancellation by King Ranch of any obligation of King Ranch Energy to reimburse King Ranch for the funds advanced by King Ranch to King Ranch Energy for King Ranch Energy to acquire the Flour Bluff properties in February 1999, and any debt obligation of King Ranch Energy to King Ranch at May 31, 1999, and

- no exercise of dissenters' appraisal rights in connection with the merger by the holders of more than five percent of the outstanding shares of King Ranch Energy common stock. To the extent that the holders of more than five percent but less than ten percent of the outstanding shares of King Ranch Energy common stock exercise appraisal rights and such exercise results in an obligation to pay an amount which is equivalent to more than $19.76 per St. Mary share, King Ranch may elect to satisfy such condition by paying such excess.

ADDITIONAL CLOSING CONDITIONS FOR KING RANCH'S BENEFIT

King Ranch's obligation to complete the merger is also subject to the following significant conditions for King Ranch's benefit:

- the reimbursement of King Ranch by King Ranch Energy for the net amount of any funds transferred by King Ranch to King Ranch from May 31, 1999 to the closing date, excluding the funds advanced by King Ranch to King Ranch Energy for King Ranch Energy to acquire the Flour Bluff properties in February 1999,

and

- receipt of opinions from its legal counsel and independent accountants that the merger will be tax-free and that the distribution of the King Ranch Energy stock to the King Ranch stockholders will be tax free to them. These opinions were delivered to King Ranch on July 27, 1999 and have been filed with the SEC as exhibits to the registration statement relating to this document. These opinions must also be true and correct at closing, or King Ranch will not have to complete the merger.

TERMINATION OF THE MERGER AGREEMENT

RIGHT TO TERMINATE

The merger agreement may be terminated at any time prior to the closing in any of the following ways:

- by mutual written consent of St. Mary, King Ranch and King Ranch Energy.

- by St. Mary or King Ranch Energy if the merger has not been completed by November 30, 1999,

- by St. Mary or King Ranch Energy if there is a permanent legal prohibition to closing the merger,

- by St. Mary or King Ranch Energy if the St. Mary stockholders do not approve the issuance of St. Mary common stock under the merger agreement or the King Ranch Energy stockholders do not approve the merger agreement.

- by St. Mary if there has been a material uncured breach of a representation, warranty, covenant or agreement of King Ranch or King Ranch Energy in the merger agreement, or

- by King Ranch if there has been a material uncured breach of a representation, warranty, covenant or agreement of St. Mary in the merger agreement.

Neither St. Mary nor King Ranch Energy can terminate the merger agreement for the reasons described in the second and third bullet points above if it has failed in any material respect to fulfill its obligations under the merger agreement and such failure has resulted in the circumstances referred to in those bullet points.

EFFECT OF TERMINATION

If the merger agreement is validly terminated, the agreement will become void without any liability on the part of any party. However, the provisions of the merger agreement relating to expenses and termination fees, damages and losses, as well as the confidentiality agreements entered into between St. Mary and King Ranch, will continue in effect notwithstanding

termination of the merger agreement.

TERMINATION FEES

King Ranch has agreed to pay St. Mary a cash termination fee of $1 million if St. Mary terminates the merger agreement because there has been a material uncured breach of a representation, warranty, covenant or agreement of King Ranch or King Ranch Energy in the merger agreement. If after a termination fee is due to St. Mary there is a third party acquisition proposal for King Ranch Energy by December 31, 1999 which is subsequently consummated, King Ranch will be obligated to pay St. Mary an additional fee of $2 million upon the completion of such transaction.

St. Mary has agreed to pay King Ranch a cash termination fee of $1 million if King Ranch terminates the merger agreement because of a material uncured breach of a representation, warranty, covenant or agreement of St. Mary in the merger agreement.

As an alternative to the above termination fees, St. Mary or King Ranch can elect to pursue a claim for damages against the other party for its breach.

If the merger agreement is terminated because the St. Mary stockholders do not approve the issuance of St. Mary common stock under the merger agreement or the King Ranch Energy stockholders do not consent to the merger agreement, there will be no termination fee. However, if the King Ranch Energy stockholders do not consent to the merger agreement and there is a third party acquisition proposal for King Ranch Energy by December 31, 1999 which is subsequently consummated, King Ranch will be obligated to pay St. Mary a termination fee of $3 million upon the completion of such transaction.

In the event either King Ranch or St. Mary is entitled to terminate the merger agreement and receive a termination fee, but elects not to do so, then either King Ranch or St. Mary will have the right to seek specific performance of the merger agreement.

OTHER EXPENSES

Except as described above, all costs and expenses incurred in connection with the merger agreement and related transactions will be paid by the party incurring such costs or expenses. We estimate that merger-related fees and expenses, consisting primarily of SEC filing fees, fees and expenses

of investment bankers, attorneys and accountants, and financial printing and other related charges, will total approximately $2.2 million assuming the merger is completed.

AMENDMENTS; WAIVERS

Any provision of the merger agreement may be amended or waived prior to the closing if the amendment or waiver is in writing and signed by each of the parties. No amendment can be made after the St. Mary stockholders approve the issuance of St. Mary common stock under the merger agreement or the King Ranch Energy stockholders consent to the merger agreement unless:

- under the Nasdaq rules or other applicable law such amendment does not require further stockholder approval or consent, or

- the stockholders approve or consent to such amendment.

THE COMPANIES

BUSINESS OF ST. MARY

St. Mary 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 in western Oklahoma and northern Texas,

- the ArkLaTex region that spans northern Louisiana and portions of eastern Texas, Arkansas and Mississippi,

- south Louisiana,

- the Williston Basin in eastern Montana and western North Dakota, and

- the Permian Basin in eastern New Mexico and west Texas.

St. Mary'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. For further information about St. Mary's business, you should read St. Mary's 1998 Annual Report on Form 10-K incorporated by reference into this document. See "Where You Can Find Information" on page 91.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF ST. MARY

The following selected historical consolidated financial data for St. Mary for each of the years 1994 through 1998 has been derived from St. Mary's audited consolidated financial statements. The selected historical consolidated financial data for the six months ended June 30, 1999 has been derived from St. Mary's unaudited consolidated financial statements for the six months ended June 30, 1999. This information is only a summary and you should read it together with St. Mary's historical financial statements and related notes contained in the annual and quarterly reports and other information that we have filed with the SEC and incorporated in this document by reference. See "Where You Can Find More Information" on page 91.

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,			
	1999	1998	1998	1997	1996	1995	1994
				(IN THOUSANDS, EXCEPT PER SHARE DATA)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA:							
Operating revenues:							
Oil production	$28,060	$34,872	$16,545	$22,415	$22,100	$17,090	$14,006
Gas production	1,518	4,386	54,103	53,349	34,674		

19,479	24,233					
Gain on sale of Russian joint venture	-	-	-	9,671	-	
-	-					
Gain (loss) on sale of proved properties	114	(14)	7,685	4,220	2,254	
1,292	418					
Gas contract settlement and other	273	202	411	1,391	523	
789	6,128					
Total operating revenues	29,965	39,446	78,744	91,046	59,551	
38,650	44,785					
Operating expenses:						
Oil and gas production	7,954	8,116	17,005	15,258	12,897	
10,646	10,496					
Depletion, depreciation & amortization	10,683	11,880	24,912	18,366	12,732	
10,227	10,134					
Impairment of proved properties	247	1,445	17,483	5,202	408	
2,676	4,219					
Exploration	2,942	6,473	11,705	6,847	8,185	
5,073	8,104					
Abandonment and impairment of unproved properties	800	615	4,457	2,077	1,469	
2,359	1,023					
General and administrative	3,629	4,424	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	338	92	141	281	78	
152	493					
(Income) loss in equity investees	58	571	661	325	(1,272)	
579	348					
Total operating expenses	26,651	33,616	91,963	56,001	42,100	
37,040	40,078					
Income (loss) from operations	3,314	5,830	(13,219)	35,045	17,451	
1,610	4,707					
Non-operating expense	264	228	1,027	99	1,951	
896	525					
Income tax expense (benefit)	1,008	1,896	(5,415)	12,325	5,333	
(723)	445					
Income (loss) from continuing operations	2,042	3,706	(8,831)	22,621	10,167	
1,437	3,737					
Gain on sale of discontinued operations, net of income taxes	-	34	34	488	159	
306	-					
Net income (loss)	$2,042	$3,740	$(8,797)	$23,109	$10,326	
$1,743	$3,737					

</TABLE>

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,			
	1999	1998	1998	1997	1996	1995
1994						
					(IN THOUSANDS, EXCEPT PER SHARE	
DATA)						

INCOME STATEMENT DATA (CONTINUED):						
Basic net income (loss) per common share:						
Income (loss) from continuing operations	$0.19	$0.34	$ (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	$0.19	$0.34	$ (0.81)	$2.18	$1.18	$0.20
$0.43						
Diluted net income (loss) per common share:						
Income (loss) from continuing operations	$0.19	$0.33	$ (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	$0.19	$0.33	$ (0.81)	$2.15	$1.17	$0.20
$0.43						
Cash dividends per share	$0.10	$0.10	$0.20	$0.20	$0.16	$0.16
$0.16						
Basic weighted average common share outstanding	10,879	10,984	10,937	10,620	8,759	8,760
8,763						
Diluted weighted average common shares outstanding	10,892	11,102	10,937	10,753	8,826	
8,801	8,803					
BALANCE SHEET DATA (END OF PERIOD):						
Working capital	$8,558	$3,592	$9,785	$9,618	$13,926	$3,102
$9,444						
Net property and equipment	152,198	170,987	143,825	157,481	101,510	71,645
59,655						
Total assets	182,831	215,849	184,497	212,135	144,271	96,126
89,392						
Long-term debt	20,087	26,615	19,398	22,607	43,589	19,602
11,130						
Total stockholders' equity	138,695	150,669	134,742	147,932	75,160	66,282
66,034						

KING RANCH

King Ranch is a privately-held company engaged primarily in ranching, agricultural and energy development businesses. It owns the historic 825,000 acre "King Ranch" in South Texas. King Ranch's oil and gas exploration and production business is conducted through its subsidiary King Ranch Energy which St. Mary is to acquire in the merger.

BUSINESS OF KING RANCH ENERGY

King Ranch Energy is a privately held oil and gas company based in Houston, Texas, and is an indirect wholly-owned subsidiary of King Ranch. Effective on the close of business on December 31, 1997, King Ranch reorganized the structure of its energy operations. On that date, all of the onshore and offshore working interests and related assets owned by King Ranch were transfered to King Ranch Energy. The information presented for the periods prior to January 1 1998 reflects the financial position, results of operations, cash flows and other information attributable to the contributed assets. The oil and gas operations of King Ranch Energy began during the early 1980's through direct working interest participation in drilling projects and producing properties on a non-operated basis. In March 1986, King Ranch began to assemble a team of geophysicists with its acquisition of Barrick Exploration. The acquisition of Barrick Exploration also included a significant seismic database and provided King Ranch Energy with exposure to several exploration joint ventures. During the later portions of the 1980's, King Ranch Energy brought its geoscience expertise and seismic database to numerous exploration joint ventures with onshore and offshore operators along the Gulf Coast. Currently, King Ranch Energy is an oil and gas exploration, development, and production company operating primarily in the Gulf Coast region with emphasis in the Gulf of Mexico. King Ranch Energy identifies exploratory prospects by: (1) integrating 3-D and 2-D seismic technology with information about surrounding geological features, and (2) high-grading prospects that exhibit "bright spot" seismic anomalies by using extensive

computer-aided geophysical modeling and amplitude.

OIL AND GAS RESERVES

The following table sets forth certain information on the total proved reserves, estimated future net cash flow before income taxes from proved reserves, and the present value, discounted at 10%, of estimated future net cash flow from proved reserves for King Ranch Energy during the periods indicated. Information in the following table is based upon the Reserve Reports in accordance with the rules and regulations of the SEC.

<TABLE>
<CAPTION>

	NET PROVED RESERVES			FUTURE NET CASH FLOW AFTER-TAX	
	Gas	Oil	Total	Total	Discounted at 10%
<S>	<C>	<C>	<C>	(in thousands) <C>	<C>
PROVED RESERVES	(MMcf)	(MBbl)	(Bcfe)		
December 31, 1996	38,787	1,717	49,089	$94,992	$71,401
December 31, 1997	38,201	1,407	46,643	$59,480	$46,844
December 31, 1998	42,303	1,675	52,353	$52,763	$42,854

</TABLE>

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of King Ranch Energy. The reserve data set forth herein represents only estimates. Reservoir engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretations and judgment. As a result, estimates of different engineers often vary. In

addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of crude oil and natural gas that are ultimately recovered. The meaningfulness of such estimates is highly dependent upon the accuracy of the assumptions upon which they were based. In general, the volume of production from oil and gas properties owned by King Ranch Energy declines as reserves are depleted. Except to the extent King Ranch Energy conducts successful exploration and development activities or acquires additional properties containing proved reserves, or both, the proved reserves of King Ranch Energy will decline as reserves are produced.

In accordance with the SEC's guidelines, the estimates of King Ranch Energy's proved reserves, future net cash flow from proved reserves and the discounted present value of future net cash flow from proved reserves are made using oil and natural gas sales prices in effect as of the dates of such estimates and are held constant throughout the life of the properties except where such guidelines permit alternate treatment, including the use of fixed or determinable contractual price escalations. Prices for natural gas and crude oil are subject to substantial fluctuations as a result of numerous factors. In accordance with SEC guidelines, the estimates of King Ranch Energy's proved reserves, future net cash flow from proved reserves and the discounted present value of future net cash flow from proved reserves are made using current lease and well operating costs estimated by King Ranch Energy. Lease operating expenses for wells operated by King Ranch Energy were estimated using a combination of fixed and variable-by-volume costs consistent with King Ranch Energy's experience in the areas for such wells. For purposes of calculating estimated future net cash flow and the discounted present value thereof, operating costs exclude accounting and administrative overhead expenses attributable to King Ranch Energy's working interest in wells operated under joint operating agreements, but include administrative costs associated with production offices. The discounted present value of estimated future net cash flow from proved reserves set forth herein should not be construed as the current market value of the estimated proved oil and gas reserves attributable to King Ranch Energy's properties.

EXPLORATION AND DEVELOPMENT ACTIVITY

King Ranch Energy drilled, or participated in the drilling of, the following numbers of wells during the periods indicated.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,					
	1998		1997		1996	
	GROSS	NET	GROSS	NET	GROSS	NET
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Exploratory Wells:						
Producing	11.0	3.1	6.0	1.3	3.0	1.3
Dry	9.0	3.1	6.0	1.8	5.0	0.9
Total	20.0	6.2	12.0	3.1	8.0	2.2
Development Wells:						
Producing	20.0	5.8	13.0	3.6	14.0	6.7
Dry	0	0	1.0	0.3	0	0
Total	20.0	5.8	14.0	3.9	14.0	6.7
Total Wells	40.0	12.0	26.0	7.0	22.0	8.9

</TABLE>

The information contained in the foregoing table should not be considered indicative of future drilling performance, nor should it be assumed that there is any necessary correlation between the number of productive wells drilled and the amount of oil and gas that may ultimately be recovered form such wells.

PRESENT ACTIVITIES

In the first six months of 1999 King Ranch Energy has completed the drilling of 8 gross (1.8 net) exploratory wells and 5 gross (1.6 net) development wells. Of these wells, 2 gross (1.1 net) of the exploratory wells were productive while all of the development wells were productive.

NET PRODUCTION, UNIT PRICES AND PRODUCTION COSTS

As of July 1, 1999, King Ranch Energy had an ownership interest in 404 gross (80.3 net) productive wells, including 231 gross (45.5 net) productive natural gas wells and 173 gross (34.8 net) productive crude oil wells.

The following table sets forth certain information regarding the net production volumes, average sales prices received, and average production costs associated with King Ranch Energy's sales of oil and natural gas for the periods indicated.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Production:			
Oil and condensate (MBbls)	429	369	325
Gas (MMcf)	14,826	13,535	13,464
Total production (MMcfe)	17,400	15,748	15,414
Average Realized Price:(1)			
Oil and condensate (per Bbl)	$ 12.25	$ 18.85	$ 19.58
Gas (per Mcf)(2)	$ 2.24	$ 2.65	$ 2.54
Average Production Cost:			
($/Mcfe)(3)	$ 0.46	$ 0.37	$ 0.28

</TABLE>

(1) Excludes hedging gains of $815,000, $33,000 and $0 for 1998, 1997 and 1996, respectively.

(2) Includes product processing revenue of $342,000, $359,000 and $500,000 for 1998, 1997 and 1996, respectively.

(3) Excludes production taxes of $294,000, $335,000 and $264,000 for 1998, 1997 and 1996, respectively.

DEVELOPMENT, EXPLORATION AND ACQUISITION EXPENDITURES

King Ranch Energy's total capital expenditures on oil and gas properties in 1998 were $65.5 million, with $27.8 million spent on

exploration drilling, $12.4 million spent on development drilling, and $25.3 million spent on acquisitions. The following table sets forth certain information regarding the costs incurred by King Ranch Energy in its exploration, development and acquisition activities during the periods indicated.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
		(IN THOUSANDS)	
<S>	<C>	<C>	<C>
Acquisition Costs:			
Proved properties	$16,341	$0	$0
Unproved properties	8,981	8,990	8,415
Exploration costs	27,819	16,611	6,443
Development costs	12,359	11,798	1,430
Total Capital Expenditures	$65,500	$37,399	$16,288

</TABLE>

ACREAGE

As of July 1, 1999, King Ranch Energy had an interest in approximately 528 thousand gross (157 thousand net) acres, including approximately 304 thousand gross (106 thousand net) offshore acres, and approximately 224 thousand gross (51 thousand net) onshore acres. Total producing offshore acres are 160 thousand gross (44 thousand net), while total non-producing offshore acres are 143 thousand gross (62 thousand net). Acreage in which King Ranch Energy's interest is limited to royalty, over-ridding royalty and similar interests is insignificant and, therefore, excluded.

OIL AND GAS MARKETING

The revenues generated from King Ranch Energy's oil and gas operations are highly dependent upon the prices of and the demand for its oil and gas production. The prices received by King Ranch Energy for its oil and gas production depend upon numerous factors beyond King Ranch Energy's control.

Generally, King Ranch Energy's gas production is sold under short-term contracts with index related pricing while oil production is sold to various purchasers under short-term arrangements at prices no less than such purchasers' posted prices for the respective areas less standard deductions. Total sales of gas accounted for 85% of King Ranch Energy's revenues during 1998 while total sales of oil accounted for 15% of King Ranch Energy's revenues. In 1998, the weighted average price of gas sold was $2.24/Mcf and the weighted average price of oil sold was $12.25/Bbl.

HEDGING

From time to time, King Ranch Energy utilizes hedging transactions with respect to a portion of its oil and gas production to achieve a more predictable cash flow, as well as to reduce its exposure to price fluctuations. While the use of these hedging arrangements limits the downside risk of adverse price movements, they may also limit future revenues from favorable price movements. As a result of hedging activities for gas production for 1998 and 1997, King Ranch Energy realized gains of $815,000 and $33,000, respectively. During 1998, approximately 10% of King Ranch Energy's equivalent gas production was subject to hedge positions as compared to 9% in 1997.

The use of hedging transactions also involves the risk that the counterparties will be unable to meet the financial terms of such transactions. All of King Ranch Energy's hedging transactions to date were carried out in the over-the-counter market and the obligations of the counterparties have been guaranteed by entities with at least an investment grade rating or secured by letters of credit. King Ranch Energy accounts for these transactions as hedging activities and, accordingly, gains or losses are included in oil and gas revenues when the hedged production is delivered. Neither the hedging contracts nor the unrealized gains or losses on these contracts are recognized in the financial statements.

COMPETITION

The exploration for and production of oil and gas is highly competitive. In seeking to obtain desirable properties, leases and exploration prospects, King Ranch Energy faces competition from both major and independent oil and natural gas companies, as well as from numerous individuals and drilling programs. Many of these competitors have financial and other resources substantially in excess of those available to King Ranch Energy and, accordingly, may be better positioned to acquire and exploit prospects, hire personnel and market production. In addition, many of King Ranch Energy's larger competitors may be better able to respond to factors that affect the demand for oil and natural gas production such as changes in worldwide oil and natural gas prices and levels of production, the cost and availability of alternative fuels and the application of government regulations.

EMPLOYEES

As of July 31, 1999, following the termination of 14 full-time employees after the execution of the merger agreement with St. Mary, King Ranch Energy had 12 full-time employees, none of whom is represented by any labor union. King Ranch Energy considers its relations with its employees to be good considering the pending merger. See "King Ranch Energy Stockholders Meeting -Interests of Certain Persons in the Merger - Termination of King Ranch Energy Employees; Severance Agreements."

FACILITIES

King Ranch Energy currently leases approximately 16,000 square feet of office space in Houston, Texas, where its administrative offices are located.

TITLE TO PROPERTIES

King Ranch Energy believes it has satisfactory title to all of its producing properties in accordance with standards generally accepted in the oil and gas industry. King Ranch Energy's properties are subject to customary royalty interests, liens incident to operating agreements, liens for current taxes and other burdens which King Ranch Energy believes do not materially interfere with the use of or affect the value of such properties.

OPERATING HAZARDS AND UNINSURED RISKS

King Ranch Energy operations are subject to hazards and risks inherent in drilling for and production and transportation of oil and natural gas, such as fires, natural disasters, explosions, encountering formations with abnormal pressures, blowouts, cratering, pipeline ruptures and spills, any of which can result in loss of hydrocarbons, environmental pollution, personal injury claims, and other damage to properties of King Ranch Energy and others. Additionally, a substantial amount of King Ranch Energy's oil and gas operations are located in an area that is subject to tropical weather disturbances, some of which can be severe enough to cause substantial damages to facilities and possibly interrupt production. As protection against operating hazards, King Ranch Energy maintains insurance coverage against some, but not all, potential losses. King Ranch Energy believes that its insurance coverage is adequate and customary for companies of a similar size engaged in operations similar to those of King Ranch Energy, but losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not fully covered by insurance could have an adverse impact on King Ranch Energy's financial condition and results of operations.

GOVERNMENTAL REGULATIONS

King Ranch Energy's oil and gas exploration, production and related operations are subject to extensive rules and regulations promulgated by federal and state agencies. Failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on the oil and gas industry increases King Ranch Energy's cost of doing business and affects its profitability. To date, expenditures related to complying with these rules and regulations have not been significant in relation to the results of the operations of King Ranch Energy. However, because such rules and regulations are frequently amended or reinterpreted, King Ranch Energy is unable to predict the future cost or impact of complying with such laws.

ENVIRONMENTAL MATTERS

King Ranch Energy's operations and properties are subject to extensive and changing federal, state and local laws and regulations relating to environmental protection, including the generation, storage, handling, emission, transportation and discharge of materials into the environment, and relating to safety and health. The recent trend in environmental legislation and regulations generally is toward stricter standards, and this trend will likely continue. These laws and regulations may require the acquisition of a

permit or other authorization before construction or drilling commences and for certain other activities, limit or prohibit construction, drilling and other activities on certain lands lying within wilderness or wetlands and other protected areas and impose

substantial liabilities for pollution resulting from King Ranch Energy's operations. The permits required for various aspects of King Ranch Energy's operations are subject to revocation, modification and renewal by issuing authorities. King Ranch Energy believes that its operations currently are in substantial compliance with applicable environmental regulations.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF KING RANCH ENERGY

The following selected historical consolidated financial data has been derived from (i) the audited financial statements of King Ranch Energy as of and for the years ended December 31, 1998, 1997 and 1996, (ii) the accounting records of King Ranch as of and for the years ended December 31, 1995 and 1994 and (iii) the unaudited interim financial statements of King Ranch Energy as of June 30, 1999 and for the six month periods ended June 30, 1999 and 1998. This information is only a summary and you should read it together with King Ranch Energy's historical financial statements and related notes contained in this document.

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,			
	1999	1998	1998	1997	1996	1995	1994
					(IN THOUSANDS, EXCEPT PER SHARE DATA)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA:							
Operating revenues:							
Working and royalty interest	$ 20,869	$19,791	$39,290	$43,239	$41,115	$26,384	$ 38,422
Other	60	76	117	365	404	-	(460)
Total operating revenues	20,929	19,867	39,407	43,604	41,519	26,384	37,962
Operating expenses:							
Oil and gas operating expenses	3,550	3,417	8,373	6,848	4,402	4,965	6,408
Depletion, depreciation, amortization, and impairment of properties	12,081	11,024	26,363	16,217	20,916	16,544	15,193
Exploration expenses	5,646	6,768	12,301	11,935	7,240	13,086	5,337
General and administrative	1,162	1,387	2,970	3,001	2,980	2,903	2,541
Abandoned Independent Power Production projects	-	-	-	163	44	1,280	3,379
Total operating expenses	22,439	22,596	50,007	38,164	35,582	38,778	32,858
Income (loss) from operations	(1,510)	(2,729)	(10,600)	5,440	5,937	(12,394)	5,104
Trademark fee - affiliate	250	250	500	250	250	-	-
Non-operating expense	633	25	103	146	28	(1,673)	-
(Gain) loss of sale of proved properties	-	-	37	(238)	(294)	-	-
Income (loss) before taxes	(2,393)	(3,004)	(11,240)	5,282	5,953		

(10,721) 5,104						
Income tax provision (benefit) - -	(825)	(794)	(4,121)	1,680	1,836	
Net income (loss) $(10,721) $ 5,104	$ (1,568)	$(2,210)	$ (7,119)	$ 3,602	$ 4,117	

</TABLE>

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,			
	1999	1998	1998	1997	1996	1995 1994
					(IN THOUSANDS, EXCEPT PER SHARE DATA)	
<S>	<C>	<C>	<C>	<C>	<C>	<C> <C>
BALANCE SHEET DATA (END OF PERIOD):						
Working capital	$(15,267)	$(2,049)	$(14,210)	$23,429	$22,830	$(1,712) $11,013
Net property and equipment	67,613	68,356	68,542	41,105	31,986	42,602 53,287
Total assets	81,794	79,734	84,889	74,126	71,198	57,612 85,481
Long-term debt	-	-	-	-	-	6,927 23,038
Total stockholders' equity	46,782	59,045	48,350	60,682	52,517	34,792 39,671

</TABLE>

KING RANCH ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the consolidated financial condition and results of operations of King Ranch Energy and its subsidiaries for the three years ended December 31, 1998 and the six months ended June 30, 1999 and 1998. This discussion should be read in conjunction with our "Selected Financial Data" and our Consolidated Financial Statements, and the notes thereto, included elsewhere herein. This discussion includes forward-looking information concerning our future plans, financial condition, liquidity and capital resources. If the merger with St. Mary is consummated, our plans will not be implemented and the financial condition of the combined company will be materially different.

GENERAL

As an independent oil and gas producer, our revenue, profitability and future rate of growth are substantially dependent upon prevailing prices for natural gas, oil and condensate, which are dependent upon numerous factors beyond our control, such as economic, political and regulatory developments and competition from other sources of energy. The energy markets have historically been very volatile and there can be no assurance that oil and gas prices will not be subject to wide fluctuations in the future. A substantial or extended decline in oil and gas prices could have a material adverse effect on our financial position, results of operations, cash flows, quantities of oil and gas reserves that may be economically produced and access to capital.

We use the successful efforts method of accounting for oil and gas properties. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells, which find proved

reserves, and to drill and equip developmental wells are capitalized.

Exploratory geological and geophysical costs, delay rentals, and costs to drill exploratory wells which do not find proved reserves are expensed. Properties are periodically reviewed for impairment with valuation reserves provided as required. Depletion, depreciation, and amortization of costs incurred in connection with the drilling and development of proved oil and gas reserves and estimated future abandonment and dismantlement costs are amortized on a field-by-field basis using the units-of-production method based upon estimates of proved developed oil and gas reserves. The property acquisition costs of producing properties are amortized on a field-by-field basis using the units-of-production method based on estimates of total proved reserves.

FORWARD-LOOKING STATEMENTS

This document includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 2lE of the Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this document, including statements regarding production targets, anticipated production rates, planned capital expenditures, the availability of capital resources to fund capital expenditures, estimates of proved reserves, wells planned to be drilled in the future, our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements are based upon assumptions and anticipated results that are subject to numerous uncertainties. Actual results may vary significantly from those anticipated due to many factors, including drilling results, oil and gas prices, industry conditions, the prices of goods and services, the availability of drilling rigs and other support services and the availability of capital resources. In addition, the drilling of oil and gas wells and the production of hydrocarbons are subject to governmental regulations and operating risks.

RESULTS OF OPERATIONS

The following table sets forth certain operating information with respect to our oil and gas operations.

<TABLE>
<CAPTION>

	Six Month Period Ended June 30,	
	1999	1998
<S>	<C>	<C>
Production:		
Oil and condensate (MBbls)	219	212
Gas (MMcf)	8,877	7,114
Total production (MMcfe)	10,191	8,386
Average Realized Price:		
Oil and condensate (per Bbl)	$ 12.76	$ 13.28
Gas (per Mcf)	1.99	2.35

</TABLE>

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

PRODUCTION. Net production increased 22%, from 8.4 Bcfe for the 1998 period to 10.2 Bcfe for the 1999 period. Oil and condensate production during 1999 increased 7 MBbls, or 3%, compared to the same period in 1998. Increased oil production for 1999 was due primarily to production increases from development drilling activities at the Fort Chadbourne Field in the fourth quarter 1998. Gas production increased by 1.8 Bcf, or 25%, from 7.1 Bcf for 1998 period to 8.9 Bcf for 1999. Increased gas production was due to production increases from development drilling activities during the fourth

quarter of 1998 at the Judge Digby Field. These increases were partially offset by natural production decline on other properties held.

OPERATING REVENUES. Oil and gas revenues for 1999 period increased by $1.1 million, or 5%, compared to the same period in 1998, primarily as a result of higher natural gas production levels. This increased production was partially offset by lower realized oil and gas prices. The average realized price of natural gas decreased by 15% while the average realized price for oil decreased by 5%. For the 1999 period, the average realized gas price was $1.99 per Mcf as compared to an average price of $2.35 per Mcf for the same period in 1998. As a result of hedging activities for gas production during the six month periods ended June 30, 1999 and 1998, we realized gains of $297 thousand and $67 thousand, respectively. During the 1999 period, approximately 17% of our equivalent gas production was subject to hedge positions as compared to 1% for the same period in 1998. The average realized

oil and condensate price was $12.76 per barrel during 1999 as compared to an average price of $13.47 per barrel for the same period in 1998.

OIL AND GAS OPERATING EXPENSES. Lease operating expense for 1999 period increased to $3.6 million from $3.4 million for the same period in 1998. Lease operating expense per Mcfe decreased from $0.40 for 1998 period to $0.35 for the 1999 period. This decrease is primarily attributable to higher production volumes from the Judge Digby Field without a corresponding increase in lease operating expense.

EXPLORATION EXPENSE. Exploration expense for the 1999 period decreased to $5.6 million from $6.8 million for the same period in 1998. Dry hole costs decreased by $3.0 million while geological and geophysical expense increase by $1.8 million over the comparable periods. Impairment of non-producing leaseholds decreased during 1999 to $190 thousand from $1.1 million during the comparable period in 1998.

DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSE. During the 1999 period, depreciation, depletion and amortization expense increased to $12.1 million from $11.0 million for the comparable 1998 period. The increase was primarily due to increased production volumes. The depletion rate per unit for 1999 decreased to $1.19 per Mcfe, from $1.30 per Mcfe for 1998.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense, which is net of overhead reimbursements received from other working interest owners, decreased to $1.2 million, or $0.11 per Mcfe during 1999, as compared to $1.4 million, or $0.16 per Mcfe, for 1998 period. The reduction in general and administrative expense per Mcfe resulted from increasing production levels without a corresponding increase in the number of employees.

TRADEMARK FEE. We pay a trademark fee to King Ranch, Inc. of $500,000 per year for the use of the King Ranch name and the Running W trademark.

OTHER EXPENSE. From 1998 to 1999, other expense increased by $600 thousand as a result of interest expense related to the intercompany note payable that was established in December 1998.

NET INCOME. As a result of the foregoing, we had a net loss of $1.6 million for the 1999 period, as compared to a net loss of $2.2 million for comparable 1998 period.

RESULTS OF OPERATIONS

The following table sets forth certain operating information with respect to our oil and gas

operations.

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Production:			
Oil and condensate (MBbls)	429	369	325
Gas (MMcf)	14,826	13,535	13,464
Total production (MMcfe)	17,400	15,749	15,414
Average Realized Price:			
Oil and condensate (per Bbl)	$ 12.25	$ 18.85	$ 19.58
Gas (per Mcf)	2.24	2.65	2.54

</TABLE>

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

PRODUCTION. Net production increased 11%, from 15.75 Bcfe for 1997 to 17.4 Bcfe for 1998. Oil and condensate production for 1998 increased 60 MBbls, or 16%, compared to 1997. Increased oil production for 1998 was due primarily to production increases from exploratory drilling activities at Eugene Island 341 and from the acquisition of the Pittencrieff Americas properties in the second quarter 1998. Gas production increased by 1.3 Bcf, or 10%, from 13.5 Bcf for 1997 to 14.8 Bcf for 1998. Increased gas production was due to production increases from development drilling activities during 1998 at the Judge Digby Field, from the acquisition of interests in several offshore blocks from NCX Exploration in May 1998, and from exploratory wells drilled and placed on production during the third quarter of 1998 at Vermilion 115 and West Cameron 306. These increases were partially offset by natural production decline on other properties held and by the loss of reserves from the Shelton Royalty, which was contributed to an affiliated entity on January 1, 1998.

OPERATING REVENUES. Oil and gas revenues for 1998 decreased by $4.2 million, or 10%, compared to 1997, primarily as a result of lower realized oil and gas prices. The average realized price of natural gas decreased by 15% while the average realized price for oil decreased by 35%. For 1998, the average realized gas price was $2.24 per Mcf as compared to an average price of $2.65 per Mcf for 1997. As a result of hedging activities for gas production for 1998 and 1997, we realized gains of $815 thousand and $33 thousand, respectively. During 1998, approximately 10% of our equivalent gas production was subject to hedge positions as compared to 9% in 1997. For 1998, the average realized oil and condensate price was $12.25 per barrel as compared to an average price of $18.85 per barrel for 1997.

OIL AND GAS OPERATING EXPENSES. Lease operating expense for 1998 increased to $8.4 million from $6.9 million for 1997. Lease operating expense per Mcfe increased from $0.43 for 1997 to $0.48 for 1998. These increases are primarily attributable to a general increase in costs in the oilfield service industry, increased workover activities and lease operating costs associated with properties acquired during 1998.

EXPLORATION EXPENSE. Exploration expense for 1998 increased to $12.3 million from $11.9 million for 1997. The increase in 1998 is a result of slightly higher dry hole expense. Dry hole costs for 1997 were $7.4 million while 1998 dry hole costs were $8.4 million. Impairment of non-producing leaseholds decreased in 1998 to $1.8 million from $2.7 million during 1997.

DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSE. During 1998, depreciation, depletion and amortization expense increased to $26.4 million from $16.2 million for 1997. The increase was due in

part to increased production volumes and also due to an increased depletion rate per Mcfe caused primarily by lower year-end reserve balances. The depletion rate per unit for 1998 increased to $1.52 per Mcfe, from $1.03 per Mcfe for 1997.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense, which is net of overhead reimbursements received from other working interest owners, remained the same as the 1997 amount of $3.0 million, however, decreased per Mcfe to $0.17 in 1998 from $0.19 for 1997. The reduction in general and administrative expense per Mcfe resulted from increasing production levels without a corresponding increase in the number of employees.

TRADEMARK FEE. We pay a trademark fee to King Ranch, Inc. for the use of the King Ranch name and the Running W trademark. This fee was increased from $250,000 per year in 1997 to $500,000 per year in 1998.

NET INCOME. As a result of the foregoing, we had a net loss of $7.1 million for 1998, as compared to net income of $3.6 million for 1997.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

PRODUCTION. Net production increased 2%, from 15.4 Bcfe for 1996, to 15.7 Bcfe for 1997. Oil and condensate production for 1997 increased 44 MBbls, or 14%, compared to 1996. Increased oil production for 1997 was due primarily to production increases from development drilling activities during 1997 at the Clarksville Field. Gas production increased by 0.1 Bcf, or 1%, from 13.4 Bcf for 1996 to 13.5 Bcf for 1997. Increased gas production was due to production increases from exploratory drilling activities during 1996 at Vermilion Block 281. These increases were partially offset by natural production decline on other properties held.

OPERATING REVENUES. Oil and gas revenues for 1997 increased by $2.1 million, or 5%, compared to 1996, primarily as a result of increased oil and gas production and slightly higher realized gas prices. The average realized price of natural gas increased by 4%. For 1997, the average realized gas price was $2.65 per Mcf as compared to an average price of $2.54 per Mcf for 1996. As a result of hedging activities for gas production for 1997, we realized a gain of $33 thousand. During 1997, approximately 9% of our equivalent gas production was subject to hedge positions. We did not hedge any of its production during 1996. For 1997, the average realized oil and condensate price was $18.85 per barrel as compared to an average price of $19.58 per barrel for 1996.

OIL AND GAS OPERATING EXPENSES. Lease operating expense for 1997 increased to $6.9 million from $4.4 million for 1996. Lease operating expense per Mcfe increased from $0.29 for 1996 to $0.43 for 1997. These increases are primarily attributable to a general increase in costs in the oilfield service industry and increased workover activities at the Clarksville Field and at the East Cameron 56/57, West Cameron 306, and Matagorda Island 650 blocks.

EXPLORATION EXPENSE. Exploration expense for 1997 increased to $11.9

million from $7.2 million for 1996. The increase in 1997 is a result of higher dry hole expense. Dry hole costs for 1997 were $7.4 million while 1996 dry hole costs were $3.2 million. Impairment of non-producing leaseholds in 1997 was $2.7 million while no leases were impaired during 1996.

DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSE. During 1997, depreciation, depletion and amortization expense decreased to $16.2 million from $20.9 million for 1996. The decrease is primarily attributable to lower finding costs related to the discoveries at Vermilion Blocks 273 and 281. This

decrease resulted in a decreased depletion rate per Mcfe from $1.36 per Mcfe in 1996 to $1.03 per Mcfe in 1997.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense for 1997, which is net of overhead reimbursements received from other working interest owners, remained the same as the 1996 figures of $3.0 million, or $0.19 per Mcfe.

TRADEMARK FEE. We pay a trademark fee to King Ranch, Inc. of $250,000 per year for the use of the King Ranch name and the Running W trademark.

NET INCOME. As a result of the foregoing, we had net income of $3.6 million for 1997, as compared to $4.1 million for 1996.

LIQUIDITY AND CAPITAL RESOURCES

For the six-month periods ending June 30, 1999 and June 30, 1998, we had negative working capital of ($177) thousand and ($2.1) million, respectively. The June 30, 1999 working capital amount excludes an intercompany note payable to our parent company King Ranch, Inc. We had working capital at December 31, 1998 of $240 thousand excluding the intercompany note payable to our parent company. Our working capital at December 31, 1997 was $23.4 million. The $23.2 million decrease in working capital from December 31, 1997 to December 31, 1998 is primarily due to several reserve acquisitions and oil and gas exploration activities made during 1998, which were funded by our parent.

For the six-month periods ending June 30, 1999 and June 30, 1998, our net cash flows from operations were $12.2 million and $43.3 million, respectively. The large decrease is the result of a $23.6 million decrease in intercompany receivable from our parent during the first six months of 1998. Our net cash flow from operations for 1998 was $52.0 million compared to $28.0 million for 1997 and $3.9 million for 1996. The increase from 1997 to 1998 is primarily due to a $23.6 million reduction in the intercompany receivable from our parent. The 1996 cash flow from operations is substantially below 1997 because of a $24.6 million increase in the intercompany receivable from our parent.

For the six-month period ending June 30, 1999, capital expenditures were $12.9 million, consisting of $4.9 million for exploration, $3.1 million for development and $4.9 million for acquisitions of properties. For the six-month period ending June 30, 1998, capital expenditures were $44.0 million, consisting of $8.0 million for exploration, $15.0 million for development and $20.9 million for acquisitions of properties. Capital expenditures for 1998 were $63.2 million, consisting of $25.5 million for exploration, $12.4 million for development and $25.3 million for acquisitions of properties. Capital expenditures for 1997 were $33.2 million, consisting of $12.4 million for exploration, $11.8 million for development and $9.0 million for acquisitions of properties while in 1996 total capital expenditures were $14.0 million, consisting of $4.2 million for exploration, $1.4 million for development and $8.4 million for acquisitions of properties. Our exploration capital expenditure budget for 1999 is approximately $19 million. While we continue to pursue attractive development opportunities, the timing and size of its capital commitments are unpredictable.

Actual levels of capital expenditures may vary significantly due to many factors, including drilling results, oil and gas prices, industry conditions, the prices and availability of goods and services and the extent to which proved properties are acquired. We anticipate that capital expenditures will be funded principally from cash flow from operations.

We participate in revolving credit and cash management with our parent. Under this policy our

cash requirements are provided by our parent, and our excess cash is remitted to our parent for investment. During December 1998, our parent began to charge interest to us at a rate of 8.75% (prime rate + 1%) on the outstanding

balance borrowed, prior to December 1998, no interest income or expense was recognized as a result of this policy.

To cover the various obligations of lessees on the Outer Continental Shelf ("OCS"), the Minerals and Management Service ("MMS") generally requires that lessees post substantial bonds or other acceptable assurances that such obligations will be met. The cost of such bonds or other surety can be substantial and there is no assurance that bonds or other surety can be obtained in all cases. Additionally, the MMS may require operators in the OCS to post supplemental bonds in excess of lease and area wide bonds to assure that abandonment obligations on specific properties will be met. We are currently exempt from the supplemental bonding requirements of the MMS. Under certain circumstances, the MMS may require operations on federal leases to be suspended or terminated. Any such suspension or termination could materially and adversely affect our financial condition, results of operations and cash flows.

Our operations are subject to various federal, state and local laws and regulations relating to the protection of the environment. We believe our current operations are in material compliance with current environmental laws and regulations. There can be no assurance, however, that current regulatory requirements will not change, currently unforeseen environmental incidents will not occur or past non-compliance with environmental laws will not be discovered.

FINANCIAL INSTRUMENT MARKET RISK

Our Board of Directors has adopted a policy regarding the use of derivative instruments. This policy requires every derivative used by us to relate to underlying offsetting positions 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 our Board of Directors also periodically reviews these programs.

COMMODITY PRICE RISK. From time to time, we utilize hedging transactions with respect to a portion of our oil and gas production to achieve a more predictable cash flow, as well as to reduce our exposure to price fluctuations. While the use of these hedging arrangements limits the downside risk of adverse price movements, they may also limit future revenues from favorable price movements. The use of hedging transactions also involves the risk that the counterparties will be unable to meet the financial terms of such transactions. All of our hedging transactions to date were carried out in the over-the-counter market and the obligations of the counterparties have been guaranteed by entities with at least an investment grade rating or secured by letters of credit. We account for these transactions as hedging activities and, accordingly, gains or losses are included in oil and gas revenues when the hedged production is delivered. Neither the hedging contracts nor the unrealized gains or losses on these contracts are recognized in the financial statements.

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 the financial instrument we held at December 31, 1998. 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. At December 31, 1998, we had intercompany floating debt of $14.45 million and had no fixed debt. Assuming constant debt levels, the results of operations and cash flows for the next year resulting from a one percentage

point change in interest rates would be approximately $145,000 before taxes.

YEAR 2000 ISSUES

Year 2000 issues result from the inability of computer programs or computerized equipment to accurately calculate, store or use a date subsequent to December 31, 1999. The erroneous date can be interpreted in a number of different ways; typically the year 2000 is represented as the year 1900. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business.

Because we were recently formed, we were aware of, and considered year 2000 issues at the time of purchase or development of our software and hardware systems. In addition, we have recently completed an assessment of our core financial and operational systems to ensure year 2000 compliance. As a result of our assessments we have determined that our land and lease records software system is not Year 2000 compliant. Further assessment of other less critical systems and various types of equipment is continuing and

should be completed during the third quarter of 1999. We do not have a contingency plan to address unavoidable risks, but we intend to formulate one upon completion of our assessment and testing in the third quarter of 1999. We believe that the potential impact, if any, of these systems not being year 2000 compliant will at most require employees to manually complete otherwise automated tasks or calculations and it should not impact our ability to continue exploration, drilling, production or sales activities.

We rely on other producers and transmission companies to conduct our basic operations. Should any third party with which we have a material relationship fail, the impact could impair our ability to perform basic operations. We have initiated communications with these significant suppliers, business partners and customers to determine the extent to which we are vulnerable to those third parties' failure to correct their own year 2000 issues. There can be no guarantee, however, that the systems of other companies on which our systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with our systems would not have a material adverse effect on our operations.

We have and will continue to utilize both internal and external resources to complete tasks and perform testing necessary to address the year 2000 issue. Costs of developing and carrying out our assessment and testing have been funded from our operations and have not represented a material expense. We have not completed our assessment and testing; however, we do not anticipate any significant costs relating to remediation efforts resulting from the year 2000 issues.

KING RANCH ENERGY CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During King Ranch Energy's two most recent fiscal years and through the date of this document, King Ranch Energy has not had any changes in or disagreements with its independent accountants on accounting and financial disclosure.

LEGAL MATTERS

The validity of the St. Mary common stock to be issued in the merger has been passed upon by Ballard Spahr Andrews & Ingersoll, LLP.

Locke Liddell & Sapp LLP has issued an opinion as to the Federal income tax consequences of the merger and the distribution and Ernst & Young LLP has issued an opinion as to the Federal income

tax consequences of the distribution. These opinions have been filed with the SEC as exhibits to the registration statement relating to this document. See "The Merger Transaction-Material Federal Income Tax Consequences of the Merger."

EXPERTS

The consolidated financial statements of St. Mary incorporated by reference in this document to the extent and for the periods indicated in their report, have been audited by Arthur Andersen LLP, independent public accountants, and are included herein in reliance upon the authority of that firm as experts in auditing and accounting in giving that report.

The consolidated financial statements of St. Mary for the year ended December 31, 1996 incorporated by reference in this document, have been incorporated herein in reliance on the report of PricewaterhouseCoopers LLP, independent public accountants, given as the authority of that firm as experts in accounting and auditing.

The consolidated financial statements of King Ranch Energy, Inc. as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998 included in this proxy and consent statement/prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Some of the estimates of oil and gas reserves included or incorporated by reference in this document were based upon engineering reports prepared by the independent petroleum engineering firms of Ryder Scott Company, L.P. and Netherland Sewell & Associates, Inc. Such estimates are included herein in reliance on the authority of those firms as experts in such matters.

WHERE YOU CAN FIND MORE INFORMATION

St. Mary files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any

reports, statements or other information St. Mary files at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. St. Mary's SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at "http://www.sec.gov."

St. Mary has filed a registration statement on Form S-4 to register with the SEC the St. Mary common stock to be issued in the merger. This document is a part of that registration statement and constitutes a prospectus of St. Mary in addition to being a proxy statement King Ranch for the King Ranch stockholders meeting to vote on the merger agreement. As allowed by SEC rules, this document does not contain all the information you can find in the registration statement or the exhibits to the registration statement.

The SEC allows St. Mary to "incorporate by reference" information into this document, which means that St. Mary can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this document even though it is not included or delivered with this document, except for any information superseded by information included or incorporated by reference in this document. This document incorporates by reference those documents set forth below that St. Mary has previously filed with the SEC. Those documents contain important business and financial information about St. Mary.

You can obtain any of the other documents incorporated by reference through us or the SEC.

Documents incorporated by reference are available from us without charge, excluding all exhibits unless we have specifically incorporated by reference an exhibit in this document. Stockholders may obtain other documents incorporated by reference in this document by requesting them in writing or by telephone from St. Mary at the following address:

St. Mary Land & Exploration Company
Attn: Secretary
1776 Lincoln Street, Suite 1100
Denver, CO 80203
Tel: (303) 861-8140

IF YOU WOULD LIKE TO REQUEST FROM ST. MARY DOCUMENTS WHICH ARE INCORPORATED BY REFERENCE, PLEASE DO SO BY SEPTEMBER 22, 1999 TO RECEIVE THEM BEFORE THE KING RANCH STOCKHOLDERS MEETING.

<TABLE>
<CAPTION>

ST. MARY SEC FILINGS <S> (SEC FILE NO. 0-20872)	PERIOD <C>
Annual Report on Form 10-K	Fiscal Year ended December 31, 1998
Amendment to Annual Report on Form 10-K/A filed April 14, 1999	Fiscal Year ended December 31, 1998
Quarterly Report on Form 10-Q	Quarter ended March 31, 1999
Quarterly Report on Form 10-Q	Quarter ended June 30, 1999
Amendment to Quarterly Report on Form 10-Q/A filed August 17, 1999	Quarter ended June 30, 1999
Current Report on Form 8-K filed July 28, 1999	
Registration Statement on Form 8-A filed November 18, 1992	

</TABLE>

We are also incorporating by reference additional documents that we file with the SEC between the date of this document and the date of the King Ranch stockholders meeting.

St. Mary has supplied all information contained or incorporated by reference in this document relating to St. Mary, and King Ranch and King Ranch Energy has supplied all information contained in this document relating to King Ranch and King Ranch Energy.

You can also get more information by visiting St. Mary's web site at www.stmaryland.com and King Ranch's web site at www.king-ranch.com. Web site materials are not part of this document.

You should rely only on the information contained or incorporated by reference in this document to vote on the St. Mary share issuance at the St. Mary stockholder meeting or to consent to the merger as a King Ranch Energy stockholder. We have not authorized anyone to provide you with information that is different from what is contained in this document. This document is dated August _____, 1999. You should not assume that the information contained in the document is accurate as of any date other than such date, and neither the mailing of this document to stockholders nor the issuance

of St. Mary common stock in the merger shall create any implication to the contrary.

FUTURE ST. MARY STOCKHOLDER PROPOSALS

Any St. Mary stockholder proposal for the annual meeting of stockholders in 2000 must be received by St. Mary by November 1, 1999 for the proposal to be included in the St. Mary proxy statement and form of proxy for that meeting. If notice of a proposal for which a stockholder will conduct his or her own proxy solicitation is not received by St. Mary by March 1, 2000, proxies solicited by the St. Mary board of directors may use their discretionary voting authority when the matter is raised at the meeting, without including any discussion of the matter in the proxy statement.

CAUTIONARY INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

This document includes or incorporates by reference "forward-looking statements" that are subject to risks and uncertainties. These forward-looking statements include statements about:

<TABLE>

<S>
- - synergies expected from the merger

- - efficiencies and costs savings expected to be realized from the merger

- - revenue enhancements expected from the merger

- - the timetable for closing the merger

- - capital productivity and returns on capital employed by St. Mary after the closing

- - oil and gas reserve estimates (including estimates of future net revenues associated with such reserves and the present value of (including the amount and nature thereof)

- - planned expansion and growth of St. Mary's operations

<C>
- future capital spending and availability

- repayment of debt

- expected oil and natural gas production

- asset portfolios

- Year 2000 readiness

- oil and natural gas potential

- future development and exploration expenditures future net revenues)

- planned drilling of wells

- business strategies

</TABLE>

The sections of this document which contain forward-looking statements include:

- Summary,

- The Merger Transaction--Background of the Merger;

- The Merger Transaction--Our Reasons for the Merger,

- Unaudited Pro Forma Condensed Combined Financial Statements, and

- Opinions of Financial Advisors.

Our forward-looking statements are also identified by words such as:

- "believes,"

- "expects,"

- "anticipates,"

- "intends,"

- "projects,"

- "estimates," or

- similar expressions.

For those statements by St. Mary, St. Mary claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

You should understand that the following important factors, in addition to those discussed elsewhere in this document and in the documents which are incorporated by reference, could affect the future results of St. Mary and King Ranch Energy, and of St. Mary after the closing of the merger, and could cause those results or other outcomes to differ materially from those expressed in our forward-looking statements:

<TABLE>
<CAPTION>

ECONOMIC AND INDUSTRY CONDITIONS	POLITICAL/GOVERNMENTAL FACTOR
<S>	<C>
- - material adverse changes in economic or industry conditions generally or in the markets served by our companies	- political developments and laws and regulations, such as restrictions on production, price controls, tax increases and retroactive tax claims, and environmental regulations
- - supply and demand for and pricing of crude oil and natural gas	- permitting delays
- -	
- - changes in demographics and consumer preferences	
- - the uncertainty of estimated oil and gas resources	

</TABLE>

<TABLE>
<CAPTION>

PROJECT/TECHNOLOGY FACTORS	OPERATING FACTORS
<S>	<C>
- - supply disruptions oil and natural gas project advancement	- supply disruptions
	- technical difficulties
- - supply disruptions the development and use of new technology	- changes in operating conditions and costs
- - the impact of the Year 2000 on our technology systems or the technology systems of third parties with which we have material relationships	- weather
	- marketing delays

</TABLE>

<TABLE>
<CAPTION>

TRANSACTION OR COMMERCIAL FACTORS	COMPETITIVE FACTORS
<S>	<C>
- - the outcome of negotiations with partners, customers or others	- the competitiveness of suppliers of alternative energy sources or product substitutes
- - our ability to integrate the businesses of St. Mary and King Ranch Energy successfully after the merger	- the actions of competitors
	- the challenges inherent in diverting management's focus and resources from other strategic opportunities and from operational matters during the merger and integration process

</TABLE>

You are cautioned that our forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those expressed or implied by the forward-looking statements.

SEC POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Delaware General Corporation Law provides for indemnification by a corporation of costs incurred by directors, employees, and agents in connection with an action suit, or proceeding brought by reason of their position as a director, employee, or agent. The person being indemnified must have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation.

Provisions of St. Mary's' certificate of incorporation and by-laws obligate St. Mary to indemnify its directors and officers to the fullest extent permitted under Delaware law. Provisions of King Ranch Energy's bylaws obligate King Ranch Energy to indemnify its directors and officers in a manner consistent with Delaware General Corporation Law. [King Ranch?]

In so far as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling St. Mary, King Ranch or King Ranch Energy pursuant to the foregoing provisions or otherwise, St. Mary, King Ranch and King Ranch Energy have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements combine the historical consolidated balance sheets and statements of operations of St. Mary and King Ranch Energy giving effect to the merger using the purchase method of accounting for business combinations.

We are providing the following information to aid you in your analysis of the financial aspects of the merger. We derived this information from the audited financial statements of St. Mary for 1998 and the unaudited financial statements for the six months ended June 30, 1999 and from the audited financial statements of King Ranch Energy for 1998 and the unaudited financial statements for the six months ended June 30, 1999. The information is only a summary and you should read it in conjunction with our historical financial statements and related notes contained in the annual reports and other

information that St. Mary has filed with the SEC and incorporated in this document by reference and the historical financial statements of King Ranch Energy and related notes contained in this document. See "Where You Can Find More Information" on page 91.

The unaudited pro forma condensed combined statements of operations for the year ended December 31, 1998 and the six months ended June 30, 1999 assume the merger was effected on January 1, 1998. The unaudited pro forma condensed combined balance sheet gives effect to the merger as if it had occurred on June 30, 1999. The accounting policies of St. Mary and King Ranch Energy are substantially comparable. Therefore, we did not make adjustments to the unaudited pro forma condensed combined financial statements to conform the accounting policies of the combining companies.

The unaudited pro forma condensed combined financial information is for illustrative purposes only. The companies may have performed differently had they always been combined. You should not rely on the pro forma condensed combined financial information as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the merger.

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
KING RANCH ENERGY, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
June 30, 1999
(In thousands, except share amounts)

ASSETS

<TABLE>
<CAPTION>

	St. Mary	King Ranch		Adjustments	St. Mary/ King Ranch Pro Forma
<S>	<C>	<C>		<C>	<C>
Current assets:					
Cash and cash equivalents	$ 5,244	$ -			$ 5,244
Accounts receivable	12,775	7,651	(2)	$ 4,000	24,426
Prepaid expenses and other	816	584			1,400
Refundable income taxes	211	-			211
Refundable income taxes-affiliate	-	5,700	(1)	(5,700)	-
Deferred income taxes	91	-			91
Total current assets	19,137	13,935		(1,700)	31,372
Property and equipment (successful efforts method), at cost:					
Proved oil and gas properties	252,803	257,331	(2)	(226,541)	283,593
Unproved oil and gas properties, net	31,455	22,074	(2)	(14,074)	39,455
Other, net	4,654	473			5,127
	288,912	279,878		(240,615)	328,175
Less accumulated depletion, depreciation, amortization and impairment	(136,714)	(212,265)	(2)	212,265	(136,714)
Net property and equipment	152,198	67,613		(28,350)	191,461
Other assets:					
Khanty Mansiysk Oil Corporation receivable and stock	6,839	-			6,839
Summo Minerals Corporation investment and receivable	1,130	-			1,130
Other assets	3,527	246	(1)	(246)	3,527
Total other assets	11,496	246		(246)	11,496
Total assets	$ 182,831	$ 81,794		$ (30,296)	$ 234,329

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
KING RANCH ENERGY, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET (CONTINUED)
June 30, 1999
(In thousands, except share amounts)

<TABLE>
<CAPTION>

	St. Mary	King Ranch		Adjustments	St. Mary/ King Ranch Pro Forma

	St. Mary	King Ranch		Adjustments	Pro Forma
<S>	<C>	<C>		<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable and accrued expenses	$ 10,307	$ 4,795			$ 15,102
Accounts payable-parent	-	9,317	(1)	(9,317)	-
Current notes payable-affiliate	-	15,090	(1)	(15,090)	-
Current portion of stock appreciation rights	272	-			272
Total current liabilities	10,579	29,202		(24,407)	15,374
Long-term liabilities:					
Long-term debt	20,087	-			20,087
Deferred income taxes	11,765	-	(2)	683	12,448
Stock appreciation rights	455	-			455
Future platform abandonment	-	5,782			5,782
Other noncurrent liabilities	1,250	28			1,278
	33,557	5,810		683	40,050
Stockholders' equity:					
Common stock, $.01 par value: authorized - 50,000,000 shares: issued and outstanding - 11,269,361 for St. Mary - Pro forma, 13,935,613 issued and outstanding	113	1	(2)	26	140
Additional paid-in capital	71,083	55,468	(2)	(33,992)	111,266
			(1)	18,707	
Treasury stock - 182,800 shares, at cost for St. Mary	(2,995)	-			(2,995)
Retained earnings (deficit)	70,299	(8,687)	(2)	8,687	70,299
Unrealized gain on marketable equity securities-available for sale	195	-			195
Total stockholders' equity	138,695	46,782		(6,572)	178,905
Total liabilities and stockholders' equity	$ 182,831	$ 81,794		$ (30,296)	$ 234,329

</TABLE>

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

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
KING RANCH ENERGY, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1998
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The unaudited pro forma condensed combined statement of operations for the fiscal year ended December 31, 1998 gives effect to the Merger as if it occurred on January 1, 1998 by combining the results of operations for St. Mary and King Ranch applying the purchase method of accounting.

<TABLE>
<CAPTION>

	St. Mary	King Ranch		Pro Forma Adjustments	St. Mary/ King Ranch Pro Forma
<S>	<C>	<C>		<C>	<C>
Operating revenues:					
Oil and gas production	$ 70,648	$ 39,290			$109,938
Gain on sale of proved properties	7,685	-			7,685
Other revenues	411	117			528
Total operating revenues	78,744	39,407		-	118,151
Operating expenses:					
Oil and gas production	17,005	8,373			25,378
Depletion, depreciation, amortization and impairment	42,395	26,363	(5)	(16,445)	52,313
Exploration	16,162	12,301			28,463
General and administrative	7,097	2,970			10,067
Writedown of Russian convertible receivable	4,553	-			4,553
Writedown of investment in Summo Minerals Corporation	3,949	-			3,949
Loss in equity investees	661	-			661
Other	141	-			141
Total operating expenses	91,963	50,007		(16,445)	125,525
Loss from operations	(13,219)	(10,600)		16,445	(7,374)
Nonoperating income and (expense):					
Trademark fee-affiliate	-	(500)	(3)	500	-
Interest income	638	-			638
Interest expense	(1,665)	(50)	(4)	50	(1,665)
Other	-	(90)			(90)
Loss from continuing operations before income taxes	(14,246)	(11,240)		16,995	(8,491)
Income tax benefit	(5,415)	(4,121)	(6)	6,118	(3,418)
Net loss from continuing operations	$ (8,831)	$ (7,119)		$10,877	$ (5,073)

</TABLE>

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
KING RANCH ENERGY, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 1998
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	St. Mary	King Ranch		Pro Forma Adjustments	St. Mary/ King Ranch Pro Forma
<S>	<C>	<C>		<C>	<C>
Basic net loss per common share from continuing operations	$ (.81)				$ (.37)
Diluted net loss per common share from continuing operations	$ (.81)				$ (.37)
Basic weighted average shares outstanding	10,937		(2)	2,666	13,603
Diluted weighted average shares outstanding	10,937		(2)	2,666	13,603

</TABLE>

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

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
KING RANCH ENERGY, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The unaudited pro forma condensed combined statement of operations for the fiscal year ended June 30, 1998 gives effect to the Merger as if it occurred on January 1, 1998 by combining the results of operations for St. Mary and King Ranch applying the purchase method of accounting.

<TABLE>
<CAPTION>

	St. Mary	King Ranch		Pro Forma Adjustments	St. Mary/ King Ranch Pro Forma
<S>	<C>	<C>		<C>	<C>
Operating revenues:					
Oil and gas production	$ 29,578	$ 20,869			$ 50,447
Gain on sale of proved properties	114	-			114
Other revenues	273	60			333
Total operating revenues	29,965	20,929		-	50,894
Operating expenses:					
Oil and gas production	7,954	3,550			11,504
Depletion, depreciation, amortization and impairment	10,930	12,081	(5)	$ (6,272)	16,739
Exploration	3,742	5,646			9,388
General and administrative	3,629	1,162			4,791
Loss in equity investees	58	-			58
Other	338	-			338
Total operating expenses	26,651	22,439		(6,272)	42,818
Income (loss) from operations	3,314	(1,510)		6,272	8,076
Nonoperating income and (expense):					
Trademark fee-affiliate	-	(250)	(3)	250	-
Interest income	252	-			252
Interest expense	(516)	(600)	(4)	600	(516)
Other	-	(33)			(33)
Income (loss) from continuing operations before income taxes	3,050	(2,393)		7,122	7,779
Income tax expense (benefit)	1,008	(825)	(6)	2,564	2,747
Net income (loss) from continuing operations	$ 2,042	$ (1,568)		$ 4,558	$ 5,032

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</TABLE>

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
KING RANCH ENERGY, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	St. Mary	King Ranch		Pro Forma Adjustments		St. Mary/ King Ranch Pro Forma
	----------	-------		----------		---
	<C>	<C>		<C>		<C>
Basic net income per common share from continuing operations	$ .19					$ .37
	--------					-

	--------					-

Diluted net income per common share from continuing operations	$ .19					$ .37
	--------					-

	--------					-

Basic weighted average shares outstanding	10,879		(2)	2,666		13,545
	--------					-

	--------					-

Diluted weighted average shares outstanding	10,892		(2)	2,666		13,558
	--------					-

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</TABLE>

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

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES

KING RANCH ENERGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA

CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

On July 27, 1999, St. Mary Land & Exploration Company ("St. Mary") signed an agreement to acquire King Ranch Energy, Inc. ("King Ranch Energy") located in Houston, Texas in a merger in which St. Mary will issue 2,666,252 common shares to shareholders of King Ranch. King Ranch Energy will become a wholly owned subsidiary of St. Mary. The acquisition will be accounted for as a purchase.

The unaudited pro forma condensed combined statements of income are based on the consolidated financial statements of St. Mary and King Ranch Energy for the year ended December 31, 1998 and the six months ended June 30,

1999. The unaudited pro forma condensed combined balance sheet is based on the unaudited consolidated financial statements of St. Mary and King Ranch Energy at June 30, 1999.

The St. Mary and King Ranch Energy consolidated financial statements are prepared in accordance with generally accepted accounting principles and require St. Mary and King Ranch Energy to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. In the opinion of St. Mary and King Ranch Energy, the unaudited pro forma condensed combined financial statements include all adjustments necessary to present fairly the results of the periods presented.

The accompanying pro forma statements do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in the Annual Report on Form 10-K of St. Mary Land & Exploration Company and Subsidiaries for the year ended December 31, 1998. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

The accounting policies followed by the Company are set forth in Note 1 to St. Mary's financial statements in Form 10-K for the year ended December 31, 1998. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the Form 10-K.

The accompanying condensed pro forma balance sheet includes pro forma adjustments to give effect to the acquisition of King Ranch Energy as of June 30, 1999. The condensed pro forma statements of operations for the year ended December 31, 1998 and the six months ended June 30, 1999 include the historical revenue and direct operating expenses of St. Mary and King Ranch Energy for the respective periods presented and adjustments for the pro forma effects of the acquisition as if the transaction had occurred January 1, 1998.

Note 2 - Accounting Policies and Financial Statement Classifications

The accounting policies of St. Mary and King Ranch Energy are substantially comparable. Consequently, no adjustments were made to the unaudited pro forma condensed combined financial statements to conform to the accounting policies of the combining companies.

Certain revenues, costs and other expenses in the consolidated statements of operations of King Ranch Energy have been reclassified to conform to the line item presentation in the pro forma condensed combined statements of income. Certain assets and liabilities in the consolidated balance sheets of St. Mary and King Ranch Energy have been reclassified to conform to the line item presentation in the pro forma condensed combined balance sheet.

Note 3 - Pro Forma Adjustments

The following pro forma adjustments have been made to the balance sheet of St. Mary and King Ranch Energy at June 30, 1999 and to the statements of operations for the six months ended June 30, 1999 and for the year ended December 31, 1998:

(1) To eliminate all assets and liabilities related to the parent company, King Ranch, Inc.

(2) To record the purchase transaction and allocate purchase price.

(3) To eliminate the trademark fee paid by King Ranch Energy to King Ranch, Inc. for use of logo. This logo will not be used by St. Mary.

(4) To eliminate the interest expense paid on the note payable owed to King Ranch, Inc. This debt will not be assumed by St. Mary.

(5) To adjust depreciation, deletion, and amortization based on new fair values of producing properties.

(6) To account for the tax effect of the pro forma adjustments.

There are no adjustments to general and administrative, exploration or other such expenses for prospective information for what may happen once the companies are combined.

INDEX TO KING RANCH ENERGY CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

</TABLE>

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
King Ranch, Inc.
Houston, Texas

We have audited the accompanying consolidated balance sheets of King Ranch Energy, Inc. and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholder's equity, and cash flows for each of the three years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of its operations and cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
March 2, 1999

KING RANCH ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARES)

<TABLE>
<CAPTION>

Assets	June 30, 1999	December 31, 1998	December 31, 1997
	(Unaudited)		
<S>	<C>	<C>	<C>
Current Assets:			
Accounts receivable:			
Affiliate	$ -	$ -	$ 23,603
Trade	7,651	8,856	8,543
Current income tax receivable - Affiliate	5,700	5,484	-
Prepaids and other assets	505	1,928	417
Inventories	79	79	134
Total Current Assets	13,935	16,347	32,697
Property and Equipment:			
Oil and gas properties, successful efforts method:			
Producing properties	257,331	254,011	210,315
Nonproducing leaseholds	18,223	17,235	14,014
Wells-in-progress	7,464	5,228	5,538
Total	283,018	276,474	229,867
Other property and equipment	1,907	1,907	1,647
Accumulated depletion, depreciation and amortization	(217,312)	(209,839)	(190,409)
Total Property and Equipment, net	67,613	68,542	41,105
Deferred Tax Asset	246	-	324
Total Assets	$ 81,794	$ 84,889	$ 74,126
Liabilities and Stockholder's Equity			
Current Liabilities:			
Accounts payable:			
Parent	$ 9,317	$ 4,271	$ -
Trade	3,620	10,360	6,117
Oil and gas	1,175	1,476	2,776
Notes payable - Affiliate	15,090	14,450	-
Current income taxes payable - Affiliate	-	-	375
Total Current Liabilities	29,202	30,557	9,268
Future platform abandonment	5,782	5,091	4,148
Other	28	35	28
Deferred tax liability	-	856	-
Total Liabilities	35,012	36,539	13,444
Stockholder's Equity:			
Common stock, $1 par value - Authorized, issued, and outstanding shares - 1,000	1	1	1
Paid-in capital	55,468	55,468	60,681
Retained deficit	(8,687)	(7,119)	-
Total Stockholder's Equity	46,782	48,350	60,682
Total Liabilities and Stockholder's Equity	$ 81,794	$ 84,889	$74,126

</TABLE>

SEE ACCOMPANYING NOTES.

KING RANCH ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,		
---	1999	1998	1998	1997	1996

		(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>	<C>
Operating Revenues:					
Working and royalty interest	$20,869	$19,791	$ 39,290	$43,239	$41,115
Other	60	76	117	365	404
Total Operating Revenues	20,929	19,867	39,407	43,604	41,519
Operating Expenses:					
Oil and gas operating expenses	3,550	3,417	8,373	6,848	4,402
Exploration expenses	5,646	6,768	12,301	11,935	7,240
Depletion, depreciation, amortization and impairment of properties	12,081	11,024	26,363	16,217	20,916
General and administrative expenses	1,162	1,387	2,970	3,001	2,980
Abandoned independent Power Production projects	-	-	-	163	44
Total Operating Expenses	22,439	22,596	50,007	38,164	35,582
Income (Loss) From Operations	(1,510)	(2,729)	(10,600)	5,440	5,937
Other Income (Expense):					
Trademark fee - Affiliate	(250)	(250)	(500)	(250)	(250)
Gain (loss) on sale of properties	-	-	(37)	238	294
Other	(633)	(25)	(103)	(146)	(28)
Income (Loss) Before Taxes	(2,393)	(3,004)	(11,240)	5,282	5,953
Income Tax Provision (Benefit)	(825)	(794)	(4,121)	1,680	1,836
Net Income (Loss)	$(1,568)	$(2,210)	$ (7,119)	$ 3,602	$ 4,117

</TABLE>

SEE ACCOMPANYING NOTES.

KING RANCH ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARES)

<TABLE>
<CAPTION>

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PAID-IN CAPITAL	RETAINED DEFICIT	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1996	-	$-	$40,891	$ -	$40,891
Paid-in capital	-	-	7,509	-	7,509
Earnings attributable to assets contributed	-	-	4,117	-	4,117
Balance at December 31, 1996	-	-	52,517	-	52,517
Paid-in capital	-	-	4,562	-	4,562
Earnings attributable to assets					

contributed	-	-	3,602	-	3,602
Issuance of common stock	1,000	1	-	-	1
Balance at December 31, 1997	1,000	1	60,681	-	60,682
Paid-in capital	-	-	1,328	-	1,328
Return of capital	-	-	(1,886)	-	(1,886)
Net loss	-	-	-	(7,119)	(7,119)
Dividends paid	-	-	(4,655)	-	(4,655)
Balance at December 31, 1998	1,000	1	55,468	(7,119)	48,350
Net loss (unaudited)	-	-	-	(1,568)	(1,568)
Balance at June 30, 1999 (unaudited)	1,000	$1	$55,468	$(8,687)	$46,782

</TABLE>

SEE ACCOMPANYING NOTES.

KING RANCH ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	Six Months Ended June 30,		Year Ended December 31,		
	1999	1998	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>
Operating Activities					
Net income (loss)	$ (1,568)	$ (2,210)	$ (7,119)	$ 3,602	$ 4,117
Adjustments to reconcile net income (loss) to net cash provided by operations:					
Depletion, depreciation, amortization and impairment of properties	12,081	11,024	26,363	16,217	20,916
Dry hole costs	2,393	5,774	8,397	7,401	3,175
Gain on sale of unproved properties	-	-	-	(238)	(294)
Deferred income tax provision (benefit)	(1,102)	3,282	1,793	1,570	(2,334)
Deferred revenues	-	-	-	-	(412)
Changes in assets and liabilities that provided (used) cash:					
Accounts receivable - Affiliate	-	23,603	23,603	1,849	(24,576)
Accounts receivable - Trade	1,205	2,195	(313)	2,575	941
Inventories, prepaid and other assets	1,423	(219)	(1,456)	197	117
Accounts payable - Affiliate	5,046	4,266	4,271	-	-
Accounts payable - Non Affiliate	(7,041)	268	2,943	(1,601)	3,859
Current income taxes receivable/payable - Affiliate	(216)	(4,635)	(6,472)	(3,619)	(1,640)
Net Cash by Operating Activities	12,221	43,348	52,010	27,953	3,869
Investing Activities					
Proceeds from the sale of properties	-	300	300	755	1,445
Additions to oil and gas properties	(12,854)	(43,976)	(63,180)	(33,169)	(13,990)
Additions to other property and equipment	-	(260)	(260)	(85)	(498)
Other	(7)	15	7	(17)	21
Net Cash Used in Investing Activities	(12,861)	(43,921)	(63,133)	(32,516)	

(13,022)					
Financing Activities					
Dividends paid	-	-	(4,655)	-	-
Paid-in capital	-	573	1,328	4,562	7,509
Issuance of common stock	-	-	-	1	-
Notes payable - Affiliate	640	-	14,450	-	-
Net Cash Provided by Financing Activities	640	573	11,123	4,563	7,509
Net Increase in Cash	-	-	-	-	(1,644)
Cash and Cash Equivalents at Beginning of Year	-	-	-	-	1,644
Cash and Cash Equivalents at End of Year	$ -	$ -	$ -	$ -	$ -
Noncash Transaction - Return of Capital	$ -	$ 1,886	$ 1,886	$ -	$ -

</TABLE>

SEE ACCOMPANYING NOTES.

KING RANCH ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

King Ranch Energy, Inc. (the "Company"), a Delaware corporation, is a wholly owned subsidiary of King Ranch Minerals, Inc. ("KRM" or "Parent"). KRM is a wholly owned subsidiary of King Ranch, Inc. ("KRI"). Effective on the close of business on December 31, 1997, KRI reorganized the structure of its energy operations. On that date, all of the onshore and offshore working interests and related assets owned by KRM were transferred to the Company. The accompanying consolidated financial statements present the balances and results of operations applicable to the contributed assets.

The consolidated financial statements presented herein at June 30, 1999 and for the six-month periods ended June 30, 1999 and 1998 are unaudited; however, all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods covered have been made and are of a normal recurring nature. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. The results of the interim periods are not necessarily indicative of results to be expected for the full year.

NATURE OF OPERATIONS

The Company is an independent oil and gas exploration and production company with operations primarily onshore in Texas, Oklahoma, Louisiana, North Dakota, and Utah and in the Gulf of Mexico, offshore Texas and Louisiana.

REVENUE RECOGNITION

The Company recognizes oil and gas revenue from its royalty and working interests in producing wells as oil and gas is produced and sold from those wells. Oil and gas sold by the Company is not significantly different from the Company's share of production.

PROPERTY AND EQUIPMENT AND DEPLETION, DEPRECIATION, AND AMORTIZATION

OIL AND GAS PROPERTIES

The Company accounts for oil and gas properties using the successful efforts method of accounting. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells which find proved reserves, and to drill and equip developmental wells are capitalized. Exploratory geological and geophysical costs, delay rentals, and costs to drill exploratory wells which do not find proved reserves are expensed. Properties are periodically reviewed for impairment with valuation reserves provided as required.

Depletion, depreciation, and amortization of costs incurred in connection with the drilling and development of proved oil and gas reserves and estimated future abandonment and dismantlement costs are amortized on a field-by-field basis

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

using the unit-of-production method based upon estimates of proved developed oil and gas reserves. The property acquisition costs of producing properties are amortized on a field-by-field basis using the unit-of-production method based on estimates of total proved reserves.

OTHER PROPERTY AND EQUIPMENT

Other property and equipment are stated at cost. Depreciation is determined using accelerated methods over the estimated useful lives of the assets.

Repair and maintenance costs are charged to expense as incurred. Major additions and betterments are capitalized. Asset and accumulated depreciation accounts are relieved for dispositions with resulting gains or losses reflected in income.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company impairs certain producing properties when the market indicates the carrying amounts of such properties may not be recoverable. Fair value for producing oil and gas properties is determined based upon estimated future cash flows on a field-by-field basis. An impairment loss of approximately $2,511,000, $1,867,000 and $4,370,000 was recorded for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company also impairs nonproducing leaseholds when such leases are determined to have a recoverable value less than cost. An impairment loss of $1,823,000, $2,670,000 and $1,533,000 was recorded for the years ended December 31, 1998, 1997 and 1996, respectively.

INCOME TAXES

The Company follows the liability method of accounting for income taxes. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes at the enacted tax rates at the end of the period. KRI files a consolidated federal income tax return which includes the Company. The Company will pay or receive from KRI the amount of income taxes currently payable or refundable computed as if the Company filed its annual tax return on a separate Company basis, except that income tax benefits are recognized only to the extent utilized by KRI. The Company paid KRI approximately $514,000, $2,893,000 and $1,026,000 related to their portion of taxes due during 1998, 1997 and 1996, respectively.

FINANCIAL INSTRUMENTS

The Company uses financial instruments on a limited basis (primarily futures contracts and swap agreements) as an extension of its natural gas sales. All such transactions are for natural gas produced by the Company and hedge future price fluctuations. Accordingly, gains or losses are deferred until such time as the hedged production is sold.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table sets forth the Company's open hedging contracts

for natural gas and the weighted average fixed prices hedged under various swap agreements entered into as of December 31, 1998. Under these contracts the Company will receive the fixed price displayed below and will pay the prevailing NYMEX price at the maturity date of the respective hedge contracts. As of December 31, 1998, the prevailing NYMEX price was $1.83 per MMBTU.

<TABLE>
<CAPTION>

	NATURAL GAS	
	MMBTU	PRICE
<S>	<C>	<C>
1999	580,000	$2.33
1999	1,260,000	2.35
2000	219,000	2.26
2000	780,000	2.29

</TABLE>

EMPLOYEE BENEFIT PLANS

Eligible Company employees participate in various benefit plans sponsored by KRI. KRI does not allocate any expenses associated with these plans to the Company. See Note 3.

CONCENTRATION OF RISK

Substantially all of the Company's trade accounts receivable result from oil and gas sales or joint interest billings to third parties in the oil and gas industry. Historically, the Company has not experienced credit losses on such receivables.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. Actual results could differ from these estimates.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior years consolidated financial statements for consistency with the current year presentation.

2. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities as of December 31, 1998 and 1997 are as follows (in thousands):

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Difference between tax and book bases of oil and gas properties	$(856)	$324
Net Deferred Tax Assets (Liabilities)	$(856)	$324

</TABLE>

2. INCOME TAXES (CONTINUED)

Significant components of the income tax provision (benefit) are as follows for the years ended December 31, 1998, 1997 and 1996 (in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Current:			
Federal	$(5,958)	$ (81)	$ 4,246
State	44	191	(76)
Total Current	(5,914)	110	4,170

Total Deferred - Federal	1,793	1,570	(2,334)
	$(4,121)	$1,680	$ 1,836

</TABLE>

The reconciliation of income tax computed at the U.S. federal statutory tax rates to income tax expense for the years ended December 31, 1998, 1997 and 1996 are as follows (in thousands):

<TABLE>
<CAPTION>

	1998		1997		1996	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Tax at U.S. statutory rates	$ (3,934)	(35.00)%	$ 1,849	35.00%	$ 2,084	35.00%
Percentage depletion	(161)	(1.43)	(279)	(5.28)	(172)	(2.89)
State income tax	29	0.26	191	3.61	(76)	(1.27)
Other, net	(55)	(0.49)	(81)	(1.52)	-	-
Total Expense	$ (4,121)	(36.66)%	$ 1,680	31.81%	$ 1,836	(30.84)%

</TABLE>

3. EMPLOYEE BENEFIT PLANS

Substantially all employees of the Company are covered by KRI's defined benefit pension plan. The benefits are based on years of service and the employee's compensation during the last five years of employment. KRI contributes amounts to the pension plan sufficient to meet the minimum funding requirements as set forth in the Employee Retirement Income Security Act of 1974. At December 31, 1998, 1997 and 1996, the plan's assets at fair value were in excess of the projected benefit obligation.

Employees of the Company who have one year of service and are age 21 or older are eligible to participate in KRI's defined contribution 401(k) Employee Retirement Savings plan. Contributions are discretionary and payable by KRI.

Retired employees of the Company are eligible to participate in KRI's noncontributory defined-benefit postretirement plan covering all full-time U.S. employees who retire after age 60 with 15 years of service after age 44 (except for certain grandfathered retirees). The plan provides for comprehensive medical benefits and term life insurance benefits.

4. RELATED PARTY TRANSACTIONS

At December 31, 1998, the Company had an account payable and a note payable to an affiliate in the amount of $4,271,000 and $14,450,000, respectively. At December 31, 1997, the Company had a receivable from an affiliate in the amount of $23,603,000. These related funds are borrowed from or swept into the consolidated entity for cash management and investment purposes. During December 1998, the affiliate charged the Company $50,000 in interest related to amounts outstanding under the note payable. Prior to December 1998, the Company did not record interest income or expense associated with such funds.

The Company was charged an annual fee of $500,000, $250,000 and $250,000 by an affiliate for the use of the King Ranch trademark and brand for 1998, 1997 and 1996, respectively Effective January 1, 1998, the Company contributed $1,886,000 of certain producing properties to KRM.

5. LEASE COMMITMENTS

The Company leases office space under a noncancelable operating lease agreement which expires on July 31, 2001. The lease comprises 18,063 square feet, of which KRI utilizes square footage as needed from the Company.

Rent expense charged to operations was $198,000 for the years ended December 31, 1998 and 1997 and $45,000 for the year ended December 31, 1996.

Future minimum lease payments under noncancellable operating leases as of December 31, 1998 are as follows (in thousands):

<TABLE>

<S>	<C>
1999	$181
2000	217
2001	126
	524
Less: Sublease rental income	210
	$314

</TABLE>

6. CONTINGENCIES

The Company is party to other litigation and claims which management believes are normal in the course of its operations; while the results of such litigation and claims cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse effect on its results of operations or financial position.

The Company was sued on October 5, 1998 by Pi Energy Corporation alleging that the Company failed to perform under the terms of a letter of intent (and other alleged agreements) to purchase

an interest in certain leases in Redfish Bay, located in state waters off of Corpus Christi, Texas, for $10.5 million. Although the Company believes Pi Energy claims are without substantial merit, the case is in a preliminary stage which makes it difficult to predict the ultimate result.

KRI and KRM are 2 of more than 100 named defendants in a suit originally brought in the 28th District Court of Nueces County, Texas styled No. 95-2273-A; William Warren Chapman, III et. al. V. The King Ranch, Inc., King Ranch Oil and Gas, Inc., et. al. The plaintiffs seek a one-half interest in approximately 15,500 acres in Kleberg County, Texas-owned or previously owned by KRI, its predecessors in title, and some of its stockholders. In addition, the plaintiffs seek rentals, royalties, and other income from the property since 1883. KRM currently owns mineral interests underlying the property. On January 13, 1998, the Court entered a summary judgment in favor of all defendants. The plaintiffs have appealed.

7. SUBSEQUENT EVENTS (UNAUDITED)

On February 18, 1999, the Company acquired a 50% interest in the Flour Bluff field located in Nueces County, Texas for $4,375,000. The transaction, which was effective January 4, 1999, added approximately 12.7 Bcfe of proven reserves, 90% of which is natural gas, based on a report by Ryder Scott Company. The field has an estimated reserve life of 28 years and encompasses approximately 6,500 net acres.

In July 1999, KRI agreed in principle to sell the Company to St. Mary Land & Exploration Company ("St. Mary"). Consideration for the sale is expected to be through newly issued shares of St. Mary's common stock, the purchase price is subject to final determination at closing, which is expected to occur during the third quarter of 1999.

8. SUPPLEMENTAL INFORMATION RELATED TO OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

The following information concerning the Company's oil and gas operations has been prepared in accordance with Statement of Financial Accounting Standards ("SFAS") No. 69, "Disclosure about Oil and Gas Producing Activities."

The information concerning sales prices and production costs, capitalized costs of oil and gas properties, costs incurred in property acquisition, exploration, and development, and operating results from oil and gas producing activities is taken from the Company's accounting records with the exception of income taxes. Income tax provisions are calculated using statutory tax rates and reflect permanent differences and tax credits and allowances relating to oil and gas operations that are reflected in the Company's consolidated income tax provision for the period. The pretax income from oil and gas producing activities

does not agree with the Company's accounting records due to the exclusion of certain expenses from the information shown as required by SFAS No. 69.

The following table presents the average sales price per unit of natural gas and crude oil produced and the production costs per MCF of gas equivalent for the years ended December 31, 1998, 1997 and 1996:

8. SUPPLEMENTAL INFORMATION RELATED TO OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (CONTINUED)

SALES PRICES AND PRODUCTION COSTS

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
AVERAGE SALES PRICE (1):			
Natural Gas (per MCF) (2)	$ 2.24	$ 2.65	$ 2.54
Crude Oil (per barrel)	$12.25	$18.85	$19.58
PRODUCTION COSTS PER MCF EQUIVALENT (3)	$ 0.46	$ 0.37	$ 0.28

</TABLE>

(1) Excludes hedging gains of $815,000, $33,000 and $0 for 1998, 1997 and 1996, respectively.

(2) Includes product processing revenue of $342,000, $359,000 and $500,000 for 1998, 1997 and 1996, respectively.

(3) Excludes production taxes of $294,000, $335,000 and $264,000 for 1998, 1997 and 1996, respectively.

The following table presents the Company's aggregate capitalized costs relating to oil and gas producing activities, all located in the United States, and the aggregate amount of related depletion, depreciation, and amortization for the years ended December 31, 1998, 1997 and 1996 (in thousands):

CAPITALIZED COSTS OF OIL AND GAS PROPERTIES

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Capitalized Costs:			
Proved Developed Properties	$254,011	$210,315	$208,971
Proved Undeveloped Properties	5,228	5,538	3,383
Unproved Properties	17,235	14,014	6,321
	276,474	229,867	218,675
Reserves for Depletion, Depreciation, and Amortization:			
Proved Developed Properties	204,016	184,205	184,749
Unproved Properties	4,509	5,071	2,608
	208,525	189,276	187,357
Net Capitalized Costs	$ 67,949	$ 40,591	$ 31,318

</TABLE>

The following table presents both capitalized and expensed costs incurred by the Company for oil and gas property acquisition, exploration, and development activities, all located in the United States, for the years ended December 31, 1998, 1997 and 1996 (in thousands):

8. SUPPLEMENTAL INFORMATION RELATED TO OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (CONTINUED)

COSTS INCURRED IN PROPERTY ACQUISITION, EXPLORATION, AND DEVELOPMENT ACTIVITIES

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Acquisition costs:			
Proved properties	$16,341	$ -	$ -
Unproved properties	8,981	8,990	8,415
Exploration costs	27,819	16,611	6,443
Development costs	12,359	11,798	1,430
	$65,500	$37,399	$16,288

</TABLE>

The results of operations from oil and gas producing activities, all located in the United States, for the years ended December 31, 1998, 1997 and 1996, consisted of the following (in thousands):

RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Sales and services	$39,290	$43,239	$41,115
Production costs	8,373	6,848	4,402
Exploration expenses	12,301	11,935	7,240
Depletion, depreciation, amortization expense, and impairment of properties	26,183	16,025	20,711
Income tax expense (benefit)	(4,338)	1,644	1,402
Results of Operations from Producing Activities*	$(3,229)	$ 6,787	$ 7,360

</TABLE>

*Before deducting general, administrative, and interest expense

OIL AND GAS RESERVE INFORMATION

The following table sets forth the Company's reconciliation of the changes from January 1, 1996 to December 31, 1998 in estimated net proved oil and gas reserve quantities. This information has been determined by independent and Company oil and gas reservoir engineers. All of the Company's reserves are located in the United States.

Proved reserves are the estimated quantities of crude oil and natural gas which, based upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, e.g., prices and costs as of the date the estimate is made. Reservoirs are considered proved if economic producibility is supported by actual production or conclusive formation testing. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods

It should be stressed that these reserve quantities are estimates and may be subject to substantial upward or downward revisions as indicated by past experience. The estimates are based on the most current and reliable information available; however, additional information

8. SUPPLEMENTAL INFORMATION RELATED TO OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (CONTINUED)

obtained through future production experience and additional development of existing reservoirs may significantly alter previous estimates of proved reserves. Future changes in the costs to develop

and produce reserves can also result in substantial revisions to proved reserve estimates.

These estimates relate only to those reserves which meet the Securities and Exchange Commission's (the "SEC") definition of proved reserves and do not consider probable reserves and the likelihood of their recovery which, if considered, could result in substantial increases in reported reserves.

<TABLE>
<CAPTION>

	MBbls	Bcf
<S>	<C>	<C>
Net Proved Reserves at January 1, 1996	1,043	45.332
Revisions of previous estimates	852	(3.052)
Extensions, discoveries and other additions	147	9.971
Production	(325)	(13.464)
Net Proved Reserves at December 31, 1996	1,717	38.787
Revisions of previous estimates	33	3.624
Extensions, discoveries and other additions	54	9.040
Sales and transfers of minerals in place	(28)	(0.014)
Purchases of reserves in place	0	0.299
Production	(369)	(13.535)
Net Proved Reserves at December 31, 1997	1,407	38.201
Revisions of previous estimates	(2,052)	(3.698)
Extensions, discoveries and other additions	823	13.490
Transfer of minerals in place to KRM	(56)	(2.713)
Purchases of reserves in place	1,982	11.849
Production	(429)	(14.826)
Net Proved Reserves at December 31, 1998	1,675	42.303
Net Proved Developed Reserves:		
January 1, 1996	989	38.092
December 31, 1996	1,581	30.964
December 31, 1997	1,406	37.345
December 31, 1998	1,434	39.910

</TABLE>

The information presented below concerning the net present value of after-tax cash flows for the Company's oil and gas producing operations is required by SFAS No. 69 in an attempt to make comparable information concerning oil and gas producing operations available for financial statement users. The information is based on proved reserves as of December 31 for each year and has been prepared in the following manner:

8. SUPPLEMENTAL INFORMATION RELATED TO OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (CONTINUED)

1. Estimates were made of the future periods in which proved reserves would be produced based on year-end economic conditions.

2. The estimated future production streams of proved reserves have been priced using year-end prices.

3. The resulting future gross cash inflows have been reduced by the estimated future costs to develop and produce the proved reserves at year-end cost levels.

4. Future income tax payments have been computed by the Company at statutory rates based on the net future cash inflows, the remaining tax basis in oil and gas properties, permanent differences between book and tax income, and tax credits or other tax benefits available related to the oil and gas operations.

5. The resulting after-tax future net cash flows are discounted to present value amounts by applying a 10% annual discount factor.

The net present value of future cash flows, computed as prescribed by SFAS No. 69, should not be construed as the fair value of the Company's oil and gas operations. The computation is based on assumptions which in some cases may not be realistic and estimates which are subject to substantial uncertainties. Since the discounted cash flows are based on proved reserves as defined by the SEC, they are subject to the same uncertainties and limitations inherent in the reserve estimates which include, among others, no consideration of probable reserves. Additionally, the timing of future production and cash flows, given the current state of the U.S. natural gas market, is subject to significant uncertainty. The use of a 10% discount factor by all companies does not provide a basis for quantifying differences in risk with respect to oil and gas operations among different companies. The computation also ignores the impact future exploration and development activities may have on profitability.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED RESERVES (IN THOUSANDS)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Future cash inflows	$104,725	$111,099	$167,201
Future development and production costs	46,097	37,542	39,915
Future income tax payments	5,865	14,077	32,294
Future net cash flows	52,763	59,480	94,992
10% annual discount	9,909	12,636	23,591
Standardized Measure of Discounted Future Net Cash Flows	$ 42,854	$ 46,844	$ 71,401

</TABLE>

8. SUPPLEMENTAL INFORMATION RELATED TO OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (CONTINUED)

CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED RESERVES (IN THOUSANDS)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Sales and transfers, net of production costs	$(30,917)	$(36,391)	$(36,713)
Net changes in prices and production costs	(14,265)	(37,111)	43,366
Extensions and discoveries, net of future production and development costs	16,848	13,432	25,876
Changes in estimated future development costs	(9,020)	(3,955)	(1,206)
Development costs incurred during the period that reduced future development costs	10,466	9,424	4,614
Revisions of quantity estimates	(18,605)	5,802	4,468
Sales of reserves	(2,786)	(361)	-
Purchases of reserves in place	27,597	223	-
Accretion of discount	5,816	10,022	4,611
Net change in income taxes	6,124	13,755	(12,810)
Changes in production rates, timing and other	4,752	603	(6,911)
Net Change	(3,990)	(24,557)	25,295
Standardized Measure, Beginning of Year	46,844	71,401	46,106
Standardized Measure, End of Year	$ 42,854	$ 46,844	$ 71,401

</TABLE>

AGREEMENT AND PLAN OF MERGER

dated

July 27, 1999

among

ST. MARY LAND & EXPLORATION COMPANY,

ST. MARY ACQUISITION CORPORATION,

KING RANCH, INC.

and

KING RANCH ENERGY, INC.

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (the "Agreement") is entered into this 27th day of July, 1999 among St. Mary Land & Exploration Company, a Delaware corporation ("St. Mary"), St. Mary Acquisition Corporation, a Colorado corporation and newly formed first-tier wholly owned subsidiary of St. Mary ("Merger Sub"), King Ranch, Inc., a Texas corporation ("KRI"), and King Ranch Energy, Inc., a Delaware corporation and a wholly owned third-tier subsidiary of KRI ("KRE").

RECITALS

WHEREAS, the respective Boards of Directors of St. Mary, Merger Sub, KRI and KRE have each determined that the merger of Merger Sub with and into KRE (the "Merger") is advisable and is in their best interests and in the best interests of their respective shareholders, and such Boards of Directors have approved such Merger, upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, St. Mary desires to avoid the concentration of the ownership of the St. Mary Common Stock in a single shareholder, and therefore, to induce St. Mary to enter into this Agreement and consummate the transactions described herein, immediately prior to the Merger all of the shares of common stock of KRE shall be distributed (A) by King Ranch Minerals, Inc., a Delaware corporation ("KRM"), the sole shareholder of KRE and a wholly owned subsidiary of King Ranch Holdings, Inc., a Delaware corporation ("KRH") and a wholly owned subsidiary of KRI, to KRH, (B) by KRH to KRI, and (C) by KRI pro rata to the shareholders of KRI (the "Spin-Off") (all of the foregoing, together with the Spin-Off, collectively referred to as the "Distributions");

WHEREAS, as a result of the Distributions, the shareholders of KRI will receive all of the common stock of KRE while maintaining their current ownership of KRI;

WHEREAS, pursuant to the terms of this Agreement, upon consummation of the Merger, St. Mary will issue to the shareholders of KRE, with respect to their ownership of all of the shares of common stock of KRE, shares of common stock, par value $.01 per share, of St. Mary ("St. Mary Common Stock") as set forth in Section 2.1 hereof;

WHEREAS, St. Mary, Merger Sub, KRI and KRE desire to make certain representations, warranties, covenants and agreements in connection with the transactions contemplated hereby and also to set forth various conditions to the transactions contemplated hereby; and

WHEREAS, for federal income tax purposes it is intended that the Merger qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder, and St. Mary, Merger Sub, KRE and the shareholders of KRI as the subsequent shareholders of KRE intend, by approving resolutions authorizing this Agreement, to adopt this Agreement as a plan of

reorganization within the meaning of Section 368(a) of the Code and the regulations promulgated thereunder.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements set forth herein, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

THE MERGER

Section 1.1 The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the corporate laws of Delaware and Colorado, Merger Sub shall be merged with and into KRE at the Effective Time (as defined in Section 1.3). Following the Merger, the separate corporate existence of Merger Sub shall cease and KRE shall continue as the surviving corporation (the "Surviving Corporation") under the name St. Mary Energy Company and shall succeed to and assume all the rights and obligations of Merger Sub in accordance with the corporate laws of Delaware and Colorado.

Section 1.2 Closing. The closing of the Merger (the "Closing") will take place at 2:00 p.m. Denver, Colorado time on the first business day after the satisfaction or waiver (subject to applicable law) of the conditions set forth in Article VII of this Agreement (the "Closing Date"), at the offices of Ballard Spahr Andrews & Ingersoll, 1225 17th Street, Suite 2300, Denver, Colorado, unless another date or place is agreed to in writing by the parties hereto. The parties agree to use all reasonable efforts to close the Merger as soon as practicable, subject to Article VII hereof.

Section 1.3 Effective Time. Immediately following the Closing, the parties shall execute and file a certificate of merger or other appropriate documents (in any such case, the "Certificate of Merger") in accordance with the relevant provisions of the corporate laws of Delaware and Colorado and shall make all other filings or recordings required under the corporate laws of Delaware and Colorado. The Merger shall become effective at such time as the Certificate of Merger is duly filed with the Delaware Secretary of State and the Colorado Secretary of State, or at such subsequent time as the parties shall agree, which subsequent time shall be specified in the Certificate of Merger (the time the Merger becomes effective being hereinafter referred to as the "Effective Time").

Section 1.4 Effects of the Merger. At and after the Effective Time, the Merger shall have the effects set forth in the corporate laws of Delaware and Colorado. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of KRE and Merger Sub shall be vested in the Surviving Corporation, and, except for the indemnification obligations of KRI set forth in Article VI

hereof, all debts, liabilities and duties of KRE and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

Section 1.5 Certificate of Incorporation. At the Effective Time, the certificate of incorporation of the Surviving Corporation shall be amended in accordance with the corporate laws of Delaware such that the certificate of incorporation of the Surviving Corporation shall consist of the provisions of the articles of incorporation of Merger Sub, except that Article I of the certificate of incorporation of the Surviving Corporation shall be amended to read in its entirety as follows: "The name of the corporation shall be St. Mary Energy Company."

Section 1.6 Bylaws. The bylaws of Merger Sub as in effect at the Effective Time shall be the bylaws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

Section 1.7 Directors of Surviving Corporation. The directors of Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation, until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

Section 1.8 Officers of Surviving Corporation. The officers of Merger Sub immediately prior to the Effective Time shall be the officers of the Surviving Corporation, until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

ARTICLE II

EFFECT OF THE MERGER ON THE CAPITAL STOCK OF THE CONSTITUENT CORPORATIONS; EXCHANGE OF CERTIFICATES; CASH SETTLEMENT

Section 2.1 Effect on Capital Stock. At the Effective Time, by virtue of the Merger:

(a) Conversion of KRE Common Stock. The total number of shares of KRE Common Stock issued and outstanding immediately prior to the Effective Time shall be automatically converted into a total of 2,666,252 shares of St. Mary Common Stock (the "St. Mary Share Issuance"). Certificates representing the shares of St. Mary Common Stock to be issued hereby shall be delivered pro rata to the shareholders of KRE at the Closing in exchange for their surrender of all KRE Common Stock certificates. At the Effective Time, all such shares of KRE Common Stock shall cease to be

outstanding and shall automatically be canceled and retired and shall cease to exist, and KRM, KRH, KRI and the shareholders of KRI shall thereafter cease to have any rights with respect to such shares of KRE Common Stock.

(b) Capital Stock of Merger Sub. Each share of common stock, par value $.01 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be automatically converted into and become one fully paid and nonassessable share of common stock, par value $.01 per share, of the Surviving Corporation.

Section 2.2 Exchange of Certificates.

(a) Exchange at Closing. At the Closing, St. Mary shall deliver pro rata to the shareholders of KRE certificates aggregating the number of shares of St. Mary Common Stock set forth in Section 2.1(a) and the shareholders of KRE shall surrender to St. Mary all certificates representing all issued and outstanding shares of KRE Common Stock.

(b) No Further Ownership Rights in KRE Capital Stock. All shares of St. Mary Common Stock issued upon the surrender of KRE Common Stock certificates in accordance with the terms of this Article II shall be deemed to have been issued and paid in full satisfaction of all rights pertaining to the shares of KRE Common Stock theretofore represented by such certificates.

(c) Further Assurances. If at any time after the Effective Time, any further assignments or assurances in law or any other things are necessary or desirable to vest or to perfect or confirm of record in the Surviving Corporation the title to any property or rights of either KRE or Merger Sub, or otherwise to carry out the purposes and provisions of this Agreement, the officers and directors of the Surviving Corporation are hereby authorized and empowered, in the name of and on behalf of KRE and Merger Sub, to execute and deliver any and all things necessary or proper to vest or perfect or confirm title to such property or rights in the Surviving Corporation, and otherwise to carry out the purposes and provisions of this Agreement.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties of KRI. Except as set forth in the KRI Disclosure Schedule attached to this Agreement as Schedule 3.1 (each section of which qualifies the correspondingly numbered representation and warranty to the extent specified therein), KRI represents and warrants to St. Mary as follows:

(a) Organization and Standing of KRI. KRI is a corporation duly organized and validly existing and in good standing under the laws of the State of Texas. KRI has all requisite corporate power and authority to enter into this Agreement and to carry out and perform the terms and provisions of this Agreement.

(b) Authority; No Conflicts.

(i) The execution, delivery and performance of this Agreement have been duly authorized by all requisite corporate action on the part of KRI and KRE. This Agreement has been executed and delivered by KRI and KRE and constitutes valid and binding obligations of KRI and KRE enforceable in accordance with its terms (except as limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights).

(ii) The execution and delivery of this Agreement by KRI and KRE does not, and the consummation of the Merger pursuant to this Agreement and the other transactions contemplated hereby will not, conflict with or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, any provision of the certificate of incorporation or bylaws of KRI or KRE.

(iii) No consent, approval, order or authorization of, or registration, declaration or filing with, any national, state, municipal or local government, any instrumentality, subdivision, court, administrative agency or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing or other governmental or quasi-governmental authority (a "Governmental Entity"), is required by or is necessary

with respect to KRI or KRE in connection with their execution and delivery of this Agreement or the consummation of the Merger and the other transactions contemplated thereby, except for those required under or in relation to (A) the Securities Act of 1933, as amended (the "Securities Act"), (B) the corporate laws of Delaware and Colorado with respect to the filing of the Certificate of Merger with the Delaware Secretary of State and Articles of Merger with the Colorado Secretary of State, (C) the rules and regulations of Nasdaq, and (D) such consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain would not have a Material Adverse Effect on any party hereto. Consents, approvals, orders, authorizations, registrations, declarations and filings required under or in relation to any of the foregoing clauses (A) through (D) are hereinafter referred to as the "Required Consents."

(c) Ownership and Distribution of KRE Common Stock. KRM owns all of the issued and outstanding shares of KRE Common Stock free and clear of any lien, encumbrance or adverse claim. The Boards of Directors of KRM, KRH and KRI have duly authorized the Distributions.

(d) Finders or Advisors. Except for Nesbitt Burns Securities Inc. ("Nesbitt Burns"), a copy of whose engagement agreement with KRI has been provided to St. Mary, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of KRI, KRH, KRM, KRE or the

shareholders of KRI who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement.

Section 3.2 Representations and Warranties of KRI and KRE. Except as set forth in the KRE Disclosure Schedule attached to this Agreement as Schedule 3.2 (the "KRE Disclosure Schedule") (each section of which qualifies the correspondingly numbered representation and warranty to the extent specified therein), KRI and KRE represent and warrant to St. Mary as follows:

(a) Organization and Standing of KRE. KRE and each of its Subsidiaries is a corporation duly organized and validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified to do business and in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary other than in such jurisdictions where the failure to so qualify would not, either individually or in the aggregate, have a Material Adverse Effect on KRE. KRE is duly qualified to enter into this Agreement and to carry out and perform the terms and provisions of this Agreement. Except with respect to the KRE Subsidiaries set forth on the KRE Disclosure Schedule, KRE has no direct or indirect interest, either by way of stock ownership or otherwise, in any other firm, corporation, association or business. The copies of the certificate of incorporation and bylaws of KRE which were previously furnished to St. Mary are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(b) Authority; No Conflicts.

(i) The execution, delivery and performance of this Agreement have been duly authorized by all requisite corporate action on the part of KRE subject to the Required KRE Vote (as defined below). This Agreement has been executed and delivered by KRE and constitutes a valid and binding obligation of KRE enforceable in accordance with its terms (except as limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights).

(ii) The execution and delivery of this Agreement by KRE does not, and the consummation of the Merger by KRE and the other transactions contemplated hereby will not, conflict with, or result in a violation pursuant to: (A) any provision of the certificate of incorporation or bylaws of KRE, or (B) any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to KRE or any Subsidiary of KRE or any of their properties or assets, except as would not have a Material Adverse Effect on to KRE, subject to obtaining the

consents, approvals, orders, authorizations, registrations,

declarations and filings referred to in paragraph (iii) below.

(iii) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to KRE or its Subsidiaries in connection with the execution and delivery of this Agreement by KRE or the consummation of the Merger and the other transactions contemplated thereby, except for (A) the Required Consents, (B) such consents, approvals, orders, authorizations, registrations and declarations by Governmental Entities (including, without limitation, the Minerals Management Service, the Bureau of Land Management and all other federal and state regulatory entities having jurisdiction) in connection with the transfer, sale or conveyance of oil and gas leases or interests therein if the same are customarily obtained by a purchaser subsequent to such sale or conveyance, and (C) such consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain would not have a Material Adverse Effect on KRE or its Subsidiaries.

(iv) Except as set forth in the KRE Disclosure Schedule, all material contracts of KRE shall remain in full force and effect following, and notwithstanding the consummation of, the Merger.

(c) Capitalization of KRE and Indebtedness for Borrowed Moneys. KRE is duly and lawfully authorized by its certificate of incorporation, to issue 1,000 shares of KRE Common Stock, of which as of the date hereof there are issued and outstanding 1,000 shares. All outstanding shares of KRE Common Stock have been issued to and are held by KRM. KRE has no treasury stock and no other authorized series or class of stock. All the outstanding shares of KRE Common Stock have been duly authorized and validly issued and are fully paid and nonassessable and free of preemptive rights. Neither KRE nor any of its Subsidiaries is obligated to issue any additional capital stock or voting securities as a result of any options, warrants, rights, conversion rights, obligations upon default, subscription agreements or other obligations of any kind. KRE is not presently liable on account of any indebtedness for borrowed moneys, except as reflected in the KRE Financial Statements (as hereinafter defined) or the KRE Disclosure Schedule.

(d) KRE Financial Statements. KRE has furnished to St. Mary its audited balance sheets as of December 31, 1996, 1997 and 1998, its audited statements of income and retained earnings and cash flows for each of the three years ended December 31, 1998, its unaudited balance sheet as of May 31, 1999, and its unaudited statements of income and cash flows for the five months ended May 31, 1999 (collectively, the "KRE Financial Statements"). All of the KRE Financial Statements present fairly, in all material respects, the financial position of KRE as of the respective balance sheet dates and the results of its operations and cash flows for the respective periods therein specified. The KRE Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis.

(e) Present Status. Except as otherwise disclosed in the KRE Disclosure Schedule, from May 31, 1999 to the date of this Agreement, KRE and its Subsidiaries have not incurred any liabilities that are of a nature that would be required to be disclosed on a consolidated balance sheet of KRE and its Subsidiaries or the notes thereto prepared in accordance with GAAP, other than liabilities incurred in the ordinary course of business of KRE and which do not have a Material Adverse Effect on KRE.

(f) Litigation. Except as disclosed in the KRE Financial Statements or Schedule 3.2(f) hereto, there are no legal actions, suits, arbitrations or other legal or administrative proceedings pending or, to the Knowledge of KRI or KRE, threatened against KRE or any Subsidiary of KRE which would reasonably be expected to have a Material Adverse Effect on KRE and its Subsidiaries. In addition, neither KRI nor KRE is aware of any facts which to the best of its Knowledge would reasonably be expected to result in any action, suit, arbitration or other proceeding which would reasonably be expected to have a Material Adverse Effect on KRE and its Subsidiaries. Neither KRE nor any of its Subsidiaries is in default of any judgment, order or decree of any court or, in any material respect of, any requirements of a government agency or instrumentality, except as set forth in the KRE Financial Statements or on the KRE Disclosure Schedule.

(g) Compliance With the Law and Other Instruments. To the best of KRE's and KRI's Knowledge, the business operations of KRE and its Subsidiaries have been and are being conducted in compliance in all material respects with all applicable laws, rules, and regulations of all authorities. Neither KRE nor any of its Subsidiaries are in violation of, or in default under, any term or provision of its certificate of incorporation or its bylaws or in any material respect of any lien,

mortgage, lease, agreement, instrument, order, judgment or decree, except those violations, defaults and restrictions which do not, individually or in the aggregate, have a Material Adverse Effect on KRE and its Subsidiaries, or which do not prohibit KRE from entering into this Agreement.

(h) Title to Properties and Assets. Except as set forth on Schedule 3.2(h) hereto, each of KRE and its Subsidiaries has good and defensible title to the leasehold or well interests set forth in the Ryder Scott Company reports as of January 1, 1999, dated April 9, 1999 and as of January 1, 1999 dated May 21, 1999 (the "Ryder Scott Reports") and the Netherland Sewell and Associates, Inc. report as of January 1, 1999, dated April 9, 1999 (the "Netherland Sewell Report"), and as to all of its material properties and assets, including without limitation those reflected in the KRE Financial Statements and those used or located on property controlled by KRE or any of its Subsidiaries in its business (except assets leased or sold in the ordinary course of business), subject to no mortgage, pledge, lien, charge, security interest, encumbrance or restriction except those which (a) are disclosed in the KRE Financial Statements or the KRE Disclosure Schedule; or (b) do not have a Material Adverse Effect on KRE and its Subsidiaries, taken together.

(i) Oil and Gas Leases and Wells. KRE has furnished to St. Mary lists of all oil and gas leases and wells in which either KRE or its Subsidiaries own or claim any type of

right or interest, whether legal, equitable, or beneficial (the "KRE Leases and Wells Lists"), and the KRE Leases and Wells Lists are accurate and complete in all material respects. All leases listed on the KRE Leases and Wells Lists are valid and in full force and effect, and all rentals, royalties, shut-in payments, minimum royalties, and other payments due thereunder have been timely and properly made. Except as specifically set forth on the KRE Leases and Wells Lists, KRE and its Subsidiaries enjoy and are in peaceful and undisturbed possession under each lease and for each well so listed. Neither KRE nor any of its Subsidiaries has received any notice of, and there does not exist, any default, event, occurrence or act which, with the giving of notice or lapse of time or both, would become a default under any such lease, and neither KRE nor any of its Subsidiaries has violated any of the terms or conditions under any such lease in any material respect. To the Knowledge of KRI and KRE, such real property and the wells, pipelines, gathering lines and facilities, processing facilities, flow lines, tanks, pumps, production platforms, equipment and any and all other buildings, fixtures, equipment and other property attached or appurtenant thereto or situated thereon are in good operating condition and repair, in compliance in all material respects with all applicable laws and are adequate and suitable for the purposes for which they are presently being used, except for such matters which in the aggregate, would not have a Material Adverse Effect on KRE and its Subsidiaries, taken together.

(j) Records. To the best of KRI's and KRE's Knowledge, the books of account and other records of KRE and its Subsidiaries are complete and correct in all material respects, and there have been no material transactions involving the business of KRE and its Subsidiaries which properly should have been set forth in such records, other than those set forth therein.

(k) Absence of Certain Changes or Events. Except as set forth in Schedule 3.2(k) hereto, since May 31, 1999, (i) there has not been any material adverse change in, or event or condition which has had a Material Adverse Effect on, the condition (financial or otherwise), properties, assets, liabilities or, to the best of KRI's and KRE's Knowledge, the business of KRE and its Subsidiaries, taken together, (other than any change or circumstance relating to the economy or securities markets in general or to the oil and gas industry in general and not specifically relating to KRE) and (ii) KRE has not declared or paid any dividend or made any other distribution in respect of any of its capital stock or repurchased or redeemed or otherwise acquired any shares of its capital stock or obligated itself to do any of the foregoing.

(l) Taxes. To the Knowledge of KRI and KRE, except as set forth in Schedule 3.2(l) hereto, KRE and KRE's Subsidiaries have duly filed all federal, state, county, local and foreign income, franchise, excise, real and personal property and other tax returns and reports (including, but not limited to, those relating to social security, withholding, unemployment insurance and occupation (sales) and use taxes) required to have been filed up to the date hereof. To the Knowledge of KRI and KRE, all of the foregoing returns are true and correct in all material respects and KRE and KRE's Subsidiaries have

paid or provided for all taxes, interest and penalties shown on such returns or reports as being due. To the Knowledge of KRI and KRE, KRE and KRE's Subsidiaries have no liability for any amount of taxes, interest or penalties of any nature whatsoever, except for those taxes which may have arisen up to the Closing Date in the ordinary course of business and are properly accrued on the books of KRI, KRE and KRE's Subsidiaries as of the Closing Date.

(m) Environmental Matters. Neither KRI nor KRE is aware of any actions, proceedings or investigations pending or, to the best of KRI's and KRE's Knowledge, threatened before any federal, state or foreign environmental regulatory body or before any federal, state or foreign court alleging material noncompliance by KRE or any of its Subsidiaries with CERCLA or any other laws or regulations regulating the discharge of materials into the environment ("Environmental Laws"). To the best of KRI's and KRE's Knowledge: (i) there is no reasonable basis for the institution of any material action, proceeding or investigation against KRE or any of its Subsidiaries for violation of any Environmental Law; (ii) neither KRE nor any of its Subsidiaries is responsible under any Environmental Law for any release by any person at or in the vicinity of real property of any hazardous substance (as defined by CERCLA) caused by the spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing of any such hazardous substance into the environment, other than routine incidental releases associated with normal operations the remediation of which is required under the Environmental Laws and the cost of which will not be material to KRE; (iii) neither KRE nor any of its Subsidiaries is responsible for any costs of any remedial action required by virtue of any release of any hazardous substance, pollutant or contaminant into the environment, other than routine incidental releases associated with normal operations the remediation of which is required under the Environmental Laws and the cost of which will not be material to KRE; (iv) KRE and its Subsidiaries are in compliance in all material respects with all applicable Environmental Laws; and (v) no real property used, owned, managed or controlled by KRE or any of its Subsidiaries contains any toxic or hazardous substance including, without limitation, any asbestos, PCBs or petroleum products or byproducts in any form, the presence, location or condition of which violates any Environmental Law in any material respect.

(n) KRE Benefit Plans.

(i) Attached hereto as Schedule 3.2(n) is a list identifying each Benefit Plan of KRE or any of its Subsidiaries or in which they participate. For purposes of this Agreement, the term "Benefit Plan" means, with respect to any Person (as defined in Section 7.5), any employee benefit plan (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), written or oral employment or consulting agreement, severance pay plan or agreement, employee relations policy (or practice, agreement or arrangement), agreements with respect to leased or temporary employees, vacation plan or arrangement, sick pay plan, stock purchase plan, stock option

plan, fringe benefit plan, incentive plan, bonus plan, cafeteria or flexible spending account plan and any deferred compensation agreement, (or plan, program, or arrangement) covering any present or former employee of such Person or a Subsidiary of such Person and which is, or at any time was, sponsored or maintained by (or to which contributions are, were, or at any time were required to have been, made by such Person or a Subsidiary of such Person).

(ii) With respect to each KRE Benefit Plan, there has been delivered to St. Mary, (i) copies of each such KRE Benefit Plan (including all trust agreements, insurance or annuity contracts, descriptions, general notices to employees or beneficiaries and any other material documents or instruments relating thereto); (ii) the most recent audited (if required or otherwise available) or unaudited financial statement with respect to each such KRE Benefit Plan; (iii) copies of the most recent determination letters with respect to any such KRE Benefit Plan which is an employee pension benefit plan (as such term is defined under ERISA) intended to qualify under the Internal Revenue Code of 1986 (the "Code") ; and (iv) copies of the most recent actuarial reports, if any, of each such KRE Benefit Plan.

(iii) With respect to each KRE Benefit Plan:

(A) each such KRE Benefit Plan which is an employee pension benefit plan intended to qualify under the Code so qualifies and has received a favorable determination letter as to its qualification under the Code, and no event has occurred

that will or could reasonably be expected to give rise to disqualification or loss of tax-exempt status of any such plan or related trust;

(B) KRE has complied in all material respects with all provisions of ERISA and no act or omission by KRE in connection with any KRE Benefit Plan has occurred that will or could reasonably be expected to give rise to liability for a breach of fiduciary responsibilities under ERISA or to any fines or penalties under ERISA;

(C) all insurance and annuity premiums, if any, required for all periods up to and including the Closing have been or will be paid;

(D) no KRE Benefit Plan provides for any post-retirement life, medical, dental or other welfare benefits (whether or not insured) for any current or former employee except as required under the Code or ERISA or applicable state or local Law;

(E) all contributions required to have been made by law or under the terms of any contract, agreement or KRE Benefit Plan for all complete

and partial periods up to and including the Closing have been made or will be made;

(F) the transactions contemplated by this Agreement will not be the direct or indirect cause of any amount paid or payable from such KRE Benefit Plan being classified as an excess parachute payment under the Code;

(G) there are no matters pending before the United States Internal Revenue Service, the United States Department of Labor or the Pension Benefit Guaranty Corporation ("PBGC");

(H) there have been no claims or notice of claims filed under any fiduciary liability insurance policy covering any KRE Benefit Plan;

(I) each and every such KRE Benefit Plan which is a group health plan (as such term is defined under the Code or ERISA) complies in all material respects, and in each and every case has complied in all material respects, with the applicable requirements of the Code, ERISA, the applicable requirements of the Health Insurance Portability and Accountability Act of 1996, and all other federal, state or local Laws or ordinances requiring the provision or continuance of health or medical benefits;

(J) each and every KRE Benefit Plan which is a cafeteria plan or flexible spending account plan complies in all material respects, and in each and every case has complied in all material respects, with the applicable requirements of the Code and all other applicable federal, state, or local Laws or ordinances; and

(K) each and every KRE Benefit Plan which is a dependent care assistance program complies in all material respects, and in each and every case has complied in all material respects, with the applicable requirements of the Code and all other applicable federal, state or local Laws or ordinances.

(iv) With respect to any employee benefit plan (within the meaning of ERISA), stock purchase plan, stock option plan, fringe benefit plan, bonus plan or any deferred compensation agreement, plan or program (whether or not any such plan, program, or agreement is currently in effect):

(A) there are no actions, suits, or claims (other than routine claims for benefits in the ordinary course) pending or, to the best Knowledge of KRE threatened, and to the best Knowledge of KRE there are no facts

which could give rise to any such actions, suits, or claims (other than routine claims for benefits in the ordinary course), which could subject KRE to any material liability;

(B) KRE has not engaged in a prohibited transaction, as such term is defined in the Code which would subject KRE to any taxes, penalties or other liabilities resulting from prohibited transactions under the Code or under ERISA; and

(C) KRE is not subject to (1) any liability, lien or other encumbrance under any agreement imposing secondary liability on KRE as a seller of the assets of a business under ERISA or the Code, (2) contingent liability under ERISA to the PBGC or to any plan, participant, or other person or (3) a lien or other encumbrance under ERISA.

(v) (A) KRE is not subject to any legal, contractual, equitable, or other obligation to continue any KRE Benefit Plan of any nature, including, without limitation any KRE Benefit Plan or any other pension, profit sharing, welfare, or post-retirement welfare plan, or any stock option, stock or cash award, non-qualified deferred compensation or executive compensation plan, policy or practice (or to continue participation in any such benefit plan, policy or practice) on or after the Closing;

(B) KRE may, in any manner, and without the consent of any employee, beneficiary or other person, terminate, modify or amend any such KRE Benefit Plan (or its participation in such KRE Benefit Plan or any other plan, program or practice) effective as of any date on or after the Closing; and

(C) no representations or communications (directly or indirectly, orally, in writing or otherwise) with respect to participation, eligibility for benefits, vesting, benefit accrual coverage or other material terms of any KRE Benefit Plan have been made prior to the Closing to any employee, beneficiary or other person other than those which are in accordance with the terms and provisions of each such KRE Benefit Plan as in effect immediately prior to the Closing.

(vi) KRE has at no time participated in a multi-employer pension plan defined under Section 3(37) of ERISA.

(vii) With respect to each and every KRE Benefit Plan subject to ERISA: (A) no such KRE Benefit Plan or related trust has been terminated or partially terminated; (B) no liability to the PBGC has been or is expected to be incurred with respect to such KRE Benefit Plan; (C) the PBGC has not instituted

and to the best Knowledge of KRE is not expected to institute any proceedings to terminate such KRE Benefit Plan; (D) there has been no reportable event (within the meaning of ERISA); (E) there exists no condition or set of circumstances that presents a material risk of the termination of such KRE Benefit Plan by the PBGC; (F) no accumulated funding deficiency (as defined under ERISA and the Code), whether or not waived, exists with respect to such KRE Benefit Plan; and (G) the current value of all vested accrued benefits under each such KRE Benefit Plan did not as of the last day of the most recently ended fiscal year of each KRE Benefit Plan, and will not as of the Closing, exceed the current value of the assets of each such KRE Benefit Plan allocable to such vested accrued benefits determined by KRE Benefit Plans' actuary on an ongoing basis.

(viii) Except as set forth on Schedule 3.2(n)(viii) hereto, no director or officer or other employee of KRE or any of its Subsidiaries will become entitled to any retirement, severance or similar benefit or enhanced or accelerated benefit (including any acceleration of vesting or lapse of repurchase rights or obligations with respect to any employee stock option or other benefit under any stock option plan or compensation plan or arrangement of KRE) solely as a result of the transactions contemplated by this Agreement.

(o) Year 2000 Matters. Except as set forth on Schedule 3.2(o) hereto, the computer software operated by KRE and each of its Subsidiaries is capable of providing or is being adapted to provide uninterrupted millennium functionality to record, store, process and present calendar dates falling on or after January 1, 2000 in substantially the same manner and with the same functionality as such software records, stores, processes and presents such calendar dates falling on or before December 31, 1999. The costs of the adaptations referred to in the prior sentence will not be material to KRE and its Subsidiaries. To the Knowledge of KRI and KRE, neither KRE nor any of its Subsidiaries has relationships with third parties the failure of whose systems to be Year 2000 compliant will be material to KRE.

(p) Confidentiality Agreements. All current employees of KRE and its Subsidiaries have executed the KRE Information Resources User Acknowledgment and have received a copy of the KRE Information Resources Use and Protection Policy.

(q) Vote Required. The affirmative vote of the holders of the majority of the outstanding shares of KRE Common Stock at a duly held meeting of such holders (the "Required KRE Vote") to approve the Merger is the only vote of the shareholders of KRE, KRH, KRM or KRI required, other than the votes of the Boards of Directors of KRM, KRH and KRI to approve the Merger.

(r) Fairness Opinion. KRI has received from Nesbitt Burns, KRI's financial advisor with respect to the transactions contemplated by this Agreement, an opinion to the effect that the consideration to be received by the KRI shareholders in the Merger is fair to the KRI shareholders from a financial point of view.

(s) Full Disclosure. To the best of KRI's and KRE's Knowledge, this Agreement and any Schedules, certificates and the KRE Leases and Wells Lists delivered by KRI and KRE in connection herewith or with the transactions contemplated hereby, taken as a whole, neither contain any untrue statement of a material fact nor omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. To the best of KRI's and KRE's Knowledge, there are no facts or circumstances relating to KRE or any Subsidiary of KRE that will have, or would be reasonably likely to have, a Material Adverse Effect on St. Mary following the Closing Date, other than any facts or circumstances (A) disclosed in this Agreement or any schedule, exhibit or other document delivered in connection herewith, or (B) previously disclosed to St. Mary by KRI or KRE.

Section 3.3 Representations and Warranties by St. Mary. Except as set forth in the St. Mary Disclosure Schedule attached to this Agreement as Schedule 3.3 (the "St. Mary Disclosure Schedule") (each section of which qualifies the correspondingly numbered representation and warranty or covenant to the extent specified therein), St. Mary hereby represents and warrants to KRI as follows:

(a) Organization and Standing of St. Mary. St. Mary and each of its Subsidiaries is a corporation duly organized and validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted, and is duly qualified to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties make such qualification necessary other than in jurisdictions where the failure to so qualify would not, either individually or in the aggregate, have a Material Adverse Effect on St. Mary. Except with respect to the St. Mary Subsidiaries set forth on the St. Mary Disclosure Schedule, St. Mary has no direct or indirect interest, either by way of stock ownership or otherwise, in any other firm, corporation, association, or business. The copies of the certificate of incorporation and bylaws of St. Mary which were previously furnished to KRI and KRE are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(b) Authority; No Conflicts.

(i) The execution, delivery and performance of this Agreement have been duly authorized by all requisite corporate action on the part of St. Mary, subject to the Required St. Mary Vote (as defined below). This Agreement has been

executed and delivered by St. Mary and constitutes a valid and binding obligation of St. Mary enforceable in accordance with its terms (except as limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights).

(ii) The execution and delivery of this Agreement by St. Mary does, and the consummation by St. Mary of the Merger and the other transactions contemplated hereby will not, conflict with or result in a violation pursuant to: (A) any provision of the certificate of incorporation or bylaws of St. Mary, (B) any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to St. Mary or any Subsidiary of St. Mary or any of its properties or assets, except as

would not have a Material Adverse Effect on St. Mary, subject to obtaining the consents, approvals, orders, authorizations, registrations, declarations and filings referred to in paragraph (iii) below.

(iii) No consent, approval, order or authorization of, or registration, declaration or filing with, a Governmental Entity is required by or with respect to St. Mary or its Subsidiaries in connection with the execution and delivery of this Agreement by St. Mary or the consummation of the Merger and the other transactions contemplated hereby, except for the Required Consents and such consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain would not have a Material Adverse Effect on St. Mary or its Subsidiaries.

(c) Capitalization of St. Mary and Indebtedness for Borrowed Moneys. St. Mary is duly and lawfully authorized by its certificate of incorporation to issue 50,000,000 shares of St. Mary Common Stock, of which as of the date hereof there are 11,276,938 shares issued and outstanding and 182,800 shares held by St. Mary as treasury stock. St. Mary has no other authorized series or class of stock. All the outstanding shares of St. Mary Common Stock have been duly authorized and validly issued and are fully paid and nonassessable and free of preemptive rights. All of the shares of St. Mary Common Stock to be issued upon consummation of the Merger will be, at the time of issuance, duly authorized and validly issued, and will be fully paid and nonassessable and free of preemptive rights. St. Mary has a Stock Option Plan and an Incentive Stock Option Plan (collectively, the "St. Mary Option Plans") which provide for the issuance of up to an aggregate of 1,650,000 shares of St. Mary Common Stock pursuant to the exercise of options granted under the St. Mary Option Plans. As of the date hereof, options representing in the aggregate the right to purchase 684,322 shares of St. Mary Common Stock have been granted under the St. Mary Option Plans and remain outstanding. St. Mary has an Employee Stock Purchase Plan for the purchase of up to 500,000 shares of St. Mary Common Stock, under which 24,821 shares of St. Mary Common Stock have been purchased through the date hereof. Except with respect to the foregoing and to this

Agreement, and except as set forth on Schedule 3.3(c), neither St. Mary nor any of its Subsidiaries is obligated to issue any additional capital stock or voting securities as a result of any options, warrants, rights, conversion rights, obligations upon default, subscription agreement or other obligation of any kind. St. Mary is not presently liable on account of any indebtedness for borrowed moneys, except as reflected in the St. Mary Financial Statements (as hereinafter defined).

(d) St. Mary SEC Reports and Financial Statements.

(i) St. Mary has filed all required reports, schedules, forms, statements and other documents required to be filed with the SEC (collectively, including all exhibits thereto, the "St. Mary SEC Reports"). No Subsidiary of St. Mary is required to file any form, report or other document with the SEC. None of the St. Mary SEC Reports, as of their respective dates (and, if amended or superseded by filings prior to the date of this Agreement or the Closing Date, then on the date of such filing), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the financial statements (including the related notes) included in the St. Mary SEC Reports presents fairly, in all material respects, the consolidated financial position and consolidated results of operations and cash flows of St. Mary and its Subsidiaries as of the respective dates or for the respective periods set forth therein, all in accordance with GAAP consistently applied during the periods involved except as otherwise noted therein. All of such St. Mary SEC Reports, as of their respective dates (and as of the date of any amendment to the respective St. Mary SEC Report), complied as to form in all material respects with the applicable requirements of the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder.

(ii) St. Mary has furnished to KRM and KRI its audited balance sheets as of December 31, 1996, 1997 and 1998, its audited statements of operations and statements of cash flows for each of the three years ended December 31, 1998, its unaudited balance sheet as of May 31, 1999, and its unaudited income statement and statement of cash flows for the five months ended May 31, 1999 and 1998 (collectively, the "St. Mary Financial Statements"). All of the St. Mary Financial Statements present fairly, in all material respects,

the financial position of St. Mary as of the respective balance sheet dates, and the results of its operations and cash flows for the respective periods therein specified. The St. Mary Financial Statements were prepared in accordance with GAAP (except in the case of unaudited interim financial statements, as permitted by the rules and regulations of the SEC) applied on a consistent basis.

(e) Present Status. Except as otherwise disclosed in the St. Mary Disclosure Schedule, from May 31, 1999 to the date of this Agreement, St. Mary and its Subsidiaries have not incurred any liabilities that are of a nature that would be required to be disclosed on a consolidated balance sheet of St. Mary and its Subsidiaries or the notes thereto prepared in accordance with GAAP, other than liabilities incurred in the ordinary course of business of St. Mary and which do not have a Material Adverse Effect on St. Mary.

(f) Litigation. Except as disclosed in the St. Mary Financial Statements, the St. Mary Disclosure Schedule or Schedule 3.3(f) hereto, there are no legal actions, suits, arbitrations, or other legal or administrative proceedings pending or, to the Knowledge of St. Mary, threatened against St. Mary or any Subsidiary of St. Mary which would reasonably be expected to have a Material Adverse Effect on St. Mary and its Subsidiaries. In addition, St. Mary is not aware of any facts which to the best of its Knowledge would reasonably be expected to result in any action, suit, arbitration or other proceeding which would reasonably be expected to have a Material Adverse Effect on St. Mary and its Subsidiaries. Neither St. Mary nor any of its Subsidiaries is in default of any judgment, order or decree of any court or, in any material respect of, any requirements of a government agency or instrumentality.

(g) Compliance With the Law and Other Instruments. To the best of St. Mary's Knowledge, the business operations of St. Mary have been and are being conducted in compliance in all material respects with all applicable laws, rules, and regulations of all authorities. St. Mary is not in violation of, or in default under, any term or provision of its certificate of incorporation or its bylaws or in any material respect of any lien, mortgage, lease, agreement, instrument, order, judgment or decree, except those violations, defaults and restrictions which do not, individually and in the aggregate, have a Material Adverse Effect on St. Mary and its Subsidiaries, or which do not prohibit St. Mary from entering into this Agreement.

(h) Title to Properties and Assets. Except as set forth on Schedule 3.3(h) hereto, St. Mary and its Subsidiaries have good and defensible title to all of its material properties and assets, including without limitation those reflected in the St. Mary Financial Statements and those used or located on property controlled by St. Mary or any of its Subsidiaries in its business (except assets leased or sold in the ordinary course of business), subject to no mortgage, pledge, lien, charge, security interest, encumbrance or restriction except those which (a) are disclosed in the St. Mary Financial Statements; or (b) do not have a Material Adverse Effect on St. Mary and its Subsidiaries, taken together.

(i) Oil and Gas Leases and Wells. St. Mary has furnished to KRI lists of all oil and gas leases and wells in which St. Mary owns or claims any type of right or interest whether legal, equitable, or beneficial (the "St. Mary Leases and Wells Lists") and the St. Mary Leases and Wells Lists are accurate and complete in all material respects. All leases listed on the St. Mary Leases and Wells Lists are valid and in full force and effect,

and all rentals, royalties, shut-in payments, minimum royalties, and other payments due thereunder have been timely and properly made. Except as specifically set forth on the St. Mary Leases and Wells Lists, St. Mary enjoys and is in peaceful and undisturbed possession under each lease and for each well so listed. St. Mary has not received any notice of, and there does not exist, any default, event, occurrence or act which, with the giving of notice or lapse of time or both, would become a default under any such lease, and St. Mary has not violated any of the terms or conditions under any such lease in any material respect. To the Knowledge of St. Mary, such real property and the wells, pipelines, gathering lines and facilities, processing facilities, flow lines, tanks, pumps, production platforms, equipment and any and all other buildings, fixtures, equipment and other property attached or appurtenant or situated thereon are in good operating condition and repair, in compliance in all material respects with all applicable laws and are adequate and suitable for the purposes for which they are presently being used, except for such matters which in the aggregate, would not have a Material Adverse Effect on St. Mary.

(j) Records. To the best of St. Mary's Knowledge, the books and other records of St. Mary and its Subsidiaries are complete and correct in all material respects, and there have been no material transactions involving the business of St. Mary and its Subsidiaries which properly should have been set forth in such records, other than those set forth therein.

(k) Absence of Certain Changes or Events. Since May 31, 1999, (i) there has not been any material adverse change in, or event or condition which has had a Material Adverse Effect on, the condition (financial or otherwise), properties, assets, liabilities or, to the best of St. Mary's Knowledge, the business of St. Mary and its Subsidiaries, taken together (other than any change or circumstance relating to the economy or securities markets in general or to the oil and gas industry in general and not specifically relating to St. Mary), and (ii) except for its $0.05 per share St. Mary Common Stock dividend per quarter, St. Mary has not declared or paid any dividend or made any other distribution in respect of any of its capital stock, and except for the purchase of 182,800 shares of St. Mary Common Stock under its open market share repurchase program, St. Mary has not repurchased or redeemed or otherwise acquired any shares of its capital stock or obligated itself to do any of the foregoing.

(l) Taxes. To the Knowledge of St. Mary, St. Mary and its Subsidiaries have duly filed all federal, state, county, local and foreign income, franchise, excise, real and personal property and other tax returns and reports (including, but not limited to, those relating to social security, withholding, unemployment insurance, and occupation (sales) and use taxes) required to have been filed by St. Mary and its Subsidiaries up to the date hereof. To the Knowledge of St. Mary, all of the foregoing returns are true and correct in all material respects and St. Mary and its Subsidiaries have paid or provided for all taxes, interest and penalties shown on such returns or reports as being due. To the Knowledge of St. Mary, St. Mary and its Subsidiaries have no liability for any amount of taxes,

interest or penalties of any nature whatsoever, except for those taxes which may have arisen up to the Closing Date in the ordinary course of business and are properly accrued on the books of St. Mary and its Subsidiaries as of the Closing Date.

(m) Environmental Matters. St. Mary is not aware of any actions, proceedings or investigations pending or, to the best of St. Mary's Knowledge, threatened before any federal, state or foreign environmental regulatory body or before any federal, state or foreign court alleging material noncompliance by St. Mary or any of its Subsidiaries with any Environmental Laws. To the best of St. Mary's Knowledge: (i) there is no reasonable basis for the institution of any material action, proceeding or investigation against St. Mary or any of its Subsidiaries for violation of any Environmental Law; (ii) neither St. Mary nor any of its Subsidiaries is responsible under any Environmental Law for any release by any person at or in the vicinity of real property of any hazardous substance (as defined by CERCLA) caused by the spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing of any such hazardous substance into the environment, other than routine incidental releases associated with normal operations the remediation of which is required under the Environmental Laws and the cost of which will not be material to St. Mary; (iii) neither St. Mary nor any of its Subsidiaries is responsible for any costs of any remedial action required by virtue of any release of any hazardous substance, pollutant or contaminant into the environment, other than routine incidental releases associated with normal operations the remediation of which is required under the Environmental Laws and the cost of which will not be material to St. Mary; (iv) St. Mary and its Subsidiaries are in compliance in all material respects with all applicable Environmental Laws; and (v) no real property used, owned, managed or controlled by St. Mary or any of its Subsidiaries contains any toxic or hazardous substance including, without limitation, any asbestos, PCBs or petroleum products or byproducts in any form, the presence, location or condition of which violates any Environmental Law in any material respect.

(n) St. Mary Benefit Plans.

(i) Attached hereto as Schedule 3.3(n) is a list identifying each Benefit Plan of St. Mary or any of its Subsidiaries.

(ii) With respect to each St. Mary Benefit Plan, there has been delivered to KRM and KRI, (i) copies of each such St. Mary Benefit Plan (including all trust agreements, insurance or annuity contracts, descriptions, general notices to employees or beneficiaries and any other material documents or instruments relating thereto); (ii) the most recent audited (if required or

otherwise available) or unaudited financial statement with respect to each such St. Mary Benefit Plan; (iii) copies of the most recent determination letters with respect to any such St. Mary Benefit Plan which is an employee pension benefit plan (as such term is defined under ERISA) intended to qualify under the Code; and (iv) copies of the most recent actuarial reports, if any, of each such St. Mary Benefit Plan.

(iii) With respect to each St. Mary Benefit Plan:

(A) each such St. Mary Benefit Plan which is an employee pension benefit plan intended to qualify under the Code so qualifies and has received a favorable determination letter as to its qualification under the Code, and no event has occurred that will or could reasonably be expected to give rise to disqualification or loss of tax-exempt status of any such plan or related trust;

(B) St. Mary has complied in all material respects with all provisions of ERISA and no act or omission by St. Mary in connection with any St. Mary Benefit Plan has occurred that will or could reasonably be expected to give rise to liability for a breach of fiduciary responsibilities under ERISA or to any fines or penalties under ERISA;

(C) all insurance and annuity premiums, if any, required for all periods up to and including the Closing have been or will be paid;

(D) no St. Mary Benefit Plan provides for any post-retirement life, dental or other welfare benefits (whether or not insured) for any current or former employee except as required under the Code or ERISA or applicable state or local Law;

(E) all contributions required to have been made by law or under the terms of any contract, agreement or St. Mary Benefit Plan for all complete and partial periods up to and including the Closing have been made or will be made;

(F) the transactions contemplated by this Agreement will not be the direct or indirect cause of any amount paid or payable from such St. Mary Benefit Plan being classified as an excess parachute payment under the Code;

(G) there are no matters pending before the United States Internal Revenue Service, the United States Department of Labor or the PBGC;

(H) there have been no claims or notice of claims filed under any fiduciary liability insurance policy covering any St. Mary Benefit Plan;

(I) each and every such St. Mary Benefit Plan which is a group health plan (as such term is defined under the Code or ERISA), complies in all material respects, and in each and every case has complied in all material respects, with the applicable requirements of the Code, ERISA, the applicable requirements of the Health Insurance Portability and

Accountability Act of 1996, and all other federal, state or local Laws or ordinances requiring the provision or continuance of health or medical benefits;

(J) each and every St. Mary Benefit Plan which is a cafeteria plan or flexible spending account plan complies in all material respects, and in each and every case has complied in all material respects, with the applicable requirements of the Code and all other applicable federal, state, or local Laws or ordinances; and

(K) each and every St. Mary Benefit Plan which is a dependent care assistance program complies in all material respects, and in each and every case has complied in all material respects, with the applicable requirements of the Code and all other applicable federal, state or local Laws or ordinances.

(iv) With respect to any employee benefit plan (within the

meaning of ERISA), stock purchase plan, stock option plan, fringe benefit plan, bonus plan or any deferred compensation agreement, plan or program (whether or not any such plan, program, or agreement is currently in effect):

(A) there are no actions, suits, or claims (other than routine claims for benefits in the ordinary course) pending or, to the best Knowledge of St. Mary threatened, and to the best Knowledge of St. Mary there are no facts which could give rise to any such actions, suits, or claims (other than routine claims for benefits in the ordinary course), which could subject St. Mary to any material liability;

(B) St. Mary has not engaged in a prohibited transaction, as such term is defined in the Code which would subject St. Mary to any taxes, penalties or other liabilities resulting from prohibited transactions under the Code or under ERISA; and

(C) St. Mary is not subject to (1) any liability, lien or other encumbrance under any agreement imposing secondary liability on St. Mary as a seller of the assets of a business under ERISA or the Code, (2) contingent liability under ERISA to the PBGC or to any plan, participant, or other person or (3) a lien or other encumbrance under ERISA.

(v) St. Mary has at no time participated in a multi-employer pension plan defined under Section 3(37) of ERISA.

(vi) With respect to each and every St. Mary Benefit Plan subject to ERISA: (A) no such St. Mary Benefit Plan or related trust has been terminated or

partially terminated; (B) no liability to the PBGC has been or is expected to be incurred with respect to such St. Mary Benefit Plan; (C) the PBGC has not instituted and to the best Knowledge of St. Mary is not expected to institute any proceedings to terminate such St. Mary Benefit Plan; (D) there has been no reportable event (within the meaning of ERISA); (E) there exists no condition or set of circumstances that presents a material risk of the termination of such St. Mary Benefit Plan by the PBGC; (F) no accumulated funding deficiency (as defined under ERISA and the Code), whether or not waived, exists with respect to such St. Mary Benefit Plan; and (G) the current value of all vested accrued benefits under each such St. Mary Benefit Plan did not as of the last day of the most recently ended fiscal year of each St. Mary Benefit Plan, and will not as of the Closing, exceed the current value of the assets of each such St. Mary Benefit Plan allocable to such vested accrued benefits determined by St. Mary Benefit Plans' actuary on an ongoing basis.

(vii) No director or officer or other employee of St. Mary or any of its Subsidiaries will become entitled to any retirement, severance or similar benefit or enhanced or accelerated benefit (including any acceleration of vesting or lapse of repurchase rights or obligations with respect to any employee stock option or other benefit under any stock option plan or compensation plan or arrangement of St. Mary) solely as a result of the transactions contemplated by this Agreement.

(o) Year 2000 Matters. The computer software operated by St. Mary is capable of providing or is being adapted to provide uninterrupted millennium functionality to record, store, process and present calendar dates falling on or after January 1, 2000 in substantially the same manner and with the same functionality as such software records, stores, processes and presents such calendar dates falling on or before December 31, 1999. The costs of the adaptations referred to in the prior sentence will not be material to St. Mary and its Subsidiaries. To the Knowledge of St. Mary, neither St. Mary nor any of its Subsidiaries has relationships with third parties the failure of whose systems to be Year 2000 compliant will be material to St. Mary.

(p) Finders and Advisors. Except for Deutsche Bank Securities Inc. a copy of whose engagement agreement with St. Mary has been provided to KRM and KRI, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of St. Mary or any of its Subsidiaries who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement.

(q) Vote Required. The affirmative vote of the holders of shares of St. Mary Common Stock representing a majority of the total shares represented at a duly held meeting of the holders of outstanding shares of

St. Mary Common Stock (the "Required St. Mary Vote") to approve the St. Mary Share Issuance pursuant to the terms of this

Agreement is the only vote of the holders of St. Mary capital stock necessary for the Merger.

(r) Fairness Opinion. St. Mary has received from Deutsche Bank Securities Inc., St. Mary's financial advisor with respect to the transactions contemplated by this Agreement, an opinion to the effect that the consideration to be paid by St. Mary in the Merger is fair to St. Mary from a financial point of view.

(s) Full Disclosure. To the best of St. Mary's Knowledge, this Agreement, and any Schedules, certificates and other St. Mary Leases and Wells Lists delivered by St. Mary in connection herewith or with the transactions contemplated hereby, taken as a whole, neither contain any untrue statement of a material fact nor omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. To the best of St. Mary's Knowledge, there are no facts or circumstances relating to St. Mary or any Subsidiary of St. Mary that will have, or would be reasonably likely to have, a Material Adverse Effect on St. Mary following the Closing Date, other than any facts or circumstances (A) disclosed in this Agreement or any schedule, exhibit or other document delivered in connection herewith, or (B) previously disclosed to KRI or KRE by St. Mary.

Section 3.4 Representations and Warranties of St. Mary and Merger Sub. St. Mary and Merger Sub represent and warrant to KRI and KRE as follows:

(a) Organization and Standing of Merger Sub. Merger Sub is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Colorado. Merger Sub is a first-tier wholly owned subsidiary of St. Mary.

(b) Authority. Merger Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Merger Sub. This Agreement has been duly executed and delivered by Merger Sub and constitutes a valid and binding agreement of Merger Sub, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally.

(c) Non-Contravention. The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of transactions contemplated hereby do not and will not contravene or conflict with the certificate of incorporation or bylaws of Merger Sub.

(d) No Business Activities by Merger Sub. Merger Sub has not conducted any activities other than in connection with the organization of Merger Sub, the negotiation

and execution of this Agreement and the consummation of the transactions contemplated hereby. Merger Sub has no subsidiaries.

ARTICLE IV

COVENANTS RELATING TO CONDUCT OF BUSINESS

Section 4.1 Covenants of KRI and KRE. During the period from the date of this Agreement and continuing until the Effective Time, KRI and KRE agree that (except as expressly contemplated or permitted by this Agreement or as otherwise indicated on the KRE Disclosure Schedule or as required by a Governmental Entity of competent jurisdiction or to the extent that St. Mary shall otherwise consent in writing):

(a) Ordinary Course.

(i) KRE and its Subsidiaries shall carry on their respective businesses in the usual, regular and ordinary course in all material respects, in substantially the same manner as heretofore conducted, and shall use all reasonable efforts to preserve intact their present lines of business, maintain their rights and franchises and preserve their relationships with customers, suppliers and other having business dealings with them to the end that their ongoing

businesses shall not be impaired in any material respect at the Effective Time; provided, however, that no action by KRE or its Subsidiaries with respect to matters specifically addressed by any other provision of this Section 4.1 shall be deemed a breach of this Section 4.1(a)(i) unless such action would constitute a breach of one or more of such other provisions.

(ii) KRI or KRE shall promptly give St. Mary notice of what it reasonably believes to be any material occurrence in the business of KRE or any of its Subsidiaries. KRE shall not, and shall not permit any of its Subsidiaries to, incur or commit to any capital or other expenditure, whether or not in the ordinary course of business, in excess (as to KRE and its Subsidiaries) of $500,000 without the prior written consent of St. Mary, except for capital or other expenditures set forth on Schedule 4.1(a)(ii) attached to this Agreement.

(iii) Notwithstanding the provisions of Section 4.1(a)(i), the parties agree and acknowledge that from the date hereof through the Closing Date, KRE will substantially reduce (and possibly eliminate) its drilling, exploration, development and related activities, provided that such reduction (or elimination) does not constitute, or result in, a material breach by KRE of a written commitment, contract or agreement in effect as of the date hereof or otherwise does not result in a penalty which would have a Material Adverse Effect on KRE. The parties further agree and acknowledge that any such reduction (or elimination) will not constitute a violation of the obligations of KRI and KRE hereunder. In the event

that KRE elects not to pursue a material drilling, exploration, development or related opportunity presented to KRE by a third party from the date hereof through the Closing Date, KRE shall give St. Mary written notice thereof, and St. Mary shall have the right to pursue such opportunity for its own benefit and at its own cost and expense. KRE will use its commercially reasonable efforts to assist St. Mary in exercising the right to pursue any such opportunity.

(b) Dividends; Changes in Share Capital. KRE shall not (i) declare or pay any dividends on or make other distributions in respect of any of its capital stock, (ii) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock, except for any such transaction by a wholly owned Subsidiary of KRE which remains a wholly owned Subsidiary after consummation of such transactions, or (iii) repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock; provided, however, that KRE may increase its authorized capital stock and take such other action as necessary to insure that the distribution of KRE stock to shareholders of KRI is on a one for one basis; and provided, further, that this provision shall not prohibit intercompany transactions in the ordinary course of business consistent with past practice.

(c) Issuance of Securities. KRE shall not, and shall not permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock of any class, any voting securities or any securities convertible into or exercisable for, or any rights, warrants or options to acquire, any such shares or voting securities, or enter into any agreement with respect to any of the foregoing, other than issuances by a wholly owned Subsidiary of KRE of capital stock to such Subsidiary's parent.

(d) Governing Documents. Except to the extent required to comply with obligations hereunder or required by law, KRE and its Subsidiaries shall not amend in any material respect or propose to so amend their respective certificates of incorporation, bylaws or other governing documents.

(e) No Acquisitions. KRE shall not, and shall not permit any of its Subsidiaries to, acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire or agree to acquire any assets (other than the acquisition of assets used in the operations of the business of KRE and its Subsidiaries in the ordinary course subject to Section 4.1(a)(ii)); provided, however, that the foregoing shall not prohibit (y) internal reorganizations or consolidations involving existing Subsidiaries of KRE, or (z) the creation of new Subsidiaries of KRE organized to conduct or continue activities otherwise permitted by this Agreement.

(f) No Dispositions. Other than (i) internal reorganizations or consolidations involving existing Subsidiaries of KRE, or (ii) in the ordinary course of business, KRE shall not, and shall not permit any Subsidiary of KRE to, sell, lease, encumber or otherwise dispose of, or agree to sell, lease, encumber or otherwise dispose of, any of its assets (including capital stock of Subsidiaries of KRE) which are material individually or in the aggregate to KRE.

(g) Investments; Indebtedness. Subject to the provisions of Section 7.2(c) and 7.3(c), KRE shall not, and shall not permit any of its Subsidiaries to, (i) make any loans, advances or capital contributions to, or investments in, any other Person, (ii) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than payments, discharges or satisfactions incurred or committed to in the ordinary course of business consistent with past practice, or (iii), subject to Section 4.1(a)(ii), create, incur, assume or suffer to exist any indebtedness, issuances of debt securities, guarantees, loans or advances not in existence as of the date of this Agreement other than the incurring of accounts payable and accrued expenses, extensions of credit, advances of funds and intercompany transactions in the ordinary course of business consistent with past practices.

(h) Tax-Free Qualification. KRI and KRE shall not, and shall not permit any of KRI's or KRE's Subsidiaries to, take any action that would reasonably be expected to prevent or impede the Merger from qualifying as a reorganization under Section 368 of the Code.

(i) Compensation. Except as contemplated in Section 5.9 hereof, KRE shall not, and shall not permit any of its Subsidiaries to, increase the amount of compensation of any executive officer or other senior employee, make any increase in, or commitment to increase, any employee benefits, adopt or make any commitment to adopt any additional employee benefit plan or make any contribution, other than regularly scheduled contributions, to any KRE Benefit Plan.

(j) Accounting Methods; Income Tax Elections. Except as required by a Governmental Entity, KRE shall not change its methods of accounting in effect at December 31, 1998, except as required by changes in GAAP as concurred in by KRE's independent auditors. KRE shall not (i) change its fiscal year or (ii) make any material tax election.

(k) Preservation of Property. KRE shall take such reasonable actions and institute such reasonable procedures as St. Mary may from time to time specify for assuring that the property of KRE, including but not limited to its equipment and records, is preserved for the benefit of St. Mary upon the completion of the Merger, and all reasonable costs associated with such actions and procedures shall be borne by KRI.

Section 4.2 Covenants of St. Mary. During the period from the date of this Agreement and continuing until the Effective Time, St. Mary agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or as otherwise indicated on the St. Mary Disclosure Schedule or as required by a Governmental Entity of competent jurisdiction or to the extent that KRM, KRI and KRE shall otherwise consent in writing):

(a) Ordinary Course.

(i) St. Mary and its Subsidiaries shall carry on their respective business in the usual, regular and ordinary course in all material respects, in substantially the same manner as heretofore conducted, and shall use all reasonable efforts to preserve intact their present lines of business, maintain their rights and franchises and preserve their relationships with customers, suppliers and others having business dealings with them to the end that their ongoing businesses shall not be impaired in any material respect at the Effective Time; provided, however, that no action by St. Mary or its Subsidiaries with respect to matters specifically addressed by any other provisions of this Section 4.2 shall be deemed a breach of this Section 4.2(a)(i) unless such action would constitute a breach of one or more of such other provisions.

(ii) St. Mary shall promptly give KRE notice of what it reasonably believes to be any material occurrence in the business of St. Mary or any of its Subsidiaries. St. Mary shall not, and shall not permit any of its Subsidiaries to, incur or commit to any capital or other expenditure, whether or not in the ordinary course of business, in excess of $1,000,000 without the prior written consent of KRE, which consent shall not be unreasonably withheld or

delayed, except for capital or other expenditures set forth on Schedule 4.2(a)(ii) attached to this Agreement.

(b) Dividends; Changes in Share Capital. St. Mary shall not (i) declare or pay any dividends on or make other distributions in respect of any of its capital stock, except for a dividend not to exceed $0.05 per share of St. Mary Common Stock per quarter, (ii) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock, except for any such transaction by a wholly owned Subsidiary of St. Mary which remains a wholly owned Subsidiary after consummation of such transaction, or (iii) except under its current open market St. Mary Common Stock share repurchase program (which shall not be expanded or altered), repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares or its capital stock.

(c) Issuance of Securities. St. Mary shall not, and shall not permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock of any class or any securities convertible into or

exercisable for, or any rights, warrants or options to acquire, any such shares, or enter into any agreement with respect to any of the foregoing, other than (i) the issuance of St. Mary Common Stock upon the exercise of stock options pursuant to the St. Mary Option Plans or pursuant to the St. Mary Employee Stock Purchase Plan, (ii) issuances by a wholly owned Subsidiary of St. Mary of capital stock to such Subsidiary's parent or another wholly owned Subsidiary of St. Mary, (iii) issuances of equity-related awards pursuant to St. Mary Benefit Plans consistent with past practices, and (iv) issuances in respect of any acquisitions, mergers, share exchanges, consolidations, business combinations or similar transactions by St. Mary or its Subsidiaries which issuances shall not exceed in the aggregate 550,000 shares.

(d) Governing Documents. Except to the extent required to comply with their respective obligations hereunder, required by law or required by the rules and regulations of Nasdaq, St. Mary and its Subsidiaries shall not amend in any material respect, or propose to so amend their respective certificates of incorporation, bylaws or other governing documents.

(e) Tax-Free Qualification. St. Mary shall not, and shall not permit any of its Subsidiaries to, take any action that would reasonably be expected to (i) prevent or impede the Merger from qualifying as a reorganization under Section 368 of the Code, or (ii) prevent the Spin-Off from qualifying as a distribution in which Section 355(e) applies or prevent such distribution from not being taxable to the shareholders of KRI.

Section 4.3 Advice of Changes; Governmental Filings. Each party shall (a) confer on a regular and frequent basis with the other and (b) promptly report to the other parties on material operational matters or any event or circumstance which (alone or together with other such matters) may have a Material Adverse Effect on such party. KRE and St. Mary shall file all reports required to be filed by each of them with the SEC and all other Governmental Entities between the date of this Agreement and the Effective Time and shall deliver to the other party copies of all such reports promptly after the same are filed. Each of KRE and St. Mary shall have the right to review in advance, and will consult with the other with respect to, all the information relating to the other party and each of their respective Subsidiaries which appears in any filings, announcements or publications made with, or written materials submitted to, any third party or any Governmental Entity in connection with the transactions contemplated by this Agreement. In exercising the foregoing right, each of the parties hereto agrees to act reasonably and as promptly as necessary with respect to such materials. Each party agrees that, to the extent practicable and as timely as practicable, it will consult with, and provide all appropriate and necessary assistance to, the other party with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other party apprised of the status of matters relating to completion of the transactions contemplated hereby.

ARTICLE V

ADDITIONAL AGREEMENTS

Section 5.1 Preparation of Proxies and Registration Statement; Meeting of St. Mary Shareholders.

(a) As promptly as practicable following the execution of this Agreement, St. Mary shall, in cooperation with KRI and KRE, prepare and file with the SEC materials which shall constitute the proxy statements and the registration statement on Form S-4 with respect to the approval of the Merger by the shareholders of KRI and the St. Mary Share Issuance by the shareholders of St. Mary (such proxy statements and registration statement being hereinafter together referred to as the "Form S-4"). St. Mary shall cause the Form S-4 to comply as to form in all material respects with the applicable provisions of the Securities Act and the rules and regulations thereunder. St. Mary shall, as promptly as practicable after receipt thereof, provide copies to KRI and KRE of any written comments received from the SEC with respect to the Form S-4 and advise KRI and KRE of any oral comments with respect to the Form S-4 received from the SEC. St. Mary agrees that none of the information supplied or to be supplied by St. Mary for inclusion or incorporation by reference in the Form S-4 and each amendment or supplement thereto, at the time of mailing thereof and at the time of the St. Mary Shareholders Meeting and the KRE Shareholders Meeting (as defined below), will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. KRI and KRE agree that none of the information supplied or to be supplied by KRI or KRE for inclusion in the Form S-4 and each amendment or supplement thereto, at the time of mailing thereof and at the times of the St. Mary and KRE Shareholders Meetings, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. For purposes of the foregoing, it is understood and agreed that information concerning or related to St. Mary and the St. Mary shareholders meeting will be deemed to have been supplied by St. Mary and information concerning or related to KRI and KRE, and the KRE Shareholders Meeting, shall be deemed to have been supplied by KRI. St. Mary will provide KRI and KRE with a reasonable opportunity to review and comment on any amendment or supplement to the Form S-4 prior to filing such with the SEC, and will provide KRI and KRE with a copy of all such filings made with the SEC. No amendment or supplement for inclusion in the Form S-4 shall be made without the approval of KRI and KRE, which approvals shall not be unreasonably withheld or delayed.

(b) St. Mary shall, as promptly as practicable following the date on which the Form S-4 is declared effective by the SEC, duly call, give notice of, convene and hold a special meeting of its shareholders (the "St. Mary Shareholders Meeting") for the purpose

of obtaining the Required St. Mary Vote, shall take all lawful action to solicit the approval of the St. Mary Share Issuance by the Required St. Mary Vote and the Board of Directors of St. Mary shall, subject to its fiduciary duties, recommend approval of the St. Mary Share Issuance by the shareholders of St. Mary.

(c) KRE shall, as promptly as practicable following the date on which the Form S- 4 is declared effective by the SEC, duly call, give notice of, convene and hold a special meeting of those persons who will be its shareholders ("KRE Shareholders") following the Distributions (the "KRE Shareholders Meeting") for the purpose of obtaining the Required KRE Vote, shall take all lawful action to solicit the approval of the Merger by the Required KRE Vote and the Boards of Directors of KRI and KRE shall, subject to their fiduciary duties, recommend approval of the Merger by the shareholders of KRE.

Section 5.2 Confidentiality - Access to Information. Notwithstanding anything contained in this Agreement to the contrary, all of the parties hereto agree and acknowledge that they are bound by those certain confidentiality agreements between KRI and St. Mary dated February 25, 1999, and April 21, 1999 (the "Confidentiality Agreements"), which remain in full force and effect and shall also govern the information disclosed pursuant to this Agreement. Upon reasonable notice, and subject to the Confidentiality Agreements, each party shall (and shall cause its subsidiaries to) afford to the officers, employees, accountants, counsel, financial advisors and other representatives of the other party reasonable access during normal business hours, during the period prior to the Effective Time, to all its properties, books, contracts, commitments and records and, during such period, such party shall (and shall cause its subsidiaries to) furnish promptly to the other party (a) a copy of each report, schedule and other document filed, published, announced or received by it during such period pursuant to the requirements of federal or state securities laws, as applicable (other than documents which such party is not permitted to disclose under applicable law), and (b) consistent with its legal obligations, all other information concerning its business, properties and personnel as such other

party may reasonably request. The parties shall hold any such information which is non-public in confidence in accordance with the Confidentiality Agreements. Any investigation by St. Mary, KRI or KRE shall not affect the representations and warranties of KRI and KRE or of St. Mary, as the case may be.

Section 5.3 Commercially Reasonable Efforts.

(a) Subject to the terms and conditions of this Agreement, each party will use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the Merger and the other transactions contemplated by this Agreement as soon as practicable after the date hereof.

(b) In furtherance and not in limitation of the covenants of the parties contained in Section 5.3(a), if any administrative or judicial action or proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging any

transaction contemplated by this Agreement, each of the parties shall cooperate in all respects with each other and use its respective commercially reasonable efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the transactions contemplated by this Agreement.

Section 5.4 Public Announcements. St. Mary shall consult with KRI and KRE before issuing any press release or otherwise making any public statements with respect to the transactions contemplated by this Agreement, and shall not issue any such press release or make any such public statement, including a public statement required by applicable law or by obligations pursuant to St. Mary's listing agreement with Nasdaq, prior to such consultation and approval, which approval shall not be unreasonably withheld or delayed. Neither KRI nor KRE nor any Subsidiary of KRI shall issue any press release or otherwise make any public statements with respect to the transactions contemplated by this Agreement without the prior approval of St. Mary, which approval shall not be unreasonably withheld or delayed.

Section 5.5 Restrictions on Transfer of St. Mary Common Stock.

(a) The KRE Shareholders shall not make any disposition by sale, pledge or any other transfer of all or any portion of the shares of St. Mary Common Stock acquired by them pursuant to this Agreement for a period of two years from the Closing Date. The certificates representing the shares of St. Mary Common Stock to be issued to the KRE Shareholders pursuant to this Agreement shall be stamped or otherwise imprinted with a legend substantially similar to the following:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS OF AN AGREEMENT AND PLAN OF MERGER WHICH PLACES CERTAIN RESTRICTIONS ON THE TRANSFER OF THE SHARES REPRESENTED HEREBY. A COPY OF SUCH AGREEMENT AND PLAN OF MERGER IS AVAILABLE AT THE COMPANY'S PRINCIPAL EXECUTIVE OFFICES.

(b) Notwithstanding the foregoing, the above-referenced transfer restrictions shall not apply to the following transactions or under the following circumstances:

(i) The KRE Shareholders may transfer the shares of St. Mary Common Stock acquired under this Agreement pursuant to the laws of descent and distribution and for customary estate planning purposes, and such shares shall continue to be bound by the restrictions set forth in this Section 5.5 for the remainder of the restricted period, as evidenced by the above-referenced legend;

(ii) Subject to the provisions of Rule 145 under the Securities Act of 1933, as amended (the "Securities Act"), if any of Thomas E. Congdon, his spouse or a descendant of his, or any trust or other entity controlled directly or indirectly by any of them, or the MMC 1961 Trust, the TEC 1966 Trust or Greenhouse Associates (together the "Congdon Group"), shall after the Closing Date sell any of their shares of St. Mary Common Stock (other than to another member of the Congdon Group), St. Mary shall give prompt notice thereof to the former shareholders of KRE, and each former shareholder of KRE may sell a percentage of his, her or its aggregate shares of St. Mary Common Stock equal to the percentage of shares owned by the Congdon Group which are so sold. The number of shares of St. Mary Common Stock owned by the Congdon Group on the

date of this Agreement is 1,288,870. Attached hereto as Exhibit 5.5 is a letter of Thomas E. Congdon setting forth that the members of the Congdon Group have no current intention to sell any of their shares of St. Mary Common Stock. Without limiting the generality of the foregoing, in the event of a tender offer made to the shareholders of St. Mary which is subject to Regulation 14D of the Securities Exchange Act of 1934 (a "Tender Offer"), and which is not approved by the Board of Directors of St. Mary, and in the event that the Congdon Group sells shares of St. Mary Common Stock pursuant to such Tender Offer, each former shareholder of KRE may sell pursuant to such Tender Offer a percentage of his, her or its aggregate shares of St. Mary Common Stock equal to the percentage of shares owned by the Congdon Group which are so sold.

(iii) In the event of an Acquisition of St. Mary (as hereinafter defined), the restrictions on the sale, pledge or other transfer of shares of St. Mary Common Stock described in Section 5.5(a) above shall terminate and any shares of capital stock of the acquirer (or an affiliate of the acquirer) received by the former shareholders of KRE in the Acquisition of St. Mary shall not be subject to such restrictions. For purposes of this Agreement, the term "Acquisition of St. Mary" means the occurrence of any of the following events: (i) St. Mary shall not be the surviving entity in any merger (other than a merger with a subsidiary of St. Mary), share exchange, consolidation or other reorganization (or survives only as a subsidiary of an entity other than an Affiliate of St. Mary); or (ii) St. Mary sells, leases or exchanges all or substantially all of its assets to any other person or entity (other than a wholly owned subsidiary of St. Mary). In the event of a Tender Offer which is approved by the Board of Directors of St. Mary pursuant to a plan intended to result in a subsequent Acquisition of St. Mary, the former shareholders of KRE may participate in such Tender Offer to the extent of up to all of his, her or its aggregate shares of St. Mary Common Stock.

Section 5.6 Representation on St. Mary Board of Directors. At the Effective Time, St. Mary shall cause the Board of Directors of St. Mary to consist of not more than eleven directors, nine of whom shall be the Directors of St. Mary immediately prior to the Effective Time and two of whom shall be Jack Hunt and William Gardiner (the "KRE Board Designees"). Thereafter

until two years after the Closing Date, or until such time as the former shareholders of KRE own no shares of St. Mary Common Stock, St. Mary shall utilize commercially reasonable efforts at the time of each annual meeting of the shareholders of St. Mary to cause the KRE Board Designees to be elected to the St. Mary Board of Directors. In the event one or both of the KRE Board Designees are unwilling or unable to serve on the Board of Directors of St. Mary for any reason during the foregoing period, the first alternate to replace a KRE Board Designee shall be John Alexander and the second alternate KRE Board Designee shall be James Clement.

Section 5.7 Expenses. St. Mary shall be responsible for all of its own expenses, including but not limited to legal, accounting and other professional fees and the fees of Deutsche Bank Securities Inc. incurred with respect to this Agreement and the transactions provided for herein. Without limiting the generality of the foregoing, St. Mary shall also be responsible for all costs and registration fees associated with the preparation and filing of the Form S-4. KRI shall be responsible for all the expenses of KRI and KRE, including but not limited to legal, accounting and other professional fees and the fees of Nesbitt Burns, incurred by them with respect to this Agreement and the transactions provided for herein including the preparation of the Form S-4 except that St. Mary shall pay up to $12,000 of the fees of Deloitte & Touche LLP incurred on behalf of KRI and KRE in connection with the Form S-4.

Section 5.8 King Ranch Trademark and Brand. As soon as practicable following the Effective Date, St. Mary and its Subsidiaries, shall not utilize the names "King Ranch," "King Ranch Energy," "King Ranch Oil & Gas," "Running W" or any confusingly similar derivation thereof in connection with their businesses and they shall within such period utilize their commercially reasonable efforts to remove such names, or logos which include such names, from any stationery, purchase orders, equipment or machinery owned by them. Effective January 1, 1999, KRE will not be liable for any fees associated with the use of the "King Ranch" trademark or brand.

Section 5.9 KRE Employee Severance Payments. KRI shall reimburse KRE or St. Mary for severance payments to (i) KRE employees to whom St. Mary does not offer continued employment and who remain employed by KRE until the Closing Date or until such earlier date as agreed upon by KRE and St. Mary and (ii) KRE employees whose employment is continued by St. Mary after the Closing Date for a transition period not in excess of six months. Notwithstanding anything to the contrary contained in the foregoing, (A) the severance payment reimbursement liability of KRI for KRE employees described above shall be based, in St. Mary's

discretion, upon not more than two weeks for each full year of prior employment by KRE except for those employees who are entitled to severance payments computed in accordance with existing agreements with them, as described on Schedule 5.9 hereto, provided that the severance payment to any such employee shall not be less than thirty days salary, (B) the aggregate liability of KRI under this Section 5.9 shall not exceed $850,000, and any excess shall be paid by St. Mary and (C) the payment of severance may be conditioned upon an employee's agreement to a customary confidentiality covenant with respect to KRE's confidential information.

Section 5.10 368(a) Reorganization. St. Mary, Merger Sub, KRI and KRE shall each use commercially reasonable efforts to cause the business combination to be effected by the Merger to be treated as a reorganization within the meaning of Section 368(a) of the Code. From and after the date of this Agreement and after the Effective Time, each party shall use its commercially reasonable efforts to cause the Merger to qualify, and shall not knowingly take any actions or cause any actions to be taken which could prevent the Merger from qualifying, as a reorganization under the provisions of Section 368(a) of the Code.

Section 5.11 355 Distribution. St. Mary, Merger Sub, KRI and KRE shall each use commercially reasonable efforts to cause the Spin-Off to qualify as a distribution in which Section 355(e) of the Code applies and to prevent such distribution from being taxable to the shareholders of KRI. From and after the date of this Agreement and after the Effective Time, each party shall use its commercially reasonable efforts to cause the Spin-Off to qualify, and shall not knowingly take any actions or cause any actions to be taken which are reasonably likely to prevent the Spin-Off from qualifying as a distribution to which Section 355(e) of the Code applies.

Section 5.12 Continuity of Business. Following the Merger, St. Mary intends to cause Merger Sub to continue to a significant extent the historic business of KRE or to use a significant portion of the historic business assets of KRE in a business in substantially the same manner as such business was conducted prior to Closing.

Section 5.13 Indemnification of Officers and Directors. The indemnification obligations set forth in KRE's Certificate of Incorporation and KRE's Bylaws shall survive the Merger, and shall not be amended, repealed or otherwise modified for a period of two years after the Effective Time in any manner that would adversely affect the rights thereunder of the individuals who on or prior to the Effective Time were directors, officers, employees or agents of KRE.

Section 5.14 Retained Litigation. KRI shall retain all liability associated with, and responsibility for the defense of and the costs thereof, the Pi Energy Corporation litigation described in Note 6 of the Notes to the KRE Financial Statements as of December 31, 1998, and any other litigation or threatened litigation set forth on Schedule 3.2(f) hereto (the "Retained Litigation"). Notwithstanding the foregoing, St. Mary shall be obligated to use its commercially reasonable efforts to cooperate with KRI in connection with the defense of the Retained Litigation, including, without limitation, providing KRI access to St. Mary's documents and/or employees, which obligation shall survive the Closing.

Section 5.15 Stockholder's Representative. KRI shall act as the agent and attorney-in-fact with full power and authority in connection with the administration of this Agreement on behalf of the KRE shareholders, including the prosecution of indemnification claims against St. Mary. This appointment shall be coupled with an interest and shall be irrevocable and binding in all respects upon St. Mary and the KRE shareholders and their successors and assigns, and heirs and devisees.

Section 5.16 Voting Commitments. KRI shall obtain from Stephen Kleberg, John Alexander and James Clement, members of the KRI Board of Directors and substantial shareholders of KRI, commitments to (i) vote the shares of stock of KRE which they will receive in the Distributions in favor of the Merger and (ii) subject to their fiduciary obligations as Directors, recommend to the members of their immediate families who are shareholders of KRI that they vote the shares of KRE stock which they will receive in the Distributions in favor of the Merger.

Section 5.17 No Solicitation.

(a) KRI and KRE shall immediately cease and cause to be terminated all existing discussions and negotiations, if any, with any parties conducted heretofore with respect to any Acquisition Proposal. As used in this Section 5.17, "Acquisition Proposal" means any tender offer or exchange offer by a non-affiliated third party for fifty percent or more of the outstanding shares of KRE common stock or any proposal or offer by

a non-affiliated third party for a merger, consolidation, amalgamation or other business combination involving KRE or any equity securities (or securities convertible into equity securities) of KRE, or any proposal or offer by a non-affiliated third party to acquire in any manner a fifty percent or greater equity or beneficial interest in, or a material amount of the assets or value of, KRE, other than pursuant to the transactions contemplated by this Agreement.

(b) Unless and until this Agreement shall have been terminated, KRI and KRE shall not permit any of their officers, directors, employees, agents, financial advisors, counsel or other representatives (collectively, the "Representatives") to, directly or indirectly, (i) solicit, initiate or take any action with the intent of facilitating the making of, any offer or proposal that constitutes or that is reasonably likely to lead to any Acquisition Proposal, (ii) participate in any discussions or negotiations regarding any Acquisition Proposal or (iii) furnish to any Person (other than St. Mary or any Affiliate or Representative of KRI) any nonpublic information or nonpublic data outside the ordinary course of conducting KRE's business; provided, however, that to the extent required by their fiduciary duties under applicable law and after consultation with and based upon the advice of outside legal counsel, KRI's or KRE's Board of Directors and officers may in response to a Person who initiates communication with KRI or KRE, without there having occurred any action prohibited by clause (i) of this sentence, take such actions as would otherwise be prohibited by clauses (ii) and (iii). KRI shall notify St. Mary of any such inquiries, offers or proposals (including the identity of the Person making any inquiry, offer or proposal) as promptly as possible and in any event within 24 hours after receipt thereof or the occurrence of such events, as appropriate, and shall give St. Mary ten days' advance notice of any agreement to be entered into with, or any information or data to be furnished to, any Person in connection with any such inquiry, offer or proposal.

Section 5.18 Seismic Data. The parties agree that neither KRI nor KRE is making any representation or warranty regarding the continued access of St. Mary or the Surviving

Corporation following the consummation of the Merger to any of the seismic data under the seismic licenses to which KRE or any Subsidiary of KRE is a party. Furthermore, the parties agree that (A) certain of such seismic data and licenses are not transferrable to St. Mary or the Surviving Corporation upon consummation of the Merger, and (B) certain of the seismic data and licenses will transfer to St. Mary or the Surviving Corporation only upon the payment of a transfer fee or other penalty. Neither KRI nor KRE shall have any liability to St. Mary or Surviving Corporation in the event that any such seismic data or licenses are not transferrable, or in the event that the consummation of the Merger triggers the payment of a transfer fee or other penalty.

ARTICLE VI

INDEMNIFICATION

Section 6.1 Indemnification by KRI. KRI agrees to and shall defend, indemnify and hold harmless St. Mary, the Surviving Corporation, and each of their subsidiaries, stockholders, affiliates, officers, directors, employees, counsel, agents, successors, assigns and legal representatives (St. Mary and all such other Persons are collectively referred to as the "St. Mary Indemnified Persons") from and against, and shall reimburse the St. Mary Indemnified Persons for, each and every Loss paid, imposed on or incurred by the St. Mary Indemnified Persons, directly or indirectly, relating to, resulting from or arising out of (i) any inaccuracy in any representation or warranty of KRI or KRE under this Agreement, or the KRI or KRE Disclosure or other Schedules hereto or any agreement or certificate delivered or to be delivered by KRI or KRE pursuant hereto, (ii) any claim by a third party against St. Mary Indemnified Persons arising out of an act or omission of KRI or KRE occurring before the Closing Date, or (iii) the Retained Litigation. The indemnification obligations set forth herein shall be that of KRI, and the shareholders of KRI shall have absolutely no liability or obligation hereunder.

Section 6.2 Indemnification by St. Mary. St. Mary agrees to and shall defend, indemnify and hold harmless KRI and each of KRI's respective subsidiaries, stockholders, affiliates, officers, directors, employees, counsel, agents, successors, assigns and legal representatives (KRI and all such other Persons are collectively referred to as the "KRI Indemnified Persons") from and against, and shall reimburse the KRI Indemnified Persons for, each and every Loss paid, imposed on or incurred by the KRI Indemnified Persons, directly or indirectly, relating to, resulting from or arising out of (i) any inaccuracy in any representation or warranty of St. Mary or Merger Sub under this Agreement, or the St. Mary Disclosure Schedule hereto or any agreement or certificate delivered or to be delivered by St. Mary pursuant hereto, or (ii) any claim by a third party against KRI Indemnified Persons arising out of an act or omission of St. Mary or KRE occurring after the Closing Date.

Section 6.3 Notice and Defense of Third-Party Claims. If any Proceeding shall be brought or asserted under this Article against an indemnified party or any successor thereto (the "Indemnified Person") in respect of which indemnity may be sought under this Article from an

indemnifying Person or any successor thereto (the "Indemnifying Person"), the Indemnified Person shall give prompt written notice of such Proceeding to the Indemnifying Person who shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Person and the payment of all expenses; provided, that any delay or failure to so notify the Indemnifying Person shall relieve the Indemnifying Person of its obligations hereunder only to the extent, if at all, that it is prejudiced by reason of such delay or failure. In no event shall any Indemnified Person be required to make any expenditure or bring any cause of action to enforce the Indemnifying Person's obligations and liability under and pursuant to the indemnifications set forth in this Article. In addition, actual or threatened action by a Governmental Entity or other entity is not a condition or prerequisite to the Indemnifying Person's obligations under this Article. The Indemnified Person shall have the right to employ separate counsel in any of the foregoing Proceedings and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnified Person unless the Indemnified Person shall in good faith determine that there exist actual or potential conflicts of interest which make representation by the same counsel inappropriate, as evidenced by the written opinion of outside counsel to the Indemnified Person. The Indemnified Person's right to participate in the defense or response to any Proceeding should not be deemed to limit or otherwise modify its obligations under this Article. In the event that the Indemnifying Person, within 15 days after notice of any such Proceeding, fails to assume the defense thereof, the Indemnified Person shall have the right to undertake the defense, compromise or settlement of such Proceeding for the account of the Indemnifying Person, subject to the right of the Indemnifying Person to assume the defense of such Proceeding with counsel reasonably satisfactory to the Indemnified Person at any time prior to the settlement, compromise or final determination thereof. Anything in this Article to the contrary notwithstanding, the Indemnifying Person shall not, without the Indemnified Person's prior written consent, which consent shall not be unreasonably withheld, settle or compromise any Proceeding or consent to the entry of any judgment with respect to any Proceeding; provided, however, that the Indemnifying Person may, without the Indemnified Person's prior written consent, settle or compromise any such Proceeding or consent to entry of any judgment with respect to any such Proceeding that requires solely the payment of money damages by the Indemnifying Person and that includes as an unconditional term thereof the release by the claimant or the plaintiff of the Indemnified Person from all liability in respect of such Proceeding.

Section 6.4 Limitation of Liability.

(a) Survival. An Indemnifying Person shall have no liability under this Article unless notice of a claim for indemnity, or notice of facts as to which an indemnifiable Loss is expected to be incurred, shall have been given within one year after the Closing Date, except that (i) an Indemnified Person may give notice of and may make a claim for indemnification for any indemnifiable Loss which results from any claim by any third party at any time within two years after the Closing Date, (ii) an Indemnified Person may give notice of and may make a claim relating to the payment of federal or state taxes (including with respect to matters set forth on Schedule 3.2(l)), or compliance with or obligations under ERISA at any time prior to ninety days after the expiration of

the appropriate statute of limitation, if any, with respect thereto, and (iii) St. Mary's Indemnified Persons may give notice of and may make a claim relating to the Retained Litigation at any time.

(b) Limitation on KRI Liability. In addition to the other limitations set forth in Section 6.4 (a) and (d), the liability of KRI to St. Mary's Indemnified Persons shall be subject to the following limitations:

(i) No St. Mary Indemnified Person shall be entitled to indemnification from KRI pursuant to Section 6.1 hereof, except for single Losses in excess of $100,000 (for which the full Loss shall be indemnified and not solely the amount of the Loss in excess of $100,000), unless and until the aggregate of all Losses (excluding single Losses in excess of $100,000 which have been indemnified) for which indemnification would (but for the limitation of this sentence) be required to be paid by KRI hereunder exceeds $600,000 (the "KRI Loss Threshold") after which the St. Mary Indemnified Persons shall be entitled to recover for all Losses and for which

indemnification is required to be paid hereunder (including such $600,000).

(ii) In no event shall the aggregate liability of KRI hereunder exceed $25,000,000 ("KRI Loss Ceiling"). KRI shall have no further obligations under this Article VI of this Agreement at the earlier of the time when KRI has paid or is required to pay to St. Mary's Indemnified Persons an amount equal to the KRI Loss Ceiling.

(iii) Notwithstanding anything in this Section 6.4(b) to the contrary, amounts paid by KRI in connection with the Retained Litigation, including attorneys' fees, court costs, settlements or judgements shall not be used in calculating the KRI Loss Threshold, shall not be limited by the KRI Loss Ceiling and shall be due from KRI irrespective of the provisions of paragraphs (i) and (ii) above.

(c) Limitation on St. Mary Liability. In addition to the other limitations set forth in Section 6.4(a) and (d), the liability of St. Mary to KRI's Indemnified Persons shall be subject to the following limitations:

(i) No KRI Indemnified Person shall be entitled to indemnification from St. Mary pursuant to Section 6.2 hereof, except for single Losses in excess of $100,000 (for which the full Loss shall be indemnified and not solely the amount of the Loss in excess of $100,000), unless and until the aggregate of all Losses (excluding single Losses in excess of $100,000 which have been indemnified) for which indemnification would (but for the limitation of this sentence) be required to be paid by St. Mary hereunder exceeds $600,000 (the "St. Mary Loss Threshold") after which the KRI Indemnified Persons shall be entitled

to recover for all Losses and for which indemnification is required to be paid hereunder (including such $600,000).

(ii) In no event shall the aggregate liability of St. Mary hereunder exceed $25,000,000 ("St. Mary Loss Ceiling"). St. Mary shall have no further obligations under this Article VI of this Agreement at the earlier of the time when St. Mary has paid or is required to pay to KRI an amount equal to the St. Mary's Loss Ceiling.

(d) Tax Benefits; Insurance Recoveries. In calculating the amount of any Loss for which any Indemnifying Person is liable under this Article, there shall be taken into consideration (i) the value of any federal or state income tax benefits and (ii) the amount of any insurance recoveries, net of any amounts which are in effect self-insured, whether through deductibles, co-payments, retention amounts, retroactive premium adjustments or other similar adjustments, the Indemnified Person in fact receives as a direct consequence of the circumstances to which the Loss related or from which the Loss resulted or arose.

Section 6.5 Exclusivity. After the Effective Time, the provisions of this Article shall be the exclusive basis for the assertion of claims by or imposition of liability on the parties hereto arising under or as a result of this Agreement; provided, however, nothing herein shall preclude any party hereto from asserting a claim for equitable non-monetary remedies.

Section 6.6 Waiver of Consequential Damages. With respect to any and all Losses for which indemnification may be available hereunder, each party hereby expressly waives any consequential and punitive damages with respect to a claim against the other party hereto; provided, however, that this waiver shall not apply to the extent such consequential or punitive damages are awarded in a Proceeding brought or asserted by a third party against an Indemnified Person.

ARTICLE VII

CONDITIONS TO CLOSING

Section 7.1 Conditions to Each Party's Obligation to Effect the Merger. Except as may be waived in writing by the Parties, all of the obligations of the Parties under this Agreement are subject to the fulfillment, prior to or at the Closing, of each of the following conditions:

(a) Shareholder Approvals. St. Mary shall have obtained the Required St. Mary Vote in connection with the approval of the St. Mary Share Issuance by the shareholders of St. Mary and KRI shall have obtained the Required KRE Vote in connection with the approval of the Merger by the shareholders of KRE.

(b) No Injunctions, Restraints or Illegality. No laws shall have been adopted or promulgated, and no temporary restraining order, preliminary or permanent injunction or other order issued by a court or other governmental entity of competent jurisdiction shall be in effect, having the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger, provided however, that the provisions of this Section 7.1(b) shall not be available to any party whose failure to fulfill its obligations pursuant to Section 5.3 shall have been the cause of, or shall have resulted in, such order or injunction.

(c) Effectiveness of the Form S-4. The Form S-4 shall have been declared effective by the SEC and shall have become effective in all states where required.

(d) Nasdaq Listing. The shares of St. Mary Common Stock to be issued pursuant to this Agreement shall have been approved upon official notice of issuance for quotation on Nasdaq.

(e) Consummation of the Distribution. The shares of KRE shall have been distributed to the KRI shareholders in accordance with the Distributions.

Section 7.2 Additional Conditions to Obligations of St. Mary and Merger Sub. The obligations of St. Mary and Merger Sub to effect the Merger are subject to the satisfaction of, or waiver by St. Mary, on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of KRI and KRE set forth in Sections 3.1 and 3.2 shall be true and correct in all respects as of the Closing Date and as if made on the Closing Date subject to any changes contemplated by this Agreement.

(b) Performance of Obligations of KRI and KRE. KRI and KRE shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date.

(c) Settlement for KRI-KRE Intercompany Balances. KRI shall have paid to KRE an amount equal to the amount, if any, of intercompany transactions subsequent to May 31, 1999 and up to the Closing Date between KRE (together with any KRE Subsidiary) and KRI (together with any other Subsidiary of KRI), net of any intercompany transactions between KRI (together with any other Subsidiary of KRI) and KRE (together with any KRE Subsidiary) subsequent to that date. No interest shall have accrued from and after December 31, 1998 on any outstanding obligations between KRE or any KRE Subsidiary and KRI or any other KRI Subsidiary. KRI shall provide evidence of the cancellation of any obligation of KRE to repay KRI, or any other Subsidiary of KRI, for (i) the funds advanced by KRI to KRE for the acquisition by KRE of the Flour Bluff properties, and (ii) any indebtedness of KRE to KRI or any other Subsidiary of KRI existing on May 31, 1999.

(d) Certificate of Officers. KRI shall have delivered to St. Mary certificates dated as of the Closing Date, executed in their respective corporate names by, and verified by, the oath of its chief executive officer and chief financial officer certifying to the fulfillment of the conditions specified in subsections (a) and (b) of this Section 7.2.

(e) Opinion of Financial Advisor. The opinion referred to in Section 3.3(r) shall not have been withdrawn by Deutsche Bank Securities Inc.

(f) Opinion of Counsel. St. Mary shall have received a customary opinion of Locke Liddell & Sapp LLP, counsel to KRE and KRI, in a form approved by St. Mary, which approval shall not be unreasonably withheld or delayed.

(g) Non-Exercise of Appraisal Rights. In connection with the Required KRE Vote, the holders of no more than five percent of the outstanding shares of common stock of KRE shall have exercised the rights of dissenting shareholders under Section 262 of the Delaware General Corporation Law ("Dissenting Shares"); provided, however, that if more than five percent, but less than ten percent, of the shares of KRE common shares are Dissenting Shares ("Excess Shares"), KRI shall have the right, but not the obligation, to assume the liability for any Excess Payment (as hereinafter defined). In the event that KRI assumes the liability for any Excess Payment, this condition shall be deemed satisfied. The term "Excess Payment" is the amount by which St. Mary's per share liability for Excess Shares (as adjusted by the exchange ratio into shares of St. Mary Common Stock) exceeds$19.76 per share of St. Mary Common Stock.

(h) Eugene Island Block 341. With respect to the Eugene Island Block

341 oil and gas property, KRE shall have obtained in a form substantially similar to that previously provided to St. Mary the assignment of interest contemplated by that certain Participation Agreement dated February 17, 1998 between NCX Company, Inc. ("NCX") and KRE, which assignment shall be subject to a contract operations agreement between NCX and Chevron U.S.A. Production Company ("Chevron"), a throughput agreement between NCX and Chevron, and an operating agreement between NCX and KRE. If such assignment is not obtained, KRI shall indemnify St. Mary in accordance with the provisions of Article VI hereof to the extent that St. Mary is unable to recover currently non-producing reserves solely due to a lack of rights or interests in such reserves, and this condition to closing shall be deemed satisfied thereby. The liability for such indemnity obligation shall be the values used by St. Mary in the net asset value determination for KRE in connection with the Merger on a case-by-case basis as to each currently non-producing interval covered by such assignment. Such indemnification obligation of KRI shall remain in full force and effect for a period of five years after the Closing Date or until any earlier obtaining of such assignment. If there exists any conflict between this provision and any other provision contained in this Agreement, the provisions set forth in this Section shall control. Notwithstanding the foregoing, no indemnification shall apply if such reserves are not recoverable for any reason other than as specified herein.

(i) Affiliate Restrictions. KRI shall have notified, in writing, persons who are affiliates of KRI or KRE within the meaning of the Securities Act (i) of the application to them of Rule 145 under the Securities Act with respect to St. Mary Common Stock to be issued to them pursuant to this Agreement and (ii) that the certificates of St. Mary Common Stock issued to such persons will bear an additional restrictive legend with respect to the foregoing.

Section 7.3 Additional Conditions to Obligations of KRE and the Shareholders of KRE. The obligations of the shareholders of KRE and KRE to effect the Merger are subject to the satisfaction of, or waiver by KRI on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of St. Mary and Merger Sub set forth in Section 3.3 and Section 3.4 shall be true and correct in all respects as of the Closing Date and as if made on the Closing Date, subject to any changes contemplated by this Agreement.

(b) Performance of Obligations of St. Mary and Merger Sub. St. Mary and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required to be performed by them under this Agreement at or prior to the Closing Date.

(c) Settlement of KRI-KRE Intercompany Balances. KRE shall have paid KRI an amount equal to the amount, if any, of intercompany transactions subsequent to May 31, 1999 and up to the Closing Date between KRI (together with any other Subsidiary of KRI) and KRE (together with any KRE Subsidiary), net of any intercompany transactions between KRE (together with any KRE Subsidiary) and KRI (together with any other Subsidiary of KRI) subsequent to that date, exclusive of funds advanced by KRI to KRE for the acquisition by KRE of the Flour Bluff properties.

(d) Certificate of Officers. St. Mary shall have delivered to KRI a certificate dated as of the Closing Date, executed in its corporate name by, and verified by, the oath of its chief executive officer and vice president of finance certifying to the fulfillment of the conditions specified in subsections (a) and (b) of this Section 7.3.

(e) Opinion of Financial Advisor. The opinion referred to in Section 3.2(r) shall not have been withdrawn by Nesbitt Burns.

(f) Opinion of Counsel. KRI shall have received a customary opinion of Ballard Spahr Andrews & Ingersoll, LLP, counsel to St. Mary, in a form approved by KRI, which approval shall not be unreasonably withheld or delayed.

(g) Tax Certificate. Counsel to KRI shall have received a tax certificate from St. Mary in the form attached hereto as Exhibit 7.3(g).

(h) Tax Opinion. KRI shall have received the opinions of Locke Liddell & Sapp LLP and Ernst & Young LLP that (i) the Merger qualifies as a reorganization under Section 368(a) of the Code, and (ii) the Spin-Off qualifies as a tax-free distribution to the shareholders of KRI under Section 355 of the Code.

ARTICLE VIII

TERMINATION AND AMENDMENT

Section 8.1 Termination. This Agreement may be terminated at any time prior to the Effective Time by action taken or authorized by the Board of Directors of the terminating party or parties, whether before or after approval of the St. Mary Share Issuance by the shareholders of St. Mary and approval of the Merger by the shareholders of KRE, as follows:

(a) by mutual written consent of St. Mary, KRI and KRE, by action of their respective Boards of Directors;

(b) by KRE or by St. Mary if the Effective Time shall not have occurred on or before November 30, 1999 (the "Termination Date"); provided, however, that the right to terminate this Agreement under this Section 8.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement (including without limitation Section 5.3) has to any material extent been the cause of, or resulted in, the failure of the Effective Time to occur on or before the Termination Date;

(c) by KRE or by St. Mary if any Governmental Entity (i) shall have issued an order, decree or ruling or taken any other action (which the parties shall have used their commercially reasonable efforts to resist, resolve or lift, as applicable, in accordance with Section 5.3) permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and nonappealable or (ii) shall have failed to issue an order, decree or ruling or to take any other action (which order, decree, ruling or other action the parties shall have used their commercially reasonable efforts to obtain, in accordance with Section 5.3), in each case of (i) and (ii) which is necessary to fulfill the conditions set forth in subsections 7.1(b) and 7.1(c) as applicable, and such denial of a request to issue such order, decree, ruling or take such other action shall have become final and nonappealable; provided however, that the right to terminate this Agreement under this Section 8.1(c) shall not be available to any party whose failure to comply with Section 5.3 has to any material extent been the cause of such action or inaction;

(d) by KRE or by St. Mary if (i) the approval by the shareholders of St. Mary required for the St. Mary Share Issuance to consummate the Merger shall not have been obtained by reason of the failure to obtain the Required St. Mary Vote, upon the taking of such vote at a duly held meeting of the shareholders of St. Mary or at any reconvened

meeting after any adjournment or postponement thereof, or (ii) the approval by the shareholders of KRE required for the Merger shall not have been obtained by reason of the failure to obtain the Required KRE Vote, upon the taking of such vote at a duly held meeting of the shareholders of KRE or at any reconvened meeting after any adjournment or postponement thereof;

(e) by St. Mary if there has been a material breach of a representation, warranty, covenant or agreement contained in this Agreement on the part of KRI or KRE, and as a result of such breach the conditions precedent set forth in Section 7.1 or Section 7.2, as the case may be, would not then be satisfied; provided, however, that if such breach is curable by KRI or KRE through the exercise of commercially reasonable efforts within the earlier of (i) thirty days from the receipt of written notice of breach by KRI from St. Mary or (ii) November 30, 1999, then for so long as KRI continues to exercise such commercially reasonable efforts, St. Mary may not terminate this Agreement under this Section 8.1(e) unless the breach is not cured in full within such time period; and

(f) by KRI if there has been a material breach of a representation, warranty, covenant or agreement contained in this Agreement on the part of St. Mary, and as a result of such breach the conditions precedent set forth in Section 7.1 or Section 7.3, as the case may be, would not then be satisfied; provided, however, that if such breach is curable by St. Mary through the exercise of commercially reasonable efforts within the earlier of (i) thirty days from receipt of written notice of breach by St. Mary from KRI or (ii) November 30, 1999, then for so long as St. Mary continues to exercise such commercially reasonable efforts, KRI may not terminate this Agreement under this Section 8.1(f) unless the breach is not cured in full within such time period.

Section 8.2 Effect of Termination.

(a) In the event of termination of this Agreement by KRE or by St.

Mary as provided in Section 8.1, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of St. Mary or KRI or their respective subsidiaries, affiliates, employees, officers, directors or counsel, except with respect to the first sentence of Section 5.2, Section 5.7 and this Section 8.2.

(b) If St. Mary shall terminate this Agreement pursuant to Section 8.1(e) hereof, St. Mary may elect (i) to require KRI to pay to it the sum of $1,000,000 (the "Termination Fee"), or (ii) in lieu of the Termination Fee, to exercise its legal right to assert a claim for all available legal monetary and equitable non-monetary remedies against KRI and KRE with respect to such breach. If St. Mary shall terminate this Agreement pursuant to Section 8.1(e) hereof, and on or before December 31, 1999 there is a proposal reflected by a written document (an "Alternative Acquisition Proposal") for an Alternative Transaction (as hereinafter defined), KRI shall be obligated to pay to St. Mary an additional sum of $2,000,000 (the "Alternative Transaction Fee") upon the closing of such Alternative Transaction. An "Alternative Transaction" shall mean a

merger, a tender offer or exchange offer for substantially all or the outstanding capital stock of KRE, or a sale of substantially all of the assets of KRE to one or more non-affiliated purchasers but shall not mean a liquidation or dissolution of KRE which is not a part of one of the foregoing transactions. KRI acknowledges that St. Mary will have incurred significant costs and will have invested significant amounts of time and resources investigating and negotiating the acquisition of KRE, and agrees that the Termination Fee and the Alternative Transaction Fee constitute, if applicable, reasonable liquidated damages in light of the anticipated or actual harm to St. Mary that would be caused by a termination subject to this Section 8.2(b). KRI and KRE further acknowledge that St. Mary may suffer irreparable harm as a result of entering into this Agreement, and in the event St. Mary shall be entitled to terminate this Agreement pursuant to Section 8.1(e) hereof, but elects not to so terminate, St. Mary shall have the right to seek specific enforcement of this Agreement.

(c) If KRI shall terminate this Agreement pursuant to Section 8.1(e) hereof, KRI may elect (i) to require St. Mary to pay to it the Termination Fee, or (ii) in lieu of the Termination Fee, to exercise its legal right to assert a claim for all available legal monetary and equitable non-monetary remedies against St. Mary with respect to such breach. St. Mary acknowledges that KRI will have incurred significant costs and will have invested significant amounts of time and resources investigating and negotiating the acquisition of KRE, and agrees that the Termination Fee, if applicable, constitutes reasonable liquidated damages in light of the anticipated or actual harm to KRI that would be caused by a termination subject to this Section 8.2(b). St. Mary further acknowledges that KRE may suffer irreparable harm through the loss of personnel and/or business opportunities as a result of entering into this Agreement, and in the event KRE shall be entitled to terminate this Agreement pursuant to Section 8.1(f) hereof, but elects not to so terminate, KRI and KRE shall have the right to seek specific enforcement of this Agreement.

(d) Notwithstanding the provisions of paragraphs (a) and (b) above, if this Agreement is terminated because of a failure to obtain the Required St. Mary Vote or the Required KRE Vote, a Termination Fee shall not be payable. However, if this Agreement is terminated because of a failure to obtain the Required KRE Vote, and on or before December 31, 1999 there is an Alternative Acquisition Proposal, an Alternative Transaction Fee shall be payable as set forth in paragraph (b) above upon the closing of such Alternative Transaction, and in that event the Alternative Transaction Fee payable upon the closing of such Alternative Transaction shall be $3,000,000.

(e) Any payment required to be made pursuant to Sections 8.2(b) and (c) shall be made by wire transfer not later than ten business days after first due.

Section 8.3 Amendment. This Agreement may be amended by the parties hereto, by action taken or authorized by their respective Boards of Directors, at any time before or after approval of the St. Mary Share Issuance by the shareholders of St. Mary and the approval of the

Merger by the shareholders of KRI, but, after any such approval, no amendment shall be made which by law or in accordance with the rules of Nasdaq requires further approval by such shareholders without such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

Section 8.4 Extension; Waiver. At any time prior to the Effective Time,

the parties hereto, by action taken or authorized by their respective Boards of Directors, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of all parties hereto. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

ARTICLE IX

ARBITRATION

Section 9.1 Mediation. The parties hereto agree that if any claim, action, dispute or controversy of any kind arises out of or relates to this Agreement or concerns any aspect of performance by any party under the terms of this Agreement, prior to seeking any other remedies, including arbitration or litigation, the aggrieved party shall give written notice to the other party describing the disputed issue. Within ten days after the receipt of such a notice, the parties shall mutually appoint a single mediator to assist in the resolution of the dispute. If the parties cannot agree upon a mediator, either KRI or St. Mary shall have the right to apply to the American Arbitration Association ("AAA") for a single mediator to be appointed to mediate the dispute in accordance with the rules applicable to AAA sponsored proceedings and, upon the appointment of such a mediator by AAA, such mediator shall be deemed to be accepted by the parties hereto. Within twenty days after the appointment of a mediator, either by the parties hereto or, if necessary, by AAA, the parties shall meet one or more times with such mediator in an effort to resolve the matters in dispute. If after such meeting or meetings any aspect of the dispute remains unresolved for a period of an additional ten days, the parties shall be obligated to submit the dispute to arbitration in accordance with the provisions of Section 9.2 immediately below. Any meeting or meetings with the mediator appointed pursuant to this Article IX shall be conducted in Denver, Colorado. The costs and expenses of the mediator shall be borne equally by KRI and St. Mary.

Section 9.2 Arbitration.

(a) Any claim, action, dispute or controversy of my kind arising out of or relating to this Agreement or concerning any aspect of performance by any party under the terms of this Agreement that is not resolved by the mediation process set forth in Section 9.1 above ("Dispute") shall be resolved by mandatory and binding arbitration administered

by the AAA pursuant to the Federal Arbitration Act (Title 9 of the United States Code) in accordance with this Agreement and the then-applicable Commercial Arbitration Rules of the AAA. The parties acknowledge and agree that the transactions evidenced and contemplated hereby involve "commerce" as contemplated in Section 2 of the Federal Arbitration Act. To the extent that any inconsistency exists between this Agreement and the foregoing statutes or rules, this Agreement shall control. Judgment upon the award rendered by the arbitrator acting pursuant to this Agreement may be entered in, and enforced by, any court having jurisdiction absent manifest disregard by such arbitrator of applicable law; provided, however, that the arbitrator shall not amend, supplement or reform in any manner any of the rights or obligations of any party hereunder or the enforceability of any of the terms of this Agreement. Any arbitration proceedings under this Agreement shall be conducted in Denver, Colorado, before a single arbitrator being a member of the State Bar of Colorado for over ten years and having recognized expertise in the field or fields of the matter(s) in dispute.

(b) After first exhausting the mediation process set forth in Section 9.1 upon the request by written notice delivered in accordance with the terms hereof, whether made before or after the institution of any legal proceeding, but prior to the expiration of the statutory time period within which a party must respond upon receipt of valid service of process in order to avoid a default judgment, any Dispute shall be resolved by mandatory and binding arbitration in accordance with the terms of this Agreement. Within ten days after a party's receipt of such notice, each of the parties shall select one qualified arbitrator. The two arbitrators selected by the parties shall then mutually select a third arbitrator (the "Third Arbitrator"), and the Third Arbitrator shall resolve the Dispute in accordance with this Agreement and the applicable AAA rules. If a replacement arbitrator is necessary for any reason, such replacement arbitrator shall be appointed by the Third Arbitrator or, alternatively, if the Third Arbitrator is to be replaced, mutually by the two arbitrators selected by the parties.

(c) All statutes of limitation that would otherwise be applicable

shall apply to my arbitration proceeding. Any attorney-client privilege and other protection against disclosure of privileged or confidential information including, without limitation, any protection afforded the work-product of any attorney, that could otherwise be claimed by any party shall be available to, and may be claimed by, any such party in any mediation or arbitration proceeding. No party waives my attorney-client privilege or any other protection against disclosure of privileged or confidential information by reason of anything contained in, or done pursuant to, the mediation or arbitration provisions of this Agreement.

(d) The arbitration shall be conducted and concluded as soon as reasonably practicable, based on a schedule established by the Third Arbitrator. Any arbitration award shall be based on and accompanied by findings of fact and conclusions of law, shall be conclusive as to the facts so found and shall be confirmable by my court having jurisdiction over the Dispute, provided that such award, findings and conclusions are not

in manifest disregard of applicable law. The Third Arbitrator shall have no authority to award punitive damages or any other damages not measured by the prevailing party's actual damages, and may not, in my event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

(e) In order for an arbitration award to be conclusive, binding and enforceable under this Agreement, the arbitration must follow the procedures set forth in the portions of this Agreement relating to such arbitration and any award or determination shall not be in manifest disregard of applicable law. The obligation to mediate or arbitrate my Dispute shall be binding upon the successors and assigns of each of the parties hereto.

(f) Notwithstanding anything to the contrary contained in this Article IX, the obligation of the parties hereto to mediate and arbitrate shall not apply to any dispute in which injunctive or other equitable relief is sought.

Section 9.3 Costs; Enforcement. Each party shall bear its own expenses, including, without limitation, expenses of counsel incident to any mediation or arbitration. The expenses of the Third Arbitrator and the AAA shall be born equally by KRI and St. Mary. The Third Arbitrator shall have the power and authority to award expenses to the prevailing party if the Third Arbitrator elects to do so. A party may bring summary proceedings (including, without limitation, a plea in abatement or motion to stay further proceedings) in court to compel mediation or arbitration of any Dispute in accordance with this Agreement.

ARTICLE X

MISCELLANEOUS

Section 10.1 Nature of Representations and Warranties; Survival. The representations and warranties of the parties under this Agreement shall survive for a period of one year from the Closing Date; provided, however, that (i) the representations and warranties shall survive for a period of two years from the Closing Date to the extent that any inaccuracy in any representation or warranty results in or involves a claim by any third party and (ii) the representations and warranties made with respect to taxes and benefit plans shall survive until ninety days after the expiration of the appropriate statue of limitation, if any, with respect thereto. Further, the Confidentiality Agreements (defined in Section 5.2) and the obligations with respect to the Retained Litigation (as defined in Section 5.13), shall survive the Closing and remain in full force and effect without a time limitation.

Section 10.2 Counterparts and Facsimile Signatures. In order to facilitate the execution of this Agreement, the same may be executed in any number of counterparts and signature pages may be delivered by telefax, with original executed signature pages to be furnished promptly thereafter.

Section 10.3 Assignment. Neither this Agreement nor any right created hereby shall be assignable by KRI, KRE or St. Mary without the prior written consent of the other parties. Nothing in this Agreement, express or implied, is intended to confer upon any person, other than the parties hereby and their respective successors, assigns, heirs, executors, administrators, or personal representatives, any rights or remedies under or by reason of this Agreement.

Section 10.4 Representative of KRH, KRM and KRE Any executive officer of KRI is hereby authorized to execute any document or take any other action on behalf of KRH, KRM or KRE.

Section 10.5 Entire Agreement. This Agreement, the schedules hereto, and the other documents delivered pursuant hereby constitute the full and entire understanding and agreement between the parties with regard to the subject hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants or agreements except as specifically set forth herein. All prior agreements and understandings are superseded by this Agreement and the schedules hereto.

Section 10.6 Governing Law. This Agreement shall be governed by the laws of the State of New York, except that the Delaware General Corporation Law shall govern as to matters of corporate law pertaining to St. Mary and KRE, the corporate laws of Texas shall govern as to the matters of corporate law pertaining to KRI and the corporate laws of Colorado shall govern as to matters of corporate law pertaining to Merger Sub. Subject to the alternative dispute resolution provisions set forth in Article IX, any action brought to enforce this Agreement or any term thereof shall be brought in a court of competent jurisdiction in Denver, Colorado and each party hereto affirmatively agrees to submit to the jurisdiction in that city and state.

Section 10.7 Severability. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.8 Notices. Any notice, communication, request, reply or advice, hereinafter severally and collectively called "notice," in this Agreement provided or permitted to be given, made or accepted by either party to the other must be in writing and may be given by personal delivery or U.S. mail or confirmed telefax. If given by mail, such notice must be sent by registered or certified mail, postage prepaid, mailed to the party at the respective address set forth below, and shall be effective only if and when received by the party to be notified. For purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

(a) If to St. Mary and/or Merger Sub:

St. Mary Land & Exploration Company
Attn: Mr. Mark A. Hellerstein
President and Chief Executive Officer
1776 Lincoln Street, Suite 1100
Denver, CO 80203-1080
Telefax: (303) 861-0934

With a copy to:

Milam Randolph Pharo, Esq.
Vice President Land & Legal
St. Mary Land & Exploration Company
1776 Lincoln Street, Suite 1100
Denver, CO 80203-1080
Telefax: (303) 863-1040

(b) If to KRH, KRM, KRI and/or KRE:

King Ranch Inc.
Attn: Mr. Jack Hunt, President
1415 Louisiana, Suite 2300
Houston, TX 77002
Telefax: (713) 752-0101

With a copy to:

Greg Hill, Esq.
Locke Liddell & Sapp LLP
3400 Chase Tower
600 Travis
Houston, Texas 77002
Telefax: (713) 223-3717

or at such other address or telefax number as any party may have advised the others in writing.

Section 10.9 Attorney Fees. Except as otherwise provided herein, in the event any party hereto institutes a proceeding against any other party hereto for a claim arising out of or to enforce this Agreement, the parties agree that the judge or arbitrator in any such proceeding shall be entitled to determine the extent to which any party shall pay the reasonable attorneys' fees incurred by the other party in connection with such proceeding, which determination shall take into consideration the outcome of such Proceeding and such other factors as the judge may determine to be equitable in the circumstances.

Section 10.10 Certain Definitions.

(a) "Affiliate" means, with respect to any Person, any other Person that directly, or indirectly through one or-more intermediaries, controls or is controlled by or is under common control with, such Person; as used in this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract, or otherwise.

(b) "Knowledge" means (i) with respect to KRI and KRE, the actual conscious knowledge of Jack Hunt, William Gardiner, Tom Fiorito, William Silk, Brian Romere, Sonny Bryant, Dwight Bowles and Dennis Haydel and (ii) with respect to St. Mary or Merger Sub, the actual conscious knowledge of Thomas E. Congdon, Mark Hellerstein, Ronald Boone, Douglas York, Milam Randolph Pharo, Richard Norris and Gary Wilkering.

(c) "Loss" means any loss, damage, injury, diminution in value, liability, claim, demand, proceeding, judgment, punitive damage, fine, penalty, tax, cost or expense (including reasonable costs of investigation and the fees, disbursements and expenses of attorneys, accountants and other professionals incurred in proceedings, investigations or disputes involving third parties, including governmental agencies).

(d) "Material Adverse Effect" means, with respect to KRE or St. Mary, or any of their respective Subsidiaries, any adverse change, circumstance or effect that, individually or in the aggregate with all other adverse changes, circumstances and effects, or is reasonably likely to be materially adverse to the business, properties, assets, financial conditions or results or such operations of such entity and its Subsidiaries, taken as a whole, other than any change, circumstance or effect relating to the economy or securities markets in general, the price or oil or natural gas, or the industries in which KRE or St. Mary operates and are not specifically relating to KRE or St. Mary.

(e) "Person" means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization, other entity or group (as defined in the Exchange Act).

(f) "Proceeding" means any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Entity or arbitrator.

(g) "Subsidiary" when used with respect to any party means any corporation or other organization, whether incorporated or unincorporated, (i) of which such party or any other Subsidiary of such party is a general partner (excluding partnerships, the general partnership interests of which held by such party or any Subsidiary of such party do not have a majority of the voting interests in such partnership) or (ii) at least a majority of the

securities or other interests of which having by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such party or by any one or more or its Subsidiaries, or by such party and one or more of its Subsidiaries.

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IN WITNESS WHEREOF, this Agreement is hereby duly executed by each party hereto as of the date first written above.

ST. MARY:

ST. MARY LAND & EXPLORATION COMPANY,
a Delaware corporation

By: /S/ MARK A HELLERSTEIN

Mark A. Hellerstein, President and
Chief Executive Officer

MERGER SUB:

ST. MARY ACQUISITION CORPORATION,
a Colorado corporation

By: /S/ MARK A. HELLERSTEIN

Mark A. Hellerstein, President

KRI:

KING RANCH INC.,
a Texas corporation

By: /S/ JACK HUNT

Jack Hunt, President

KRE:

KING RANCH ENERGY, INC.,
a Delaware corporation

By: /S/ WILLIAM GARDINER

William Gardiner, Vice President

Annex B

July 27, 1999

Board of Directors
St. Mary Land & Exploration Company
1776 Lincoln Street
Suite 1100
Denver, Colorado 80203

Gentlemen:

Deutsche Bank Securities Inc. ("Deutsche Bank") has acted as financial advisor to St. Mary Land & Exploration Company ("St. Mary") in connection with the proposed merger of St. Mary Acquisition Corporation ("Merger Sub"), a wholly-owned subsidiary of St. Mary, and King Ranch Energy, Inc. ("KRE"), a wholly-owned subsidiary of King Ranch, Inc. ("KRI"), pursuant to the Agreement and Plan of Merger, dated July 27, 1999, among St. Mary, Merger Sub, KRI and KRE (the "Merger Agreement"), which provides, among other things, for the merger of Merger Sub with and into KRE (the "Transaction"), as a result of which KRE will become a wholly-owned subsidiary of St. Mary. As set forth more fully in the Merger Agreement, as a result of the Transaction, the total number of shares of the Common Stock, par value $0.01 per share, of KRE ("KRE Common Stock") issued and outstanding will be converted into the right to receive 2,666,252 shares (the "Exchange Ratio") of Common Stock, par value $0.01 per share, of St. Mary ("St. Mary Common Stock"). Immediately prior to the completion of the Transaction, all the issued and outstanding shares of KRE Common Stock will be distributed pro rata to the shareholders of KRI (the "Distribution"). Each of the shareholders of KRE who receives St. Mary Common Stock will be restricted from selling such St. Mary Common Stock for a period of two years following the effectiveness of the Transaction, subject to limited exceptions specified in the Merger Agreement. The terms and conditions of the Transaction are more fully set forth in the Merger Agreement.

You have requested Deutsche Bank's opinion, as investment bankers, as to the fairness, from a financial point of view, to St. Mary of the Exchange Ratio.

In connection with Deutsche Bank's role as financial advisor to St. Mary, and in arriving at its opinion, Deutsche Bank has reviewed certain publicly available financial and other information concerning KRE and St. Mary and certain internal analyses and other information furnished to it by KRE and St. Mary. Deutsche Bank has also held discussions with members of the senior managements of KRE and St. Mary regarding the businesses and prospects of their respective companies and the joint prospects of a combined company. In addition, Deutsche Bank has (i) reviewed the reported prices and trading activity for St. Mary Common Stock, (ii) compared certain financial information for KRE and St. Mary, and certain stock market

information for St. Mary, with similar information for certain other companies whose securities are publicly traded, (iii) reviewed the financial terms of certain recent business combinations which it deemed comparable in whole or in part, (iv) reviewed the terms of the Merger Agreement and certain related documents, and (v) performed such other studies and analyses and considered such other factors as it deemed appropriate.

Deutsche Bank has not assumed responsibility for independent verification of, and has not independently verified, any information, whether publicly available or furnished to it, concerning KRE or St. Mary, including, without limitation, any financial information, forecasts or projections considered in connection with the rendering of its opinion. Accordingly, for purposes of its opinion, Deutsche Bank has assumed and relied upon the accuracy and completeness of all such information and Deutsche Bank has not conducted a physical inspection of any of the properties or assets, and has not prepared or obtained any independent evaluation or appraisal of any of the assets or liabilities, of KRE or St. Mary. With respect to the financial forecasts and projections, including any analyses and forecasts of certain cost savings, operating efficiencies, revenue effects and financial synergies expected by St. Mary to be achieved as a result of the Transaction (collectively, the "Synergies"), made available to Deutsche Bank and used in its analyses, Deutsche Bank has assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of St. Mary, as the case may be, as to the matters covered thereby. In rendering its opinion, Deutsche Bank expresses no view as to the reasonableness of such forecasts and projections, including the Synergies, or the assumptions on which they are based. Deutsche Bank's opinion is necessarily based upon economic, market and other conditions as in effect on, and the information made available to it as of, the date hereof.

For purposes of rendering its opinion, Deutsche Bank has assumed that, in all respects material to its analysis, the representations and warranties of St. Mary, Merger Sub, KRI and KRE contained in the Merger Agreement are true and correct, St. Mary, Merger Sub, KRI and KRE will each perform all of the covenants and agreements to be performed by it under the Merger Agreement and all conditions to the obligations of each of St. Mary, Merger Sub, KRI and KRE to consummate the Transaction will be satisfied without any waiver thereof. Deutsche Bank has also assumed that all material governmental, regulatory or other approvals and consents required in connection with the consummation of the Transaction will be obtained and that in connection with obtaining any necessary governmental, regulatory or other approvals and consents, or any amendments, modifications or waivers to any agreements, instruments or orders to which any of St. Mary, Merger Sub, KRI or KRE is a party or is subject or by which it is bound, no limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would have a material adverse effect on St. Mary or KRE or materially reduce the contemplated benefits of the Transaction to St. Mary. In addition, you have informed

Deutsche Bank, and accordingly for purposes of rendering its opinion Deutsche Bank has assumed, that the Transaction will be tax-free to each of St. Mary and KRE.

This opinion is addressed to, and for the use and benefit of, the Board of Directors of St. Mary and is not a recommendation to the stockholders of St. Mary to approve the Transaction or the issuance of shares of St. Mary Common Stock in the Transaction. This opinion is limited to the fairness, from a financial point of view, to St. Mary of the Exchange Ratio, and Deutsche Bank expresses no opinion as to the merits of the underlying decision by St. Mary to engage in the Transaction.

Deutsche Bank will be paid a fee for its services as financial advisor to St. Mary in connection with the Transaction, a substantial portion of which is contingent upon consummation of the Transaction. We are an affiliate of Deutsche Bank AG (together with its affiliates, the "DB Group"). One or more members of the DB Group have, from time to time, provided investment banking and other financial services to St. Mary or its affiliates for which it has received compensation, including certain transactions to hedge price fluctuations of oil and gas. In the ordinary course of business, members of the DB Group may actively trade in the securities and other instruments and obligations of St. Mary for their own accounts and for the accounts of their customers. Accordingly, the DB Group may at any time hold a long or short position in such securities, instruments and obligations.

Based upon and subject to the foregoing, it is Deutsche Bank's opinion as investment bankers that the Exchange Ratio is fair, from a financial point of

view, to St. Mary.

Very truly yours,

DEUTSCHE BANK SECURITIES INC.

/S/ DEUTSCHE BANK SECURITIES INC.

Annex C

July 26, 1999

The Board of Directors
King Ranch, Inc.
1415 Louisiana, Suite 2300
Houston, Texas 77002

Members of the Board:

You have requested our opinion as to the fairness from a financial point of view to the holders of the outstanding shares of common stock (the "Common Stock") of King Ranch, Inc. ("KRI") of the consideration to be received by such shareholders in connection with the proposed merger (the "Merger") of St. Mary Acquisition Corporation ("Merger Sub"), a wholly-owned subsidiary of St. Mary Land & Exploration Company ("St. Mary"), with and into King Ranch Energy, Inc. ("KRE"), a wholly-owned third-tier subsidiary of KRI pursuant to the Agreement and Plan of Merger substantially in the form of the draft dated July 25, 1999, among KRI, KRE, St. Mary and Merger Sub (the "Merger Agreement"). We understand the Merger Agreement provides, among other things, that (i) immediately prior to the Merger all of the shares of common stock of KRE shall be distributed pro rata to the shareholders of KRI, and (ii) upon consummation of the Merger, the KRE common stock held by the holders of Common Stock will be converted into the right to receive 2,666,252 shares of St. Mary common stock in the manner and more fully described in the Merger Agreement (the "Merger Consideration"). We also understand the shares of St. Mary common stock to be received by the holders of KRE common stock in the Merger will be subject, except as set forth in the Merger Agreement, to certain restrictions on transfer for a period of two years from the Closing Date (as such term is defined in the Merger Agreement).

In arriving at our opinion, we have, among other things:

(i) reviewed certain publicly available business and financial information relating to KRI, KRE and St. Mary;

(ii) reviewed certain internal financial and operating information, including financial forecasts of the respective results of operations of KRE and St. Mary as well as certain estimates of the expected operational and financial benefits expected to result from the Merger ("the Expected Synergies"), prepared and provided to us by the managements of KRI, KRE and St. Mary, respectively;

(iii) held discussions with certain senior officers, directors and other representatives and advisors of KRI, KRE and St. Mary concerning their respective strategic objectives, businesses, operations, assets, financial condition and prospects before and after giving effect to the Merger and the Expected Synergies;

(iv) reviewed the reported prices and trading activity for St. Mary common stock;

(v) considered, to the extent publicly available, the financial terms of certain other similar transactions recently effected which we considered relevant in evaluating the transaction contemplated by the Merger Agreement;

(vi) analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations we considered relevant in evaluating those of KRE and St. Mary;

(vii) participated in discussions and negotiations among representatives of KRI, KRE and St. Mary and their respective legal and financial advisors;

(viii) reviewed the draft Merger Agreement and certain related agreements (the "Reviewed Documents"); and

(ix) conducted such other analyses, inquiries and examinations and considered such other financial, engineering, economic and market

criteria as we deemed appropriate in arriving at our opinion.

In rendering our opinion, we have assumed and relied upon, without independent verification, the accuracy, fair representation and completeness of all financial and other information, data, advice, opinions and representations publicly available or furnished to or otherwise reviewed by or discussed with us and our opinion is conditional upon such accuracy, fairness and completeness. With respect to financial forecasts, Expected Synergies and other information provided to or otherwise reviewed by or discussed with us by management of KRI, KRE or St. Mary, we have assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of KRI's, KRE's or St. Mary's management as to the expected future financial performance of KRE or St. Mary, as the case may be. Subject to the exercise of professional judgment and except as expressly described herein, we have not assumed any responsibility or attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions and representations. We have further assumed that the Merger will be accounted for as a purchase under generally accepted accounting principles and that it will qualify as a tax-free reorganization for U.S. Federal income tax purposes. We have also assumed that the final form of the transaction documents, including the Merger Agreement, will be substantially similar to the Reviewed Documents.

We have not made or been provided with an independent evaluation of the assets or liabilities (contingent or otherwise) of KRI, KRE, or St. Mary nor have we made any physical inspection of the properties or assets of KRI, KRE or St. Mary. Our opinion is also based upon the condition and prospects, financial and otherwise, of KRE and St. Mary as they were reflected in the information and documents reviewed by us and as they were represented to us in our discussions with management of KRI, KRE and St. Mary. In our analyses and in connection with the preparation of our opinion, we made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved. For the purpose of rendering this opinion, we have assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the Merger, no restriction, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the Merger.

Our opinion is necessarily rendered on the basis of information available to us including financial and securities markets, economic and general business and financial conditions and other conditions and circumstances existing and disclosed to us, as at the date hereof. The opinion expressed herein is the opinion of Nesbitt Burns and the form and content herein have been approved for release by a committee of its directors, each of whom is experienced in merger, acquisition, divestiture and valuation matters.

We are acting as financial advisor to KRI in connection with the Merger and will receive a fee from KRI for our services, a significant portion of which is contingent upon the consummation of the Merger. In addition, KRI has agreed to indemnify us for certain liabilities arising out of our engagement.

In the ordinary course of our business, we and certain of our affiliates may actively trade the securities of St. Mary for our own account or for the account of our customers and, accordingly, may at any time hold a long or short position in such securities. We have in the past provided certain financial advisory and investment banking services to KRI and may continue to do so and have received, and may receive, compensation for the rendering of such services.

Our advisory services and the opinion expressed herein are provided for the use and benefit of the Board of Directors of KRI in its evaluation of the Merger. Our opinion does not address the merits of the underlying decision by KRI to engage in the Merger and is not intended to be and does not constitute a recommendation to any shareholder of KRI or KRE as to how such shareholder should vote on the proposed Merger or any matter related thereto. We are not expressing any opinion herein as to the prices at which the St. Mary common stock will trade following the announcement or consummation of the Merger. Our opinion may not be published or otherwise used or referred to, nor shall any public reference to Nesbitt Burns be made, without our prior written consent in each specific instance, except that this opinion may be included in its entirety in any proxy statement to be distributed to the holders of Common Stock in connection with the Merger.

Based upon and subject to all the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, we are of the opinion that, as of the date hereof, the Merger Consideration to be received by the holders of Common Stock is fair from a financial point of view to the holders of Common Stock.

Yours truly,

/S/ NESBITT BURNS SECURITIES INC.

Annex D

SECTION 262 OF THE DELAWARE GENERAL CORPORATION LAW

Section 262. Appraisal rights.

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to ss.228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in one or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to ss. 251 (other than a merger effected pursuant to ss. 251(g) of this title), ss. 252, ss.254, ss.257, ss.258, ss.263 or ss.264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by National Association of Securities Dealers, Inc. or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of ss.251 of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to ss.ss. 251, 252, 254, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under ss.253 of this title is not owned by the parent corporation immediately prior to the merger, appraisal

rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and(e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for such meeting with respect to shares for which appraisal rights are available pursuant to subsections (b) or (c) hereof that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the

merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to ss.228 or ss.253 of this title, each constituent corporation, either before the effective date of the merger or consolidation or within ten days thereafter, shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section; provided that, if the notice is given on or after the effective date of the merger or consolidation, such notice shall be given by the surviving or resulting corporation to all such holders of any class or series of stock of a constituent corporation that are entitled to appraisal rights. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date or the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding

the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) hereof and who is otherwise entitled to appraisal rights, may file a petition in the Court of Chancery

demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw his demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after his written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) hereof, whichever is later.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After determining the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or execution of the merger or consolidation, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. In determining the fair rate of interest, the Court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have had to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any stockholder

entitled to participate in the appraisal proceeding, the Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the stockholder entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted his certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that he is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Interest may be simple or compound, as the Court may direct. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the

certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded his appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of his demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Indemnification Under Delaware Law and St. Mary Certificate of Incorporation and By-Laws

As permitted by the provisions of the Delaware General Corporation Law, the St. Mary certificate of incorporation eliminates in certain circumstances the monetary liability of directors of St. Mary for a breach of their fiduciary duty as directors. These provisions do not eliminate the liability of a director for:

- a breach of the director's duty of loyalty to St. Mary or its stockholders,
- acts or omissions by a director not in good faith or which involve intentional misconduct or a knowing violation of law,
- liability arising under Section 174 of the Delaware General Corporation Law (relating to the declaration of dividends and purchase or redemption of shares in violation of the Delaware General Corporation Law), or
- any transaction from which the director derived an improper personal benefit.

In addition, these provisions do not eliminate the liability of a director for violations of federal securities laws, nor do they limit the rights of St. Mary or its stockholders, in appropriate circumstances, to seek equitable remedies such as injunctive or other forms of non-monetary relief. Such remedies may not be effective in all cases.

St. Mary's certificate of incorporation and by-laws provide that St. Mary shall indemnify all directors and officers of St. Mary to the full extent permitted by the Delaware General Corporation Law. Under such provisions, any director or officer who in his capacity as such is made or threatened to be made a party to any suit or proceeding may be indemnified if the St. Mary board of directors determines such director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of St. Mary. The St. Mary certificate of incorporation, by-laws and the Delaware General Corporation Law further provide that such indemnification is not exclusive of any other rights to which such individuals may be entitled under the certificate of incorporation, the by-laws, any agreement, vote of stockholders or disinterested directors or otherwise.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling St. Mary pursuant to the foregoing provisions, St. Mary has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

St. Mary D&O Insurance

The directors and officers of St. Mary are insured under a policy of directors' and officers' liability insurance issued by Executive Risk.

Merger Agreement Provisions For King Ranch Energy Directors and Officers

Under the merger agreement, the provisions in the King Ranch Energy certificate of incorporation

and bylaws for the indemnification of King Ranch Energy officers and directors will survive the merger for a period of two years.

While the King Ranch Energy certificate of incorporation does not contain any express provisions concerning the indemnification of directors and officers, the King Ranch Energy bylaws generally provide that a directors or officer who in the capacity as such is made or threatened to be made a party to a lawsuit or proceeding shall be indemnified if the individual acted in good faith and in a manner the individual reasonably believed to be in or not opposed to the best interests of King Ranch Energy. The King Ranch Energy bylaws further provide that such indemnification is not exclusive of any other rights to which such individual may be entitled under the certificate of incorporation, any agreement, vote of stockholders or disinterested directors or otherwise.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) List of Exhibits

The following exhibits are furnished as part of this registration statement:

<TABLE>
<CAPTION>

Exhibit No.	Description
<S>	<C>
2.1	Agreement and Plan of Merger dated July 27, 1999 among St. Mary Land & Exploration Company, St. Mary Acquisition Corporation, King Ranch Minerals, Inc., King Ranch Holdings, Inc., King Ranch, Inc. and King Ranch Energy, Inc. (included as Annex A to the document contained in this registration statement)*
3.1	Restated Certificate of Incorporation of St. Mary Land & Exploration Company dated November 11, 1992 (filed as Exhibit 3.1A to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)
3.2	Certificate of Amendment to Certificate of Incorporation of St. Mary Land & Exploration Company dated June 22, 1998*
3.3	Restated By-laws of St. Mary Land & Exploration Company as of June 15, 1994*
3.4	Certificate of Incorporation of King Ranch Energy, Inc.*
3.5	Bylaws of King Ranch Energy, Inc.*
4.1	St. Mary Land & Exploration Company Shareholder Rights Plan adopted on July 15, 1999 (filed as Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q/A (File No. 0-20872) for the quarter ended June 30, 1999 and incorporated herein by reference)
5.1	Opinion of Ballard Spahr Andrews & Ingersoll, LLP regarding the validity of the securities being registered*
8.1	Opinion of Locke Liddell & Sapp LLP regarding certain federal income tax consequences relating to the merger*
8.2	Opinion of Ernst & Young LLP regarding certain federal income tax consequences relating to the merger*
10.1	Stock Option Plan (filed as Exhibit 10.3 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)
10.2	Stock Appreciation Rights Plan (filed as Exhibit 10.4 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)
10.3	Cash Bonus Plan (filed as Exhibit 10.5 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)
10.4	Net Profits Interest Bonus Plan (filed as Exhibit 10.6 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)
10.5	Summary Plan Description/Pension Plan dated January 1, 1985 (filed as Exhibit 10.7 to the registrant's Registration Statement on Form S-1

(Registration No. 33-53512) and incorporated

herein by reference)

10.6 Non-qualified Unfunded Supplemental Retirement Plan, as amended (filed as Exhibit 10.8 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)

10.7 Summary Plan Description Custom 401(k) Plan and Trust (filed as Exhibit 10.10 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)

10.8 Stock Option Agreement - Mark A. Hellerstein (filed as Exhibit 10.11 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)

10.9 Stock Option Agreement - Ronald D. Boone (filed as Exhibit 10.12 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)

10.10 Employment Agreement between Registrant and Mark A. Hellerstein (filed as Exhibit 10.13 to the registrant's Registration Statement on Form S-1 (Registration No. 33-53512) and incorporated herein by reference)

10.11 Summary Plan Description 401(k) Profit Sharing Plan(filed as Exhibit 10.34 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1994 and incorporated herein by reference)

10.12 Summary Plan Description/Pension Plan dated December 30, 1994 (filed as Exhibit 10.35 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1994 and incorporated herein by reference)

10.13 Second Restated Partnership Agreement - Panterra Petroleum (filed as Exhibit 10.41 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1995 and incorporated herein by reference)

10.14 Purchase and Sale Agreement between Siete Oil & Gas Corporation and St. Mary Land & Exploration Company (filed as Exhibit 10.42 filed to the 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 and incorporated herein by reference)

10.15 Acquisition Agreement regarding the sale of the St. Mary Land & Exploration Company's interest in the Russian joint venture (filed as Exhibit 10.43 filed to the registrant's Current Report on Form 8-K (File No. 0-20872) dated December 16, 1996 and incorporated herein by reference)

10.16 Employment Agreement between registrant and Ralph H. Smith, effective October 1, 1995 (filed as Exhibit 99 filed to the registrant's Current Report on Form 8-K (File No. 0-20872) dated January 28, 1997 and incorporated herein by reference)

10.17 St. Mary Land & Exploration Company Employee Stock Purchase Plan (filed as Exhibit 10.48 filed to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1997 and incorporated herein by reference)

10.18 Credit Agreement dated June 30, 1998 (filed as Exhibit 10.52 to the registrant's Quarterly Report on Form 10-Q (File No. 0-20872) for the quarter ended June 30, 1998 and incorporated herein by reference)

10.19 Purchase and Sale Agreement dated November 12, 1998 between ONEOK Resources Company (filed as Exhibit 10.53 filed to the registrant's Current Report on Form 8-K (File No. 0-20872) dated December 30, 1998 and incorporated herein by reference)

10.20 Credit Agreement between Panterra Petroleum and Colorado National Bank dated June 17, 1997 (filed as Exhibit 10.25 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1998 and incorporated herein by reference)

10.21 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 (filed as Exhibit 10.26 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1998 and incorporated herein by reference)

10.22 Pledge and Security Agreement From Summo USA Corporation and Lisbon Valley Mining Co. LLC to St. Mary Minerals Inc. dated November 23, 1998 (filed as Exhibit 10.27 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1998 and incorporated herein by reference)

10.23 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 (filed as Exhibit 10.28 to the registrant's Annual Report on Form 10-K (File No. 0-20872) for the year ended December 31, 1998 and incorporated herein by reference)

10.24 St. Mary Land & Exploration Company Incentive Stock Option Plan, As Amended on March 25, 1999 (filed as Exhibit 10.1 to registrant's

Quarterly Report on Form 10-Q (File No. 0-20872) for the quarter ended March 31, 1999 and incorporated herein by reference)

10.25 St. Mary Land & Exploration Company Stock Option Plan, As Amended on March 25, 1999 (filed as Exhibit 10.2 to registrant's Quarterly Report on Form 10-Q (File No. 0-20872) for the quarter ended March 31, 1999 and incorporated herein by reference)

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

10.27 Stock Exchange Agreement dated June 1, 1999 among St. Mary Land & Exploration Company, Robert L. Nance, Penni W. Nance, Amy Nance Cebull and Robert Scott Nance*

10.28 Stock Exchange Agreement dated June 1, 1999 between St. Mary Land & Exploration Company and Robert T. Hanley*

10.29 Stock Exchange Agreement dated June 1, 1999 among St. Mary Land & Exploration Company, Robert L. Nance and Robert T. Hanley*

10.30 Loan and Stock Purchase Agreement dated June 25, 1999 among Resource Capital Fund L.P., St. Mary Land & Exploration Company and St. Mary Minerals Inc.*

10.31 Credit Agreement dated June 25, 1999 among Summo Minerals Corporation, Summo USA Corporation, Resource Capital Fund L.P. and St. Mary Minerals Inc.*

10.32 Replacement Promissory dated June 25, 1999 payable to St. Mary Minerals Inc. in the amount of $1,400,000*

10.33 Pledge and Security Agreement dated June 25, 1999 among Summo Minerals Corporation, Resource Capital Fund L.P., and St. Mary Minerals Inc.*

10.34 Pledge and Security Agreement dated June 25, 1999 among Summo USA Corporation, Resource Capital Fund L.P., and St. Mary Minerals Inc.*

10.35 Warrant Agreement dated June 25, 1999 among Summo Minerals Corporation, Resource Capital Fund L.P. and St. Mary Minerals Inc.*

21.1 Subsidiaries of St. Mary Land & Exploration Company*

23.1 Consent of Arthur Andersen LLP*

23.2 Consent of PricewaterhouseCoopers LLP*

23.3 Consent of Deloitte & Touche LLP*

23.4 Consent of Ballard Spahr Andrews & Ingersoll, LLP (included in the opinion filed as Exhibit 5.1 to this Registration Statement)*

23.5 Consent of Locke Liddell & Sapp LLP*

23.6 Consent of Ernst & Young LLP*

23.7 Consent of Ryder Scott Company, L.P. with respect to St. Mary reserve reports*

23.8 Consent of Deutsche Bank Securities Inc.*

23.9 Consent of Nesbitt Burns Securities Inc.*

23.10 Consent of Ryder Scott Company, L.P. with respect to King Ranch Energy reserve reports*

23.11 Consent of Netherland Sewell & Associates, Inc. with respect to King Ranch Energy reserve reports*

24.1 Power of Attorney*

99.1 Form of St. Mary Proxy Card*

99.2 Form of King Ranch Energy Written Consent*

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* Filed herewith.

ITEM 22. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 % change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; and

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;

(4) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(5) That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other

items of the applicable form;

(6) That every prospectus (i) that is filed pursuant to paragraph (5) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Securities Act of 1933 and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and

(7) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to any provision or arrangement whereby the registrant may indemnify a director, officer or controlling person or the registrant against liabilities arising under the Securities Act, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(c) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, State of Colorado, on August 19, 1999.

ST. MARY LAND & EXPLORATION COMPANY

By: /S/ THOMAS E. CONGDON
Thomas E. Congdon, Chairman of the Board

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/S/ THOMAS E. CONGDON Thomas E. Congdon	Chairman of the Board and Director	August 19, 1999
/S/ MARK A. HELLERSTEIN Mark A. Hellerstein	President, Chief Executive Officer and Director	August 19, 1999
Ronald D. Boone	Executive Vice President, Chief Operating Officer and Director	August ___, 1999
/S/ RICHARD C. NORRIS Richard C. Norris	Vice President - Finance, Secretary and Treasurer	August 19,1999
/S/ GARRY A. WILKENING Garry A. Wilkening	Vice President - Administration and Controller	August 19, 1999
/S/ LARRY W. BICKLE Larry W. Bickle	Director	August 16, 1999
/S/ DAVID C. DUDLEY David C. Dudley	Director	August 13, 1999
/S/ RICHARD C. KRAUS Richard C. Kraus	Director	August 19, 1999
R. James Nicholson	Director	August __, 1999

/S/ AREND J. SANBULTE Arend J. Sandbulte	Director	August 15, 1999
John M. Seidl	Director	August ____, 1999

EXHIBIT 3.2

CERTIFICATE OF AMENDMENT
TO
CERTIFICATE OF INCORPORATION

St. Mary Land & Exploration Company, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

1. That at a regular meeting of the Board of Directors of St. Mary Land & Exploration Company (the "Company") a resolution was adopted proposing an amendment to the restated Certificate of Incorporation of the Company declaring such amendment to be advisable and calling for a vote of its shareholders at the annual meeting held on May 20, 1998 which was adjourned to June 3, 1998. The resolution setting forth the proposed amendment was as follows:

RESOLVED, that Article Fourth of the Company's restated Certificate of Incorporation is hereby amended to read as follows:

FOURTH: The total number of shares of capital stock which the corporation shall have authority to issue is 50,000,000 shares of $.01 par value each.

FURTHER RESOLVED, that the officers of the Company are hereby authorized and empowered to do or cause to be done all such acts or things and to sign and deliver or cause to be signed and delivered all such documents, instruments and certificates, in the name and on behalf of the Company or otherwise, as such officers may deem necessary, advisable or appropriate to effectuate and carry out the purposes and intent of the foregoing resolutions.

2. That thereafter at the annual meeting of the shareholders called and held on May 20, 1998 and adjourned to June 3, 1998 upon notice and accordance with Section 222 of the General Corporation Law of the State of Delaware the necessary number of shares as required by law were voted in favor of the amendment.

3. That the amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, St. Mary Land and Exploration Company has caused this certificate to be signed by Mark A. Hellerstein, its President, and attested by David L. Henry, its Secretary, this 22nd day of June, 1998.

ST. MARY LAND & EXPLORATION
COMPANY, a Colorado

ATTEST:

/S/ DAVID L. HENRY
- ----------
David L. Henry, Secretary

By: /S/MARK A. HELLERSTEIN

Mark A. Hellerstein, President

EXHIBIT 3.3

6/15/94

RESTATED BY-LAWS

OF

ST. MARY LAND & EXPLORATION COMPANY

NAME

1. The title of this Corporation is St. Mary Land & Exploration Company.

OFFICE

2. This Corporation may establish or discontinue, from time to time, such offices and places of business within or without the State of Delaware as the Board of Directors may deem proper for the conduct of the Corporation's business.

SEAL

3. The corporate seal of this Corporation shall have inscribed thereon the name of this Corporation and the year of its creation and the words "Corporate Seal, Delaware."

STOCKHOLDERS' MEETINGS

4. (a) The annual meeting of the Stockholders shall be held on the third Thursday in May of each year, or at such other time, at the principal office of the Corporation, or such other place, within or without the State of Colorado, as the Board of Directors may determine, when the Stockholders shall elect a Board of Directors for the ensuing year and transact such other business as may come before it.

(b) Special meetings of the Stockholders shall be held at the place prescribed for the annual meetings, unless otherwise ordered by the Board of Directors, and shall be called by the Secretary on the written request of two Directors, or on the written request of the owners of a majority of the capital stock.

(c) Except as otherwise provided by law or the Certificate of Incorporation, the holders of one-third (1/3) of the shares of the capital stock entitled to vote at the meeting present in person or by proxy shall constitute a quorum at all meetings of the Stockholders. In the absence of a quorum, the holders of a majority of such shares of stock present in person or by proxy may adjourn any meeting from time to time, until a quorum shall be present. At any such adjourned

meeting at which a quorum may be present, any business may be transacted which might have been transacted at the meeting as originally called. No notice of any adjourned meeting need be given other than by announcement at the meeting that is being adjourned, provided that if the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, then a notice of the adjourned meeting shall be given to each Stockholder of record entitled to vote at the meeting.

(d) Each Stockholder of record, as determined pursuant to Article 16 of these By-Laws, shall be entitled to one vote either in person or by proxy for each share of capital stock registered in his name on the books of the Corporation, provided, that, each Stockholder of record of a fractional share shall be entitled to a vote equal to such fractional share. Except as otherwise provided by law, by the Certificate of Incorporation or by Article 5 of these By-Laws, all elections of Directors and all other actions to be taken by Stockholders shall be decided by the vote of the holders of a majority of the shares of capital stock present in person or by proxy at the meeting and entitled to vote in the election or on the action.

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

(f) Any action required to be taken, or which may be taken, at any meeting of Stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of shares of outstanding capital stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of stock entitled to vote thereon were present and voted; provided, that prompt notice of the taking of corporate action without a meeting by less than unanimous written consent shall

be given to those Stockholders who have not consented in writing.

DIRECTORS

5. (a) The property and business of this Corporation shall be managed by a Board of at least three Directors.

(b) The number of Directors may be fixed from time to time by resolution by the Board of Directors but shall not be less than three; the Board of Directors may at any regular or special meeting increase its number by electing additional members to hold office until the next annual meeting of the Stockholders, or until their successors shall be elected and qualified or until their earlier resignation or removal.

(c) Regular meetings of the Board of Directors shall be held at such times as may be determined by resolution of the Board of Directors and no notice shall be required for any regular meeting. Except as otherwise provided by law, any business may be transacted at any regular meeting of the Board of Directors.

(d) Special meetings of the Board of Directors shall be called by the Secretary on the request of the President, or on the request in writing of any two other Directors stating the purpose or purposes of such meeting. Notice of any special meeting shall be in form approved by the President. Notices of special meetings shall be mailed to each Director, addressed to him at his

residence or usual place of business, not later than three (3) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegraph, cable or other form of recorded communication or be delivered personally or by telephone, not later than the day before such day of meeting. Notice of any meeting of the Board of Directors need not be given to any Director if he shall sign a written waiver thereof either before or after the time stated therein, or if he shall attend a meeting, except when he attends such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in any notice or written waiver of notice. Unless limited by law, by the Certificate of Incorporation or by these By-Laws, any and all business may be transacted at any special meeting.

(e) A majority of the whole Board of Directors (the whole Board of Directors being the number of Directors fixed by resolution of the Board of Directors from time to time) shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors unless otherwise provided by law, the Certificate of Incorporation or these By-Laws. A majority of the Directors present at any meeting may adjourn the meeting from time to time without further notice other than announcement at the meeting. If at any meeting a quorum is not present, a majority of the Directors present may adjourn the meeting from time to time without notice other than announcement at the meeting until a quorum is present.

(f) Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors, or of such committee, as the case may be, consent thereto in writing, and such written consent is filed with the minutes of the proceedings of the Board of Directors or of such committee. Furthermore, members of the Board of Directors, or any committee thereof, may participate in a meeting of the Board of Directors, or of such committee, by means of conference telephone or other similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

(g) In case of any increase in the number of Directors, or of any vacancy in the Board of Directors, the additional director or directors may be elected, or, as the case may be, the vacancy or vacancies may be filled, either (a) by the Board of Directors at any meeting by affirmative vote of a majority of the remaining Directors, though the remaining Directors be less than a quorum, or by a sole remaining Director, or (b) by the holders of capital stock of the Corporation entitled to vote thereon, either at an annual meeting of Stockholders or at a special meeting of such holders called for that purpose. The Directors so chosen shall hold office until the next annual meeting of Stockholders and until their successors are elected and qualify or until their earlier resignation or removal.

(h) By resolution of the Board of Directors, any Director may be paid any one or more of the following: his expenses, if any, of attendance at meetings; a fixed sum for attendance at meetings; or a stated salary as Director. Nothing here in contained shall be construed to preclude

any Director from serving the Corporation in any capacity as an officer, employee, agent or otherwise, and receiving compensation therefor.

(i) The Board of Directors shall have power to elect or appoint all necessary officers and committees, to employ agents, factors, clerks and workmen, to require any of them to give such bond for the faithful discharge of their duties as may be deemed wise, to fix their compensation, to prescribe their duties, to dismiss any appointed officer or employee, and generally to control all the officers of the Corporation.

(j) The Board of Directors may, by resolution passed by a majority of the whole Board of Directors as specified in the Certificate of Incorporation, designate one or more committees, each to consist of one or more of the Directors of the Corporation, and may appoint chairmen of any such committees. To the extent provided in the resolution designating such committee, and to the extent permitted by law, each such committee shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

(k) The Board of Directors, in addition to the powers and authority expressly conferred upon them by these By-Laws, may exercise all such powers and do all such things as may be exercised or done by the Corporation, but subject, nevertheless, to the provisions of the law, of the Certificate of Incorporation, and of these By-Laws.

OFFICERS

6. The officers of the Corporation shall be a Chairman of the Board, President, one or more Vice-Presidents, a Secretary, a Treasurer, one or more Assistant Secretaries, one or more Assistant Treasurers, a Controller and such other officers as may from time to time be elected or appointed by the Board of Directors. The determination of whether or not to fill such positions shall be within the discretion of the Board of Directors, except as otherwise provided by law. Any offices except those of President and Vice-President or President and Secretary may be held by the same person. All officers shall serve at the pleasure of the Board of Directors. Any officer may be removed by the Board of Directors at anytime with or without cause. A vacancy in any office shall be filled by the Board of Directors.

CHAIRMAN OF THE BOARD

7. The Chairman of the Board shall preside at all meetings of the Stockholders and at all meetings of the Board of Directors. He shall have general powers and duties of management and such other powers and duties as may be prescribed by the Board of Directors or the By-Laws.

PRESIDENT

8. The President shall be a member of the Board of Directors, and he shall be the chief executive officer of the Corporation and shall exercise general supervision and administration over all

its affairs and shall have such further duties as are incident to the office of President or prescribed by law or as shall from time to time be designated by the Board of Directors. He shall, in the absence of the Chairman of the Board, preside at all meetings of the Stockholders and Directors. He shall sign or countersign as may be necessary all such bills, notes, checks, contracts and other instruments as may pertain to the business and affairs of the Corporation, and he shall sign, when duly authorized, all contracts, orders, deeds, liens, licenses and other instruments of a special nature. He shall, as far as may be possible and desirable, familiarize himself with and exercise supervision over the affairs of this or any other corporation in which this Corporation may be interested.

VICE-PRESIDENT

9. In the absence of the President or in the event of his inability or refusal to act, the Vice-President, if any (or, if there be more than one, the Vice-Presidents in the order designated by the President, subject to revision by the Board of Directors, and, absent such designation or revision, in the order of their first election to that office), shall perform the duties and discharge the responsibilities of the President. They shall have such other duties and powers as shall from time to time be designated by the Board of Directors or by the President.

SECRETARY

10. The Secretary shall be sworn to the faithful discharge of his duties and shall keep full minutes of all the meetings of the Stockholders and of the Board of Directors, and shall perform the same duty for the standing committees when required. He shall issue all calls for meetings of the Stockholders and Directors and shall notify all officers and Directors of their election. He shall have charge of the seal of the Corporation and affix the same to any instrument requiring it. He shall have charge of the stock certificate books, stock transfer books, and stock ledgers, and such other books and papers as the Board of Directors may place in his charge. He shall make such reports to the Board of Directors as they may require, and he shall also prepare such reports and statements as may be required by the provisions of the law.

ASSISTANT SECRETARY

11. The Assistant Secretary (or if there be more than one, the Assistant Secretaries in the order designated by the President, subject to revision by the Board of Directors, and, absent such designation or revision, in the order of their first election to that office) shall, in the absence, disability, or refusal to act of the Secretary, be vested with all the powers of the Secretary and shall perform all his duties. He shall assist the Secretary in the performance of his duties, and shall have such powers and perform such other duties as the Board of Directors may from time to time direct.

TREASURER

12. The Treasurer shall be the custodian of all the funds and securities of the Corporation and shall keep full and accurate records and accounts in books provided for that purpose of all receipts, disbursements, credits, assets, liabilities and general financial transactions of the Corporation. He shall endorse for collection or deposit, to the credit of the Corporation, all bills, notes, checks and other negotiable instruments of the Corporation coming into his hands in such depositories and safe deposits

as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the specific instructions of the Board of Directors or any committee established thereby, taking proper vouchers for all such disbursements, and he shall give bond to the Corporation in such sum and with such surety as shall be satisfactory to the proper officers of the Corporation.

ASSISTANT TREASURER

13. The Assistant Treasurer (or, if there be more than one, the Assistant Treasurers in the order designated by the President, subject to revision by the Board of Directors, and, absent such designation or revision, in the order of their first election to that office) shall, in the absence, disability or refusal to act of the Treasurer, be vested with all the powers of the Treasurer and shall perform all his duties. He shall assist the Treasurer in the performance of his duties, and shall have such powers and perform such other duties as the Board of Directors may from time to time direct.

CONTROLLER

14. The Controller shall exercise and perform such powers and duties with respect to the administration of the business and affairs of the Corporation as may from time to time be assigned to him by the Board of Directors.

OFFICER PRO TEM

15. In the absence of any officer, the Board of Directors may delegate his powers and duties to any other officers or to any Director, for the time being.

STOCK

16. (a) Every Stockholder shall be entitled to have a certificate, in such form as the Board of Directors shall from time to time approve, signed by or in the name of the Corporation by the President or any Vice-President and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, certifying the number of shares owned by him.

(b) Any or all the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

(c) A record of the name and address of the holder of such certificate, the number of shares represented thereby, and the date of issue thereof, shall be made on the Corporation's books. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof, and accordingly, shall not be bound to recognize any

equitable or other claim to or interest in any share on the part of any other person whether or not it shall have express or other notice thereof, except as required by the laws of Delaware.

(d) Any person claiming a stock certificate in lieu of one lost, stolen, mutilated or destroyed shall give the Corporation an affidavit as to his ownership of the certificate and of the facts as to its loss, theft, mutilation or destruction. He shall also, if required by the Board of Directors, give the Corporation a bond, in such form and amount as may be approved by the Board of Directors, sufficient to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or theft of the certificate or the issuance of a new certificate.

(e) The Corporation may maintain one or more transfer offices or agencies, each under the control of a transfer agent designated by the Board of Directors, where the shares of stock of the Corporation shall be transferable. The Corporation may also maintain one or more registry offices, each under the control of a registrar designated by the Board of Directors, wherein such shares of stock shall be registered.

(f) Transfer of shares shall, except as provided in paragraph 16(d) of this Article, be made on the books of the Corporation only by direction of the person named in the certificate or his attorney, lawfully constituted in writing, and only upon the surrender for cancellation of the certificate therefor, duly endorsed or accompanied by a written assignment of the shares evidenced thereby.

(g) In order that the Corporation may determine the Stockholders entitled to notice of or to vote at any meeting of Stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

INSPECTION OF BOOKS AND ACCOUNTS

17. Except as otherwise provided by law and the Certificate of Incorporation, the Directors shall determine from time to time whether, and, if allowed, when and under what conditions and regulations the accounts and books of the Corporation, or any of them, shall be open to the inspection of the Stockholders, and the Stockholders' rights in this respect are and shall be restricted and limited accordingly.

ALTERATION AND AMENDMENT

18. The Board of Directors may by a majority vote of the whole Board, adopt, amend or repeal these By-Laws at any regular meeting or at any special meeting.

DEFERRED MEETINGS

19. If any meeting provided for in these By-Laws should fall upon a legal holiday, the same shall be held upon the next succeeding business day at the same hour and place.

INDEMNIFICATION OF OFFICERS, DIRECTORS EMPLOYEES AND AGENTS: INSURANCE

20. (a) The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding,

whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the

Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

(c) To the extent that a Director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b), or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) Any indemnification under subsections (a) and (b) (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the Director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsections (a) and (b). Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion.

(e) Expenses incurred by an officer or Director in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such

action, suit or proceeding upon receipt of an undertaking by or on behalf of such Director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article 20. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

(f) (i) The indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any by-law, agreement, vote of Stockholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office; and (ii) the indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a Director, officer, employee or agent, and shall inure to the benefit of the heirs, executors and administrators of such a person.

(g) The Company may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this section.

(h) The provisions of this Article 20 shall be separable and the invalidity of all or any part thereof as applied to any particular type of liability or any particular person shall not preclude application of any remaining portion thereof to such situation or such person, nor application of the provisions of this Article to any other situation or person.

COMPENSATION TO DIRECTORS

21. By resolution of the Board of Directors, any Director may be paid any one or more of the following: his expenses, if any, of attendance at meetings, a

fixed sum for attendance at meetings; or a stated salary as Director. Nothing herein contained shall be construed to preclude any Director from serving the Corporation in any capacity as an officer, employee, agent or otherwise, and receiving compensation therefor.

CONFLICTS OF INTEREST

22. No Director may pursue for his own account a business or investment opportunity if he has obtained knowledge of such opportunity through his affiliation with the Corporation, provided that the Corporation is interested in pursuing such opportunity and provided that the Corporation is financially or otherwise able to pursue such opportunity. No officer or employee of the Corporation may pursue for his own account an oil and gas opportunity unless (a) with respect to a non-officer of the Corporation, such employee's pursuit of such opportunity has been approved by a senior officer of the Corporation with full knowledge of such opportunity and (b) with respect

to an officer of the Corporation, such officer's pursuit of such opportunity has been approved by the Board of Directors. The foregoing restrictions shall not apply to the acquisition of less than one percent of the publicly traded securities of another company, provided that the Corporation is not at such time engaged in any present or pending transaction with such other company.

EXHIBIT 3.4

CERTIFICATE OF INCORPORATION

OF

KING RANCH ENERGY, INC.

1. The name of the corporation is King Ranch Energy, Inc.

2. The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

4. The total number of shares of stock which the corporation shall have authority to issue is one thousand (1,000) and the par value of each of such shares is One Dollar ($1.00) amounting in the aggregate to One Thousand Dollars ($1,000.00).

5A. The name and mailing address of each incorporator is as follows:

NAME	MAILING ADDRESS
Larry L. Worden	c/o King Ranch, Inc. 1400 Louisiana Street, Suite 2300 Houston, TX 77002-7352

5B. The name and mailing address of each person, who is to serve as a director until the first annual meeting of the stockholders or until a successor is elected and qualified, is as follows:

NAME	MAILING ADDRESS
Jack Hunt	c/o King Ranch, Inc. 1400 Louisiana Street, Suite 2300 Houston, TX 77002-7352
Abraham Zaleznik	c/o King Ranch, Inc. 1400 Louisiana Street, Suite 2300 Houston, TX 77002-7352

6. The corporation is to have perpetual existence.

7. In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized to make or repeal the by-laws of the corporation.

8. Elections of directors need not be written by ballot unless the by-laws of the corporation shall so provide.

Meetings of stockholders may be held within or without the State of Delaware, as the by-laws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated form time to time by the board of directors or in the by-laws of the corporation.

IN WITNESS WHEREOF, I execute this Certificate of Incorporation on this 6th day of November, 1997.

/s/ LARRY L. WORDEN

Larry L. Worden

STATE OF TEXAS

COUNTY OF HARRIS

I, the undersigned Notary Public, do hereby certify that on this 6th day of November, 1997, personally appeared before me, Larry L. Worden, who being by me first duly sworn, declared that he is the person who signed the foregoing document as incorporator, and that the statements therein contained are true.

IN WITNESS WHEREOF, I have hereunto set my hand and seal the day and year above written.

/s/ KATHY SOSTAK

Notary Public in and for
the State of Texas

My commission expires: 9/26/99

EXHIBIT 3.5

KING RANCH ENERGY, INC.

B Y L A W S

ARTICLE 1

Offices

Section 1.1 Principal Office. The principal office of the Corporation shall be at 1415 Louisiana Street, Suite 2300, Houston, Texas 77002-7352, or at such other place as the Board may from time to time select.

Section 1.2 Registered Office and Agent. The registered office of the Corporation required by the General Corporation Law of Delaware to be maintained in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, and the name of its registered agent at such office is The Corporation Trust Company. The registered agent and the address of the registered office may be changed, and the required filing with the Secretary of State of Delaware in connection with any such change may be authorized from time to time, by the Board of Directors.

Section 1.3 Other Offices. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE 2

Meetings of Stockholders

Section 2.1 Place of Meetings. The Board of Directors may designate any place, either within or without the State of Delaware, as the place of meeting for any annual meeting or for any special meeting called by the Board.

Section 2.2 Annual Meeting. (a) An annual meeting of stockholders shall be held in each year on the first Saturday in June at ten o'clock in the morning for the election of a Board of Directors and for the transaction of such other business as may properly be brought before the meeting.

(b) The Board of Directors may change the date and time specified in paragraph (a) above for the holding of any annual meeting of the stockholders as it shall deem advisable, provided, however, that no change of the date and time of any such meeting shall be made within ten (10) days next before the date specified for such meeting in paragraph (a) above.

Section 2.3 Special Meetings. Special meetings of the stockholders for any purpose or purposes, unless otherwise prescribed by law or by the Articles of Incorporation, may be called by (a) the President, (b) the Board of Directors or (c) the holders of at least one-fifth (1/5) of the votes which all stockholders are entitled to cast at the particular meeting. Business transacted at all special meetings shall be confined to the purpose or purposes stated in the call.

Section 2.4 Notice of Meetings. Written or printed notice of all meetings of stockholders stating the place, day and hour thereof, and in the case of a special meeting the purpose or purposes for which the meeting is called, shall be personally delivered or mailed, not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting, to the stockholders of record entitled to vote at such meeting. If mailed, the notice shall be addressed

to the stockholders as their addresses appear on the stock transfer books of the Corporation and the postage shall be prepaid. Personal delivery of any such notice to any officer of a corporation or association, or to any member of a partnership, shall constitute delivery of such notice to such corporation, association or partnership.

Section 2.5 Voting Lists. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make, at least ten (10) days before each meeting of the stockholders, a complete list of stockholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of each and the number of shares held by each, which list, for a period of ten (10) days prior to such meeting, shall be kept on file at the registered office of the Corporation and shall be subject to inspection by any stockholders at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any stockholder for the duration of the meeting. The original stock transfer books shall be prima facie evidence as

to who are the stockholders entitled to examine such list or transfer books or to vote at any meeting of stockholders. Failure to comply with the Section 2.5 with respect to any meeting of stockholders shall not affect the validity of any action taken at such meeting. In lieu of making such list, the Corporation may make the information therein available by any other means permitted by statute.

Section 2.6 Quorum. The holders of a majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise provided by law, by the Articles of Incorporation or by these Bylaws. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote at such meeting, present in person or represented by proxy, shall have the power to adjourn the meeting from time

to time without notice other than announcement at the meeting until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally convened. The stockholders present at a duly organized meeting at which a quorum was present may continue to transact business until adjournment notwithstanding the withdrawal of enough stockholders to leave less than a quorum present.

Section 2.7 Organization. (a) The Chairman of the Board, if one shall be elected, shall preside at all meetings of the stockholders. In the absence of the Chairman of the Board or should one not be elected, the President or, in his absence, such other officer designated by the Board shall preside.

(b) The Secretary of the Corporation shall act as secretary at all meetings of the stockholders. In his absence an Assistant Secretary shall so act and in the absence of all of these officers the presiding officer may appoint any person to act as secretary of the meeting.

Section 2.8 Homes. (a) At any meeting of the stockholders every stockholder entitled to vote at such meeting shall be entitled to vote in person or by proxy executed in writing by such stockholder or by his duly authorized attorney-in-fact. Proxies shall be filed with the Secretary immediately after the meeting has been called to order.

(b) No proxy shall be valid after eleven (11) months from the date of its execution unless such proxy otherwise provides.

(c) Each proxy shall be revocable before it has been voted unless the proxy form conspicuously states that the proxy is irrevocable and the proxy is coupled with an interest, including the appointment as proxy of (i) a pledgee, (ii) a person who purchased or agreed to purchase, or owns or holds an option to purchase, the shares, (iii) a creditor of the Corporation

who extended its credit under terms requiring the appointment, (iv) an employee of the Corporation whose employment contract requires the appointment or (v) a party to a voting agreement created under the General Corporation Law of the State of Delaware. A revocable proxy shall be deemed to have been revoked if the Secretary of the Corporation shall have received at or before the meeting instructions of revocation or a proxy bearing a later date, which instructions or proxy shall have been duly executed and dated in writing by the stockholder.

(d) In the event that any instrument in writing shall designate two (2) or more persons to act as proxies, a majority of such persons present at the meeting or, if only one shall be present, then that one, shall have and may exercise all of the powers conferred by such written instrument upon all the persons so designated unless the instrument shall otherwise provide.

(e) A telegram or other electronic transmission which contains the information required to be set forth in a proxy shall be deemed to be a written proxy for purposes of any meeting of stockholders.

Section 2.9 Voting of Shares. (a) Except as otherwise provided by law, the Articles of Incorporation or these Bylaws, each stockholder shall be entitled at each meeting of stockholders to one (1) vote on each matter submitted to a vote at such meeting for each share having voting rights thereon registered in his name on the books of the Corporation at the time of the closing of the stock transfer books (or at the record date) for such meeting. At each election for Directors, each stockholder entitled to vote at such election shall have the right to vote, in person or by proxy, only the number of shares owned by him for as many persons as there are to be elected, and no stockholder shall ever have the right or be permitted to cumulate his votes on any basis.

(b) When a quorum is present at any meeting (and notwithstanding the subsequent withdrawal of enough stockholders to leave less than a quorum present), the vote of holders of a majority of the outstanding shares entitled to vote thereon shall decide any matter submitted to such meeting, unless the matter is one upon which by law or by express provision of the Articles of Incorporation the vote of a greater number is required, in which case the vote of such greater number shall govern and control the decision of such matter.

(c) No vote upon any matter, except the election of Directors or the amendment of the Articles of Incorporation, is required to be by ballot unless demanded by the holders of not less than ten percent (10%) of the shares represented and entitled to vote at the meeting.

(d) All motions to introduce a matter for a vote by the stockholders at a meeting thereof, except for nominations for election as Directors recommended by the Board, shall be seconded prior to a vote thereon by the stockholders.

(e) All votes by ballot at any meeting of stockholders shall be conducted by two or more judges appointed by the presiding officer of the meeting. The judges shall decide upon the qualifications of votes and declare the result.

Section 2.10 Voting of Shares by Certain Holders. (a) Shares standing in the name of another corporation may be voted by such officer, agent or proxy as the bylaws of such corporation may authorize or, in the absence of such authorization, as the board of directors of such corporation may determine.

(b) Shares held by an administrator, executor, guardian or conservator may be voted by him so long as such shares forming a part of an estate are in the possession and form a part of the estate being served by him, either in person or by proxy, without a transfer of such

shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name as trustee.

(c) Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority to do so be contained in an appropriate order of the court by which such receiver was appointed.

(d) A stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

(e) Shares of the Corporation's stock (i) owned by the Corporation itself, (ii) owned by another corporation, the majority of the voting stock of which is owned or controlled by the Corporation, or (iii) held by the Corporation in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting, and shall not be counted in determining the total number of outstanding shares at any given time.

Section 2.11 Nomination of Directors. Nominations for the election of Directors may be made by the affirmative vote of a majority of the entire Board of Directors or by any stockholder of record entitled to vote generally in the election of Directors. However, any stockholder of record entitled to vote generally in the election of directors may nominate one or more persons for election as Directors at a meeting only if a written notice of such stockholder's intent to make such nomination or nominations, meeting the requirements described below, has been given, either by personal delivery or by United States mail, postage prepaid, to the

Secretary of the Corporation, and received by the Corporation, not less than thirty (30) days nor more than seventy-five (75) days prior to the meeting, provided, however, that in the event that less than sixty (60) days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of meeting was mailed or such public disclosure was made, whichever first occurs. Each such notice to the Secretary shall set forth: (i) the name and address of record of the stockholder who intends to make the nomination; (ii) a representation that the stockholder is a holder of record of shares of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) the name, age, business and residence addresses, and principal occupation or employment of each nominee; (iv) a description of

all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (v) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (vi) the consent of each nominee to serve as a Director of the Corporation if so elected. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a Director of the Corporation. The presiding officer of the meeting may, if the facts warrant, determine that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 2.12 Telephone Meetings. Stockholders may participate in and hold a meeting of the stockholders by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 2.13 Action Without Meeting. Any action required by any provision of law or of the Articles of Incorporation or these Bylaws to be taken at a meeting of the stockholders or any action which may be taken at a meeting of the stockholders may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the stockholders entitled to vote with respect to the subject matter thereof, and such consent shall have the same force and effect as a unanimous vote of the stockholders.

ARTICLE III

Directors

Section 3.1 Number and Qualification. The number of Directors constituting the whole Board of Directors shall be four (4) until changed in accordance with the following sentence. Subject to any limitations specified by law or in the Articles of Incorporation, the number of Directors may be increased or decreased by resolution adopted by a majority of the Board of Directors. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director. Directors need not be residents of the State of Delaware or stockholders of the Corporation.

Section 3.2 Election and Term of Office. The Directors shall be elected at the annual meeting of the stockholders (except as provided in Sections 3.4 and 3.5). Each Director elected shall hold office until his successor shall be elected at an appropriate annual meeting of the stockholders and shall qualify, or until his death, resignation or removal in the manner hereinafter provided.

Section 3.3 Resignation. Any Director may resign at any time by giving written notice to the President or Secretary. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.4 Removal. At any special meeting of the stockholders called expressly for that purpose, any Director or Directors, including the entire Board of Directors, may be removed, either with or without cause, and another person or persons may be elected to serve for the remainder of his or their term by a vote of the holders of a majority of all shares outstanding and entitled to vote at an election of Directors. In case any vacancy so created shall not be filled

by the stockholders at such meeting, such vacancy may be filled by the Directors as provided in Section 3.5.

Section 3.5 Vacancies. (a) Any vacancy occurring in the Board of Directors (except by reason of an increase in the number of Directors) may be filled in accordance with subsection (c) of this Section 3.5 or may be filled by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board of Directors. A Director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

(b) A directorship to be filled by reason of an increase in the number of Directors may be filled in accordance with subsection (c) of this

Section 3.5 or may be filled by the Board of Directors for a term of office continuing only until the next election of one (1) or more Directors by the stockholders; provided, however, that the Board of Directors may not fill more than two (2) such directorships during the period between any two (2) successive annual meetings of stockholders.

(c) Any vacancy occurring in the Board of Directors or any directorship to be filled by reasons of an increase in the number of Directors may be filled by election at an annual or special meeting of stockholders called for that purpose.

Section 3.6 General Powers. The property, business and affairs of the Corporation shall be managed by the Board of Directors. In addition to the powers and authorities expressly conferred upon them by these Bylaws, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Articles of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholder.

Section 3.7 Compensation. The Board of Directors may fix the compensation of Directors for services to the Corporation in any capacity. The Board may likewise provide that the Corporation shall reimburse each Director for any expenses incurred by him on account of his attendance at meetings of the Board of Directors or any committee thereof. Nothing herein contained shall be construed to preclude any Director of the Corporation from serving the Corporation in any other capacity and receiving compensation therefor.

Section 3.8 Inspectors. The Board of Directors may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If the inspector or inspectors shall not be so appointed or shall fail to qualify or if any of them shall fail to appear or act, the chairman of the meeting may, and on the request of any stockholder entitled to vote thereat shall, appoint an inspector or inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspector or inspectors shall determine the number of shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes or consents, determine the result and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting or any stockholders entitled to vote thereat, the inspector or inspectors shall make a report in writing of any challenge, question or matter determined by them and shall file such report with the minutes of the meeting. Inspectors need not be stockholders. No person shall be elected a Director at a meeting at which he has served as an inspector.

ARTICLE IV

Meetings of the Board

Section 4.1 Place of Meetings. The Directors of the Corporation may hold their meetings, both regular and special, either within or without the State of Delaware.

Section 4.2 Annual Meeting. The first meeting of each newly elected Board shall be held immediately following the adjournment of the annual meeting of the stockholders and no notice of such meeting shall be necessary to the newly elected Directors in order legally to constitute the meeting, provided a quorum shall be present, or they may meet at such time and place as shall be fixed by the consent in writing of all of the Directors.

Section 4.3 Regular Meetings. Regular meetings of the Board, in addition to the annual meetings referred to in Section 4.2, may be held without notice at such time and place as shall from time to time be determined by the Board.

Section 4.4 Special Meetings. Special meetings of the Board may be called by the Chairman of the Board, if one shall be elected, or by the President, if a Chairman of the Board is not elected, on one (1) day's notice (oral or written) to each Director. Special meetings shall be called by the President or the Secretary on like notice on the written request of any Director. Neither the purpose of, nor the business to be transacted at, any special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting. Attendance of a Director at a meeting shall constitute a waiver of notice of such meeting except where a Director attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called or convened.

Section 4.5 Quorum and Action. At all meetings of the Board, the presence of a majority of the Directors shall be necessary and sufficient to constitute a quorum for the

transaction of business and the act of a majority of the Directors present at any meeting at which a quorum is present shall be the act of the Board of Directors unless the act of a greater number is required by law, the Articles of Incorporation or these Bylaws; provided, however, that in the event that one or more Directors abstains from voting on any matter because he may be deemed interested therein, the act of a majority of the disinterested Directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of Directors, the Directors present may adjourn the meeting from time to time without notice other than announcement at the meeting until a quorum shall be present.

Section 4.6 Presumption of Assent to Action. A Director who is present at a meeting of the Board at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

Section 4.7 Telephone Meetings. Directors may participate in and hold a meeting of the Board of Directors by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 4.8 Action Without Meeting. Any action required or permitted to be taken at a meeting of the Board of Directors, or any committee thereof, may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all the members of the Board of Directors, or committee, as the case may be, and such consent shall have the same force and effect as a unanimous vote at a meeting.

ARTICLE V

Committees of the Board

Section 5.1 Membership and Authorities. The Board of Directors, by resolution adopted by a majority of the full Board, may designate one (1) or more Directors to constitute an Executive Committee and such other committees, as the Board may determine, each of which committees to the extent provided in such resolution, shall have and may exercise all of the authority of the Board of Directors in the business and affairs of the Corporation, except in those cases where the authority of the Board of Directors is specifically denied to the Executive Committee or such other committee or committees by applicable law, the Articles of Incorporation or these Bylaws. The designation of an Executive Committee or other committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law. The members of each such committee shall serve at the pleasure of the Board.

Section 5.2 Meetings and Notices. Each committee of Directors shall hold meetings, regular or special, at such time or times, at such place or places and upon such notice as shall be specified by the Board of Directors or, in the absence of any such specification, by its rules of procedure, provided that the Chairman of the Board, if one shall be elected, or the

President, if a Chairman of the Board is not elected, may call a special meeting of any committee of Directors, and any member of a committee of Directors may call a meeting of such committee, on twenty-four (24) hours' notice (written or oral) to each member of such committee.

Section 5.3 Quorum and Action. At all meetings of each committee of Directors, the presence of a majority of the members of such committee shall be necessary and sufficient to constitute a quorum for the transaction of business and, except as may be otherwise prescribed by the Board of Directors, the act of the majority of the members present at any meeting at which a quorum is present shall be the act of such committee except as may be otherwise specifically

provided by law, by the Articles of Incorporation or by these Bylaws.

Section 5.4 Minutes and Rules of Procedure. Each committee designated by the Board shall keep regular minutes of its proceedings and report the same to the Board when required. Subject to the provisions of these Bylaws, the members of any committee may fix such committee's own rules of procedure.

Section 5.5 Vacancies. The Board of Directors shall have the power at any time to fill vacancies in, to change the membership of, or to dissolve, any committee.

Section 5.6 Telephone Meetings. Members of any committee designated by the Board may participate in or hold a meeting by use of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called or convened.

Section 5.7 Action Without Meeting. Any action required or permitted to be taken at a meeting of any committee designated by the Board may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all the members of the committee, and such consent shall have the same force and effect as a unanimous vote at a meeting.

ARTICLE VI

Officers

Section 6.1 Number. The officers of the Corporation shall be a President and a Secretary. The Board of Directors may also elect a Chairman of the Board, one (1) or more Vice Presidents (the number and categories thereof to be determined by the Board of Directors), a Treasurer, a Controller, one (1) or more Assistant Secretaries and one (1) or more Assistant Treasurers. One person may hold any two (2) or more of these offices.

Section 6.2 Election, Term of Office and Qualification. The Board of Directors shall elect officers, none of whom need be a member of the Board, except for the Chairman of the Board, if one shall be elected, at its first meeting after each annual meeting of stockholders. Each officer so elected shall hold office until his successor shall have been duly elected and qualified or until his death, resignation or removal in the manner hereinafter provided.

Section 6.3 Subordinate Officers. The Board of Directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms, have such authority and perform such duties as the Board of Directors may from time to time determine. The Board of Directors may delegate to any committee or officer the power to appoint any such subordinate officer or agent. No subordinate officer appointed by any

committee or superior officer as aforesaid shall be considered as an officer of the Corporation, the officers of the Corporation being limited to the officers elected or appointed as such by the Board of Directors.

Section 6.4 Resignation. Any officer may resign at any time by giving written notice thereof to the Board of Directors or to the President or Secretary of the Corporation. Any such resignation shall take effect at the time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6.5 Removal. Any officer elected or appointed by the Board of Directors may be removed at any time with or without cause by the affirmative vote of a majority of the whole Board of Directors. Any other officer may be removed at any time with or without cause by the Board of Directors or by any committee or superior officer in whom such power of removal may be conferred by the Board of Directors. The removal of any officer shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create any contract rights.

Section 6.6 Vacancies. A vacancy in any office shall be filled for the unexpired portion of the term by the Board of Directors, but in case of a vacancy occurring in an office filled by a committee or superior officer in accordance with the provisions of Section 6.3, such vacancy may be filled by such committee or superior officer.

Section 6.7 The Chairman of the Board. The Chairman of the Board, if one shall be elected, shall preside at all meetings of the stockholders and Directors, shall have general and active management of the business of the

Corporation, shall have the general supervision and direction of all other officers of the Corporation with full power to see that their duties are properly performed and shall see that all orders and resolutions of the Board of Directors are

carried into effect. He may sign, with any other proper officer, certificates for shares of the Corporation and any deeds, bonds, mortgages, contracts and other documents which the Board of Directors has authorized to be executed, except where required by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors or these Bylaws, to some other officer or agent of the Corporation. In addition, the Chairman of the Board shall perform whatever duties ad shall exercise all powers that are given to him by the Board of Directors.

Section 6.8 The President. If no Chairman of the Board shall be elected, the President shall be the chief executive officer of the Corporation ad shall have the powers and duties of the Chairman of the Board as set forth in Section 6.7. In the absence of the Chairman of the Board, if one shall be elected, the President shall preside at all meetings of the stockholders and Directors. He may sign, with any other proper officer, certificates for shares of the Corporation and any deeds, bonds, mortgages, contracts and other documents which the Board of Directors has authorized to be executed, except where required by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors or these Bylaws to some other officer or agent of the Corporation. In addition, the President shall perform whatever duties and shall exercise all the powers that are given to him by the Board of Directors or by the Chairman of the Board, if one shall be elected.

Section 6.9 The Vice Presidents. The Vice Presidents shall perform the duties as are given to them by these Bylaws and as may from time to time be assigned to them by the Board of Directors, by the Chairman of the Board, if one shall be elected, or by the President, if a Chairman of the Board is not elected, and may sign, with any other proper officer, certificates for

shares of the Corporation. At the request of the President, or in his absence or disability, the Vice President, designated by the President (or in the absence of such designation, the senior Vice President), shall perform the duties and exercise the powers of the President.

Section 6.10 The Secretary. The Secretary, when available, shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose and shall perform like duties for the Executive Committee and standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors as required by law or these Bylaws, be custodian of the corporate records and have general charge of the stock books of the Corporation and shall perform such other duties as may be prescribed by the Board of Directors, by the Chairman of the Board, if one shall be elected, or by the President, if no Chairman of the Board is elected, under whose supervision he shall be. He may sign, with any other proper officer, certificates for shares of the Corporation and shall keep in safe custody the seal of the Corporation, and, when authorized by the Board, all the same to any instrument requiring it and, when so affixed, it shall be attested by his signature or by the signature of the Treasurer or an Assistant Secretary.

Section 6.11 Assistant Secretaries. The Assistant Secretaries shall perform the duties as are given to them by these Bylaws or as may from time to time be assigned to them by the Board of Directors or by the Secretary. At the request of the Secretary, or in his absence or disability, the Assistant Secretary, designated by the Secretary (or in the absence of such designation the senior Assistant Secretary), shall perform the duties and exercise the powers of the Secretary.

Section 6.12 The Treasurer. The Treasurer shall (i) have custody and be responsible for all corporate funds and securities and keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation; (ii) deposit all monies and securities of the Corporation in the name and to the credit of the corporation in such depositories as may be selected by him; (iii) disburse the funds of the Corporation as may be directed by the Board or upon vouchers duly processed and under such rules and regulations as the Board or the Chairman of the Board, if one be elected, or the President, if a Chairman of the Board is not elected, may from time to time adopt; (iv) establish appropriate credit policies, negotiate and procure capital required by the Corporation,

including long-term debt and equity, establish and maintain adequate sources for the Corporation's short-term facing requirements, and establish and maintain relationships in the name and on behalf of the corporation with banks, trust companies, securities or commodities brokers, and other institutions (collectively "Institutions"); (v) open one or more accounts with such Institutions as he may deem appropriate and in the best interest of the Corporation; (vi) designate such person or persons who may give written or oral instructions under accounts of the Corporation with Institutions and whose signature(s) shall be required on checks, drafts and orders for the payment of money drawn against any accounts with Institutions; (vii) prepare, execute and deliver, in the name and on behalf of the Corporation, such designations, applications, notes, certificates or other instruments, documents or papers as in his judgment may be necessary or appropriate to open such account or accounts with Institutions; (viii) render such account of the transactions of his office as may be from time to time directed by the Board or by the Chairman of the Board, if one shall be elected, or by the President, if a Chairman of the Board is not elected; and (ix) in general have such other powers or perform such other duties as may be assigned to him from time to time by the Board or by the

Chairman of the Board, if one shall be elected, or by the President, if a chairman of the Board is not elected.

Section 6.13 Assistant Treasurers. The Assistant Treasurers shall perform the duties as are given to them by these Bylaws or as may from time to time be assigned to them by the Board of Directors or by the Treasurer. At the request of the Treasurer, or in his absence or disability, the Assistant Treasurer, designated by the Treasurer (or in the absence of such designation, the senior Assistant Treasurer), shall perform the duties and exercise the powers of the Treasurer.

Section 6.14 Treasurer's Bond. If required by the Board of Directors, the Treasurer and any Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 6.15 Controller. The Controller shall be the principal accounting and tax officer of the Corporation and shall perform all other duties that ordinarily relate to his office or that may be delegated to him by the Board of Directors from time to time.

Section 6.16 Salaries. The salary or other compensation of officers shall be fixed from time to time by the Board of Directors. The Board of Directors may delegate to any committee or officer the power to fix from time to time the salary or other compensation of subordinate officers and agents appointed in accordance with the provisions of Section 6.3.

ARTICLE VII

Corporate Shares

Section 7.1 Share Certificates. (a) The certificates representing shares of the Corporation shall be in such form, not inconsistent with statutory provisions and the Articles of Incorporation, as shall be approved by the Board of Directors. The certificates shall be signed by the Chairman of the Board, if one shall be elected, the President or a Vice President and a Secretary or Assistant Secretary, or such other or additional officers as may be prescribed from time to time by the Board of Directors, and may be sealed with the corporate seal or a facsimile thereof. The signatures of such officer or officers upon a certificate may be facsimiles, if the certificate is countersigned by a transfer agent, or registered by a registrar, either of which is other than the Corporation itself or an employee of the Corporation. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued with the same effect as if he were such officer at the date of its issuance.

(b) If the Corporation is authorized to issue shares of more than one (1) class or more than one (1) series of any class, there shall be set forth on the face or back of the certificate or certificates, which the corporation shall issue to represent shares of such class or series of stock, such legends or statements as may be required by applicable law or the Articles of Incorporation or as may be approved by the Board of Directors.

(c) The denial of preemptive rights of holders of Preferred Stock and Class B Common Stock shall be set forth on the face or back of the

certificate or certificates which the Corporation shall issue to represent shares of such classes of stock.

(d) All certificates for each class or series of stock shall be consecutively numbered and the name of the person owning the shares represented thereby, with the number of such shares and the date of issue, shall be entered on the Corporation's books.

(e) All certificates surrendered to the Corporation shall be canceled, and, except as provided in Section 7.2 with respect to lost, destroyed or mutilated certificates, no new certificate shall be issued until the former certificate to the same number of shares has been surrendered and canceled.

Section 7.2 Lost Certificates, etc. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. In authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issue thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or indemnify the Corporation as the Board of Directors may prescribe.

Section 7.3 Transfer of Shares. Subject to any restrictions upon transfer, upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer and satisfaction of the Corporation that the requested transfer complies with the provisions of applicable state and federal laws ad regulations and any agreements to which the Corporation is a party, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 7.4 Ownership of Shares. The Corporation shall be entitled to treat and recognize the holder of record of any share or shares as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

Section 7.5 Closing of Transfer Books. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive a distribution by the Corporation (other than a distribution involving a purchase or redemption by the Corporation of its own shares) or a share dividend, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, sixty (60) days. If the stock transfer books shall be closed for the purpose of determining stockholders entitled to notice of or to vote at a meeting of stockholders, such books shall be closed for at least ten (10) days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of stockholders, such date in any case to be not more than sixty (60) days and, in case of a meeting of stockholders, not less than ten (10) days prior to the date on which the particular action requiring such determination of stockholders is to be taken, and the determination of stockholders on such record date shall apply with respect to the particular action requiring the same notwithstanding any transfer of shares on the books of the Corporation after such record date.

Section 7.6 Dividends. The Board of Directors may, from time to time, declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the

terms and conditions provided by the Articles of Incorporation and by law, such dividends to be paid in cash or in property or in shares of capital stock of the Corporation.

ARTICLE VIII

Indemnification

Section 8.1 Definitions. In this Article:

(a) "Indemnitee" means (i) any present or former Director, advisory

director or officer of the Corporation, (ii) any person who while serving in any of the capacities referred to in clause (i) hereof served at the Corporation's request as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, and (iii) any person nominated or designated by (or pursuant to authority granted by) the Board of Directors or any committee thereof to serve in any of the capacities referred to in clauses (i) or (ii) hereof.

(b) "Official Capacity" means (i) when used with respect to a Director, the office of Director of the Corporation, and (ii) when used with respect to a person other than a Director, the elective or appointive office of the Corporation held by such person or the employment or agency relationship undertaken by such person on behalf of the Corporation, but in each case does not include service for any other foreign or domestic corporation or any partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise.

(c) "Proceeding" means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative, any appeal in

such an action, suit or proceeding, and any inquiry or investigation that could lead to such an action, suit or proceeding.

Section 8.2 Indemnification. The Corporation shall indemnify every Indemnitee against all judgments, penalties (including excise and similar taxes), fines, amounts paid in settlement and reasonable expenses actually incurred by the Indemnitee in connection with any Proceeding in which he was, is or is threatened to be named defendant or respondent, or in which he was or is a witness without being named a defendant or respondent, or in which he was or is a witness without being named a defendant or respondent, by reason, in whole or in part, of his serving or having served, or having been nominated or designated to serve, in any of the capacities referred to in Section 8.1, if it is determined in accordance with Section 8.4 that the Indemnitee (a) conducted himself in good faith, (b) reasonably believed, in the case of conduct in his Official Capacity, that his conduct was in the Corporation's best interests and, in all other cases, that his conduct was at least not opposed to the Corporation's best interests, and (c) in the case of any criminal proceeding, had no reasonable cause to believe that his conduct was unlawful; provided, however, that in the event that an Indemnitee is found liable to the Corporation or is found liable on the basis that personal benefit was improperly received by the Indemnitee, the indemnification (i) is limited to reasonable expenses actually incurred by the Indemnitee in connection with the Proceeding and (ii) shall not be made in respect of any Proceeding in which the Indemnitee shall have been found liable for willful or intentional misconduct in the performance of his duty to the Corporation. Except as provided in the immediately preceding proviso to the first sentence of this Section 8.2, no indemnification shall be made under this Section 8.2 in respect of any Proceeding in which such Indemnitee shall have

been (x) found liable on the basis that personal benefit was improperly received by him, whether or not the benefit resulted from an action taken in the Indemnitee's Official Capacity, or (y) found liable to the Corporation. The termination of any Proceeding by judgment, order, settlement or conviction, or on a plea of nolo contendere or its equivalent, is not of itself determinative that the Indemnitee did not meet the requirements set forth in clauses (a), (b) or (c) in the first sentence of this Section 8.2. An Indemnitee shall be deemed to have been found liable in respect of any claim, issue or matter only after the Indemnitee shall have been so adjudged by a court of competent jurisdiction after exhaustion of all appeals therefrom. Reasonable expenses shall include, without limitation, all court costs and all fees and disbursements of attorneys for the Indemnitee. The indemnification provided herein shall be applicable whether or not negligence or gross negligence of the Indemnitee is alleged or proven.

Section 8.3 Successful Defense. Without limitation of Section 8.2 and in addition to the indemnification provided for in Section 8.2, the Corporation shall indemnify every Indemnitee against reasonable expenses incurred by such person in connection with any Proceeding in which he is a witness or a named defendant or respondent because he served in any of the capacities referred to in Section 8.1, if such person has been wholly successful, on the merits or otherwise, in defense of the Proceeding.

Section 8.4 Determinations. Any indemnification under Section 8.2 (unless ordered by a court of competent jurisdiction) shall be made by the Corporation only upon a determination that indemnification of the Indemnitee is proper in the circumstances because he has met the applicable standard of conduct. Such determination shall be made (a) by the Board of Directors by a

majority vote of a quorum consisting of Directors who, at the time of such vote, are not named defendants or respondents in the Proceeding; (b) if such a quorum cannot be

obtained, then by a majority vote of all Directors (in which designation Directors who are named defendants or respondents in the Proceeding may participate), such committee to consist solely of two (2) or more Directors who, at the time of the committee vote, are not named defendants or respondents in the Proceeding; (c) by special legal counsel selected by the Board of Directors or a committee thereof by vote as set forth in clauses (a) or (b) of this Section 8.4 or, if the requisite quorum of all of the Directors cannot be obtained therefor and such committee cannot be established, by a majority vote of all of the directors (in which Directors who are named defendants or respondents in the Proceeding may participate); or (d) by the stockholders in a vote that excludes the shares held by Directors that are named defendants or respondents in the Proceeding. Determination as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is permissible, except that if the determination that indemnification is permissible is made by special legal counsel, determination as to reasonableness of expenses must be made in the manner specified in clause (c) of the preceding sentence for the selection of special legal counsel. In the event a determination is made under this Section 8.4 that the Indemnitee has met the applicable standard of conduct as to some matters but not as to others, amounts to be indemnified may be reasonably prorated.

Section 8.5 Advancement of Expenses. Reasonable expenses (including court costs and attorneys' fees) incurred by an Indemnitee who was or is a witness or was, is or is threatened to be made a named defendant or respondent in a Proceeding shall be paid by the Corporation at reasonable intervals in advance of the final disposition of such Proceeding, and without making any of the determinations specified in Section 8.4, after receipt by the Corporation of (a) a written affirmation by such Indemnitee of his good faith belief that he has met the standard of conduct necessary for indemnification by the Corporation under this Article

and (b) a written undertaking by or on behalf of such Indemnitee to repay the amount paid or reimbursed by the Corporation if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article. Such written undertaking shall be an unlimited obligation of the Indemnitee but need not be secured and it may be accepted without reference to financial ability to make repayment. Notwithstanding any other provision of this Article, the Corporation may pay or reimburse expenses incurred by an Indemnitee in connection with his appearance as a witness or other participation in a Proceeding at a time when he is not named a defendant or respondent in the Proceeding.

Section 8.6 Employee Benefit Plans. For purposes of this Article, the Corporation shall be deemed to have requested an Indemnitee to serve an employee benefit plan whenever the performance by him of his duties to the Corporation also imposes duties on or otherwise involves services by him to the plan or participants or beneficiaries of the plan. Excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall be deemed fines. Action taken or omitted by an Indemnitee with respect to an employee benefit plan in the performance of his duties for a purpose reasonably believed by him to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the Corporation.

Section 8.7 Other Indemnification and Insurance. The indemnification provided by this Article shall (a) not be deemed exclusive of, or to preclude, any other rights to which those seeking indemnification may at any time be entitled under the Corporation's Articles of Incorporation, any law, agreement or vote of stockholders or disinterested Directors, or otherwise, or under any policy or policies of insurance purchased and maintained by the Corporation on behalf of any Indemnitee, both as to action in his Official Capacity and as to

action in any other capacity, (b) continue as to a person who has ceased to be in the capacity by reason of which he was an Indemnitee with respect to matters arising during the period he was in such capacity, (c) inure to the benefit of the heirs, executors and administrators of such a person, and (d) not be required if and to the extent that the person otherwise entitled to payment of such amounts hereunder has actually received payment therefor under any insurance policy, contract or otherwise.

Section 8.8 Notice. Any indemnification of or advance of expenses to an Indemnitee of the Corporation in accordance with this Article shall be

reported in writing to the stockholders of the Corporation with or before the notice or waiver of notice of the next stockholders' meeting or with or before the next submission to stockholders of a consent to action without a meeting and, in any case, within the twelve-month period immediately following the date of the indemnification or advance.

Section 8.9 Construction. The indemnification provided by this Article shall be subject to all valid and applicable laws, including, without limitation, the General Corporation Law of the State of Delaware, and, in the event this Article or any of the provisions hereof or the indemnification contemplated hereby are found to be inconsistent with or contrary to any such valid laws, the latter shall be deemed to control and this Article shall be regarded as modified accordingly, and, as so modified, to continue in full force and effect.

Section 8.10 Continuing Offer, Reliance, etc. The provisions of this Article (i) are for the benefit of, and may be enforced by, each Indemnitee of the Corporation; the same as if set forth in their entirety in a written instrument duly executed and delivered by the Corporation and such Indemnitee and (ii) constitute a continuing offer to all present and future Indemnitees. The Corporation, by its adoption of these Bylaws, (i) acknowledges and agrees that each Indemnitee

of the Corporation has relied upon and will continue to rely upon the provisions of this Article in becoming, and serving in any of the capacities referred to in Section 8.1(a) of the Article, (ii) waives reliance upon, and all notices of acceptance of, such provisions by such Indemnitees and (iii) acknowledges and agrees that no present or future Indemnitee shall be prejudiced in his right to enforce the provisions of this Article in accordance with their terms by any act or failure to act on the part of the Corporation.

Section 8.11 Effect of Amendment. No amendment, modification or repeal of this Article or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitees to be indemnified by the Corporation, nor the obligation of the Corporation to indemnify any such Indemnitee, under and in accordance with the provisions of the Article as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

ARTICLE IX

General Provisions

Section 9.1 Waiver of Notice. (a) Whenever, under the provisions of applicable law or of the Articles of Incorporation or of these Bylaws, any notice is required to be given to any stockholder or Director, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice.

(b) Attendance of a Director at a meeting shall constitute a waiver of notice of such meeting except where a Director attends a meeting for the express purpose of objecting to

the transaction of any business on the grounds that the meeting is not lawfully called or convened.

Section 9.2 Seal. If one be adopted, the corporate seal shall have inscribed thereon the name of the Corporation and shall be in such form as may be approved by the Board of Directors. Said seal may be used by causing it or a facsimile of it to be impressed or affixed or in any manner reproduced.

Section 9.3 Fiscal Year. The fiscal year of the Corporation shall be the calendar year, unless otherwise fixed by resolution of the Board of Directors.

Section 9.4 Checks, Notes, etc. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate. The Board of Directors may authorize any officer or officers or such other person or persons to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 9.5 Examination of Books and Records. The Board of Directors shall determine from time to time whether, and if allowed, when and under what conditions and regulations the accounts and books of the corporation (except

such as may by statute be specifically opened to inspection) or any of them shall be open to inspection by the stockholders, and the stockholders rights in this respect are and shall be restricted and limited accordingly.

Section 9.6 Voting Upon Shares Held by the Corporation. Unless otherwise ordered by the Board of Directors, the Chairman of the Board, if one shall be elected, or the President, if a Chairman of the Board shall not be elected, acting on behalf of the Corporation, shall have full power and authority to attend and to act and to vote at any meeting of stockholders

of any corporation in which the Corporation may hold shares and at any such meeting, shall possess and may exercise any and all of the rights and powers incident to the ownership of such shares which, as the owner thereof, the Corporation might have possessed and exercised, if present. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons.

ARTICLE X

Amendments

Section 10.1 Amendment by Board of Directors. The Board of Directors shall have the exclusive power to alter, amend or repeal these Bylaws or adopt new Bylaws. The Board of Directors may exercise this power at any regular or special meeting at which a quorum is present by the affirmative vote of a majority of the Directors present at the meeting and without any notice of the action taken with respect to the Bylaws having been contained in the notice or waiver of notice of such meeting.

ARTICLE XI

Subject to All Laws

Section 11.1 Subject to All Laws. The provisions of these Bylaws shall be subject to all valid and applicable laws, including, without limitation, the General Corporation Law of the State of Delaware, as now or hereafter amended, and in the event that any of the provisions of these Bylaws are found to be inconsistent with or contrary to any such valid laws,

the latter shall be deemed to control and these Bylaws shall be deemed modified accordingly, and, as so modified, to continue in full force and effect.

EXHIBIT 5.1

August 18, 1999

St. Mary Land & Exploration Company
1776 Lincoln Street, Suite 1100
Denver, Colorado 80203

Re: Common Stock of St. Mary Land & Exploration Company, a Delaware Corporation ("St. Mary"), to be Issued Under the Agreement and Plan of Merger dated July 27, 1999

Gentlemen:

We have acted as your counsel in connection with the proposed issuance of shares of common stock under the Agreement and Plan of Merger dated July 27, 1999 (the "Merger Agreement") whereby a wholly owned subsidiary of St. Mary will be merged with and into King Ranch Energy, Inc., a Delaware corporation ("King Ranch Energy"), and King Ranch Energy will become a wholly owned subsidiary of St. Mary, as more fully described in the related Registration Statement on Form S-4 (the "Registration Statement") to be filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended.

In that connection, we have examined originals and copies, certified or otherwise identified to our satisfaction, of such documents, corporate records and other instruments as we have deemed necessary for the purposes of the opinion expressed below, including but not limited to the Merger Agreement.

Based upon the foregoing, we are of the opinion that the shares of common stock to be issued by St. Mary under the Merger Agreement have been duly authorized and, when duly executed, delivered and when issued in accordance with the terms of the Merger Agreement and upon effectiveness of the Registration Statement, and upon satisfaction of all applicable conditions, will be duly and validly issued, fully paid and nonassessable.

We express no opinion concerning the laws of any jurisdiction other than the laws of the United States and the laws of the State of Delaware.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the joint proxy/consent statement and prospectus included in the Registration Statement.

Very truly yours,

/S/ BALLARD SPAHR ANDREWS & INGERSOLL, LLP

EXHIBIT 8.1

July 27, 1999

King Ranch, Inc.
1415 Louisiana, Suite 2300
Wedge International Tower
Houston, Texas 77002

Gentlemen:

We have acted as counsel to King Ranch, Inc., a Texas corporation ("KING RANCH"), in connection with the merger (the "MERGER") between St. Mary Acquisition Corporation, a Colorado corporation ("SUB"), and King Ranch Energy, Inc., a Delaware corporation ("ENERGY"), in which Energy will be the surviving entity, pursuant to that certain Agreement and Plan of Merger dated the 27th day of July, 1999 ("AGREEMENT AND PLAN OF MERGER") by and between St. Mary Land & Exploration Company, a Delaware corporation ("ST. MARY"), Sub, King Ranch and Energy. King Ranch, King Ranch Holdings, Inc., a Delaware corporation ("HOLDINGS"), King Ranch Minerals, Inc., a Delaware corporation ("MINERALS") and Energy are sometimes referred to as the "CONSOLIDATED GROUP." We have been asked to render an opinion as to whether a distribution from King Ranch of all of the stock of Energy in the manner described herein ("STOCK DISTRIBUTION") will be an income taxable event for Federal tax purposes to the shareholders of King Ranch (collectively, the "SHAREHOLDERS" or singularly, a "SHAREHOLDER") under Section 355 of the Internal Revenue Code of 1986, as amended ("CODE;" all Section references in this opinion are references to the Code, unless otherwise indicated).

As of the date of this opinion, the Consolidated Group is structured as follows: King Ranch owns all of the outstanding stock of Holdings; Holdings owns all of the outstanding stock of Minerals; and Minerals owns all of the outstanding stock of Energy. You have represented to us that Energy was formed on December 31, 1997 through a contribution by Minerals to Energy in a non-taxable transfer of assets to a corporation qualifying under Code Section 351.

In anticipation of the Stock Distribution and the Merger, Minerals will distribute the stock of Energy to Holdings which will in turn distribute the stock of Energy to King Ranch. In addition and as a condition to the Merger, Holdings will forgive a debt obligation ("DEBT") of Energy in an amount approximately equal to $14 million which may have certain Federal and state tax consequences. This opinion will not discuss any state or Federal tax consequences of the distribution of the stock of Energy through the Consolidated Group to King Ranch or any issues related to the cancellation of the Debt. It is our understanding that Ernst & Young LLP will undertake the tax analysis with respect to such issues.

In order to facilitate the Merger, King Ranch will distribute all of the stock of Energy that it owns, which constitutes 100 percent of all of the issued and outstanding stock of Energy, to the Shareholders. You have represented that the Shareholders have not and will not receive any cash or any other property as a distribution from King Ranch and will not exchange or redeem any of their stock of King Ranch due to the Stock Distribution. The Shareholders will receive a number of shares of Energy in proportion to each Shareholder's ownership interest of King Ranch as of the record date for the Stock Distribution. The shareholders will subsequently exchange their stock of Energy for stock of St. Mary, and Sub will be merged into Energy under the applicable provisions of Delaware and Colorado law.

Our opinions are based upon the provisions of the Code, the Treasury Regulations (the "REGULATIONS") and the interpretation thereof by the Internal Revenue Service (the "IRS") and relevant case law, all as of the date of this opinion. These opinions are also based upon certain assumptions and representations as stated below. There can be no assurance that the provisions of the Code, the Regulations or that the interpretations of the IRS or the courts will not change in a manner such that the conclusions expressed herein would change. Moreover, any such changes in the Code, the Regulations or the interpretations thereof may have retroactive effect. We do not accept the responsibility to inform you of any such changes. Because none of our opinions are binding upon the IRS or the courts, there can be no assurance that contrary positions may not be successfully asserted by the IRS. Because there may be certain ancillary Federal income tax consequences for each Shareholder with respect to issues not specifically addressed in this opinion, each individual Shareholder is urged to consult his, her or its own tax advisor as to the Federal income tax consequences associated with the Stock Distribution to such Shareholder.

In rendering this opinion, we have examined and are relying upon such documents (including all exhibits and schedules attached thereto) as we

have deemed relevant or necessary, including (1) the Agreement and Plan of Merger, (2) certain tax representation letters (the "TAX REPRESENTATION LETTERS") of King Ranch, Energy, St. Mary and Sub satisfactory to us which have been received prior to the date of this opinion, and (3) such other documents as we have deemed necessary or appropriate in order to enable us to render the opinion below, and our opinion is conditioned on (without any independent investigation or review thereof) the truth and accuracy, at all relevant times, of the representations and warranties, covenants and statements contained therein. The initial and continuing truth and accuracy of the representations contained in the Tax Representation Letters constitutes an integral basis for the opinions expressed herein and this opinion is conditioned upon the initial and continuing truth of the accuracy of these representations.

In rendering this opinion, we have assumed (without any independent investigation or review thereof) and our opinion is conditioned upon the correctness of, the following: (1) each original document submitted to us (including signatures thereto) is authentic, each document submitted to us as a copy conformed to the original documents, and all documents have been (or will be by the date of this opinion) duly and validly executed and delivered where due execution and delivery are a prerequisite to the effectiveness thereof; (2) all representations, warranties and statements made or agreed to in connection with the Merger by King Ranch, Energy, Holdings,

Minerals, St. Mary and Sub, their managements, employees, officers, directors, and shareholders, including, but not limited to, those set forth in the Agreement and Plan of Merger (including the exhibits thereto) and the Tax Representation Letters, are true and accurate at all relevant times; (3) all covenants contained in the Agreement and Plan of Merger (including exhibits thereto) and the Tax Representation Letters are performed without waiver or breach of any material provision thereof; (4) the Merger will be reported by King Ranch, Energy, Holdings, Minerals, St. Mary and Sub on their respective Federal income tax returns in a manner consistent with the opinion set forth below; and (5) any representation or statement made "to the best of knowledge" or similarly qualified is correct without qualification. We have also assumed in connection with rendering this opinion that the Merger will be consummated in accordance with the Agreement and Plan of Merger (and without any waiver, breach or amendment of any of the provisions thereof).

Based on our examination of the foregoing items and subject to the limitations, qualifications, assumptions and caveats set forth herein, we are of the opinion that:

(i) For the United States Federal income tax purposes, the Stock Distribution, when made as provided herein, should qualify as a distribution to which Code Section 355(e) applies and, accordingly, the receipt of the stock of Energy by the Shareholders upon the Stock Distribution should not be taxable to the Shareholders for Federal income tax purposes.

(ii) The Merger of Sub with and into Energy, when consummated as provided herein, should qualify as a reorganization within the meaning of Code Section 368(a).

(iii) Upon the consummation of the Merger of Sub with and into Energy as provided herein, St. Mary, Sub and Energy should each be a party to the reorganization within the meaning of Code Section 368(b).

An opinion of counsel merely represents counsel's best judgment with respect to the probable outcome on the merits and is not binding on the IRS or the courts. There can be no complete assurance that positions contrary to our opinions will not be taken by the IRS, or that a court considering the issues would not hold contrary to such an opinion.

This opinion has been prepared and delivered effective as of the date hereof, and based upon certain facts, assumptions, representations and warranties as of the date hereof, as provided herein. This opinion may not be used or relied upon by any person other than the addressee and the Shareholders as of the record date of the Stock Distribution. This opinion may not be used for any other purpose and may not be disclosed, quoted, circulated, published, filed with a governmental agency or otherwise referred to without our prior written consent.

Very truly yours,

/S/ LOCKE LIDDELL & SAPP LLP

EXHIBIT 8.2

July 26, 1999

Mr. Bill Gardiner
Chief Financial Officer
King Ranch, Inc.
1415 Louisiana, Suite 2300
Wedge International Tower
Houston, Texas 77002

Dear Bill:

You have requested our opinion regarding whether the distribution of all of the stock of King Ranch Energy, Inc. ("Controlled") by King Ranch, Inc. ("KRI") to its shareholders qualifies as a tax-free "spin-off" within the meaning of Section 355(a) of the Internal Revenue Code.(1)

In rendering the opinion expressed herein, we have relied upon the completeness, truth and accuracy of (i) the Statement of Facts, as set forth below, provided by an authorized representative of KRI, (ii) the Representations, as provided by an authorized representative of KRI in the Certificate of Representations, dated July 23, 1999, (iii) the Revenue Procedure 96-30, 1996-1 C.B. 696, Checklist Questionnaire, dated July 23, 1999, (iv) the letter from the management of St. Mary's Land and Exploration Company, dated July 23, 1999, and (v) the following documents (the "Documents"):

1. Financial Statements for King Ranch, Inc. and subsidiaries for the calendar year ended December 31, 1998;

2. Summary Profit and Loss Statements for King Ranch, Inc., King Ranch Holdings, Inc., King Ranch Minerals, Inc., and King Ranch Energy, Inc. for the calendar years ended December 31, 1994, 1995, 1996, 1997, and 1998.

You have advised us that the Statement of Facts and the Representations, both set forth below, as well as the Revenue Procedure 96-30 Checklist Questionnaire and the Documents, provide a complete and accurate description of all relevant facts and circumstances surrounding the Proposed Transaction. We have made no independent determination with respect to the facts and, therefore, have relied upon the completeness, truth and accuracy of the Statement of Facts, the Representations, Revenue Procedure 96-30, and the Documents for purposes of this letter. Any omissions from, or modifications to,

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(1) All section references ("Section") are to the Internal Revenue Code of 1986, as amended. Unless otherwise specified, all regulation section references are to sections of the Federal Income Tax Regulations.

the Statement of Facts, Representations, Revenue Procedure 96-30 or Documents may affect the conclusions stated herein, perhaps in an adverse manner.

This opinion is being rendered only to the addressee in connection with the Proposed Transaction, described below, and is intended solely for the benefit of KRI and its shareholders. This opinion may not be relied upon by any other person or persons, or used for any other purposes, including, but not necessarily limited to, filings with governmental agencies without the prior written consent of Ernst & Young LLP.

STATEMENT OF FACTS AND REPRESENTATIONS

KING RANCH, INC.

KRI, (EIN: 74-0726547) a Texas corporation, is the common parent of an affiliated group of corporations that files a consolidated federal income tax return (the "Distributing Group") using a calendar year end. KRI and its subsidiaries are accrual basis taxpayers. KRI was incorporated in 1934 and has been engaged in ranching operations since its incorporation.

KRI currently has 42,938 shares of Class A voting common stock ("Class A stock") and 367,328 shares of Class B nonvoting common stock ("Class B stock") outstanding. Such shares are beneficially owned by several generations of the King family. The Class A stock is owned by approximately 40 individuals and 50 entities. The Class B stock is owned by approximately 35 individuals and 75 entities. The entities are generally trusts for the benefit of King family members. In addition, two charities own shares of KRI's Class B stock.

KRI is directly engaged in the business of conducting ranching, farming, commodity market operations and various other agricultural pursuits (the "Agribusiness Operations"). KRI conducts its operations on a total of approximately 900,000 acres of land located in Texas and Florida.(2) A substantial part of the KRI's operations consists of breeding and raising its cattle herd (using approximately 825,000 acres in South Texas and 5,000 acres in Central Texas). The cattle operations consist primarily of breeding, pasture grazing and operating a commercial feedyard. KRI also breeds and raises quarter horses for ranch use, as well as for sale to third parties. In addition, KRI conducts various farming operations in South Texas and Florida. The farming operations consist primarily of producing cotton and milo crops in South Texas, and sod, sugar cane and rice crops in Florida.

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(2) Foreign operations are conducted through a corporate subsidiary in Brazil.

KRI had a total of 273 full-time and 57 part-time employees in its domestic Agribusiness Operations as of the end of 1998.

KING RANCH HOLDINGS, INC.

King Ranch Holdings, Inc. ("KRH") (EIN: 74-2617718), was incorporated as a holding company under the laws of Delaware in November, 1991. The stock of KRH is owned 100 percent by KRI. KRH owns the stock of five subsidiaries. In addition, KRH owns a 95 percent limited partnership interest in Running W, Ltd., an accrual basis limited partnership that provides administrative services to members of the Distributing Group, employs approximately 40 personnel, and receives royalties from members of KRI's affiliated group for the use of various intangibles.

KING RANCH MINERALS, INC.

King Ranch Minerals, Inc. ("KRM") (EIN 74-2102814), a Delaware corporation, was incorporated in November, 1991, as King Ranch Oil and Gas, Inc. Effective January 1, 1998, the corporation changed its name King Ranch Minerals, Inc. The stock of KRM is owned 100 percent by KRH. KRM is engaged in the management of its minority ownership in oil and gas royalty interests operated by Exxon. KRM employs two individuals, a "land manager" and a "lease analyst," to oversee the risks and hazards associated with the oil and gas production operations conducted on King Ranch, and to advise and consult with KRI shareholders regarding their individually owned royalty interests. The land manager is also actively involved in negotiations with Exxon regarding lease terms and structure.

KING RANCH ENERGY, INC.

Controlled (EIN 76-0554924), a Delaware corporation, was incorporated on December 31, 1997, by KRM. Upon the incorporation of Controlled, KRM (known at the time as King Ranch Oil and Gas, Inc.) transferred assets and liabilities associated with its Energy Business Operations, discussed below, to Controlled in exchange for stock of Controlled in a transaction qualifying as a tax-free contribution to capital under Section 351.(3) The stock of Controlled is currently owned 100 percent by KRM. Since its incorporation, Controlled has been directly engaged in the exploration for, and the development and production of, natural gas and crude oil (the "Energy Business Operations"). Prior to the incorporation of Controlled, its operations were conducted by KRM since its incorporation in 1991.

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(3) Ernst & Young LLP has not rendered an opinion regarding the qualification of the asset transfer under Section 351.

Controlled has a total of 28 employees engaged in its domestic Engergy Business Operations as of June 39, 1999; the employees perform exploration, production, marketing, and administrative functions. Controlled's onshore operations are conducted in Texas, Louisiana, Oklahoma, North Dakota, and Utah, while its offshore operations are conducted in the Gulf Coast regions of Louisiana and Texas.

INTERCOMPANY OBLIGATIONS

As of June 30, 1999, Controlled has the following intercompany obligations outstanding: a payable in the approximate amount of $12,226,000 (the "Payable"),

and a long-term note in the approximate amount of $15,089,000 (the "Long-Term Note"). The creditor on the Payable is Running W, Ltd., in which KRI is a 5 percent general partner, and KRH is a 95 percent limited partner. Controlled issued the Payable to compensate Running W, Ltd. for the use of certain trademark names and symbols, as well as for general administrative, legal, and management services; the amount of the payable has accumulated and accrued since 1995. Controlled issued the Long-Term Note to compensate KRH for funding operating and production activities of Controlled in prior years. The Long-Term Note was originally issued November, 1998.

Prior to consummating the Proposed Transaction, Running W, Ltd. will make an operating distribution of the Payable from Controlled to its partners (KRI and KRH). KRI will then contribute its interest in the Payable to KRH; KRH will contribute the Payable and the Long-Term Note to KRM, and KRM will contribute the Payable and the Long-Term Note to Controlled. Upon receipt of the Payable and the Long-Term Note, Controlled's obligations will be extinguished.(4)

BUSINESS PURPOSE

St. Mary's Land and Exploration Company ("Acquirer"), a publicly traded Delaware corporation, and a geographically diversified oil and gas producer, is interested in acquiring KRI's Energy Business Operations, located in Controlled. Acquirer is currently negotiating with KRI to acquire all of the outstanding stock of Controlled in exchange for Acquirer voting stock in a transaction intended to qualify under Section 368(a)(1)(B). Acquirer has indicated orally as well as in a letter to the management of KRI that it does not want to have a significant corporate shareholder of its stock. Moreover, it is the understanding of the management of KRI that Acquirer will consummate the acquisition only if it is able to acquire the stock of Controlled from KRI's shareholders, rather than

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(4) Assuming that the fair market value and the basis in the hands of the creditors equal the face amount of the Payable and the Long-Term Note, respectively, then none of the parties to the transfers of the Payable and the Long-Term Note will recognize gain (or income) or loss (or deductions) as a result of the transfers. SEE Section 721; Treas. Reg. Section 1.1502-13(g); Prop. Treas. Reg. Section 1.1502-13(g)(3); Section 108(e)(6).

from KRM (or another member of the Distributing Group). Accordingly, the Proposed Transaction is necessary to facilitate the acquisition of the stock of Controlled by Acquirer.

PROPOSED TRANSACTION

For the reasons discussed above, the parties propose the following steps (the "Proposed Transaction"):

(i) KRM will distribute all of the stock of Controlled to its sole shareholder, KRH (the "First Distribution").

(ii) KRH will distribute all of the stock of Controlled to its sole shareholder, KRI (the "Second Distribution").

(iii) KRI will distribute all of the stock of Controlled to its shareholders pro rata (the "Third Distribution").

(iv) The shareholders of KRI will then transfer all of the stock of Controlled to Acquirer in exchange solely for Acquirer voting stock (the "Acquisition"). Immediately after consummation of the Acquisition, the KRI shareholders will own, in the aggregate, approximately 19 percent of the outstanding stock of Acquirer.

REPRESENTATIONS

The management of KRI makes the following representations, including representations required by Rev. Proc. 96-30, 1996-1 C.B. 696, in connection with step (iii) above:

(a) After the Proposed Transaction, Controlled will not be indebted to KRI or any member of the Distributing Group, except for amounts arising out of the course of ordinary intercompany operations. Such debt, if any, will not constitute stock or securities.

(b) No part of the stock of Controlled distributed in the Third Distribution will be received by a shareholder of KRI as a creditor, employee, or in any capacity other than that of shareholder of KRI.

(c) The 5 years of financial information submitted on behalf of KRI and Controlled is representative of each corporation's present operation, and with regard to such corporation, there have been no substantial operational changes since the date of the last financial statements submitted.

(d) No changes in the ownership of the stock of KRI have occurred during the five year period ending on the date of the Proposed Transaction, except for (i) gifts of KRI stock to charitable organizations, charitable trusts, or charitable split-interest trusts (the non-charitable beneficiary (or beneficiaries) of which is the donor shareholder, or one or more family members, as defined in Section 267(c)(4), of the donor shareholder), and (ii) gifts of KRI stock for estate planning purposes to one or more family members as defined in Section 267(c)(4) of the shareholder or to entities if the shareholder is considered under the constructive ownership rules of Section 267(c) to own any Distributing 3 stock owned by such entity.

(e) Following the Third Distribution, KRI and Controlled will each continue the active conduct of its business, independently and with its separate employees.

(f) The distribution of the stock of Controlled will be carried out for the following corporate business purpose: to facilitate the acquisition of the stock of Controlled by Acquirer. The distribution is motivated, in whole or substantial part, by this corporate business purpose.

(g) It is the understanding of the management of KRI that Acquirer will consummate the acquisition only if it is able to acquire the stock of Controlled from KRI's shareholders, rather than from KRM (or another member of the Distributing Group).

(h) There is no plan or intention by any shareholder who owns 5 percent or more of the stock of KRI, and the management of KRI, to its best knowledge, is not aware of any plan or intention on the part of any particular remaining shareholder of KRI to sell, exchange, transfer by gift, or otherwise dispose of any stock in, or securities of, either KRI or Controlled after the Proposed Transaction other than (i) the proposed Acquisition described in step (iv) above, (ii) gifts of Acquirer, Controlled, or KRI stock to charitable organizations, charitable trusts, or charitable split-interest trusts (the non-charitable beneficiary (or beneficiaries) of which is the donor shareholder, or one or more family members, as defined in Section 267(c)(4), of the donor shareholder), and (iii) gifts of Acquirer, Controlled, or KRI stock for estate planning purposes to one or more family members as defined in Section 267(c)(4) of the shareholder or to entities if the shareholder is considered under the constructive ownership rules of Section 267(c) to own any Acquirer, Controlled or KRI stock owned by such entity.

(i) There is no plan or intention by either KRI or Controlled, directly or through any subsidiary corporation, to purchase any of its outstanding stock after the Proposed Transaction.

(j) Other than the Acquisition of the stock of Controlled, there is no plan or intention to liquidate either KRI or Controlled, to merge either corporation with any other corporation, or to sell or otherwise dispose of the assets of either corporation after the Proposed Transaction, except in the ordinary course of business.

(k) KRI neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the Proposed Transaction.

(l) Immediately before the distribution, items of income, gain, loss, deduction, and credit, if any, will be taken into account as required by the applicable intercompany transaction regulations. Further, KRI's excess loss account, if any, with respect to the stock of Controlled will be included in income immediately before the distribution.

(m) Payments made in connection with all continuing transactions, if any, between Controlled and any member of the Distributing Group will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.

(n) No parties to the Proposed Transaction are investment companies as defined in Section 368(a)(2)(F)(iii) and (iv).

(o) Neither KRI nor Controlled is an S corporation (within the meaning of Section 1361(a)), and there is no plan or intention by KRI or Controlled to make an S Corporation election pursuant to Section 1362(a).

FEDERAL INCOME TAX CONSEQUENCES

Based solely upon the information contained in the "Statement of Facts and Representations" above, and provided that the Acquisition constitutes a tax-free reorganization within the meaning of Section 368(a)(1)(B), we believe that the following federal income tax consequences should result from the Proposed Transaction:

(1) If Section 355 would otherwise apply, Section 355(f) will apply to the First and Second Distributions (steps (i) and (ii) of the Proposed Transaction), because they are intragroup distributions that are part of a plan (or series of related transactions) pursuant to which one or more persons acquire directly or indirectly stock representing a 50 percent or greater interest in the distributing corporation or any controlled corporation, within the meaning of Section

355(e)(2)(A)(ii). As a consequence, Section 355 (or so much of Section 356 as relates to Section 355) will not apply to the First and Second Distributions.(5)

(2) The shareholders of KRI will recognize no gain or loss (and no amount will be included in their income) upon the receipt of the stock of Controlled as a result of the Third Distribution. (Section 355(a)(1)).

(3) Section 355(e) will apply to the Third Distribution (step (iii) of the Proposed Transaction), because it is part of a plan (or series of related transactions) pursuant to which one or more persons acquire directly or indirectly stock representing a 50 percent or greater interest in the distributing corporation or any controlled corporation, within the meaning of Section 355(e)(2)(A)(ii). As a consequence, the stock of Controlled will not be treated as qualified property for purposes of Section 355(c)(2). KRI will recognize gain upon the distribution of the stock of Controlled to its shareholders as if such stock were sold to the shareholders at its fair market value.

(4) The aggregate basis of the Controlled and KRI stock in the hands of each shareholder after the Third Distribution will equal the aggregate basis of the KRI stock held immediately before the Proposed Transaction, allocated in proportion to the fair market value of each in accordance with Treas. Reg. Section 1.358-2(a)(2). (Section 358(b)(2)).

(5) The holding period of the Controlled stock received by each KRI shareholder will include the holding period of the KRI stock with respect to which the distribution will be made, provided that the shareholder holds the KRI stock as a capital asset on the date of the distribution (Section 1223(1)).

(6) As provided in Section 312(h), proper allocation of earnings and profits between KRI and Controlled will be made in accordance with Treas. Reg. Section 1.312-10(b).

(7) Assuming that the Acquisition qualifies as tax-free under Section 368(a)(1)(B), the Acquisition will not adversely affect opinions (1) through (6).

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(5) We note that even in the event that Sections 355(e) and (f) did not apply to the First and Second Distributions, it is not clear that either of these distributions would qualify as tax-free under Section 355. We have not established whether either KRM or KRH would satisfy the active trade or business requirement that is necessary for tax-free treatment under Section 355. This requirement is discussed in more detail below.

ANALYSIS

REQUIREMENTS FOR QUALIFICATION UNDER SECTION 355. Section 355 provides generally for the tax-free distribution of the stock of a controlled subsidiary. In particular, where the requirements of Section 355 are satisfied, Section 355(a) provides for the tax-free receipt by a shareholder of a distributing corporation of the stock of a controlled subsidiary. In addition, Section 355(c) permits the distributing corporation to distribute the stock of a controlled subsidiary without the recognition of gain or loss. To qualify under Section 355, a transaction must satisfy each of the following requirements:

(a) Immediately before the distribution, the distributing corporation must own stock constituting control of the corporation whose shares are being distributed. Section 368(c) defines the term "control" as the ownership of stock possessing at least 80 percent of the total combined voting power of the corporation and at least 80 percent of the total number of shares of all other classes of stock. Section 355(a)(1)(A).

(b) Immediately after the distribution, both the distributing and the controlled corporations must be engaged in the active conduct of a trade or business. Section 355(a)(1)(C) and (b). This requirement is satisfied only if the trade or business is actively conducted throughout the five-year period ending on the date of the distribution. Section 355(b)(2).

(c) The distributing corporation must distribute all of its stock and securities in the controlled corporation, or distribute enough stock to constitute control and establish to the satisfaction of the Commissioner that the retention of stock in the controlled corporation was not in pursuance of a plan having as one of its principal purposes the avoidance of federal income tax. Section 355(a)(1)(D).

(d) The transaction must not be used principally as a device for the distribution of earnings and profits. Section 355(a)(1)(B).

(e) In addition to the statutory requirements of Section 355, a distribution must be supported by a substantial corporate business purpose, a continuity of proprietary interest, and a continuity of business enterprise.

SECTION 355(e) AND (f). As discussed above, Section 355(c) permits a corporation to distribute the stock of a controlled subsidiary, i.e., qualified property without the recognition of gain or loss, provided that the requirements of Section 355 are satisfied. As an exception to the general rule of Section 355(c), Section 355(e)(1) provides generally that if there is a distribution to which Section 355(e) applies, any stock or securities in the controlled corporation shall not be treated as qualified property for purposes of Section 355(c)(2) or Section 361(c)(2). IRC Section 355(e)(2)(A) provides that Section 355(e)

applies to any distribution (i) to which Section 355 (or so much of Section 356 as relates to the section) applies, and (ii) which is part of a plan (or series of related transactions) pursuant to which one or more persons acquire directly or indirectly stock representing a 50 percent or greater interest in the distributing corporation or any controlled corporation. The term "50 percent or greater interest" means stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote or at least 50 percent of the total value of shares of all classes of stock.

Assuming that Section 355 would otherwise apply, Section 355(f) provides that Section 355 shall not apply to the distribution of the stock of one member of an affiliated group to another member if such distribution is part of a plan described in Section 355(e)(2)(A)(ii). In other words, if Section 355(f) applies to an intragroup distribution, neither Section 355(a) nor Section 355(c) will apply to cause the transaction to be tax-free to either the distributee/shareholder or the distributing corporation, respectively.

(i) APPLICATION OF SECTION 355(e) AND (f) TO THE FIRST AND SECOND DISTRIBUTIONS.

As discussed above, the First, Second and Third Distributions will occur as part of a plan pursuant to which Acquirer will acquire a 50 percent or

greater stock interest in Controlled. Acquirer plans to acquire the stock of Controlled in exchange for Acquirer stock. Acquirer has indicated that it does not want to acquire the stock of Controlled from a member of the Distributing Group, because Acquirer does not want a significant corporate shareholder. Thus, each distribution is a step in a plan to facilitate the Acquisition. Once the Acquisition is consummated, the shareholders of KRI will own approximately 19 percent of the outstanding stock of Acquirer, thereby retaining only approximately a 19 percent indirect interest in Controlled.

Assuming that Section 355 would otherwise apply, Section 355(f) will apply to the First and Second Distributions, because each distribution will occur pursuant to a plan described in Section 355(e)(2)(A)(ii).(6) As a result, neither Section 355(a) nor Section 355(c) will apply to the parties to the First and Second Distributions. Instead, the First Distribution will constitute a taxable distribution of the stock of Controlled by KRM to KRH. Similarly, the Second Distribution will constitute a taxable distribution of the stock of Controlled by KRH to KRI.

The First Distribution will constitute an intercompany distribution from KRM to KRH within the meaning of Treas. Reg. Section 1.1502-13(b)(1). Pursuant to Treas. Reg. Section 1.1502-13(f)(2)(ii), the intercompany distribution is not included in the gross

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(6) As noted above, it is not clear whether either the First or Second Distribution would qualify as tax-free under Section 355. It is not clear whether either KRM or KRH would satisfy the active trade or business requirement that is necessary for tax-free treatment under Section 355.

income of KRH, to the extent that there is a corresponding negative adjustment reflected under Treas. Reg. Section 1.1502-32 in KRH's basis in the stock of KRM. Under Section 301(d), KRH's basis in the stock of Controlled received will equal the fair market value of those shares. KRM will have a deferred intercompany gain or loss to the extent of the difference between the fair market value of the Controlled shares and KRM's basis in those shares. Under Treas. Reg. Section 1.1502-13, the deferred gain or loss will be triggered when Controlled leaves the Distributing Group. At that time, KRH's basis in the stock of KRM will be increased (or decreased) to reflect the gain (or loss) triggered.

The Second Distribution will constitute an intercompany distribution from KRH to KRI within the meaning of Treas. Reg. Section 1.1502-13(b)(1). Pursuant to Treas. Reg. Section 1.1502-13(f)(2)(ii), the intercompany distribution is not included in the gross income of KRI, to the extent that there is a corresponding negative adjustment reflected under Treas. Reg. Section 1.1502-32 in KRI's basis in the stock of KRH. Under Section 301(d), KRI's basis in the stock of Controlled received will equal the fair market value of those shares. KRH will have a deferred intercompany gain or loss to the extent of the difference, if any, between the fair market value of the Controlled shares and KRH's basis in those shares. Under Treas. Reg. Section 1.1502-13, the deferred gain or loss will be triggered when Controlled leaves the Distributing Group. At that time, KRI's basis in the stock of KRH will be increased (or decreased) to reflect the gain (or loss) triggered.

(ii) APPLICATION OF SECTION 355(e) TO THE THIRD DISTRIBUTION

Unlike the First and Second Distributions, the Third Distribution is not an intragroup distribution. KRI will distribute the stock of Controlled out of the Distributing Group to its shareholders. As a result, Section 355(e), and not Section 355(f), will apply to the Third Distribution. Pursuant to Section355(e)(1), the stock of Controlled will not be qualified property for purposes of Section 355(c)(2). However, Section 355(a)(1) will apply to the shareholders' receipt of the stock of Controlled. Thus, provided that the requirements of Section 355 are otherwise satisfied, the Third Distribution will be taxable to KRI, while no gain or loss will be recognized by the shareholders of KRI upon their receipt of the stock of Controlled.

APPLICATION OF THE SECTION 355 REQUIREMENTS TO THE THIRD DISTRIBUTION. As a result of the application of Section 355(f), Section 355 will not apply to the First and Second Distributions. Thus, the remainder of this analysis focuses on the Section 355 requirements as they relate to the Third Distribution.

CONTROL IMMEDIATELY BEFORE THE DISTRIBUTION AND DISTRIBUTION OF CONTROL REQUIREMENTS. Immediately before the Third Distribution, and upon consummation of the First and Second Distributions, KRI will own all of the outstanding stock of Controlled. Moreover, KRI will distribute all of the stock of Controlled to its shareholders pro rata. Thus, the control

requirements will be satisfied.

The fact that Acquirer will acquire all of the stock of Controlled immediately after the Third Distribution and as part of the same plan will not preclude KRI from being considered to own and distribute stock of Controlled constituting control. In Rev. Rul. 98-27, 1998-2 I.R.B. 4, the Internal Revenue Service (the "Service") stated that it would not apply the step transaction doctrine to determine whether the distributed corporation was a controlled corporation immediately before the distribution under Section 355(a) solely because of any post-distribution acquisition or restructuring of the distributed corporation, whether prearranged or not.(7)

In addition, the Service has acknowledged that a distributing corporation can receive the stock of a controlled corporation immediately prior to distributing it, if the distributing corporation receives the stock as a result of a distribution from a subsidiary. Rev. Rul. 62-138, 1962-2 C.B. 95, involved two successive distributions of the stock of a controlled subsidiary for a valid corporate business purpose. In that ruling, Parent, a corporation engaged in banking, owned all of the stock of Subsidiary, a corporation engaged in an active real estate business. For a valid business purpose, Subsidiary transferred a business to newly formed Controlled and distributed the stock of Controlled to Parent. Parent then distributed the stock of Controlled to its shareholders. The Service determined that each distribution qualified a tax-free under Section 355.

ACTIVE CONDUCT OF A TRADE OR BUSINESS. To satisfy the active trade or business requirement of Section 355(b), (i) the distributing and controlled corporations must each be engaged in the active conduct of a trade or business immediately after the distribution; (ii) the businesses must have been actively conducted for the 5-year period immediately before the distribution; and (iii) neither the active businesses nor the stock of a controlled corporation conducting such an active business may have been acquired in a taxable transaction during the five year period preceding the distribution. Section 355(b)(1) and (2).

The five year active business requirement is satisfied if the businesses have been actively conducted by the distributing and controlled corporations for five years before the distribution. Generally, a corporation is considered to be engaged in the active conduct of a trade or business if it carries on a specific group of activities, including the collection of income, for the purpose of earning a profit. The group of activities should include every operation that forms a part of, or a step in, the process of earning such profit. Treas. Reg. Section 1.355-3(b)(2)(ii). The determination of whether a trade or business is active is

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(7) SEE Rev. Rule. 98-44, 1998-37 I.R.B. 4 (declaring obsolete Rev. Rul. 70-225, 1970-1 C.B. 80. Rev. Rul. 70-225 involved a distribution of the stock of a newly formed controlled corporation followed by an acquisition of the stock of the controlled corporation; applying the step transaction doctrine, the Service concluded that the transaction was an integrated plan, the distributing corporation did not distribute control of the controlled corporation.).

based on all of the relevant facts and circumstances. Treas. Reg. Section 1.355-3(b)(2)(iii). In RAFFERTY V. COMMISSIONER, 452 F.2d 767 (1st Cir. 1971), the court concluded that "in order to be an active trade or business under Section 355, a corporation must engage in entrepreneurial endeavors of such a nature and to such an extent as to qualitatively distinguish its operations from mere investments."

As described immediately below, KRI and Controlled each satisfy the "active conduct of a trade or business" requirement as defined in Section 355(b), because (i) KRI will continue to directly operate its historic Agribusiness Operations following the Proposed Transaction, and (ii) Controlled will continue to conduct its historic Energy Business Operations.

Even though KRI will receive the stock of Controlled as a taxable distribution from KRH, the distribution will not constitute the acquisition of control in a transaction in which gain or loss is recognized in whole or in part within the meaning of Section 355(b)(2)(D)(ii). Section 355(b)(2)(D)(ii) provides that a corporation shall be treated as engaged in the active conduct of a trade or business if and only if "control of a corporation which (at the time of acquisition of control) was conducting such trade or business . . . was so

acquired by any such corporation within [the five year period ending on the date of the distribution], but, in each case in which such control was so acquired, it was so acquired, only by reason of transactions in which gain or loss was not recognized in whole or in part, or only by reason of such transactions combined with acquisitions before the beginning of such period."

In Rev. Rul. 69-461, 1969-2 C.B. 52, the Service concluded that Section 355(b)(2)(D)(ii) did not apply to facts similar to those currently under consideration. In that ruling, X owned all of the stock of Y. In 1963, Y purchased for cash all of the stock of Z, which conducted an active trade or business. In 1966, Y distributed all of the stock of Z to X. In 1969, X distributed the stock of Z to its shareholders. Because Y had not owned the Z stock for at least five years, Y's distribution of the stock did not qualify as tax-free under Section 355. With respect to X's distribution of the stock of Z, however, the ruling states that

> [d]istributions of stock from one corporation to another corporation, where the distributee is in control of the distributor is not the type of transaction to which Section 355(b)(2)(D) was intended to apply. Section 355(b)(2)(D) was intended to prevent the acquisition of stock of a corporation conducting an active trade or business in a taxable transaction from a party not within the direct or indirect control of the distributing corporation.
>
> Where the distributing corporation acquires the stock of the controlled corporation as the result of a distribution from a subsidiary that merely has

> the effect of converting indirect control into direct control, the abuse that section 355(b)(2)(D) of the Code was designed to prevent is not present. This section of the Code applies to a transaction in which stock is acquired from a corporation outside a direct chain of ownership.

Thus, the Service concluded in Rev. Rul. 69-461 that since the Z stock was acquired by Y at least five years prior to X's distribution of such stock to its shareholders, the requirement of Section 355(b)(2)(D) was satisfied. Similarly, the fact that KRI will receive the stock of Controlled as a taxable distribution from KRH will not prevent the requirements of Section 355(b)(2)(D) from being satisfied.(8)

DEVICE TO DISTRIBUTE EARNINGS AND PROFITS. Section 355(a)(1)(B) and Treas. Reg. Section 1.355-2(d) provide that Section 355 does not apply to a transaction used principally as a device for the distribution of the earnings and profits of the distributing corporation, the controlled corporations, or both. The regulations provide that, generally, the determination of whether a transaction will be used principally as a device will be made from all of the facts and circumstances, including but not limited to, the presence or absence of certain factors described therein.

Factors that constitute evidence of device include the following: (i) a pro rata distribution of the controlled corporation stock to the shareholders of the distributing corporation;(9) (ii) a sale or exchange of the stock of the distributing or controlled corporations after the distribution;(10) (iii) the existence of assets that are not used in the conduct of a trade or business;(11) and (iv) a business of either the distributing or controlled corporations (or a corporation controlled by either) that is a "secondary business" (a business whose principal function is to serve the business of the other corporation) that continues as a secondary business for a significant period after the distribution and can be sold without adversely affecting the business of the corporation.(12)

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(8) SEE ALSO Rev. 78-442, 1978-2 C.B. 143 (concluding that the recognition of gain under Section 357(c) upon the transfer of a business from a distributing corporation to a controlled corporation will not cause Section 355(b)(2)(C) to apply. The ruling reasons that Section 355(b)(2)(C) is intended to prevent the acquisition of a trade or business by a distributing or controlled corporation from an outside party in a taxable transaction within 5 years of a purported Section 355 distribution. Section 355(b)(2)(C) was not intended to apply to an acquisition of a trade or business by the controlled corporation from the distributing corporation.).

(9) Treas. Reg. Section 1.355-2(d)(2)(ii).

(10) Treas. Reg. Section 1.355-2(d)(2)(iii).

(11) Treas. Reg. Section 1.355-2(d)(2)(iv).

(12) Treas. Reg. Section 1.355-2(d)(2)(iv)(C).

Nondevice factors include (i) a corporate business purpose which supports/motivates the transaction;(13) (ii) a distributing corporation that is publicly traded and widely held;(14) and (iii) a distribution to one or more domestic corporate shareholders that, if section 355 did not apply, would be entitled to a deduction under Section 243(a).(15)

The Proposed Transaction will not constitute a device to distribute earnings and profits. As discussed above, each distribution in the series of distributions is motivated by a corporate business purpose, namely the acquisition of Controlled by Acquirer. Moreover, although the distributions are part of a plan pursuant to which the shareholders of KRI will exchange their Controlled shares for Acquirer shares, this will not cause the distribution to be a device. The shareholders will retain their ownership of Controlled through their stock in Acquirer. Moreover, the Service has permitted a distribution of stock to be followed by the tax-free acquisition of either the distributing or the controlled corporation.(16) Apart from the Acquisition, the shareholders of KRI have no plan or intention to dispose of their stock in KRI, Controlled or Acquirer.

BUSINESS PURPOSE. Treas. Reg. Section 1.355-2(b) provides that Section 355 applies to a transaction only if it is carried out for one or more corporate business purposes. A transaction is carried out for a corporate business purpose if it is motivated, in whole or in substantial part, by one or more corporate business purposes. A corporate business purpose is a real and substantial non-federal tax purpose germane to the business of the distributing and controlled corporations (or the affiliated group as defined in Treas. Reg. Section 1.355-3(b)(4)(iv)) to which the distributing corporation belongs. Treas. Reg. Section 1.355-2(b)(3) provides that the business purpose requirement is not satisfied if a corporate business purpose can be achieved through a nontaxable transaction that does not involve the distribution of controlled stock and which is neither impractical nor unduly expensive.

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(13) Treas. Reg. Section 1.355-2(d)(3)(ii).

(14) Treas. Reg. Section 1.355-2(d)(3)(iii).

(15) Treas. Reg. Section 1.355-2(d)(3)(iv).

(16) SEE Rev. Rul. 75-406, 1975-2 C.B. 125, MODIFIED BY Rev. Rule. 96-30, 1996-1 C.B. 35, OBSOLETED BY Rev. Rul. 98-27, 1998-22 I.R.B. 4 (involving the distribution of a controlled corporation followed by a tax-free merger of the controlled corporation with and into acquiring. The Service explained that the distribution was not a device to distribute earnings and profits, because after the transaction, the shareholders maintained a continuing stock interest in the distributing corporation directly, and in the controlled corporation indirectly through stock of the acquiring. Modified and obsoleted on other grounds). SEE ALSO Rev. Rule. 68-603, 1968-2 C.B. 148 (indicating the extent to which the Service will follow the decision in MARY ARCHER W. MORRIS TRUST, 367 F.2d 794 (4th Cir. 1966), permitting a spin-off followed by a reorganization of the distributing corporation); Rev. Rul. 78-251, 1978-1 C.B. 89 (involving a spin-off followed by the acquisition of the stock of a parent corporation by an unrelated corporation in a Type B reorganization); Rev. Rul. 70-434, 1970-2 C.B. 83 (same).

As described in detail above, the business purpose for the Proposed Transaction is to facilitate the acquisition of Controlled by Acquirer. To accommodate Acquirer, Controlled must be owned directly by diverse shareholders, rather than a single corporate shareholder.(17) No practical, non-taxable alternative to the Proposed Transaction exists.

CONTINUITY OF SHAREHOLDER INTEREST. Treas. Reg. Section 1.355-2(c) provides that Section 355 applies to a separation that effects only a readjustment of continuing interests in the property of the distributing and controlled corporations. One or more persons who, directly or indirectly, were the owners of the enterprise prior to the distribution or exchange must own, in the aggregate, an amount of stock establishing a continuity of interest in each of the modified corporate forms in which the enterprise is conducted after the separation.

As discussed in detail above, following consummation of the Proposed

Transaction, the shareholders of KRI will continue their ownership in KRI directly. Moreover, the shareholders will continue their ownership in Controlled indirectly through their stock in Acquirer. In Rev. Rul. 75-406, SUPRA, the Service acknowledged that the continuity of shareholder interest requirement will be satisfied even where a distribution is followed by a tax-free exchange of stock for stock of an acquiring corporation.

CONTINUITY OF BUSINESS OPERATION. Treas. Reg. Section 1.355-1(b) provides that Section 355 contemplates the continued operation of the business or businesses existing prior to the separation. Because KRI will continue its historic active business operations and Controlled will continue its historic active business operations as a subsidiary of Acquirer corporation, the continuity of business enterprise requirement should be satisfied.

SECTION 355(d)--DISQUALIFIED DISTRIBUTIONS. Section 355(d) provides an exception to the general rule of Section 355(c). Section 355(d) characterizes certain controlled subsidiary stock distributions as "disqualified distributions," thereby requiring the distributing corporation to recognize gain on the distribution. Section 355(d)(2) defines a "disqualified distribution" as any distribution to which Section 355 applies if, immediately after the distribution, any person holds disqualified stock in either the distributing or controlled corporation which constitutes a 50 percent or greater interest in such corporation. Section 355(d)(3) defines disqualified stock as any stock in the distributing or controlled corporation acquired by "purchase" during the five year period ending on the date of the distribution, or stock received in a distribution to the extent the distribution is attributable to stock acquired by "purchase."

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(17) Rev. Rul. 68-603, SUPRA, acknowledges that this is a valid business purpose. SEE ALSO Rev. Rul. 78-251, SUPRA, Rev. Rul. 75-406, SUPRA, Rev. Rul. 70-434, SUPRA.

For purposes of applying Section 355(d), Section 355(d)(5) defines the term "purchase." Section 355(d)(5)(A) provides the general rule that a purchase is any acquisition if (i) the basis of the property acquired is not determined either by reference to the transferor's adjusted basis or under Section 1014, and (ii) the property is not acquired in an exchange to which Section 351, 354, 355, or 356 applies. Section 355(d)(5)(B) treats certain Section 351 exchanges as purchases, if the property received in the Section 351 exchange is acquired for any cash or cash item, any marketable stock or security, or any debt of the transferor. Finally, Section 355(d)(5)(C) provides that certain carryover basis transactions are treated as purchases. In particular, if a person acquires property from another person who acquired such property by purchase, and the acquirer's basis is determined by reference to the transferor's basis in such property, such acquirer is treated as having acquired the property by purchase on the date it was acquired by the transferor.

As of June 1, 1999, none of the shareholders of KRI acquired their stock in KRI by purchase as defined in Section 355(d) during the five year period immediately prior to the consummation of the Proposed Transaction. As a result, neither the KRI stock nor the Controlled stock is disqualified stock within the meaning of Section 355(d).

SCOPE OF OPINION

The scope of this opinion is expressly limited to the federal income tax issues specifically addressed in paragraphs (1) through (7) of the section above entitled "Federal Income Tax Consequences." We have made no determination nor expressed any opinion as to (i) any employee benefit issues which may arise as a result of the Proposed Transaction; (ii) the fair market value of any property, including the stock of Controlled, transferred in the Proposed Transaction, or the extent of gain, if any, on the First or Second Distribution; (iii) whether the Acquisition qualifies as a reorganization within the meaning of Section 368(a)(1)(B); or (iv) whether KRH and KRM are each engaged in an active trade or business within the meaning of Section 355(b). Furthermore, no opinion is expressed with respect to any state or local tax consequences of the Proposed Transaction.

Our opinion, as stated above, is based upon an analysis of the Internal Revenue Code, the Regulations, current case law, and published rulings. The foregoing are subject to change, and such change may be retroactively effective. If so, our views, as set forth above, may be affected and may not be relied upon. Further, any variations or differences in the facts or representations recited herein, for any reason, might affect our conclusions, perhaps in an adverse manner, and make them inapplicable. Further, we have undertaken no obligation to update this opinion for changes in facts or law occurring subsequent to the date thereof.

This letter is an opinion of Ernst & Young LLP as to the interpretation of existing law and, as such, is not binding on the Service or the courts. This letter may be used by KRI

in responding to inquiries from the Internal Revenue Service regarding the Proposed Transaction.

Very Truly Yours,

/s/ RANDY

T. Randall Cain
Partner

Copy to: Tracy Janik, Director of Tax, King Ranch, Inc.
Kent E. Gerety, Manager, Ernst & Young LLP
Brian B. Gibney, Partner, Ernst & Young LLP
Kirsten Simpson, Senior Manager, Ernest & Young LLP

EXHIBIT 10.27

STOCK EXCHANGE AGREEMENT

This Stock Exchange Agreement (the "Agreement") dated the 1st day of June, 1999, is by and between ST. MARY LAND & EXPLORATION COMPANY, a Delaware corporation ("St. Mary"), and ROBERT L. NANCE, PENNI W. NANCE, AMY NANCE CEBULL, AMY NANCE CEBULL AS TRUSTEE OF THE CLAY RICHARD CEBULL TRUST, ROBERT SCOTT NANCE, and BRIAN R. CEBULL, all of whom are together referred to herein as the "Stockholders" and who own all of the capital stock of Nance Petroleum Corporation, a Montana corporation ("Nance").

WHEREAS, St. Mary desires to acquire all of the capital stock of Nance from the Stockholders in exchange for shares of the common stock, par value of $0.01 per share, of St. Mary ("St. Mary Stock") as hereinafter provided, and the Stockholders desire to effect such exchange; and

WHEREAS, St. Mary and the Stockholders desire that the transactions provided for herein shall qualify as a reorganization pursuant to Section 368(a)(1)(B) of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE 1
DEFINITIONS; HEADINGS

1.01 Defined Terms. As used in this Agreement, terms defined in the preamble and recitals of this Agreement have the meanings set forth therein, and the following terms have the meanings set forth below:

(1) "Affiliates" mean Panterra, Quanterra Partnership and Quanterra Corporation as subsequently defined.

(2) "Closing" has the meaning ascribed to such term in Section 2.03.

(3) "Code" means the Internal Revenue Code of 1986, as amended.

(4) "Consideration" means those shares of St. Mary Stock set forth on Schedule 1.01(4) which have been calculated in accordance with that certain letter dated March 2, 1999, from St. Mary to Robert L. Nance, as amended by oral understanding which provides for the use of a five year NYMEX strip pricing run as opposed to the two year NYMEX price strip stated in the letter. This letter provides that the number of shares of St. Mary Stock that the Shareholders shall receive is based on a proportionate net asset value comparison of St. Mary with Nance and its Affiliates. This comparison is expressed by using a formula wherein X (the number of shares of St. Mary Stock that the Stockholders are to receive) is the numerator of a fraction and the number of shares of St. Mary Stock issued and outstanding is the denominator of the fraction, and such fraction equals a fraction in which the numerator is the net asset value of Nance and its Affiliates and the denominator is the net asset value of St. Mary. Net asset value has been determined in accordance with the above referenced letter subject to the referenced amended hydrocarbon pricing.

(5) "Environmental Laws" mean all federal, state and local rules and regulations relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

(6) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(7) "GAAP" means generally accepted accounting principles consistently applied.

(8) "Governmental Authority" means any federal, state, or local court, arbitration tribunal or governmental department, board, commission, bureau, agency, authority or instrumentality.

(9) "Hazardous Materials" mean (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is friable, urea-formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing

polychlorinated biphenyls (PCBs); (b) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," or words of similar import, under any Environmental Law; (c) naturally occurring radioactive material (NORM); and (d) any other chemical, material, substance or waste, exposure to which is prohibited, limited or regulated by any Governmental Authority in a jurisdiction in which Nance operates.

(10) "Knowledge" as used (i) with respect to St. Mary shall mean those facts that are actually known or should reasonably have been or become known in the ordinary course of business by the officers of St. Mary, taking into account the scope and nature of such officers' responsibilities, and (ii) with respect to the Stockholders shall mean facts that are actually known or should reasonably have been or become known to any of the Stockholders in the ordinary course of business, taking into account the scope and nature of the Stockholders' involvement in the operation of Nance, Panterra, Quanterra Partnership and Quanterra Corporation.

(11) "Laws" mean all (i) federal, state, or local or foreign laws, rules and regulations, (ii) orders, (iii) Permits, and (iv) agreements with federal, state, local, or foreign regulatory authorities to which the Stockholders, Nance, Panterra, Quanterra Partnership, Quanterra Corporation or St. Mary, as the case may be, is a party or by which any of them or their property is bound.

(12) "Liens" mean all liens, liabilities, claims, security interests, mortgages, pledges, agreements, obligations, restrictions, or other encumbrances of any nature whatsoever, whether absolute, legal, equitable, accrued, contingent or otherwise, including, without limitation, any rights of first refusal.

(13) "1933 Act" means the Securities Act of 1933, as amended.

(14) "1934 Act" means the Securities Exchange Act of 1934, as amended.

(15) "Nance Financial Statements" mean the unaudited financial statements of Nance for each of its past two fiscal years,

July 31, 1997, July 31, 1998, and that prepared in connection with this transaction dated as of December 31, 1998.

(16) "Nance Stock" means all of the issued and outstanding shares of all Class A and Class B common stock of Nance

(17) "NASDAQ" means National Association of Securities Dealers Automated Quotations System.

"Panterra" means Panterra Petroleum, a Montana general partnership of which Nance and St. Mary are the partners and of which Nance is the managing partner.

"Panterra Financial Statements" mean the audited financial statements of Panterra for the years ended December 31, 1996, December 31, 1997, and December 31, 1998.

(20) "Permits" mean all permits, licenses, franchises, orders, certificates and approvals.

(21) "Quanterra Corporation" means Quanterra Energy Corporation.

(22) "Quanterra Partnership" means Quanterra Alpha Limited Partnership of which Quanterra Corporation, Nance and Robert T. Hanley are the partners.

(23) "Related Agreements" mean all of the other agreements to be executed in connection with and pursuant to this Agreement.

(24) "Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment.

(25) "SEC" means the United States Securities and Exchange Commission.

(26) "SEC Documents" mean all registration statements, proxy

statements, periodic reports and schedules filed by St. Mary with the SEC under the Securities Laws.

(27) "Securities Laws" mean the 1933 Act, the 1934 Act, the Investment Company of Act of 1940, as amended, the Trust

Indenture Act of 1939, as amended, and the rules and regulations of the SEC promulgated thereunder.

(28) "Taxes" mean any taxes or other governmental charges or assessments of whatever kind or nature imposed by the United States, by any other nation or by any state, county, municipality or governmental subdivision, including without limitation, any income, franchise or any other similar taxes based on or measured by income or otherwise, any sales or use taxes, property, employment and employer withholdings, unemployment, social security, occupational, customs, excise or other taxes, together with any interest or penalties relating thereto.

(29) "Tax Reports" mean all returns or reports required to be filed relating to the federal and state income tax filings of Nance and its Affiliates..

1.02 Other Definitional Provisions. Wherever the context so requires, words used herein in the masculine gender shall be deemed to include the feminine and neuter. A definition of any term shall be equally applicable to both the singular and plural forms of the term defined.

1.03 Titles; Headings. All titles and headings appearing in this Agreement are for identification only and are not to be used for interpretive purposes.

ARTICLE 2
EXCHANGE OF STOCK; CLOSING

2.01 Acquisition of Nance Stock. Subject to the terms and conditions herein stated, the Stockholders agree to assign, transfer and deliver to St. Mary at Closing, and St. Mary agrees to acquire from the Stockholders at Closing, all of the issued and outstanding Nance Stock. The certificates representing the Nance Stock shall be duly endorsed in blank by the Stockholders. The Stockholders agree to cure any deficiencies with respect to the endorsement of the certificates representing the Nance Stock.

2.02 Exchange of Shares. At Closing, the Stockholders shall surrender the certificate or certificates representing all the issued and outstanding Nance Stock in exchange for certificates for the St. Mary Stock issued in the name of the Stockholders in the amount of the Consideration. The Stockholders shall receive their certificates for the St. Mary Stock issued as the Consideration as set forth on Schedule 2.02 attached hereto.

2.03 Closing. The closing of the transaction provided for herein (the "Closing") shall take place at the offices of Nance on June 1, 1999, at 10:00 a.m., local time.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF THE STOCKHOLDERS

The Stockholders represent and warrant to St. Mary as follows:

3.01 Ownership of Shares. The Stockholders are the lawful sole owners, beneficially and of record, of all of the issued and outstanding shares of Nance Stock and such stock is free and clear of all Liens. The ownership of Nance Stock by the Stockholders is as set forth in Schedule 3.01 hereto.

3.02 Stockholders' Due Execution, Enforceability Against Stockholders. This Agreement has been duly executed and delivered by the Stockholders and is a valid and binding obligation of the Stockholders, enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application referring to or affecting enforcement of creditors' rights and general principles of equity. The execution, delivery and performance of this Agreement by the Stockholders will not violate or conflict with any agreement, instrument, judgment or decree to which the Stockholders, Nance or any Affiliate is a party or is subject.

3.03 Stockholders' Capacity. The Stockholders have full legal right, power, authority and capacity to execute, deliver and perform their obligations under this Agreement to consummate the transactions contemplated hereunder or thereunder.

3.04 Organization Existence. Nance is a corporation duly organized and validly existing under the laws of Montana with all requisite corporate power and authority to own, operate and lease its properties and assets and to carry on its business as now being conducted. Nance is duly qualified to do business and is in good standing in each jurisdiction where the conduct of its business or the ownership of its property requires such qualification. The jurisdictions in which Nance is qualified to do business, and the names and addresses of Nance's registered agents in such jurisdictions, are set forth on Schedule 3.04 hereto. Schedule 3.04 hereto sets forth all names under which Nance has conducted or purported to conduct business since the date of its incorporation.

3.05 Capital Stock. Nance is authorized to issued 10,000 shares of Class A common voting stock without par value and 40,000 shares of Class B common non-voting stock without par value. As of the date of this Agreement, Nance has issued and there are outstanding 5,000 shares of Class A common stock and 20,000 shares of Class B common stock. Other than the Nance Stock, there is no class or series of equity of Nance authorized, issued or outstanding. All such outstanding shares of Nance Stock have been duly authorized and validly issued and are fully paid and nonassessable. There are no outstanding options, warrants, rights, calls, commitments, conversions rights, rights of exchange, plans or other agreements of any character providing for the purchase, issuance or sale of any shares of any equity security of Nance, including any Nance Stock, other than as contemplated by this Agreement.

3.06 Subsidiaries. Except as set forth in Schedule 3.06 hereto, Nance does not have any subsidiaries or hold any equity or ownership interest of any kind, whether beneficially or of record, in any corporation, partnership, liability company, joint venture, or other enterprise or entity of any nature whatsoever.

3.07 No Restrictions Against Performance. Neither the execution, delivery nor performance of this Agreement or the Related Agreements, nor the consummation of the transactions contemplated in this Agreement or in the Related Agreements will, with or without the giving of notice or the passage of time, or both, violate any provisions of, conflict with, result in a breach of, constitute a default under, or result in the creation or imposition of any Lien or adverse condition under:

(a) the Articles of Incorporation and By-Laws of Nance or of Quanterra Corporation;

(b) any Law which is applicable to Nance or any Affiliate or any of their properties or assets;

(c) any contract, indenture, instrument, agreement, mortgage, lease, right, or other obligation or restriction to which Nance or any Affiliate is a party or by which Nance or any Affiliate or any of their properties or assets is or may be bound; or

(d) any order, judgment, writ, injunction, decree, license, franchise, permit or other authorization of any Governmental Authority by which either Nance or any Affiliate or any of their properties or assets is or may be bound or by which the Stockholders may be bound.

3.08 Historical Financial Information. The Nance Financial Statements, true and complete copies of which have been previously delivered to St. Mary present fairly the financial position, assets and liabilities of Nance as of the dates thereof and the revenues, expenses, results of operations and cash flows of Nance for the periods covered thereby, on a tax basis with adjustments made in accordance with GAAP so that the net asset value of Nance can be determined and reasonably compared with the net asset value of St. Mary. The Nance Financial Statements are in accordance with the books and records of Nance and do not reflect any transactions which are not bona fide transactions. The books and records of Nance have been maintained in accordance with applicable laws, rules and regulations, and in the ordinary course of business. To the best of Stockholders' Knowledge, the accounts and notes receivable of Nance reflected in the Nance Financial Statements are valid, existing and genuine and represent sales actually made or services actually delivered by Nance in bona fide transactions in the ordinary course of business consistent with past practice and there is no material right of setoff or counterclaim or threat thereof that would jeopardize the collectability of such accounts and notes receivable at the aggregate recorded amounts thereof. The Stockholders have no Knowledge of any material difference that would arise if the Nance Financial Statements were prepared in accordance with GAAP as opposed to being prepared on a tax basis with the GAAP-type adjustments that have been made.

3.09 No Undisclosed Liabilities. To the best of Stockholders' Knowledge, no basis exists on the date hereof for assertions against Nance of any material claim or liability of any nature other than (i) those which have been disclosed in the Nance Financial Statements, or (ii) have been incurred in the ordinary

course of the business of Nance since December 31, 1998 and which do not constitute a breach of the representation and warranty set forth in Section 3.10. For purposes of this Section 3.09, a claim or liability shall be deemed to be "material" if it involves an amount in excess of $25,000, individually or in the aggregate, as the context requires.

3.10 No Adverse Effects or Changes. Since December 31, 1998, Stockholders are not aware of any event involving either Nance or any Affiliate that has had a material adverse effect on its business or its assets. Except as listed on Schedule 3.10, since December 31, 1998, neither Nance nor any Affiliate has:

(a) made any change in its authorized capital or outstanding securities;

(b) borrowed or agreed to borrow any funds, guaranteed the repayment of any indebtedness or incurred any other contingent financial

obligations, except borrowings incurred in the ordinary course of its business in accordance with its past practices;

(c) satisfied any obligation or liability (absolute or contingent), other than obligations and liabilities incurred in the ordinary course of its business in accordance with its past practices;

(d) declared or made, or agreed to declare or make, any payment of dividends or distributions of any assets of any kind whatsoever in respect of its capital stock, or purchased, redeemed or otherwise acquired, or agreed to purchase, redeem or otherwise acquire, any of its outstanding capital stock;

(e) except as set forth on Schedule 3.10(e), sold, transferred or otherwise disposed of, or agreed to sell transfer or otherwise dispose of, any material assets, properties or rights, except inventory and equipment in the ordinary course of its business in accordance with its past practices, or canceled or otherwise terminated, or agreed to cancel or otherwise terminate, any debts or claims other than accounts receivable write-offs and writedowns in the ordinary course of its business in accordance with its past practices;

(f) other than in the ordinary course of business in accordance with its past practices, entered, or agreed to enter, into any agreement or arrangements to sell any of its assets, properties or rights, including inventories and equipment;

(g) made or permitted any amendment or termination of any material contract, agreement, permit or license to which it is a party or by which it or any of its properties are bound;

(h) except as set forth on Schedule 3.10(h), made, directly or indirectly, any accrual or arrangement for or payment of any bonuses or special compensation of any kind or any severance or termination pay to any present or former officer, director or executive employee;

(i) except for customary raises granted in the ordinary course of its business in accordance with its past practices, increased the rate of compensation payable, or to become payable, by it to any of its officers, directors or employees or adopted any new, or made any increase in, any profit sharing, bonus, deferred compensation, savings, insurance, pension, retirement or other employee benefit plan payment or arrangement made to, for or with any present or former such officers, directors, or executive employees;

(j) incurred, or become subject to, any uninsured claim or liability for any material damages for any negligence or other tort or breach of contract;

(k) made any capital expenditures (or commitments therefor) which in the aggregate exceed $50,000;

(l) suffered any damages, destruction or casualty losses in excess of $10,000 as to any single occurrence or $50,000 in the aggregate;

(m) entered into any other material transaction other than in the ordinary course of its business in accordance with its past practices; or

(n) suffered any material adverse change in condition of or title to any of its assets except depletion through normal production within authorized allowables, ordinary changes in rates of production, and depreciation of equipment through ordinary wear and tear.

3.11 Third-Party and Governmental Consents. Except as set forth in Schedule 3.11 hereto, no approval, consent, waiver, order or authorization of, or registration, qualification, declaration, or filing with, or notice to, any

Governmental Authority or other third party is required on the part of the Stockholders, Nance or any Affiliate in connection with the execution and delivery of this Agreement or the Related Agreements by the Stockholders or the consummation of the transactions contemplated hereby or thereby. All of the consents and approvals set forth on Schedule 3.11 have been obtained.

3.12 Real and Personal Property

(a) Real Property. Schedule 3.12(a) sets forth a list of all real properties, other than properties acquired for the development of or exploration for oil and gas resources, owned, leased, or subject to a contract or purchase and sale or lease commitment by Nance, written or oral, (collectively "Real Property"), and with respect to all owned Real Property, a description of the nature and amount of any liens, mortgages and encumbrances incurred by Nance affecting such Real Property. Except as set forth in Schedule 3.12(a), the buildings, premises and equipment that are owned or leased by Nance are in good operating condition and repair, subject only to ordinary wear and tear customary within the local trade. To the Knowledge of the Stockholders there is no matter currently pending the effect of which in any material respect would interfere with or prevent the continued use of any of the Real Property for the purposes for which it is now being used or would materially affect the values thereof.

(b) Oil and Gas Leases and Wells. Schedule 3.12(b) sets forth a true, correct and complete list of all oil and gas leases and wells in which either Nance or its Affiliates is a party, whether as lessor, lessee, or the owner of any non-cost bearing interest. The interests of either Nance or its Affiliates in all leases listed on such Schedule are valid and subsisting and in full force and effect, and all rentals and other payments now due have been paid. Nance and its Affiliates enjoy and are in peaceful and undisturbed possession as to their respective ownership share under each lease so listed in which it is a lessee. Neither Nance nor its Affiliates have received any notice of, and to the Knowledge of the Stockholders, there does not exist, any event of default or event, occurrence or act which, with the giving of notice or the lapse of time or both, would become a default under any such lease, and neither Nance nor its Affiliates have violated any of the terms or conditions under any such lease in any material respect. The real property under the leases referred to in Schedule 3.12(b) is free from material physical defects. Such real property and the fixtures, equipment, and other property attached, situated or appurtenant thereto are in good operating condition and repair, in compliance with all applicable Laws and are adequate and suitable for the purposes for which they are presently being used, except for such matters which in the aggregate would not have a material adverse effect on the business of Nance.

(c) Personal Property. Except as otherwise identified on Schedule 3.12(c) hereto, Nance has good, valid, marketable, legal and beneficial title to all of its personal property, free and clear of all Liens. There are no outstanding options, warrants, commitments, agreements or any other rights of any character entitling any person or entity, other than St. Mary, to acquire any interest in all or any part of the personal property of Nance.

3.13 Accounts and Notes Receivable. Schedule 3.13 sets forth a list as of December 31, 1998, of all accounts and notes receivable of Nance and the Affiliates together with:

(a) an aging schedule setting forth all such accounts receivable (other than intercompany receivables)

(b) the identity of any asset in which Nance or an Affiliate holds a security interest to secure payment of the underlying indebtedness;

(c) a description of the nature and amount of any lien on or security interest in such accounts and notes receivable; and

(d) an identification of the accounts receivable on this Schedule 3.13 which have been collected in their entirety since December 31, 1998.

Except as specifically identified on Schedule 3.13, the Stockholders believe to the best of their Knowledge that the accounts and notes receivable itemized are collectible in the ordinary course of Nance's and the Affiliates' businesses.

3.14 Accounts Payables and Promissory Notes. Schedule 3.14 sets forth a list of:

(a) all accounts payable of Nance and the Affiliates as of December 31, 1998, together with an appropriate aging schedule;

(b) all long-term and short-term promissory notes, installment contracts, loan agreements and credit agreements to which Nance or the Affiliates is a party or to which any of their properties are subject;

(c) all indentures, mortgages, security agreements, pledges, and any other agreements, pledges, and any other agreements of Nance and the Affiliates relating thereto or with respect to collateral securing the same; and

(d) an identification of the accounts payable on Schedule 3.14 that have been fully or partially paid since December 31, 1998.

3.15 Insurance and Bonds.

(a) Schedule 3.15 sets forth a list of all insurance policies and bonds held by Nance including those covering its properties, buildings, equipment, fixtures, employees, and operations. Such list specifies with respect to each such policy:

(i) the insurer and agent;

(ii) the amount of coverage;

(iii) the dates of premiums or payments due thereunder; and

(b) the expiration date, as applicable.

Each such policy identified is currently in full force and effect. All insurance premiums due according to the applicable payment schedules reflected in such policies have been timely paid. Except as set forth on Schedule 3.15, there are no facts or circumstances known to the Stockholders or under which any claims for uninsured losses or damages are likely to be asserted against Nance in an

amount in excess of $10,000 nor are there any such claims pending against Nance;

(c) the insurance policies currently maintained by Nance provide coverage believed by the Stockholders to be adequate for its properties, assets, products and operations;

(d) Nance has not requested cancellation of any material policy of insurance at any time during the previous two years;

(e) Nance has not sought and been denied any insurance coverage during the two-year period prior to the Closing Date. All bonds issued to secure performance of or payment by Nance under any material contract in progress or yet to be completed, including those contracts identified in Schedule 3.15, are in force and effect and are identified on Schedule 3.15. Neither Nance nor the Stockholders have made any representations or undertaken any other act which would give rise to a viable claim that any such existing bond is invalid or unenforceable; there are no facts or circumstances under which the validity or enforceability by Nance of any such existing bond could be successfully challenged; and

(f) the transactions contemplated by this Agreement will have no adverse effect on any such existing bond.

3.16 Bank Accounts. Schedule 3.16 sets forth a list of (i) the name of each bank or other financial institution in which Nance or the Affiliates have an account or safe deposit box; (ii) the names of all person authorized to draw thereon or to have access thereto; and (iii) the names of all persons other than the officers of Nance and the Affiliates who are authorized to incur liabilities on behalf of Nance or the Affiliates for borrowed funds.

3.17 Compliance with Laws. To the best of Stockholders' Knowledge, Nance and the Affiliates have complied with and are not in default under any Laws the violation of which could have a material adverse effect on their business, properties or assets.

3.18 Litigation. There is no judicial or administrative claim, action, suit or proceeding pending or, to the Knowledge of the Stockholders, threatened against or relating to the Stockholders, Nance, the Affiliates or the officers or directors of Nance or the Affiliates in their capacities as officers or directors, the business, properties or assets of Nance or the Affiliates or the transactions contemplated by this Agreement or the Related Agreements, including, but not limited to, actions or proceedings alleging any violation of any Environmental Law, before

any federal, state, or local court, arbitration tribunal or Governmental Authority, which would, individually or in the aggregate, materially adversely affect the Stockholders, the business, properties or assets of Nance or the Affiliates, or the transactions contemplated by this Agreement or the Related Agreements and to the Knowledge or the Stockholders there does not exist any valid basis for any such claim, action, suit or proceeding. There are no claims,

actions, suits, proceedings or investigations pending or, to the Knowledge of the Stockholders, threatened by or against the Stockholders, Nance or the Affiliates with respect to this Agreement or the Related Agreements, or in connection with the transactions contemplated hereby or thereby and the Stockholders have no reason to believe there exists a valid basis for any such claim, action, suit, proceeding or investigation.

3.19 Permits. Schedule 3.19 hereto sets forth a true, correct and complete list of all Permits of any federal, state or local regulatory or Governmental Authority relating to the business properties or assets of Nance. The Permits constitute all permits, licenses, franchises, orders, certificates and approvals which are required for the lawful operation of the business, properties and assets of Nance. Further, Nance is in compliance in all material respects with all such Permits and owns or has owned or had valid Permits to use all properties, tangible or intangible, necessary for the conduct of its business and the operation of its properties and assets in the manner in which they are now conducted and operated.

3.20 Taxes.

(a) All Tax Reports required to be filed by Nance and the Affiliates that are required to be filed on or prior to the Closing have been duly filed and are true, complete and accurate in all material respects. All Taxes owed with respect to the periods covered by such Tax Reports have been duly paid. Nance and the Affiliates have complied with all applicable laws, rules and regulations relating to the withholding and payment of Taxes and has timely withheld and paid to the proper governmental authorities all amounts required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor or stockholder.

(b) There are no agreements, waivers or other arrangements providing for extension of time with respect to the assessment or collection of any Tax on Nance or the Affiliates ; there are not any actions, suits, proceedings, investigations or claims now pending against Nance or the Affiliates in respect of unpaid Taxes, and there are no matters under discussion with any federal, state, county or local Governmental Authority relating to any amount of unpaid Taxes. Except as otherwise set forth on Schedule 3.20, the Tax Reports of Nance and

the Affiliates have not been audited and are not in the process of being audited by the applicable taxing authorities, and there is no Tax deficiency outstanding, proposed or assessed against Nance or the Affiliates, and Nance and the Affiliates are not a party to any Tax allocation or Tax sharing agreement.

(c) Since its formation, Nance has been treated as a C Corporation for federal income tax purposes.

3.21 Employee Benefit Plans and Employment Agreement.

(a) Set forth on Schedule 3.21(a) is a list of each employee benefit plan (within the meaning of Section 3(3) of ERISA), written or oral employment or consulting agreement, severance pay plan or agreement, employee relations policy (or practice, agreement or arrangement), agreements with respect to leased or temporary employees, vacation plan or arrangement, sick pay plan, stock purchase plan, stock option plan, fringe benefit plan, incentive plan, bonus plan, cafeteria or flexible spending account plan and any deferred compensation agreement, (or plan, program, or arrangement) covering any present or former employee of Nance and which is, or at any time was, sponsored or maintained by (or to which contributions are, were, or at any time were required to have been, made by Nance. Each and every such plan, program, policy, practice, arrangement and agreement included on the list set forth under Schedule 3.21(a) is hereinafter referred to as an "Employee Benefit Plan".

(b) With respect to each Employee Benefit Plan, there has been delivered to St. Mary, (i) copies of each such Employee Benefit Plan (including all trust agreements, insurance or annuity contracts, descriptions, general notices to employees or beneficiaries and any other material documents or instruments relating thereto); (ii) the most recent audited (if required or otherwise available) or unaudited financial statement with respect to each such Employee Benefit Plan; (iii) copies of the most recent determination letters with respect to any such Employee Benefit Plan which is an employee pension benefit plan (as such term is defined under ERISA) intended to qualify under the Code; and (iv) copies of the most recent actuarial reports, if any, of each such Employee Benefit Plan.

(c) With respect to each Employee Benefit Plan:

(i) each such Employee Benefit Plan which is an employee pension benefit plan intended to qualify under the Code so qualifies and has received a favorable determination letter as to its qualification under the Code, and no event has occurred that will or could be expected to give rise to disqualification or loss of tax-exempt status of any such plan or related trust;

(ii) Nance has complied in all material respects with all provisions of ERISA and no act or omission by the Stockholders, Nance or any fiduciary of any Employee Benefit Plan has occurred that will or could be expected to give rise to liability for a breach of fiduciary responsibilities under ERISA or to any fines or penalties under ERISA;

(iii) all insurance and annuity premiums, if any, required for all periods up to and including the Closing have been or will be paid;

(iv) no Employee Benefit Plan provides for any post-retirement life, medical, dental or other welfare benefits (whether or not insured) for any current or former employee except as required under Code or ERISA or applicable state or local Law;

(v) all contributions required to have been made by law or under the terms of any contract, agreement or Employee Benefit Plan for all complete and partial periods up to and including the Closing have been made or will be made;

(vi) the transactions contemplated by this Agreement will not be the direct or indirect cause of any amount paid or payable from such Employee Benefit Plan being classified as an excess parachute payment under Code;

(vii) there are no matters pending before the United States Internal Revenue Service, the United States Department of Labor or the Pension Benefit Guaranty Corporation ("PBGC");

(viii) there have been no claims or notice of claims filed under any fiduciary liability insurance policy covering any Employee Benefit Plan;

(ix) to the extent applicable, each such Employee Benefit Plan has complied with the "secondary payor" requirements of the Social Security Act;

(x) each and every such Employee Benefit Plan which is a group health plan (as such term is defined under the Code or ERISA complies, and in each and every case has complied, with the applicable requirements of Code, ERISA, the applicable requirements of the Health Insurance Portability and Accountability Act of 1996, and all other federal, state or local Laws or ordinances requiring the provision or continuance of health or medical benefits;

(xi) each and every Employee Benefit Plan which is a cafeteria plan or flexible spending account plan complies, and in each and every case has complied, with the applicable requirements of the Code and all other applicable federal, state, or local Laws or ordinances; and

(xii) each and every Employee Benefit Plan which is a dependent care assistance program complies, and in each and every case has complied, with the applicable requirements of the Code and all other applicable federal, state or local Laws or ordinances.

(d) With respect to any employee benefit plan (within the meaning of ERISA), stock purchase plan, stock option plan, fringe benefit plan, bonus plan or any deferred compensation agreement, plan or program (whether or not any such plan, program, or agreement is currently in effect):

(i) there are no action, suits, or claims (other than routine claims for benefits in the ordinary course) pending or, to the Knowledge of the Stockholders threatened, and the Stockholders have no Knowledge of any facts which could give rise to any such actions, suits, or claims (other than routine claims for benefits in the ordinary course), which could subject Nance to any liability;

(ii) Nance has not engaged in a prohibited transaction, as such term is defined in the Code which would subject Nance to any taxes, penalties or other liabilities resulting from prohibited transactions under the Code or under ERISA;

(iii) no event has occurred and no condition exists that could subject Nance to any tax or penalty under the Code, or to a fine under ERISA;

(iv) Nance is not subject to (1) any liability, lien or other encumbrance under any agreement imposing secondary liability on Nance as a seller of the assets of a business under ERISA or the Code, (2) contingent liability under ERISA to the PBGC or to any plan, participant, or other person or (3) a lien or other encumbrance under ERISA; and

(e) (i) Nance is not subject to any legal, contractual, equitable,

or other obligation to continue any Employee Benefit Plan of any nature, including, without limitation any Employee Benefit Plan or any other pension, profit sharing, welfare, post-retirement welfare plan, or post-retirement welfare plan, or any stock option, stock or cash award, non-qualified deferred

compensation or executive compensation plan, policy or practice (or to continue participation in any such benefit plan, policy or practice) on or after the Closing;

(ii) Nance may, in any manner, and without the consent of any employee, beneficiary or other person, terminate, modify or amend any such Employee Benefit Plan (or its participation in such Employee Benefit Plan or any other plan, program or practice) effective as of any date on or after the Closing; and

(iii) no representations or communications (directly or indirectly, orally, in writing or otherwise) with respect to participation, eligibility for benefits, vesting, benefit accrual coverage or other material terms of any Employee Benefit Plan have been made prior to the Closing to any employee, beneficiary or other person other than those which are in accordance with the terms and provisions of each such Employee Benefit Plan as in effect immediately prior to the Closing.

(f) Nance has at no time participated in a multi-employer pension plan.

(g) With respect to each and every Employee Benefit Plan subject to ERISA: (i) no such Employee Benefit Plan or related trust has been terminated or partially terminated; (ii) no liability to the PBGC has been or is expected to be incurred with respect to such Employee Benefit Plan; (iii) the PBGC has not instituted and is not expected to institute any proceedings to terminate such Employee Benefit Plan; (iv) there has been no reportable event (within the meaning of ERISA); (v) there exists no condition or set of circumstances that presents a material risk of the termination of such Employee Benefit Plan by the PBGC; (vi) no accumulated funding deficiency (as defined under ERISA and the Code), whether or not waived, exists with respect to such Employee Benefit Plan; and (vii) the current value of all vested accrued benefits under each such Employee Benefit Plan did not as of the last day of the most recently ended fiscal year of each Employee Benefit Plan, and will not as of the Closing, exceed the current value of the assets of each such Employee Benefit Plan allocable to such vested accrued benefits.

3.22 Certain Employees and Salaries. Schedule 3.22 sets forth a list of the names and salary rates of all employees of Nance whose current regular annual salary rate is $60,000 or more, together with any bonuses paid or payable to each such employee of Nance for the preceding or current fiscal year, and, to the extent existing at Closing, all arrangements with respect to any bonuses or other payments to be paid to such employees by Nance from and after the date of Closing. Schedule 3.22 also identifies the company cars, club memberships

and other fringe benefits paid or payable in the future by Nance pursuant to existing agreements on behalf of such employees.

3.23 Material Contracts. Schedule 3.23 lists all contracts and arrangements, written, electronic, oral, or otherwise, of the following types to which Nance or an Affiliates is a party or by which they are bound, or to which any of their assets or properties is subject:

(a) any contract or arrangement of any kind with any employee, officer or director of Nance or an Affiliate or the Stockholders or any member of a Stockholder's family;

(b) any contract or arrangement of any nature which involves the payment or receipt of cash or other property, any unperformed commitment, or goods or services, having a value in excess of $10,000;

(c) any contract or arrangement pursuant to which Nance or an Affiliate has made or will make loans or advances, or has or will have incurred debts or become a guarantor or surety or pledged its credit on or otherwise become responsible with respect to any undertaking of another (except for the negotiation or collection of negotiable instruments in transactions in the ordinary course of business);

(d) any indenture, credit agreement, loan agreement, note, mortgage, security agreement, lease of real property (to the extent not addressed in Section 3.14) or personal property or agreement for financing;

(e) any contract or arrangement involving a partnership, joint venture, jointly owned corporation or other cooperative undertaking;

(f) any contract or arrangement involving any restrictions with respect to the geographical area of operations or scope or type of business of Nance or an Affiliate;

(g) any power of attorney or agency agreement or arrangement with any person pursuant to which such person is granted the authority to act for or on behalf of Nance or an Affiliate or Nance or an Affiliate is granted the authority to act for or on behalf of any person;

(h) any contract for which the full performance thereof may extend beyond sixty calendar days from the date of this Agreement;

(i) any real property leases to which Nance or an Affiliate is a party, whether as lessor or lessee, which relate to the business of Nance or an Affiliate not listed on Schedule 3.12(b);

(j) any contract not made in the ordinary course of business which is to be performed at or after the date of this Agreement; and

(k) any contract not specified above that is material to the business, properties or assets of Nance or an Affiliate;

There has been delivered to St. Mary true, correct and complete copies of each document listed on Schedule 3.23 and a written description of each oral arrangement so listed. Except as disclosed on Schedule 3.23, all such contracts and arrangements, if canceled at any time by the other party, would not have a material adverse effect on the business, properties or assets of Nance or an Affiliate. There have been delivered to St. Mary accurate copies of each form which has been used in the business of Nance or an Affiliate and is in effect with respect to any third party at the time of Closing. Except as set forth on Schedule 3.23 hereto, each contract between Nance or an Affiliate and any third party is valid and in full force and effect and constitutes the legal, valid and binding obligation of Nance or an Affiliate and the other parties thereto, enforceable against Nance or an Affiliate and the other parties thereto in accordance with their respective terms, and, to the Knowledge of the Stockholders, there are no existing violations or defaults by Nance or an Affiliate (including, but not limited to, the subcontracting or delegation by Nance or an Affiliate of duties to third parties) or by any other party thereto and no event, act or omission has occurred which (with or without notice, lapse of time or the happening or occurrence of any other event) would result in a violation or default thereunder. No other party to any such contract has in writing or otherwise asserted the right, and no basis exists for the assertion of any enforceable right to renegotiate, cancel or terminate prior to the full term thereof any of the terms or conditions of any such contract, nor does Nance or an Affiliate have any Knowledge that any party to any such contract intends not to renew any such contract upon termination of its current term. Except as set forth on Schedule 3.23 hereto, no consent of any party to such contracts is required for the execution, delivery or performance of this Agreement or the Related Agreements or the consummation of the transactions contemplated hereby or thereby.

3.24 Labor Matters. Nance has conducted, and currently is conducting its business in full compliance with all Laws relating to employment and employment practices, terms and conditions of employment, wages and hours, and nondiscrimination in employment. Except as set forth on Schedule 3.24, the relationships of Nance with its employees are good and there is, and during the

past five years there has been, no labor strike, dispute, slow-down, work stoppage or other labor difficulty actually pending or threatened against or involving Nance. Except as set forth on Schedule 3.24, to the Knowledge of the Stockholders there are no facts or circumstances that could give rise to a claim for wrongful termination or discrimination on any basis. Except as set forth on Schedule 3.24, none of the employees of Nance is covered by any collective bargaining agreement, no collective bargaining agreement is currently being negotiated and, to the Knowledge of the Stockholders, no attempt is currently being made or during the past three years has been made to organize any employees of Nance to form or enter a labor union or similar organization.

3.25 Environmental Matters. Except as set forth in Schedule 3.25:

(a) Nance and the Affiliates are currently in compliance in all material respects with all applicable Environmental Laws, have cured any past violations or alleged violations of Environmental Laws to the satisfaction of Governmental Authorities, are not currently in receipt of any notice of violation, are not currently in receipt of any notice of any potential liability for cleanup of Hazardous Materials and are not now subject to any investigation or information request by a Governmental Authority concerning Hazardous Materials or any Environmental Laws. To the Knowledge of the Stockholders, Nance

and the Affiliates hold and are in compliance with all governmental permits, licenses, and authorizations necessary to operate those aspects of their businesses that relate to siting, wetlands, coastal zone management, air emission, discharges to surface or ground water, discharges to any sewer or septic system, noise emissions, solid waste disposal or the generation, use, transportation or other management of Hazardous Materials. Neither Nance nor an Affiliate has ever generated, manufactured, refined, recycled, discharged, emitted, released, buried, processed, produced, reclaimed, stored, treated, transported, or disposed of any Hazardous Materials except in compliance with all applicable Laws, including applicable Permit requirements;

(b) No assets of Nance or an Affiliate are subject to any Lien in favor of any person as a result of any Hazardous Material or response thereto;

(c) To the Knowledge of the Stockholders, all facilities where any person has treated, stored, disposed of, reclaimed, or recycled any Hazardous Material on behalf of Nance or an Affiliate are in compliance with Environmental Laws.

3.26 Necessary Property.

(a) To the extent not otherwise listed on a schedule to this Agreement, the assets of Nance, whether tangible or intangible, which are required for the operation by Nance of its businesses now conducted are listed on Schedule 3.26(a).

(b) Nance has consummated each act or deed, if any, necessary to transfer, pursuant to the exchange of shares provided for by this Agreement, beneficial ownership of the assets described on Schedule 3.26(a) as well as the assets listed on any other schedule attached hereto to St. Mary, and Nance represents that St. Mary will not have any liability or obligation relating to the transfer of such assets.

3.27 Minute Books and Charter Documents. All corporate records and books (including stock transfer ledgers) of Nance and Quanterra Corporation have been made available to St. Mary for its review.

3.28 Broker's Fees. No agent, broker or other person is or may be entitled to a commission or finder's fee in connection with the transactions contemplated by this Agreement, or is or may be entitled to make any claim against Nance or against St. Mary as a result of any actions by the Stockholders or Nance. The Stockholders shall indemnify St. Mary against any claim for any such commission or finder's fee made by any agent, broker or other person as a result of any actions by the Stockholders or Nance.

3.29 Investment Representation. Each of the Stockholders acknowledges that the issuance to him or her by St. Mary of the shares of St. Mary Stock constituting the Consideration pursuant to this Agreement has not been registered under the 1933 Act or any state securities Law, and that such St. Mary Stock may not be sold or transferred other than pursuant to an effective registration statement under the 1933 Act or pursuant to an available exemption from such registration, and further acknowledges that the certificates representing the St. Mary Stock will bear a restrictive legend to the foregoing effect. Each Stockholder is acquiring the St. Mary Stock for investment purposes only, for his or her own account (and not for the account(s) of others) and not with a view to the distribution thereof. Each Stockholder confirms that (i) he or she is familiar with the business of St. Mary and has had the opportunity to ask questions of appropriate executive officers of St. Mary (and that he or she has received responses thereto to his or her satisfaction) and to obtain such information about the business and financial condition of St. Mary as he or she has reasonably requested, and (ii) he or she has such knowledge and

experience in financial and business matters that he or she is capable of evaluating and accepting the merits and risks of an investment in St. Mary Stock.

3.30 Questionable Payments. Neither Nance nor an Affiliate nor any executive employee, agent, or representative of Nance or an Affiliate (including the Stockholders) has made, directly or indirectly, any (a) bribes, kickbacks or illegal payments, (b) payments that were falsely recorded on the books and records of Nance or an Affiliate, or (c) payments to governmental officials for improper purposes.

3.31 Tax Reports. Schedule 3.31 contains true and correct copies of the Tax Reports filed by either Nance or its Affiliates for the past three tax years including tax year 1998.

3.32 Joint Operating Agreements. Neither Nance nor an Affiliate has entered into any joint operating agreement regarding any of the leases or wells

affected by this Agreement that contains terms or conditions which impose duties or obligations on Nance or any Affiliate beyond those customarily contained or created by joint operating agreements executed in the ordinary course of conducting an oil and gas business.

3.33 Affiliates. The Stockholders represent and warrant to St. Mary with respect to Panterra and the Panterra Financials, and with respect to Quanterra Partnership, the matters set forth in Section 3.08 and Section 3.09 to the same extent as those representations and warranties by the Stockholders apply to Nance. Quanterra Partnership is a limited partnership organized and in good standing under the laws of the State of Montana of which Quanterra Corporation is the sole general partner and as such holds a one percent partnership interest and Nance holds a forty-nine and one-half percent limited partner interest.

3.34 No Misstatements or Omissions. No representation or warranty made in this Agreement or on any Schedule hereto by the Stockholders is false or misleading as to any material fact or omits to state a material fact required to make any of such information not misleading in any material respect. In addition, all other information made available by Nance to St. Mary, whether in oral, written, or any other form, is true and correct to the Knowledge of the Stockholders, and such information is not false or misleading as to any material fact. To the Knowledge of the Stockholders, the foregoing representations, warranties, schedules and information constitute full disclosure of all material facts with respect to the business, assets and liabilities of Nance and the Affiliates.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF ST. MARY

St. Mary represents and warrants to the Stockholders as follows:

4.01 Organization; Good Standing. St. Mary is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority and legal right to own, operate and lease its properties and assets and to carry on its business as now being conducted and to enter into this Agreement and perform its obligations hereunder, and is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the conduct of its business or the ownership of its property requires such qualification.

4.02 Authority. St. Mary has the corporate power and authority to execute, deliver, and perform its obligations under this Agreement and the Related Agreements to which it is a party and to consummate the transactions contemplated hereby and thereby, and has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement. St. Mary has the power and authority to deliver the Consideration, and all necessary corporate action to authorize the delivery of the Consideration has been taken.

4.03 Due Execution and Enforceability. This Agreement is a valid and binding obligation of St. Mary, enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application referring to or affecting enforcement of creditors' rights and general principles of equity.

4.04 No Restrictions Against Performance. Neither the execution, delivery, authorization or performance of this Agreement, nor the consummation of the transactions contemplated hereby will, with or without the giving of notice or the passage of time, or both, violate any provisions of, conflict with, result in a breach of, constitute a default under, or result in the creation or imposition of any Lien or adverse condition under (i) the Certificate of Incorporation or By-Laws of St. Mary; (ii) any federal, state or local Law, which is applicable to St. Mary; (iii) any contract, indenture, instrument, agreement, mortgage, lease, right or other obligation or restriction to which St. Mary is a party or by which it is bound; or (iv) any order, judgment, writ, injunction, decree, license, franchise, permit or other authorization of any Governmental Authority by which St. Mary is bound.

4.05 Capital Stock of St. Mary. The authorized capital stock of St. Mary consists of 50,000,000 shares of common stock of which 10,827,067 are issued and outstanding. All of the issued and outstanding shares of St. Mary Stock are,

and all of the shares of St. Mary Stock, when issued in accordance with the terms of this Agreement are or will be, duly and validly authorized and issued and outstanding, fully paid and nonassessable. None of the outstanding shares of St. Mary Stock to be issued pursuant to this Agreement will be issued in violation of any preemptive rights of the current or past holders of St. Mary Stock. Except as disclosed on Schedule 4.05 hereto, as of the date of this Agreement, there are no other equity securities of St. Mary outstanding and no outstanding options, warrants, rights, calls, commitments, conversion rights,

rights of exchange, plans or other agreements of any character provided for the purchase, issuance or sale of any shares of the capital stock of St. Mary, other than as contemplated by this Agreement.

4.06 SEC Filings; Financial Statements of St. Mary. St. Mary has timely filed and made available to the Stockholders all SEC Documents required to be filed by St. Mary during calendar year 1998 and since December 31, 1998 . The SEC Documents (i) at the time filed, complied in all material respects with the applicable requirements of the Securities Laws and other applicable Laws, and (ii) did not, at the time they were filed (or, if amended, or superseded by a filing prior to the date of this Agreement, then on the date of such filing), contain any untrue statement of a material fact or omit to state a material fact required to be stated in the SEC Documents or necessary in order to make the statements in the SEC Documents in light of the circumstances under which they were made, not misleading. Each of the St. Mary financial statements (including, in each case, any related notes) contained in the SEC Documents complied as to form in all material respects with the applicable published rules and regulations of the SEC with respect thereto, was prepared in accordance with GAAP (except to the extent required by changes in GAAP, as may be indicated in the notes to such financial statements or, in the case of unaudited interim statements, as permitted by Form 10-Q under the 1934 Act, as amended), and fairly presented in all material respects the consolidated financial positions of St. Mary and its subsidiaries as at the respective dates and the consolidated results of operations and cash flows of the periods indicated, except that the unaudited interim financial statements were or are subject to normal and recurring year-end adjustments which were not or are not expected to be material in amount or effect.

4.07 Materially Adverse Change of Condition. St. Mary has no Knowledge of any material adverse change in the condition of or title to its assets which have occurred subsequent to December 31, 1998, except depletion through normal production within authorized allowables, ordinary changes and rates of production, and depreciation of equipment through ordinary wear and tear.

4.08 Third-Party and Governmental Consents. Except as set forth on Schedule 4.08 hereto, and those customarily obtained after Closing, no approval, consent, waiver, order or authorization of, or registration, qualification, declaration or filings with, or notice to, any Governmental Authority or other third party is required on the part of St. Mary in connection with the execution of this Agreement, the Related Agreements, or the consummation of the transactions contemplated hereby or thereby. All of the consents and approvals set forth on Schedule 4.08 have been obtained.

4.09 Litigation. There are no claims, actions, suits, proceedings or investigations pending or, to the Knowledge of St. Mary, threatened, by or against St. Mary with respect to this Agreement or the Related Agreements, or in connection with the transactions contemplated hereby or thereby and St. Mary has no reason to believe there exists a valid basis for any such claim, action, suit, proceeding, or investigation.

4.10 Broker's Fees. No agent, broker or other person is or may be entitled to a commission or finder's fee in connection with the transactions contemplated by this Agreement, or is or may be entitled to make any claim against the Stockholders or Nance or against St. Mary or any of its subsidiaries or affiliates as a result of any actions by St. Mary. St. Mary shall indemnify the Stockholders against any claim for any such commission or finder's fee made by any agent, broker or other person as a result of any actions by St. Mary.

4.11 No Misstatements or Omissions. No representation or warranty made in this Agreement by St. Mary is false or misleading as to any material fact or omits to state a material fact required to make any of such information not misleading in any material respect. In addition, all other information made available by St. Mary to the Stockholders, whether in oral, written or any other form, is true and correct to the Knowledge of St. Mary, and such information is not false or misleading as to any material fact. To the knowledge of St. Mary, the foregoing representations, warranties and information, together with the SEC Documents, constitute full disclosure of all material facts with respect to the business, assets and liabilities of St. Mary.

ARTICLE 5
DELIVERIES

5.01 Deliveries by the Stockholders. At the Closing, in addition to any other documents required to be delivered under the terms of this Agreement, the Stockholders shall deliver the following:

(a) A certificate of the Stockholders dated the Closing, certifying that any consents and approvals referred to in Section 3.11, which are obtainable prior to the Closing, have been obtained, together with copies of

such consents and approvals.

(b) Copies of the Articles of Incorporation of Nance certified as of a recent date by the Secretary of State of Montana.

(c) Copies of the By-Laws of Nance including all amendments thereto, certified by the Secretary or an Assistant Secretary of Nance.

(d) A Certificate dated not earlier than seven calendar days prior to Closing of the Secretary of State of Montana as to the valid existence of Nance.

(e) Certificates of authority dated during 1999 of the Secretary of State of each of the states in which Nance is qualified to do business, as to the due qualification or license of Nance as a foreign corporation in such state.

(f) The opinion of Crowley, Haughey, Hanson, Toole & Dietrich, PLLP, counsel to Nance and the Stockholders, substantially in the form of Exhibit 5.01(f) hereto.

(g) Evidence in form and substance satisfactory to St. Mary of the resignation of all of the directors of Nance other than Robert L. Nance.

(h) The Stockholders shall deliver to St. Mary Uniform Commercial Code financing statement searches for the State of Montana and any other state in which Nance or the Affiliates do business, dated within 15 calendar days prior to the date of the Closing, showing that there are no security interests, judgments, taxes, other liens or encumbrances outstanding against Nance or the Affiliates or their assets, or against the Stockholders.

5.02 Deliveries by St. Mary. At the Closing, in addition to any other documents required to be delivered under the terms of this Agreement, St. Mary shall have delivered or will deliver the following:

(a) A certificate of the President or a Vice President of St. Mary, dated the Closing Date, certifying that any consents and approvals referred to in Section 4.08 have been obtained, together with copies of such consents and approvals.

(b) A copy of the Certificate of Incorporation of St. Mary, certified as of a recent date by the Secretary of State of Delaware.

(c) A copy of the By-Laws of St. Mary, including all amendments thereto, certified by the Secretary or an Assistant Secretary of St. Mary.

(d) A Certificate, dated as of a recent date of the Secretary of State of the State of Delaware as to the valid existence and good standing of St. Mary.

(e) Resolutions adopted by the Board of Directors of St. Mary authorizing this Agreement and the Related Agreements and the transactions contemplated hereby, certified by the Secretary or an Assistant Secretary of St. Mary.

(f) The opinion of the law firm Ballard Spahr Andrews & Ingersoll, LLP, counsel to St. Mary, substantially in the form of Exhibit 5.02(f) hereto.

ARTICLE 6
RELATED AGREEMENTS

6.01 Related Agreements. The obligation of the Stockholders to exchange the Nance Stock for the St. Mary Stock is subject to the execution and delivery of the following Related Agreements at the Closing:

(a) Severance Agreements with Terry Holzwarth, Gary Evertz, Brian Cebull, Amy Cebull, Mike Bryant and Robert T. Hanley in the form of Exhibit 6(a) hereto. In addition, separate and apart from such Severance Agreements, St. Mary agrees that should any Nance employee be terminated or leave the employment of St. Mary or Nance, in determining what, if any, payments will be offered to the former employee, due regard will be given to the individual's duration of employment with Nance. Nothing in the preceding sentence shall alter or amend St. Mary's policies with regard to payments to employees who no longer remain in the employment of St. Mary, and St. Mary will continue to make its determination regarding these types of payments on a case-by-case basis taking into account all considerations it deems appropriate in making these types of decisions consistent with St. Mary's past practices. In addition, St. Mary will take into consideration any Nance employee's years of service with Nance with regard to participation in any St. Mary employee benefit plan with the exception of the pension plan;

(b) An employment agreement with Robert L. Nance in the form of

Exhibit 6(b) hereto;

(c) A Stock Option Plan Participation Agreement with Amy Cebull in the form of Exhibit 6(c) hereto; and

(d) An Agreement with respect to the 401(k) Retirement Plan of Nance in the form of Exhibit 6(d) hereto.

ARTICLE 7
INDEMNIFICATION

7.01 Survival of Representations, Warranties and Covenants. Without affecting the validity or applicability of the indemnification provisions set forth in Sections 7.02 and 7.03 of this Agreement, the representations, warranties, and covenants of the Stockholders and St. Mary contained in this Agreement shall survive the Closing and remain in full force and effect until one year after the Closing except that such representations and warranties shall remain in full force and effect until two years after the Closing with respect to any breach thereof resulting in or otherwise involving a claim by a third party against St. Mary, Nance or an Affiliate (a "Third Party Claim").

7.02 Indemnification by and on Behalf of the Stockholders. Subject to the provisions of Section 7.05, the Stockholders jointly and severally agree to defend, indemnify and hold St. Mary harmless from and against any and all losses, liabilities, damages, costs or expenses (including reasonable attorneys' fees, penalties, and interest) payable to or for the benefit of, or asserted by, any party, resulting from, arising out of, or incurred as a result of:

(a) the breach of any representation and/or warranty made by the Stockholders herein; or (b) any claim, whether made before or after the date of this Agreement, or any litigation, proceeding or governmental investigation, whether commenced before or after the date of this Agreement, arising out of the businesses of Nance or the Affiliates prior to the Closing, or otherwise arising out of any act or occurrence prior to, or any condition or facts existing as of, Closing, regardless of whether or not referred to on a Schedule to this Agreement or otherwise disclosed or known to St. Mary as of Closing. No claim by St. Mary for indemnification by the Stockholders shall be made after one year has elapsed following the Closing except that a claim for indemnification may be made by St. Mary with respect to a Third Party Claim until two years has elapsed following the Closing.

The indemnification obligation of the Stockholders set forth above shall be limited to those amounts attributable solely to Nance with respect to interests or activities of it, including those realized with respect to an interest of Nance in any

property partially owned by it or realized with respect to any partnership interest of Nance (including its interest in an Affiliate), but shall not apply with respect to an ownership interest or partnership interest (even if in an Affiliate) of others.

7.03 Indemnification by St. Mary. Subject to the provisions of Section 7.05, St. Mary agrees to defend, indemnify and hold the Stockholders harmless from and against any and all losses, liabilities, damages, costs, or expenses (including reasonable attorneys' fees, penalties and interest) payable to or for the benefit of, or asserted by, any party, resulting from, arising out of, or incurred as a result of the breach of any representation and warranty made by St. Mary herein or in accordance herewith. No claim by the Stockholders for indemnification by St. Mary shall be made after one year has elapsed following the Closing except that a claim for indemnification may be made by the Stockholders with respect to a Third Party Claim until two years has elapsed following the Closing.

7.04 Notice of Claims. The Stockholders and St. Mary shall give prompt written notice to each other of any claim by any party which might give rise to a claim by the Stockholders or St. Mary against the other based upon the indemnity provisions contained herein, stating the nature and basis of the claim and the actual or estimated amount thereof; provided, however, that failure to give such notice will not affect the obligation of the indemnifying party to provide indemnification in accordance with the provisions of this Article 7 unless, and only to the extent that, such indemnifying party is actually prejudiced thereby. In the event that any action, suit or proceeding is brought by a third party against the Stockholders or St. Mary with respect to which the other party may have liability under the indemnification provisions contained herein, the indemnifying party shall have the right, at its sole cost and expense, to defend such action in the name or on behalf of the indemnified party and, in connection with any such action, suit or proceeding, the parties hereto agree to render to each other such assistance as may reasonably be required in order to ensure the proper and adequate defense of any such action, suit or

proceeding; provided further, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate because of actual or potential differing interests between such indemnified party and any other party represented by such counsel. Neither party hereto shall make any settlement of any claim which might give rise to liability of the other party under the indemnification provisions contained herein without the written consent of such other party, which consent such other party covenants shall not be unreasonably withheld.

7.05 Limitation of Liability. Notwithstanding the provisions of this Article 7, neither the Stockholders collectively nor St. Mary shall have any liability to the other with respect to any matter which liability does not exceed $150,000 as to any single liability or $250,000 as to liabilities in the aggregate irrespective of their single size except that such limitations shall not apply to any Third Party Claim. In the event of any liability of the Stockholders for indemnification, St. Mary may elect to cause such liability to be satisfied in part or in whole by reducing pro rata the St. Mary Stock issued to the Stockholders by the number of shares (rounded to the nearest whole number) equal to the amount of the Stockholders' liability based on the published closing price for a share of St. Mary Stock on the day such liability is quantified, and the certificates of St. Mary Stock issued to the Stockholders shall bear a legend to that effect.

ARTICLE 8
SHARE RESTRICTIONS

8.01 Restricted Shares. The Stockholders hereby agree that during the period beginning on the Closing and, subject to Section 8.05, ending on the date which is three years after the date hereof, the Stockholders will not sell, assign, transfer, pledge, hypothecate, encumber or otherwise dispose of ("Transfer") any shares of St. Mary Stock received as part of the Consideration (the "Restricted Shares"), other than in accordance with the terms of this Article 8 or as otherwise agreed by St. Mary in writing in its sole discretion, and any such purported Transfer shall be void, except that the Stockholders may make a Permitted Transfer (as hereinafter defined), if and only if the transferee in such Permitted Transfer ("Permitted Transferee") executes and delivers a written agreement to the effect that the Restricted Shares transferred to such Permitted Transferee shall be bound by the terms of this Article 8 as if such Permitted Transferee were an original party hereto.

8.02 Permitted Transfer. For purposes of this Article 8, a "Permitted Transfer" of Restricted Shares by any Stockholder is (i) any bona fide gift of such Restricted Shares by the Stockholder, including a charitable gift, (ii) any transfer of such Restricted Shares by the Stockholder to a trustee for the benefit of the Stockholder or the Stockholder's ancestors, descendants or spouse, or (iii) any transfer of such Restricted Shares by a Stockholder to the Stockholder's executors, administrators or legal representatives, heirs or devisees pursuant to the laws of descent and distribution.

8.03 Restrictive Legends; Stop Orders. The certificate or certificates representing Restricted Shares issued to the Stockholders or any Permitted Transferee shall bear an appropriate legend referring to the restrictions on Transfer contained in this Article 8 (together with the legends referred to in

Section 3.29 and Section 7.05 hereof) shall be endorsed with substantially the following legend in addition to any other legend which may appear on such certificate or certificates:

> THE SALE, ASSIGNMENT, TRANSFER, PLEDGE, HYPOTECATION, ENCUMBRANCE OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS OF A STOCK EXCHANGE AGREEMENT DATED JUNE 1, 1999, BETWEEN ST. MARY LAND & EXPLORATION COMPANY AND ROBERT L. NANCE AND OTHER INDIVIDUALS. COPIES OF SUCH AGREEMENT MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF THIS CERTIFICATE TO THE SECRETARY OF ST. MARY LAND & EXPLORATION COMPANY.

To assure compliance with the terms of this Agreement, St. Mary shall also be permitted to deliver appropriate "stop transfer" instructions covering certificates representing Restricted Shares to any transfer agent or registrar of the shares of St. Mary Stock.

8.04 Termination of Restrictions. Any provision of this Agreement to the contrary notwithstanding, the restrictions on Transfer contained in this Article 8 shall expire as follows: (i) with respect to twenty percent of the original number of Restricted Shares, one year after the date hereof, and (ii) with respect to the remaining Restricted Shares, three years after the date hereof. The restrictions contained herein shall expire with respect to the Restricted

Shares held by the Stockholders in proportion to his respective ownership of shares of St. Mary Stock on the date hereof.

8.05 Removal of Legends. Whenever the restrictions imposed by this Article 8 shall terminate by reason of the passage of time and the Restricted Shares are transferable pursuant to Rule 144(k) under the Securities Act or other available exemption from the registration requirements of the Securities Act, each holder of Restricted Shares shall be entitled to receive from St. Mary, without cost or expense, a new certificate representing such Restricted Shares not bearing the legends set forth in Section 8.03 and Section 3.29 upon receipt of an opinion of counsel reasonably satisfactory to St. Mary that such restrictions have terminated in accordance with their terms and that such Restricted Shares are transferable without registration under the Securities Act pursuant to Rule 144(k) under the Securities Act or other available exemption from the registration requirements of the Securities Act.

8.06 Voting Rights. The holder or holders of Restricted Shares shall retain the full right to vote or to execute and deliver a proxy to vote Restricted Shares on any matter submitted to holders of St. Mary Stock.

ARTICLE 9
GENERAL PROVISIONS

9.01 Continuance of Nance. Subject to a major change of circumstance such as a change of control of St. Mary, after Closing, St. Mary will conduct its business affairs in the areas where Nance has historically been involved as well as any additional areas deemed appropriate by St. Mary using the Nance entity in name as a wholly owned subsidiary of St. Mary, and Robert L. Nance will become an employee charged with the responsibility of running the day-to-day affairs of Nance as its President and Chief Executive Officer. During the time that Robert L. Nance retains the title of President and Chief Executive Officer of Nance, St. Mary agrees that the principal office of Nance will remain in Billings, Montana.

9.02 Net Profit Interest Pools. It is understood and agreed that the current employees of Nance will not participate in the employee net profits interest pool of St. Mary for the calendar year 1999. Eligible Nance employees will be offered participation in such pool during the calendar year 2000 and thereafter. During calendar year 1999, the current Nance employees will maintain their compensation plans in existence as of January 1, 1999 for the 1999 calendar year and will maintain their customary participation therein.

9.03 Expenses. Except as otherwise expressly provided herein, each party to this Agreement shall pay its or his own expenses (including, without limitation, the fees and expenses of its or his agents, representatives, counsel, and accountants) incurred in connection with the negotiation, drafting, execution, delivery and performance of this Agreement and the Related Agreements and the transactions contemplated hereby and thereby.

9.04 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Stockholders and St. Mary and their respective heirs, personal representatives, successors, representatives and assigns.

9.05 Waiver. No provision of this Agreement shall be deemed waived by course of conduct, including the act of closing, unless such waiver is made in writing signed by all then existing or surviving parties hereto, stating that it is intended specifically to modify this Agreement, nor shall any course of conduct

operate or be construed as a waiver of any subsequent breach of this Agreement, whether of a similar or dissimilar nature.

9.06 Entire Agreement. This Agreement (together with the Schedules and Exhibits hereto) supersedes any other agreement, whether written or oral, that may have been made or entered into by St. Mary or by the Stockholders (or by any director, officer, employee, agent, or other representative of such parties) relating to the matters contemplated hereby. This Agreement (together with the Schedules and Exhibits hereto) constitutes the entire agreement between the parties and there are no agreements or commitments except as expressly set forth herein. To the extent there exists any conflict between this Agreement and any of the Related Agreements, this Agreement shall control.

9.07 Further Assurances. Each of the parties hereto agrees to execute all further documents and instruments and to take or to cause to be taken all reasonable actions which are necessary or appropriate to complete the transactions contemplated by this Agreement.

9.08 Notices. All notices, demands, requests, and other communications

hereunder shall be in writing and shall be deemed to have been duly given and shall be effective upon receipt if delivered by hand, or sent by certified or registered United States mail, postage prepaid and return receipt requested, or by prepaid overnight express service or facsimile transmission (with receipt confirmed). Notices shall be sent to the parties to the following addresses (or at such other addresses for a party as shall be specified by like notice; provided that such notice shall be effective only upon receipt thereof):

If to the Stockholders:

Robert L. Nance
550 N. 31st Street, Suite 500
Billings, MT 59101
Telephone: 406-245-6248
Facsimile: 406-245-9106

with a copy (which shall not constitute notice) to:

Myles J. Thomas
Crowley Haughey Hanson Toole & Dietrich
490 North 31st Street, Suite 500
Billings, Montana 59103
Telephone: 406-252-3441
Facsimile: 406-259-4159

If to St. Mary:

St. Mary Land & Exploration Company
1776 Lincoln Street, Suite 1100
Denver, Colorado 80203
Telephone: 303-861-8140
Facsimile: 303-863-1040
Attention: Milam Randolph Pharo

9.09 Amendments, Supplements, Etc. This Agreement may be amended or modified only by a written instrument executed by all parties hereto which states specifically that it is intended to amend or modify this Agreement.

9.10 Severability. In the event that any provision contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had never been contained herein and, in lieu of each such illegal, invalid or unenforceable provision, there shall be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible but still be legal, valid and enforceable.

9.11 Governing Law. This Agreement and its interpretation shall be governed by the laws of the State of Colorado.

9.12 Counterpart Execution. This Agreement may be executed in counterparts and each counterpart shall constitute a binding agreement as if the parties had executed a single document. The parties agree that such counterpart execution may be evidenced by a facsimile transmission of the execution page for each such party, and such facsimile execution shall constitute a binding execution by such party. At or after Closing, the parties agree that a sufficient number of original counterpart executions will be obtained and affixed to this Agreement so that each party will have an originally executed Agreement.

/s/ Robert L. Nance
- ------------------------------
Robert L. Nance

/s/ Penni W. Nance

Penni W. Nance

/s/ Amy Nance Cebull
- ------------------------------
Amy Nance Cebull

/s/ Amy Nance Cebull

Amy Nance Cebull, Trustee of the
Clay Richard Cebull Trust

/s/ Robert Scott Nance
- ------------------------------
Robert Scott Nance

/s/ Brian R. Cebull

Brian R. Cebull

/s/ Robert L. Nance
- ------------------------------
By: Robert L. Nance

His Attorney-in-Fact

ST. MARY LAND & EXPLORATION COMPANY

By: /s/ Mark A. Hellerstein

Mark A. Hellerstein
President

LIST OF SCHEDULES

_____ Schedule 1.01(4) - Consideration - Shares of St. Mary Stock used as Consideration

_____ Schedule 2.02 - Exchange of Shares - Certificates for St. Mary Stock used as Consideration

_____ Schedule 3.01 - Ownership of Shares - Ownership of Nance Stock by Stockholders

_____ Schedule 3.04 - Organization Existence - Jurisdictions where Nance is qualified to do business; names and addresses of registered agents in such jurisdictions; and names under which Nance has conducted or purported to conduct business since date of incorporation

_____ Schedule 3.06 - Subsidiaries - List, if any, of Nance subsidiaries, ownership in any corporation, partnership, liability company, joint venture, or other enterprise or entity

_____ Schedule 3.10 - No Adverse Effects or Changes - Nance

_____ Schedule 3.10(e) - List, if any, of any disposition of any material assets, properties or rights, or canceled or terminated, or agreed to cancel or terminate any debts or claims other accounts receivable write-offs and writedowns in the ordinary course of business (since December 31, 1998)

_____ Schedule 3.10(h) - List, if any, of any accrual or arrangement for or payment of any bonus or special compensation or severance or termination pay to any present or former officer, director, or executive employee (since December 31, 1998)

_____ Schedule 3.11 - Third Party and Governmental Consents - List, if any, of the Third Party and Governmental Consents required on the part of Stockholders, Nance, or its Affiliates

_____ Schedule 3.12 - Real and Personal Property

_____ Schedule 3.12(a) - Real Property - List of all real property other than properties acquired for development of or exploration for oil and gas resources, owned, leased or subject to a contract by Nance (written or oral). Owned Real Property needs a description of the nature and amount of any liens, mortgages, and encumbrances affecting such property. List, if any, of any building, premises and equipment (owned or leased by Nance) that are not in good condition and repair.

_____ Schedule 3.12(b) - Oil and Gas Leases and Wells List of oil and gas leases in which Nance or its Affiliate is a party

_____ Schedule 3.12(c) - Personal Property - List, if any, of any outstanding options, warrants, commitments, agreements or any other right against any of the personal property (other than St. Mary)

_____ Schedule 3.13 - Accounts and Notes Receivable - List of Nance's and its Affiliate's accounts and notes receivables as of December 31, 1998

_____ Aging report setting forth all accounts receivables (other than intercompany receivables)

_____ Identify any asset holding a security interest to secure payment of the underlying indebtedness

_____ Description of the nature and amount of any lien on or security interest in such accounts and notes receivable

_____ Identify accounts receivable on Schedule 3.13 which have been collected in their entirety since December 31, 1998.

_____ Schedule 3.14 - Accounts Payables and Promissory Notes - Nance and its Affiliate. List of:

_____ Accounts payable as of December 31, 1998 with Appropriate aging report

_____ Long-term and short-term promissory notes, installment contracts, loan agreements, and credit agreements

_____ Indentures, mortgages, security agreements, pledges, etc.

_____ Identify accounts payable on Schedule 3.13 which have been fully or partially paid since December 31, 1998.

_____ Schedule 3.15 - Bonds and Insurance

_____ List of all insurance policies and bonds. List should include (i) insurer and agent; (ii) amount of coverage; (iii) premium dates; and (iv) expiration dates, if any.

_____ List, if any, of any facts or circumstances under which claims for uninsured losses or damages are likely to be Asserted against Nance in excess of $10,000 or pending claims against Nance

_____ Schedule 3.16 - Bank Accounts - List of (i) names of banks or financial institutions where Nance or the Affiliates has banks Accounts and safety deposit boxes (ii) names of persons authorized to draw on account or access the safety deposit box; and (iii) names of persons other than officers who are authorized to incur Liabilities for borrowed funds

_____ Schedule 3.19 - Permits - List of all federal, state or local regulatory or governmental authority permits relating to the business properties or assets of Nance

_____ Schedule 3.20 - Taxes - List, if any, of audited Tax reports of Nance

_____ Schedule 3.21 - Employee Benefit Plans and Employment Agreement

_____ Schedule 3.21(a) - List of every Employee Benefit Plan

_____ Copies of such Employee Benefit Plan

_____ Copy of the most recent audit or unaudited financial statement with regard to each Employee Benefit Plan

_____ Copies of most recent determination letters to any Employee Benefit Plan which is an employee pension benefit plan

_____ Copies of most recent actuarial reports, if any, of each such Employee Benefit Plan

_____ Schedule 3.22 - Certain Employees and Salaries - List of names and salary rates of all employees of Nance whose current regular annual salary rate is $60,000 or more. List also identifies company cars, club memberships, and other fringe benefits

_____ Schedule 3.23 - Material Contracts - List of all contracts and Arrangements written, electronic, oral or otherwise. Copies of all Contracts listed.

_____ Schedule 3.24 - Labor Matters - List, if any, of any labor strike, dispute, slow-down, work stoppage, or other labor difficulty in the

Last 5 years

_____ Schedule 3.25 - Environmental Matters

_____ Schedule 3.26 - Necessary Property - Assets of Nance not otherwise Listed on a schedule, whether tangible or intangible which are required for the operation by Nance of its businesses

_____ Schedule 3.31 - Tax Reports - Copies of tax reports filed by Nance or its Affiliates for the past two years including 1998

_____ Schedule 4.05 - Capital Stock of St. Mary - List, if any, of outstanding equity securities, options, warrants, rights, call, Commitments, conversion rights, rights of exchange, plans or other Agreements of any character provided for the purchase, issuance or sale of any shares of capital stock of St. Mary (other than Contemplated in this Agreement)

_____ Schedule 4.08 - Third Party and Governmental Consents - List, if Any, of the Third Party and Governmental Consents required on the part of St. Mary

_____ Exhibit 5.01(f) - Form opinion letter from Quanterra counsel

_____ Exhibit 5.02(g) - Form opinion letter from St. Mary counsel

_____ Exhibit 6(a) - Form Severance Agreement

_____ Exhibit 6(b) - Form Employment Agreement

_____ Exhibit 6(c) - form Stock Option Plan Participation Agreement

_____ Exhibit 6(d) - Form 401(k) Retirement Plan of Nance

DELIVERIES BY ST. MARY

_____ 1. A certificate from the President or a Vice President dated the date of Closing, certifying that any third party or governmental consents and approvals have been obtained, together with copies of such consents and approvals.

_____ 2. A copy of STML&EC Certificate of Incorporation (recent date) from Secretary of State of Delaware.

_____ 3. A copy of the By-Laws of St. Mary, including all amendments thereto certified by the Secretary or an Assistant Secretary of St. Mary.

_____ 4. A Certificate of Good Standing for STML&E (recent date) from Secretary of State of Delaware

_____ 5. STML&EC Resolutions adopted by the Board of Directors of Authorizing transaction

_____ 6. Opinion letter from Ballard Spahr Andrews & Ingersoll, LLP

CONDITIONS BY NANCE PETROLEUM CORPORATION

_____ 1. A Stockholders certificate (dated as of Closing) regarding Consents and approvals, together with copies of such consents And approvals

_____ 2. Certified Articles of Incorporation (recent date) from Secretary of State of Montana.

_____ 3. By-Laws including all amendments thereto certified by the Secretary or an Assistant Secretary

_____ 4. Certificate from the Montana Secretary of State (dated within seven calendar days prior to Closing) as to the valid existence of Nance.

_____ 5. Certificates of Authority dated during 1999 from the Secretary of State of each of the states in which Nance is qualified to do business

_____ 6. Opinion letter from Crowley, Haughey, Hanson, Toole & Dietrich, PLLP

_____ 7. Evidence of resignation of all of the directors of Nance other than Robert L. Nance.

_____ 8. Uniform Commercial Code financing statement searches for the State of Montana and any other state in which Nance or its Affiliates do business (dated within 15 calendar days prior to the date of the Closing)

ADDITIONAL AGREEMENTS NEEDED FOR CLOSING

_____ Severance Agreements

_____ Terry Holzwarth

_____ Gary Evertz

_____ Brian Cebull

_____ Amy Cebull

_____ Mike Bryant

_____ Robert T. Hanley

_____ Employment agreement with Robert L. Nance

_____ Stock Option Plan Participation Agreement with Amy Cebull

_____ An Agreement with respect to the 401(k) Retirement Plan of Nance

EXHIBIT 10.28

PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement ("Agreement") made this 1st day of June, 1999, is by and between ST. MARY LAND & EXPLORATION COMPANY, a Delaware corporation ("St. Mary") and ROBERT T. HANLEY ("Hanley"), acting in his capacity as a limited partner in Quanterra Alpha Limited Partnership. Hanley owns a 49.5% limited partnership interest in Quanterra Alpha Limited Partnership, a Montana limited partnership ("Quanterra Partnership").

WHEREAS, St. Mary desires to acquire all of the limited partnership interest of Hanley in the Quanterra Partnership in exchange for shares of the common stock, par value of $0.01 per share, of St. Mary ("St. Mary Stock") as hereinafter provided, and Hanley desires to effect such exchange.

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE 1
DEFINITIONS; HEADINGS

1.01 Defined Terms. As used in this Agreement, terms defined in the preamble and recitals of this Agreement have the meanings set forth therein, and the following terms have the meanings set forth below:

(1) "Closing" has the meaning ascribed to such term in Section 2.02.

(2) "Code" means the Internal Revenue Code of 1986, as amended.

(3) "Consideration" means those shares of St. Mary Stock set forth on Schedule 1.01(3) which have been calculated in accordance with the methodology set forth in that certain letter dated March 2, 1999, from St. Mary to Robert L. Nance, as amended by oral understanding which provides for the use of a five year NYMEX strip pricing run as opposed to the two year NYMEX price strip stated in the letter. This letter provides that the number of shares of St. Mary Stock that Hanley shall receive is based on a proportionate net asset value comparison of St. Mary with Hanley's interest in

Quanterra Partnership. This comparison is expressed by using a formula wherein X (the number of shares of St. Mary Stock that Hanley is to receive) is the numerator of a fraction and the number of shares of St. Mary Stock issued and outstanding is the denominator of the fraction, and such fraction equals a fraction in which the numerator is the net asset value of Hanley's interest in Quanterra Partnership and the denominator is the net asset value of St. Mary. Net asset value has been determined in accordance with the above referenced letter subject to the referenced amended hydrocarbon pricing.

(4) "Environmental Laws" mean all federal, state and local rules and regulations relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

(5) "GAAP" means generally accepted accounting principles consistently applied.

(6) "Governmental Authority" means any federal, state, or local court, arbitration tribunal or governmental department, board, commission, bureau, agency, authority or instrumentality.

(7) "Hazardous Materials" mean (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is friable, urea-formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls (PCBs); (b) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," or words of similar import, under any Environmental Law; (c) naturally occurring radioactive material (NORM); and (d) any other chemical, material, substance or waste, exposure to which is prohibited, limited or regulated by any Governmental Authority in a jurisdiction in which Quanterra Partnership operates.

(8) "Knowledge" as used (i) with respect to St. Mary shall mean those facts that are actually known or should reasonably have been or become known in the ordinary course of business by the officers of St. Mary, taking into account the scope and nature of such officers' responsibilities, and (ii) with respect to Hanley shall mean facts that are actually known to Hanley in the ordinary course of business, taking into account the scope and nature of Hanley's involvement in the operation of Quanterra Partnership.

(9) "Laws" mean all (i) federal, state, or local or foreign laws, rules and regulations, (ii) orders, (iii) Permits, and (iv) agreements with federal, state, local, or foreign regulatory authorities to which Hanley, Quanterra Partnership, or St. Mary, as the case may be, is a party or by which any of them or their property is bound.

(10) "Liens" mean all liens, liabilities, claims, security interests, mortgages, pledges, agreements, obligations, restrictions, or other encumbrances of any nature whatsoever, whether absolute, legal, equitable, accrued, contingent or otherwise, including, without limitation, any rights of first refusal.

(11) "1933 Act" means the Securities Act of 1933, as amended.

(12) "1934 Act" means the Securities Exchange Act of 1934, as amended.

(13) "Quanterra Partnership Financial Statements" mean the unaudited financial statements of Quanterra Partnership for each of its past two fiscal years, December 31, 1997 and December 31, 1998.

(14) "NASDAQ" means National Association of Securities Dealers Automated Quotations System.

(15) "Permits" mean all permits, licenses, franchises, orders, certificates and approvals.

(16) "Quanterra Partnership" means Quanterra Alpha Limited Partnership of which Quanterra Energy Corporation is the

general partner and Nance Petroleum Corporation and Robert T. Hanley are the limited partners.

(17) "Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment.

(18) "SEC" means the United States Securities and Exchange Commission.

(19) "SEC Documents" mean all registration statements, proxy statements, periodic reports and schedules filed by St. Mary with the SEC under the Securities Laws.

(20) "Securities Laws" mean the 1933 Act, the 1934 Act, the Investment Company of Act of 1940, as amended, the Trust Indenture Act of 1939, as amended, and the rules and regulations of the SEC promulgated thereunder.

(21) "Taxes" mean any taxes or other governmental charges or assessments of whatever kind or nature imposed by the United States, by any other nation or by any state, county, municipality or governmental subdivision, including without limitation, any income, franchise or any other similar taxes based on or measured by income or otherwise, any sales or use taxes, property, employment and employer withholdings, unemployment, social security, occupational, customs, excise or other taxes, together with any interest or penalties relating thereto.

(22) "Tax Reports" mean all returns or reports required to be filed relating to the federal and state income tax filings of Quanterra Partnership.

1.02 Other Definitional Provisions. Wherever the context so requires, words used herein in the masculine gender shall be deemed to include the feminine and neuter. A definition of any term shall be equally applicable to both the singular and plural forms of the term defined.

1.03 Titles; Headings. All titles and headings appearing in this Agreement are for identification only and are not to be used for interpretive purposes.

ARTICLE 2
ACQUISITION; CLOSING

2.01 Acquisition of Hanley Partnership Interest in Quanterra Partnership. Subject to the terms and conditions herein stated, Hanley agrees to assign, transfer and deliver to St. Mary or in accordance with St. Mary's directions to a subsidiary of St. Mary at Closing, and St. Mary agrees to acquire from Hanley at Closing, all of his limited partnership interest in Quanterra Partnership. These interests shall be assigned to St. Mary or in accordance with St. Mary's directions to a subsidiary of St. Mary using the form of assignment attached hereto as Schedule 2.01. At Closing, Hanley shall execute and deliver this assignment of his entire limited partnership interest in Quanterra Partnership in exchange for certificates of St. Mary Stock issued in the name of Hanley in the amount of the Consideration.

2.02 Closing. The closing of the transaction provided for herein (the "Closing") shall take place at the offices of Nance Petroleum Corporation on June 1, 1999, at 10:00 a.m., local time.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES
OF HANLEY

Hanley represents and warrants to St. Mary as follows:

3.01 Ownership of Limited Partnership Interest in Quanterra Partnership. Hanley is the lawful owner, beneficially and of record, of a limited partnership interest representing 49.5% of Quanterra Partnership and such interest is free and clear of all Liens.

3.02 Hanley's Due Execution, Enforceability Against Hanley. This Agreement has been duly executed and delivered by Hanley and is a valid and binding obligation of him, enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application referring to or affecting enforcement of creditors' rights and general principles of equity. The execution, delivery and performance of this Agreement by Hanley will not violate or conflict with any agreement, instrument, judgment or decree to which Hanley is a party or is subject.

3.03 Hanley's Capacity. Hanley has full legal right, power, authority and capacity to execute, deliver and perform his obligations under this Agreement to consummate the transactions contemplated hereunder.

3.04 Organization Existence. Quanterra Partnership is a limited partnership duly organized and validly existing under the laws of Montana with all requisite power and authority to own, operate and lease its properties and assets and to carry on its business as is now being conducted. Quanterra Partnership is duly qualified to do business and is in good standing in each jurisdiction where the conduct of its business or the ownership of its property requires such qualification. The jurisdictions in which Quanterra Partnership is qualified to do business, and the names and addresses of Quanterra Partnership's registered agent in such jurisdictions, are set forth on Schedule 3.04 hereto. Schedule 3.04 hereto sets forth all names under which Quanterra Partnership has conducted or purported to conduct business since the date of its inception.

3.05 No Restrictions Against Performance. Neither the execution, delivery nor performance of this Agreement, nor the consummation of the transactions contemplated in this Agreement will, with or without the giving of notice or the passage of time, or both, violate any provisions of, conflict with, result in a breach of, constitute a default under, or result in the creation or imposition of any Lien or adverse condition under:

(a) the Limited Partnership Agreement of Quanterra Partnership;

(b) any Law which is applicable to Quanterra Partnership or any of its properties or assets;

(c) any contract, indenture, instrument, agreement, mortgage, lease, right, or other obligation or restriction to which Quanterra Partnership is a party or by which Quanterra Partnership or any of its properties or assets is or may be bound; or

(d) any order, judgment, writ, injunction, decree, license, franchise, permit or other authorization of any Governmental Authority by which either Quanterra Partnership or any of its properties or assets is or may be bound or by which Hanley is or may be bound.

3.06 Historical Financial Information. The Quanterra Partnership Financial Statements, true and complete copies of which have been previously delivered to

St. Mary present fairly the financial position, assets and liabilities of Quanterra Partnership as of the dates thereof and the revenues, expenses, results of

operations and cash flows of Quanterra Partnership for the periods covered thereby, on a tax basis with adjustments made in accordance with GAAP so that the net asset value of Quanterra Partnership can be determined and reasonably compared with the net asset value of St. Mary. The Quanterra Partnership Financial Statements are in accordance with the books and records of Quanterra Partnership and do not reflect any transactions which are not bona fide transactions. The books and records of Quanterra Partnership have been maintained in accordance with applicable laws, rules and regulations, and in the ordinary course of business. To the best of Hanley's Knowledge, the accounts and notes receivable of Quanterra Partnership reflected in the Quanterra Partnership Financial Statements are valid, existing and genuine and represent sales actually made or services actually delivered by Quanterra Partnership in bona fide transactions in the ordinary course of business consistent with past practice and there is no material right of setoff or counterclaim or threat thereof that would jeopardize the collectability of such accounts and notes receivable at the aggregate recorded amounts thereof. Hanley has no Knowledge of any material difference that would arise if the Quanterra Partnership Financial Statements were prepared in accordance with GAAP as opposed to being prepared on a tax basis with the GAAP-type adjustments that have been made.

3.07 No Undisclosed Liabilities. To the best of Hanley's Knowledge, no basis exists on the date hereof for assertions against Quanterra Partnership of any material claim or liability of any nature other than (i) those which have been disclosed in the Quanterra Partnership Financial Statements, or (ii) have been incurred in the ordinary course of the business of Quanterra Partnership since December 31, 1998 and which do not constitute a breach of the representation and warranty set forth in Section 3.08. For purposes of this Section 3.07, a claim or liability shall be deemed to be "material" if it involves an amount in excess of $25,000, individually or in the aggregate, as the context requires.

3.08 No Adverse Effects or Changes. Since December 31, 1998, Hanley is not aware of any event involving Quanterra Partnership that has had a material adverse effect on its business or its assets. Except as listed on Schedule 3.08, since December 31, 1998, Quanterra Partnership has not:

(a) made any existing unsatisfied capital call on Hanley;

(b) borrowed or agreed to borrow any funds, guaranteed the repayment of any indebtedness or incurred any other contingent financial obligations, except borrowings incurred in the ordinary course of its business in accordance with its past practices;

(c) satisfied any obligation or liability (absolute or contingent), other than obligations and liabilities incurred in the ordinary course of its business in accordance with its past practices;

(d) declared or made, or agreed to declare or make, any payments or distributions of cash or any other assets of any kind whatsoever in respect of its capital accounts;

(e) except as set forth on Schedule 3.08(e), sold, transferred or otherwise disposed of, or agreed to sell transfer or otherwise dispose of, any material assets, properties or rights, except inventory and equipment in the ordinary course of its business in accordance with its past practices, or canceled or otherwise terminated, or agreed to cancel or otherwise terminate, any debts or claims other than accounts receivable write-offs and writedowns in the ordinary course of its business in accordance with its past practices;

(f) other than in the ordinary course of business in accordance with its past practices, entered, or agreed to enter, into any agreement or arrangements to sell any of its assets, properties or rights, including inventories and equipment;

(g) made or permitted any amendment or termination of any material contract, agreement, Permit or license to which it is a party or by which it or any of its properties are bound;

(h) except as set forth on Schedule 3.08(h), made, directly or indirectly, any accrual or arrangement for or payment of any bonuses or special compensation of any kind or any severance or termination pay to any present or former partner or employee;

(i) incurred, or become subject to, any uninsured claim or liability for any material damages for any negligence or other tort or breach of contract;

(j) made any capital expenditures (or commitments therefor) which in the aggregate exceed $25,000;

(k) suffered any damages, destruction or casualty losses in excess of $10,000 as to any single occurrence or $25,000 in the aggregate;

(l) entered into any other material transaction other than in the ordinary course of its business in accordance with its past practices; or

(m) suffered any material adverse change in condition of or title to any of its assets except depletion through normal production within authorized allowables, ordinary changes in rates of production, and depreciation of equipment through ordinary wear and tear.

3.09 Third-Party and Governmental Consents. Except as set forth in Schedule 3.09 hereto, no approval, consent, waiver, order or authorization of, or registration, qualification, declaration, or filing with, or notice to, any Governmental Authority or other third party is required on the part of Hanley or Quanterra Partnership in connection with the execution and delivery of this Agreement by Hanley or the consummation of the transactions contemplated hereby. All of the consents and approvals set forth on Schedule 3.09 have been obtained.

3.10 Real and Personal Property

(a) Oil and Gas Leases and Wells in Which Quanterra Partnership is a Party. Schedule 3.10(a) sets forth a true, correct and complete list of all oil and gas leases and wells in which Quanterra Partnership is a party, whether as lessor, lessee, or the owner of any non-cost bearing interest. The interests of Quanterra Partnership in all leases listed on such Schedule are valid and subsisting and in full force and effect, and all rentals and other payments now due have been paid. Quanterra Partnership enjoys and is in peaceful and undisturbed possession as to its respective ownership share under each lease so listed in which it is a lessee. Quanterra Partnership has not received any notice of, and to the Knowledge of the Hanley, there does not exist, any event of default or event, occurrence or act which, with the giving of notice or the lapse of time or both, would become a default under any such lease, and Quanterra Partnership has not violated any of the terms or conditions under any such lease in any material respect. The real property under the leases referred to in Schedule 3.10(a) is free from material physical defects. Such real property and the fixtures, equipment, and other property attached, situated or appurtenant thereto are in good operating condition and repair, in compliance with all applicable Laws and are adequate and suitable for the purposes for which they are presently being used, except for such matters which in the aggregate would not have a material adverse effect on the business of Quanterra Partnership.

(b) Personal Property. Except as otherwise identified on Schedule 3.10(b) hereto, Quanterra Partnership has good, valid, marketable, legal and beneficial title to all of its personal property, free and clear of all Liens. There are no outstanding options, warrants, commitments, agreements or any other rights of any character entitling any person or entity, other than St. Mary, to

acquire any interest in all or any part of the personal property of Quanterra Partnership.

3.11 Accounts and Notes Receivable. Schedule 3.11 sets forth a list as of December 31, 1998, of all accounts and notes receivable of Quanterra Partnership together with:

(a) an aging schedule setting forth all such accounts receivable (other than intercompany receivables)

(b) the identity of any asset in which Quanterra Partnership holds a security interest to secure payment of the underlying indebtedness;

(c) a description of the nature and amount of any lien on or security interest in such accounts and notes receivable; and

(d) an identification of the accounts receivable on this Schedule 3.11 which have been collected in their entirety since December 31, 1998.

Except as specifically identified on Schedule 3.11, Hanley believes to the best of his Knowledge that the accounts and notes receivable itemized are collectible in the ordinary course of Quanterra Partnership's businesses.

3.12 Accounts Payables and Promissory Notes. Schedule 3.12 sets forth a list of:

(a) all accounts payable of Quanterra Partnership as of December 31, 1998, together with an appropriate aging schedule;

(b) all long-term and short-term promissory notes, installment contracts, loan agreements and credit agreements to which Quanterra Partnership is a party or to which any of its properties are subject;

(c) all indentures, mortgages, security agreements, pledges, and any other agreements, pledges, and any other agreements of Quanterra Partnership relating thereto or with respect to collateral securing the same; and

(d) an identification of the accounts payable on Schedule 3.12 that have been fully or partially paid since December 31, 1998.

3.13 Insurance and Bonds.

(a) Schedule 3.13 sets forth a list of all insurance policies and bonds held by Quanterra Partnership including those covering its properties, buildings, equipment, fixtures, employees, and operations. Such list specifies with respect to each such policy:

(i) the insurer and agent;

(ii) the amount of coverage;

(iii) the dates of premiums or payments due thereunder; and

(b) the expiration date, as applicable.

Each such policy identified is currently in full force and effect. All insurance premiums due according to the applicable payment schedules reflected in such policies have been timely paid. Except as set forth on Schedule 3.13, Hanley has no Knowledge of any facts or circumstances under which any claims for uninsured losses or damages are likely to be asserted against Quanterra Partnership in an amount in excess of $10,000 nor are there any such claims pending against Quanterra Partnership;

(c) Hanley believes the insurance policies currently maintained by Quanterra Partnership provide coverage adequate for its properties, assets, products and operations;

(d) Quanterra Partnership has not requested cancellation of any material policy of insurance at any time during the previous two years;

(e) Quanterra Partnership has not sought and been denied any insurance coverage during the two-year period prior to Closing. All bonds issued to secure performance of or payment by Quanterra Partnership under any material contract in progress or yet to be completed, including those contracts identified in Schedule 3.13, are in force and effect and are identified on Schedule 3.13. Neither Quanterra Partnership nor Hanley have made any representations or undertaken any other act which would give rise to a viable claim that any such existing bond is invalid or unenforceable. There are no facts or circumstances under which the validity or enforceability by Quanterra Partnership of any such existing bond could be successfully challenged; and

(f) the transactions contemplated by this Agreement will have no adverse effect on any such existing bond.

3.14 Bank Accounts. Schedule 3.14 sets forth a list of (i) the name of each bank or other financial institution in which Quanterra Partnership has an account or safe deposit box; (ii) the names of all person authorized to draw thereon or to have access thereto; and (iii) the names of all persons other than the partners of Quanterra Partnership who are authorized to incur liabilities on behalf of Quanterra Partnership for borrowed funds.

3.15 Compliance with Laws. To the best of Hanley's Knowledge, Quanterra Partnership has complied with and is not in default under any Laws the violation of which could have a material adverse effect on its business, properties or assets.

3.16 Litigation. There is no judicial or administrative claim, action, suit or proceeding pending or, to the Knowledge of Hanley, threatened against or relating to Hanley, Quanterra Partnership or the partners of Quanterra Partnership, the business, properties or assets of Quanterra Partnership or the transactions contemplated by this Agreement, including, but not limited to, actions or proceedings alleging any violation of any Environmental Law, before any federal, state, or local court, arbitration tribunal or Governmental Authority, which would, individually or in the aggregate, materially adversely affect Hanley, the business, properties or assets of Quanterra Partnership, or

the transactions contemplated by this Agreement and to the Knowledge of Hanley there does not exist any valid basis for any such claim, action, suit or proceeding. There are no claims, actions, suits, proceedings or investigations pending or, to the Knowledge of Hanley, threatened by or against Hanley or Quanterra Partnership with respect to this Agreement, or in connection with the transactions contemplated hereby and Hanley has no reason to believe there exists a valid basis for any such claim, action, suit, proceeding or investigation.

3.17 Permits. Schedule 3.17 hereto sets forth a true, correct and complete list of all Permits of any federal, state or local regulatory or Governmental Authority relating to the business properties or assets of Quanterra Partnership. The Permits constitute all permits, licenses, franchises, orders, certificates and approvals which are required for the lawful operation of the business, properties and assets of Quanterra Partnership. Further, Quanterra Partnership is in compliance in all material respects with all such Permits and owns or has owned or had valid Permits to use all properties, tangible or intangible, necessary for the conduct of its business and the operation

of its properties and assets in the manner in which they are now conducted and operated.

3.18 Taxes.

(a) All Tax Reports required to be filed by Hanley or Quanterra Partnership that are required to be filed on or prior to the Closing have been duly filed and are true, complete and accurate in all material respects. All Taxes owed with respect to the periods covered by such Tax Reports have been duly paid. Hanley and Quanterra Partnership have complied with all applicable laws, rules and regulations relating to the withholding and payment of Taxes and have timely withheld and paid to the proper governmental authorities all amounts required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor or partner.

(b) There are no agreements, waivers or other arrangements providing for extension of time with respect to the assessment or collection of any Tax on Hanley or Quanterra Partnership. There are not any actions, suits, proceedings, investigations or claims now pending against Hanley or Quanterra Partnership in respect of unpaid Taxes, and there are no matters under discussion with any federal, state, county or local Governmental Authority relating to any amount of unpaid Taxes. Except as otherwise set forth on Schedule 3.18, the Tax Reports of Hanley or Quanterra Partnership have not been audited and are not in the process of being audited by the applicable taxing authorities, and there is no Tax deficiency outstanding, proposed or assessed against Hanley or Quanterra Partnership, and neither Hanley nor Quanterra Partnership is a party to any Tax allocation or Tax sharing agreement.

3.19 Employee Benefit Plans and Employment Agreement. Quanterra Partnership has not entered into any employee benefit plan within the meaning of Section 3(3) of ERISA or any written or oral employment or consulting agreement, severance pay plan or agreement, employee relations policy (or practice, agreement, or arrangement), agreements with respect to leased or temporary employees, vacation plan or arrangement, sick pay plan, stock purchase plan, stock option plan, fringe benefit plan, incentive plan, bonus plan, cafeteria or flexible spending accounting plan or any deferred compensation agreement with any present or former employee of Quanterra Partnership. Further, there are currently no employees of Quanterra Partnership.

3.20 Material Contracts. Quanterra Partnership has made available all contracts and arrangements, written, electronic, oral, or otherwise to which

Quanterra Partnership is a party or by which it is bound, or to which any of its assets or properties is subject.

3.21 Environmental Matters. Except as set forth in Schedule 3.21:

(a) Quanterra Partnership is currently in compliance in all material respects with all applicable Environmental Laws, has cured any past violations or alleged violations of Environmental Laws to the satisfaction of Governmental Authorities, is not currently in receipt of any notice of violation, is not currently in receipt of any notice of any potential liability for cleanup of Hazardous Materials and is not now subject to any investigation or information request by a Governmental Authority concerning Hazardous Materials or any Environmental Laws. To the Knowledge of Hanley, Quanterra Partnership holds and is in compliance with all governmental permits, licenses, and authorizations necessary to operate those aspects of its business that relate to siting, wetlands, coastal zone management, air emission, discharges to surface or ground water, discharges to any sewer or septic system, noise emissions, solid waste disposal or the generation, use, transportation or other management of Hazardous

Materials. Quanterra Partnership has never generated, manufactured, refined, recycled, discharged, emitted, released, buried, processed, produced, reclaimed, stored, treated, transported, or disposed of any Hazardous Materials except in compliance with all applicable Laws, including applicable Permit requirements;

(b) No assets of Quanterra Partnership are subject to any Lien in favor of any person as a result of any Hazardous Material or response thereto;

(c) To the Knowledge of Hanley, all facilities where any person has treated, stored, disposed of, reclaimed, or recycled any Hazardous Material on behalf of Quanterra Partnership are in compliance with Environmental Laws.

3.22 Broker's Fees. No agent, broker or other person is or may be entitled to a commission or finder's fee in connection with the transactions contemplated by this Agreement, or is or may be entitled to make any claim against Quanterra Partnership or against St. Mary as a result of any actions by Hanley or Quanterra Partnership. Hanley shall indemnify St. Mary against any claim for any such commission or finder's fee made by any agent, broker or other person as a result of any actions by Hanley or Quanterra Partnership.

3.23 Investment Representation. Hanley acknowledges that the issuance to him by St. Mary of the shares of St. Mary Stock constituting the Consideration pursuant to this Agreement has not been registered under the 1933 Act or any state securities law, and that such St. Mary Stock may not be sold or transferred

other than pursuant to an effective registration statement under the 1933 Act or pursuant to an available exemption from such registration, and further acknowledges that the certificates representing the St. Mary Stock will bear a restrictive legend to the foregoing effect. Hanley is acquiring the St. Mary Stock for investment purposes only, for his own account (and not for the account(s) of others) and not with a view to the distribution thereof. Hanley confirms that (i) he is familiar with the business of St. Mary and has had the opportunity to ask questions of appropriate executive officers of St. Mary (and that he has received responses thereto to his satisfaction) and to obtain such information about the business and financial condition of St. Mary as he has reasonably requested, and (ii) he has such knowledge and experience in financial and business matters that he is capable of evaluating and accepting the merits and risks of an investment in St. Mary Stock.

3.24 Questionable Payments. Neither Hanley nor Quanterra Partnership has made, directly or indirectly, any (a) bribes, kickbacks or illegal payments, (b) payments that were falsely recorded on the books and records of Quanterra Partnership, or (c) payments to governmental officials for improper purposes.

3.25 Tax Reports. Schedule 3.25 contains true and correct copies of the Tax Reports filed by Quanterra Partnership for the past two tax years including tax year 1998.

3.26 Joint Operating Agreements. Quanterra Partnership has not entered into any joint operating agreement regarding any of the leases or wells affected by this Agreement that contains terms or conditions which impose duties or obligations on Quanterra Partnership beyond those customarily contained or created by joint operating agreements executed in the ordinary course of conducting an oil and gas business.

3.27 No Misstatements or Omissions. No representation or warranty made in this Agreement or on any Schedule hereto by Hanley is false or misleading as to any material fact or omits to state a material fact required to make any of such information not misleading in any material respect. In addition, all other information made available by Quanterra Partnership to St. Mary, whether in oral, written, or any other form, is true and correct to the Knowledge of Hanley, and such information is not false or misleading as to any material fact. To the Knowledge of Hanley, the foregoing representations, warranties, schedules and information constitute full disclosure of all material facts with respect to the business, assets and liabilities of Quanterra Partnership.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF ST. MARY

St. Mary represents and warrants to Hanley as follows:

4.01 Organization; Good Standing. St. Mary is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority and legal right to own, operate and lease its properties and assets and to carry on its business as now being conducted and to enter into this Agreement and perform its obligations hereunder, and is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the conduct of its business or

the ownership of its property requires such qualification.

4.02 Authority. St. Mary has the corporate power and authority to execute, deliver, and perform its obligations under this Agreement to which it is a party and to consummate the transactions contemplated hereby, and has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement. St. Mary has the power and authority to deliver the Consideration, and all necessary corporate action to authorize the delivery of the Consideration has been taken.

4.03 Due Execution and Enforceability. This Agreement is a valid and binding obligation of St. Mary, enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application referring to or affecting enforcement of creditors' rights and general principles of equity.

4.04 No Restrictions Against Performance. Neither the execution, delivery, authorization or performance of this Agreement, nor the consummation of the transactions contemplated hereby will, with or without the giving of notice or the passage of time, or both, violate any provisions of, conflict with, result in a breach of, constitute a default under, or result in the creation or imposition of any Lien or adverse condition under (i) the Certificate of Incorporation or By-Laws of St. Mary; (ii) any federal, state or local Law, which is applicable to St. Mary; (iii) any contract, indenture, instrument, agreement, mortgage, lease, right or other obligation or restriction to which St. Mary is a party or by which it is bound; or (iv) any order, judgment, writ, injunction, decree, license, franchise, permit or other authorization of any Governmental Authority by which St. Mary is bound.

4.05 Capital Stock of St. Mary. The authorized capital stock of St. Mary consists of 50,000,000 shares of common stock of which 10,827,067 are issued

and outstanding. All of the issued and outstanding shares of St. Mary Stock are, and all of the shares of St. Mary Stock, when issued in accordance with the terms of this Agreement are or will be, duly and validly authorized and issued and outstanding, fully paid and nonassessable. None of the outstanding shares of St. Mary Stock to be issued pursuant to this Agreement will be issued in violation of any preemptive rights of the current or past holders of St. Mary Stock. Except as disclosed on Schedule 4.05 hereto, as of the date of this Agreement, there are no other equity securities of St. Mary outstanding and no outstanding options, warrants, rights, calls, commitments, conversion rights, rights of exchange, plans or other agreements of any character provided for the purchase, issuance or sale of any shares of the capital stock of St. Mary, other than as contemplated by this Agreement.

4.06 SEC Filings; Financial Statements of St. Mary. St. Mary has timely filed and made available to the Stockholders all SEC Documents required to be filed by St. Mary during calendar year 1998 and since December 31, 1998 . The SEC Documents (i) at the time filed, complied in all material respects with the applicable requirements of the Securities Laws and other applicable Laws, and (ii) did not, at the time they were filed (or, if amended, or superseded by a filing prior to the date of this Agreement, then on the date of such filing), contain any untrue statement of a material fact or omit to state a material fact required to be stated in the SEC Documents or necessary in order to make the statements in the SEC Documents in light of the circumstances under which they were made, not misleading. Each of the St. Mary financial statements (including, in each case, any related notes) contained in the SEC Documents complied as to form in all material respects with the applicable published rules and regulations of the SEC with respect thereto, was prepared in accordance with GAAP (except to the extent required by changes in GAAP, as may be indicated in the notes to such financial statements or, in the case of unaudited interim statements, as permitted by Form 10-Q under the 1934 Act, as amended), and fairly presented in all material respects the consolidated financial positions of St. Mary and its subsidiaries as at the respective dates and the consolidated results of operations and cash flows of the periods indicated, except that the unaudited interim financial statements were or are subject to normal and recurring year-end adjustments which were not or are not expected to be material in amount or effect.

4.07 Materially Adverse Change of Condition. St. Mary has no Knowledge of any material adverse change in the condition of or title to its assets which have occurred subsequent to December 31, 1998, except depletion through normal production within authorized allowables, ordinary changes and

rates of production, and depreciation of equipment through ordinary wear and tear.

4.08 Third-Party and Governmental Consents. Except as set forth on Schedule 4.08 hereto, and those customarily obtained after Closing, no approval,

consent, waiver, order or authorization of, or registration, qualification, declaration or filings with, or notice to, any Governmental Authority or other third party is required on the part of St. Mary in connection with the execution of this Agreement, or the consummation of the transactions contemplated hereby or thereby. All of the consents and approvals set forth on Schedule 4.08 have been obtained.

4.09 Litigation. There are no claims, actions, suits, proceedings or investigations pending or, to the Knowledge of St. Mary, threatened, by or against St. Mary with respect to this Agreement, or in connection with the transactions contemplated hereby and St. Mary has no reason to believe there exists a valid basis for any such claim, action, suit, proceeding, or investigation.

4.10 Broker's Fees. No agent, broker or other person is or may be entitled to a commission or finder's fee in connection with the transactions contemplated by this Agreement, or is or may be entitled to make any claim against Hanley or Quanterra Partnership or against St. Mary or any of its subsidiaries or affiliates as a result of any actions by St. Mary. St. Mary shall indemnify Hanley against any claim for any such commission or finder's fee made by any agent, broker or other person as a result of any actions by St. Mary.

4.11 No Misstatements or Omissions. No representation or warranty made in this Agreement by St. Mary is false or misleading as to any material fact or omits to state a material fact required to make any of such information not misleading in any material respect. In addition, all other information made available by St. Mary to Hanley, whether in oral, written or any other form, is true and correct to the Knowledge of St. Mary, and such information is not false or misleading as to any material fact. To the knowledge of St. Mary, the foregoing representations, warranties and information, together with the SEC Documents, constitute full disclosure of all material facts with respect to the business, assets and liabilities of St. Mary.

ARTICLE 5
DELIVERIES

5.01 Deliveries by Hanley. At the Closing, in addition to any other documents required to be delivered under the terms of this Agreement, Hanley shall deliver the following:

(a) A certificate of Hanley dated as of Closing, certifying that any consents and approvals referred to in Section 3.09, which are obtainable prior to Closing, have been obtained, together with copies of such consents and approvals.

(b) A copy of the Quanterra Partnership Limited Partnership Agreement and Limited Partnership Certificate.

(c) If available, a certificate dated not earlier than seven calendar days prior to Closing of the Secretary of State of Montana as to the valid existence of Quanterra Partnership.

(d) If available, certificates of authority dated during 1999 of the Secretary of State of each of the states in which Quanterra Partnership is qualified to do business, as to the due qualification or license of Quanterra Partnership as a foreign limited partnership in such state.

(e) The opinion of Crowley, Haughey, Hanson, Toole & Dietrich, PLLP, counsel to Quanterra Partnership and Hanley, substantially in the form of Exhibit 5.01(e) hereto.

(f) Hanley shall deliver to St. Mary Uniform Commercial Code financing statement searches for the State of Montana and any other state in which Quanterra Partnership does business, dated within 15 calendar days prior to the date of Closing, showing that there are no security interests, judgments, taxes, other liens or encumbrances outstanding against Quanterra Partnership or its assets, or against Hanley.

5.02 Deliveries by St. Mary. At the Closing, in addition to any other documents required to be delivered under the terms of this Agreement, St. Mary shall have delivered or will deliver the following:

(a) A certificate of the President or a Vice President of St. Mary, dated as of Closing, certifying that any consents and approvals referred to in

Section 4.08 have been obtained, together with copies of such consents and approvals.

(b) A copy of the Certificate of Incorporation of St. Mary,

certified as of a recent date by the Secretary of State of Delaware.

(c) A copy of the By-Laws of St. Mary, including all amendments thereto, certified by the Secretary or an Assistant Secretary of St. Mary.

(d) A Certificate, dated as of a recent date of the Secretary of State of Delaware as to the valid existence and good standing of St. Mary.

(e) Resolutions adopted by the Board of Directors of St. Mary authorizing this Agreement and the transactions contemplated hereby, certified by the Secretary or an Assistant Secretary of St. Mary.

(f) The opinion of the law firm Ballard Spahr Andrews & Ingersoll, LLP, counsel to St. Mary, substantially in the form of Exhibit 5.02(f) hereto.

ARTICLE 6
INDEMNIFICATION

6.01 Survival of Representations, Warranties and Covenants. Without affecting the validity or applicability of the indemnification provisions set forth in Sections 6.02 and 6.03 of this Agreement, the representations, warranties, and covenants of Hanley and St. Mary contained in this Agreement shall survive the Closing and remain in full force and effect until one year after the Closing except that such representations and warranties shall remain in full force and effect until two years after the Closing with respect to any breach thereof resulting in or otherwise involving a claim by a third party against St. Mary, Hanley, or Quanterra Partnership (a "Third Party Claim").

6.02 Indemnification By and On Behalf of Hanley. Subject to the provisions of Section 6.05, Hanley agrees to defend, indemnify and hold St. Mary harmless from and against any and all losses, liabilities, damages, costs or expenses (including reasonable attorneys' fees, penalties, and interest) payable to or for the benefit of, or asserted by, any party, resulting from, arising out of, or incurred as a result of:

(a) the breach of any representation and/or warranty made by Hanley herein; or (b) any claim, whether made before or after the date of this Agreement, or any litigation, proceeding or governmental investigation, whether

commenced before or after the date of this Agreement, arising out of the businesses of Quanterra Partnership prior to the Closing, or otherwise arising out of any act or occurrence prior to, or any condition or facts existing as of, Closing, regardless of whether or not referred to on a Schedule to this Agreement or otherwise disclosed or known to St. Mary as of Closing. No claim by St. Mary for indemnification by Hanley shall be made after one year has elapsed following the Closing except that a claim for indemnification may be made by St. Mary with respect to a Third Party Claim until two years has elapsed following the Closing.

The indemnification obligation of Hanley set forth above shall be limited to 49.5% of any amounts attributable to Quanterra Partnership with respect to interests or activities of it.

6.03 Indemnification by St. Mary. Subject to the provisions of Section 6.05, St. Mary agrees to defend, indemnify and hold Hanley harmless from and against any and all losses, liabilities, damages, costs, or expenses (including reasonable attorneys' fees, penalties and interest) payable to or for the benefit of, or asserted by, any party, resulting from, arising out of, or incurred as a result of the breach of any representation and/or warranty made by St. Mary herein or in accordance herewith. No claim by Hanley for indemnification by St. Mary shall be made after one year has elapsed following the Closing except that a claim for indemnification may be made by Hanley with respect to a Third Party Claim until two years has elapsed following the Closing.

6.04 Notice of Claims. Hanley and St. Mary shall give prompt written notice to each other of any claim by any party which might give rise to a claim by Hanley or St. Mary against the other based upon the indemnity provisions contained herein, stating the nature and basis of the claim and the actual or estimated amount thereof; provided, however, that failure to give such notice will not affect the obligation of the indemnifying party to provide indemnification in accordance with the provisions of this Article 6 unless, and only to the extent that, such indemnifying party is actually prejudiced thereby. In the event that any action, suit or proceeding is brought by a third party against Hanley or St. Mary with respect to which the other party may have liability under the indemnification provisions contained herein, the indemnifying party shall have the right, at its sole cost and expense, to defend such action in the name or on behalf of the indemnified party and, in connection with any such action, suit or proceeding, the parties hereto agree to render to each other such assistance as may reasonably be required in order to ensure the proper and adequate defense of any such action, suit or proceeding; provided further, however, that an indemnified party shall have the right to retain its

own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the

counsel retained by the indemnifying party would be inappropriate because of actual or potential differing interests between such indemnified party and any other party represented by such counsel. Neither party hereto shall make any settlement of any claim which might give rise to liability of the other party under the indemnification provisions contained herein without the written consent of such other party, which consent such other party covenants shall not be unreasonably withheld.

6.05 Limitation of Liability. Notwithstanding the provisions of this Article 6, neither Hanley nor St. Mary shall have any liability to the other with respect to any matter which liability does not exceed $50,000 as to any single liability or $100,000 as to liabilities in the aggregate irrespective of their single size except that such limitations shall not apply to any Third Party Claim. In the event of any liability of Hanley for indemnification, St. Mary may elect to cause such liability to be satisfied in part or in whole by reducing the St. Mary Stock issued to Hanley by the number of shares (rounded to the nearest whole number) equal to the amount of Hanley's liability based on the published closing price for a share of St. Mary Stock on the day such liability is quantified, and the certificates of St. Mary Stock issued to Hanley shall bear a legend to that effect.

ARTICLE 7
SHARE RESTRICTIONS

7.01 Restricted Shares. Hanley hereby agrees that during the period beginning on the Closing and, subject to Section 7.05, ending on the date which is three years after the date hereof, Hanley will not sell, assign, transfer, pledge, hypothecate, encumber or otherwise dispose of ("Transfer") any shares of St. Mary Stock received as part of the Consideration (the "Restricted Shares"), other than in accordance with the terms of this Article 7 or as otherwise agreed by St. Mary in writing in its sole discretion, and any such purported Transfer shall be void, except that Hanley may make a Permitted Transfer (as hereinafter defined), if and only if the transferee in such Permitted Transfer ("Permitted Transferee") executes and delivers a written agreement to the effect that the Restricted Shares transferred to such Permitted Transferee shall be bound by the terms of this Article 7 as if such Permitted Transferee were an original party hereto.

7.02 Permitted Transfer. For purposes of this Article 7, a "Permitted Transfer" of Restricted Shares by Hanley is (i) any bona fide gift of such Restricted Shares by Hanley, including a charitable gift, (ii) any transfer of such Restricted Shares by Hanley to a trustee for the benefit of Hanley or the Hanley's ancestors, descendants or spouse, or (iii) any transfer of such Restricted Shares

by Hanley to the Hanley's executors, administrators or legal representatives, heirs or devisees pursuant to the laws of descent and distribution.

7.03 Restrictive Legends; Stop Orders. The certificate or certificates representing Restricted Shares issued to Hanley or any Permitted Transferee shall bear an appropriate legend referring to the restrictions on Transfer contained in this Article 7 (together with the legends referred to in Section 3.23 and Section 6.05 hereof) shall be endorsed with substantially the following legend in addition to any other legend which may appear on such certificate or certificates:

> THE SALE, ASSIGNMENT, TRANSFER, PLEDGE, HYPOTECATION, ENCUMBRANCE OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS OF A PURCHASE AND SALE AGREEMENT DATED JUNE 1, 1999, BETWEEN ST. MARY LAND & EXPLORATION COMPANY AND ROBERT T. HANLEY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF THIS CERTIFICATE TO THE SECRETARY OF ST. MARY LAND & EXPLORATION COMPANY.

To assure compliance with the terms of this Agreement, St. Mary shall also be permitted to deliver appropriate "stop transfer" instructions covering certificates representing Restricted Shares to any transfer agent or registrar of the shares of St. Mary Stock.

7.04 Termination of Restrictions. Any provision of this Agreement to the contrary notwithstanding, the restrictions on Transfer contained in this Article 7 shall expire three years after the date hereof. The restrictions contained herein shall expire with respect to the Restricted Shares held by Hanley in proportion to his respective ownership of shares of St. Mary Stock on the date hereof.

7.05 Removal of Legends. Whenever the restrictions imposed by this Article 7 shall terminate by reason of the passage of time and the Restricted Shares are transferable pursuant to Rule 144(k) under the Securities Act or other available exemption from the registration requirements of the Securities Act, each holder of Restricted Shares shall be entitled to receive from St. Mary, without cost or expense, a new certificate representing such Restricted Shares not bearing the legends set forth in Section 7.03 and Section 3.23 upon receipt of an opinion of counsel reasonably satisfactory to St. Mary that such restrictions have terminated in accordance with their terms and that such Restricted Shares

are transferable without registration under the Securities Act pursuant to Rule 144(k) under the Securities Act or other available exemption from the registration requirements of the Securities Act.

7.06 Voting Rights. The holder or holders of Restricted Shares shall retain the full right to vote or to execute and deliver a proxy to vote Restricted Shares on any matter submitted to holders of St. Mary Stock.

ARTICLE 8
GENERAL PROVISIONS

8.01 Expenses. Except as otherwise expressly provided herein, each party to this Agreement shall pay its or his own expenses (including, without limitation, the fees and expenses of its or his agents, representatives, counsel, and accountants) incurred in connection with the negotiation, drafting, execution, delivery and performance of this Agreement and the transactions contemplated hereby.

8.02 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Hanley and St. Mary and their respective heirs, personal representatives, successors, representatives and assigns.

8.03 Waiver. No provision of this Agreement shall be deemed waived by course of conduct, including the act of closing, unless such waiver is made in writing signed by all then existing or surviving parties hereto, stating that it is intended specifically to modify this Agreement, nor shall any course of conduct operate or be construed as a waiver of any subsequent breach of this Agreement, whether of a similar or dissimilar nature.

8.04 Entire Agreement. This Agreement (together with the Schedules and Exhibits hereto) supersedes any other agreement, whether written or oral, that may have been made or entered into by St. Mary or by Hanley relating to the matters contemplated hereby. This Agreement (together with the Schedules and Exhibits hereto) constitutes the entire agreement between the parties and there are no agreements or commitments except as expressly set forth herein.

8.05 Further Assurances. Each of the parties hereto agrees to execute all further documents and instruments and to take or to cause to be taken all reasonable actions which are necessary or appropriate to complete the transactions contemplated by this Agreement.

8.06 Notices. All notices, demands, requests, and other communications hereunder shall be in writing and shall be deemed to have been duly given and shall be effective upon receipt if delivered by hand, or sent by certified or registered United States mail, postage prepaid and return receipt requested, or by prepaid overnight express service or facsimile transmission (with receipt confirmed). Notices shall be sent to the parties to the following addresses (or at such other addresses for a party as shall be specified by like notice; provided that such notice shall be effective only upon receipt thereof):

If to Hanley:

Robert T. Hanley
550 N. 31st Street, Suite 500
Billings, MT 59101
Telephone: 406-245-6248
Facsimile: 406-245-9106

with a copy (which shall not constitute notice) to:

Myles J. Thomas
Crowley Haughey Hanson Toole & Dietrich
490 North 31st Street, Suite 500
Billings, Montana 59103
Telephone: 406-252-3441
Facsimile: 406-259-4159

If to St. Mary:

St. Mary Land & Exploration Company
1776 Lincoln Street, Suite 1100
Denver, Colorado 80203
Telephone: 303-861-8140
Facsimile: 303-863-1040
Attention: Milam Randolph Pharo

8.07 Amendments, Supplements, Etc. This Agreement may be amended or modified only by a written instrument executed by all parties hereto which states specifically that it is intended to amend or modify this Agreement.

8.08 Severability. In the event that any provision contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other

provision hereof and this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had never been contained herein and, in lieu of each such illegal, invalid or unenforceable provision, there shall be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible but still be legal, valid and enforceable.

8.09 Governing Law. This Agreement and its interpretation shall be governed by the laws of the State of Colorado.

8.10. Counterpart Execution. This Agreement may be executed in counterparts and each counterpart shall constitute a binding agreement as if the parties had executed a single document. The parties agree that such counterpart execution may be evidenced by a facsimile transmission of the execution page for each such party, and such facsimile execution shall constitute a binding execution by such party. At or after Closing, the parties agree that a sufficient number of original counterpart executions will be obtained and affixed to this Agreement so that each party will have an originally executed Agreement.

/s/ Robert T. Hanley

Robert T. Hanley

ST. MARY LAND & EXPLORATION COMPANY

By: /s/ Mark A. Hellerstein

Mark A. Hellerstein, President

LIST OF SCHEDULES

_____ Schedule 1.01(3) - Consideration - Shares of St. Mary Stock used as Consideration

_____ Schedule 2.01 - Acquisition of Hanley Partnership Interest in Quanterra Partnership - Assignment from Hanley to St. Mary

_____ Schedule 3.04 - Organization Existence - Jurisdictions where Quanterra Partnership is qualified to do business; names and addresses of registered agents in such jurisdictions; and names under which Quanterra Partnership has conducted or purported to conduct business since date of incorporation

_____ Schedule 3.08 - No Adverse Effects or Changes - Quanterra Partnership

_____ Schedule 3.08(e) - List, if any, of any disposition of any material assets, properties or rights, or canceled or terminated, or agreed to cancel or terminate any debts or claims other accounts receivable write-offs and writedowns in the ordinary course of business (since December 31, 1998)

_____ Schedule 3.08(h) - List, if any, of any accrual or arrangement for or payment of any bonus or special compensation or severance or termination pay to any present or former officer, director, or executive employee (since December 31, 1998)

_____ Schedule 3.09 - Third Party and Governmental Consents - List, if any, of the Third Party and Governmental Consents required on the

part of Hanley or Panterra Partnership

_____ Schedule 3.10 - Real and Personal Property

_____ Schedule 3.10(a) - Oil and Gas Leases and Wells List of oil and gas leases in which Quanterra Partnership is a party

_____ Schedule 3.10(b) - Personal Property - List, if any, of any outstanding options, warrants, commitments,

agreements or any other right against any of the personal property (other than St. Mary)

_____ Schedule 3.11 - Accounts and Notes Receivable - List of Quanterra Partnership's accounts and notes receivables as of December 31, 1998

_____ Aging report setting forth all accounts receivables (other than intercompany receivables)

_____ Identify any asset holding a security interest to secure payment of the underlying indebtedness

_____ Description of the nature and amount of any lien on or security interest in such accounts and notes receivable

_____ Identify accounts receivable on Schedule 3.13 which have been collected in their entirety since December 31, 1998.

_____ Schedule 3.12 - Accounts Payables and Promissory Notes Quanterra Partnership. List of:

_____ Accounts payable as of December 31, 1998 with appropriate aging report

_____ Long-term and short-term promissory notes, installment contracts, loan agreements, and credit agreements

_____ Indentures, mortgages, security agreements, pledges, etc.

_____ Identify accounts payable on Schedule 3.13 which have been fully or partially paid since December 31, 1998.

_____ Schedule 3.13 - Bonds and Insurance

_____ List of all insurance policies and bonds. List should include (i) insurer and agent; (ii) amount of coverage; (iii) premium dates; and (iv) expiration dates, if any.

_____ List, if any, of any facts or circumstances under which claims for uninsured losses or damages are likely to be asserted against Quanterra Partnership in excess of $10,000 or pending claims against Quanterra Partnership

_____ Schedule 3.14 - Bank Accounts - List of (i) names of banks or financial institutions where Quanterra Partnership has banks accounts and safety deposit boxes (ii) names of persons authorized to draw on account or access the safety deposit box; and (iii) names of persons other than officers who are authorized to incur liabilities for borrowed funds

_____ Schedule 3.17 - Permits - List of all federal, state or local regulatory or governmental authority permits

_____ Schedule 3.18 - Taxes - List, if any, of audited Tax reports

_____ Schedule 3.21 - Environmental Matters

_____ Schedule 3.25 - Tax Reports - Copies of tax reports filed by Quanterra Partnership for the past two years including 1998

_____ Schedule 4.05 - Capital Stock of St. Mary - List, if any, of outstanding equity securities, options, warrants, rights, call, commitments, conversion rights, rights of exchange, plans or other agreements of any character provided for the purchase, issuance or sale of any shares of capital stock of St. Mary (other than contemplated in this Agreement)

_____ Schedule 4.08 - Third Party and Governmental Consents - List, if any, of the Third Party and Governmental Consents required on the part of St. Mary

_____ Exhibit 5.01(e) - Form opinion letter from Quanterra Partnership and Hanley counsel

_____ Exhibit 5.02(g) - Form opinion letter from St. Mary counsel

DELIVERIES BY ST. MARY

_____ 1. A certificate from the President or a Vice President dated the date of Closing, certifying that any third party or governmental consents and approvals have been obtained, together with copies of such consents and approvals.

_____ 2. A copy of STML&EC Certificate of Incorporation (recent date) from Secretary of State of Delaware.

_____ 3. A copy of the By-Laws of St. Mary, including all amendments thereto certified by the Secretary or an Assistant Secretary of St. Mary.

_____ 4. A Certificate of Good Standing for STML&E (recent date) from Secretary of State of Delaware

_____ 5. STML&EC Resolutions adopted by the Board of Directors of authorizing transaction

_____ 6. Opinion letter from Ballard Spahr Andrews & Ingersoll, LLP

CONDITIONS BY QUANTERRA PARTNERSHIP

_____ 1. A certificate (dated as of Closing) regarding consents and approvals, together with copies of such consents and approvals

_____ 2. Copy of Panterra Partnership Limited Partnership Agreement

_____ 3. Certificate from the Montana Secretary of State (dated within seven calendar days prior to Closing) as to the valid existence of Quanterra Partnership.

_____ 4. Certificates of Authority dated during 1999 from the Secretary of State of each of the states in which Quanterra Partnership is qualified to do business

_____ 5. Opinion letter from Crowley, Haughey, Hanson, Toole & Dietrich, PLLP

_____ 6. Uniform Commercial Code financing statement searches for the State of Montana and any other state in which Quanterra Partnership or the Affiliate do business (dated within 15 calendar days prior to the date of the Closing)

EXHIBIT 10.29

STOCK EXCHANGE AGREEMENT

This Stock Exchange Agreement (the "Agreement") dated the 1st day of June, 1999, is by and between ST. MARY LAND & EXPLORATION COMPANY, a Delaware corporation ("St. Mary"), and ROBERT L. NANCE and ROBERT T. HANLEY, all of whom are together referred to herein as the "Stockholders" and who own all of the capital stock of QUANTERRA ENERGY CORPORATION, a Montana corporation ("Quanterra").

WHEREAS, St. Mary desires to acquire all of the capital stock of Quanterra from the Stockholders in exchange for shares of the common stock, par value of $0.01 per share, of St. Mary ("St. Mary Stock") as hereinafter provided, and the Stockholders desire to effect such exchange; and

WHEREAS, St. Mary and the Stockholders desire that the transactions provided for herein shall qualify as a reorganization pursuant to Section 368(a)(1)(B) of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE 1
DEFINITIONS; HEADINGS

1.01 Defined Terms. As used in this Agreement, terms defined in the preamble and recitals of this Agreement have the meanings set forth therein, and the following terms have the meanings set forth below:

(1) "Affiliate" means Quanterra Alpha Limited Partnership as subsequently defined.

(2) "Closing" has the meaning ascribed to such term in Section 2.03.

(3) "Code" means the Internal Revenue Code of 1986, as amended.

(4) "Consideration" means those shares of St. Mary Stock set forth on Schedule 1.01(4) which have been calculated in accordance with the methodology set forth in that certain letter dated March 2, 1999, from St. Mary to Robert L. Nance, as amended by oral understanding which provides for the use of a five year NYMEX strip pricing run as opposed to the two year NYMEX price strip stated in the letter. This letter provides that the number of shares of St. Mary Stock that the Shareholders shall receive is based on a proportionate net asset value comparison of St. Mary with Quanterra. This comparison is expressed by using a formula wherein X (the number of shares of St. Mary Stock that the Stockholders are to receive) is the numerator of a fraction and the number of shares of St. Mary Stock issued and outstanding is the denominator of the fraction, and such fraction equals a fraction in which the numerator is the net asset value of Quanterra and the denominator is the net asset value of St. Mary. Net asset value has been determined in accordance with the above referenced letter subject to the referenced amended hydrocarbon pricing.

(5) "Environmental Laws" mean all federal, state and local rules and regulations relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

(6) "GAAP" means generally accepted accounting principles consistently applied.

(7) "Governmental Authority" means any federal, state, or local court, arbitration tribunal or governmental department, board, commission, bureau, agency, authority or instrumentality.

(8) "Hazardous Materials" mean (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is friable, urea-formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls (PCBs); (b) any chemicals, materials or substances which are now defined as or included in the definition of

"hazardous substances," "hazardous wastes," "hazardous materials,"

"extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," or words of similar import, under any Environmental Law; (c) naturally occurring radioactive material (NORM); and (d) any other chemical, material, substance or waste, exposure to which is prohibited, limited or regulated by any Governmental Authority in a jurisdiction in which Quanterra operates.

(9) "Knowledge" as used (i) with respect to St. Mary shall mean those facts that are actually known or should reasonably have been or become known in the ordinary course of business by the officers of St. Mary, taking into account the scope and nature of such officers' responsibilities, and (ii) with respect to the Stockholders shall mean facts that are actually known or should reasonably have been or become known to either of the Stockholders in the ordinary course of business, taking into account the scope and nature of the Stockholders' involvement in the operation of Quanterra or Quanterra Partnership.

(10) "Laws" mean all (i) federal, state, or local or foreign laws, rules and regulations, (ii) orders, (iii) Permits, and (iv) agreements with federal, state, local, or foreign regulatory authorities to which the Stockholders, Quanterra, Quanterra Partnership, or St. Mary, as the case may be, is a party or by which any of them or their property is bound.

(11) "Liens" mean all liens, liabilities, claims, security interests, mortgages, pledges, agreements, obligations, restrictions, or other encumbrances of any nature whatsoever, whether absolute, legal, equitable, accrued, contingent or otherwise, including, without limitation, any rights of first refusal.

(12) "1933 Act" means the Securities Act of 1933, as amended.

(13) "1934 Act" means the Securities Exchange Act of 1934, as amended.

(14) "Quanterra Financial Statements" mean the unaudited financial statements of Quanterra for each of its past two fiscal years, December 31, 1997, and December 31, 1998.

(15) "Quanterra Stock" means all of the issued and outstanding shares of all common stock of Quanterra.

(16) "NASDAQ" means National Association of Securities Dealers Automated Quotations System.

(17) "Permits" mean all permits, licenses, franchises, orders, certificates and approvals.

(18) "Quanterra Partnership" means Quanterra Alpha Limited Partnership for which Quanterra Corporation, Nance Petroleum Corporation and Robert T. Hanley are the partners.

(19) "Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment.

(20) "SEC" means the United States Securities and Exchange Commission.

(21) "SEC Documents" mean all registration statements, proxy statements, periodic reports and schedules filed by St. Mary with the SEC under the Securities Laws.

(22) "Securities Laws" mean the 1933 Act, the 1934 Act, the Investment Company of Act of 1940, as amended, the Trust Indenture Act of 1939, as amended, and the rules and regulations of the SEC promulgated thereunder.

(23) "Taxes" mean any taxes or other governmental charges or assessments of whatever kind or nature imposed by the United States, by any other nation or by any state, county, municipality or governmental subdivision, including without limitation, any income, franchise or any other similar taxes based on or measured by income or otherwise, any sales or use taxes, property, employment and employer withholdings, unemployment, social security, occupational, customs, excise or other taxes, together with any interest or penalties relating thereto.

(24) "Tax Reports" mean all returns or reports required to be filed relating to the federal and state income tax filings of Quanterra and its Affiliate.

1.02 Other Definitional Provisions. Wherever the context so requires, words used herein in the masculine gender shall be deemed to include the feminine and neuter. A definition of any term shall be equally applicable to both the singular and plural forms of the term defined.

1.03 Titles; Headings. All titles and headings appearing in this Agreement are for identification only and are not to be used for interpretive purposes.

ARTICLE 2
EXCHANGE OF STOCK; CLOSING

2.01 Acquisition of Quanterra Stock. Subject to the terms and conditions herein stated, the Stockholders agree to assign, transfer and deliver to St. Mary at Closing, and St. Mary agrees to acquire from the Stockholders at Closing, all of the issued and outstanding Quanterra Stock. The certificates representing the Quanterra Stock shall be duly endorsed in blank by the Stockholders. The Stockholders agree to cure any deficiencies with respect to the endorsement of the certificates representing the Quanterra Stock.

2.02 Exchange of Shares. At Closing, the Stockholders shall surrender the certificate or certificates representing all the issued and outstanding Quanterra Stock in exchange for certificates of St. Mary Stock issued in the name of the Stockholders in the amount of the Consideration. The Stockholders shall receive their certificates for the St. Mary Stock issued as the Consideration as set forth on Schedule 2.02 attached hereto.

2.03 Closing. The closing of the transaction provided for herein (the "Closing") shall take place at the offices of Nance Petroleum Corporation in Billings, Montana, on June 1, 1999, at 10:00 a.m., local time.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF THE STOCKHOLDERS

The Stockholders represent and warrant to St. Mary as follows:

3.01 Ownership of Shares. The Stockholders are the lawful sole owners, beneficially and of record, of all of the issued and outstanding shares of

Quanterra Stock and such stock is free and clear of all Liens. The ownership of Quanterra Stock by the Stockholders is as set forth in Schedule 3.01 hereto.

3.02 Stockholders' Due Execution, Enforceability Against Stockholders. This Agreement has been duly executed and delivered by the Stockholders and is a valid and binding obligation of the Stockholders, enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application referring to or affecting enforcement of creditors' rights and general principles of equity. The execution, delivery and performance of this Agreement by the Stockholders will not violate or conflict with any agreement, instrument, judgment or decree to which the Stockholders, Quanterra or any Affiliate is a party or is subject.

3.03 Stockholders' Capacity. The Stockholders have full legal right, power, authority and capacity to execute, deliver and perform their obligations under this Agreement to consummate the transactions contemplated hereunder or thereunder.

3.04 Organization Existence. Quanterra is a corporation duly organized and validly existing under the laws of Montana with all requisite corporate power and authority to own, operate and lease its properties and assets and to carry on its business as now being conducted. Quanterra is duly qualified to do business and is in good standing in each jurisdiction where the conduct of its business or the ownership of its property requires such qualification. The jurisdictions in which Quanterra is qualified to do business, and the names and addresses of Quanterra's registered agents in such jurisdictions, are set forth on Schedule 3.04 hereto. Schedule 3.04 hereto sets forth all names under which Quanterra has conducted or purported to conduct business since the date of its incorporation.

3.05 Capital Stock. Quanterra has an authorized capitalization consisting solely of 50,000 shares of common stock no par value of which 2,000 shares are issued and outstanding. Other than the Quanterra Stock, there is no class or series of equity of Quanterra authorized, issued or outstanding. All such outstanding shares of Quanterra Stock have been duly authorized and validly issued and are fully paid and nonassessable. There are no outstanding options, warrants, rights, calls, commitments, conversions rights, rights of exchange, plans or other agreements of any character providing for the purchase, issuance or sale of any shares of any equity security of Quanterra, including any Quanterra Stock, other than as contemplated by this Agreement.

3.06 Subsidiaries. Except as set forth in Schedule 3.06 hereto, Quanterra does not have any subsidiaries or hold any equity or ownership interest of any kind, whether beneficially or of record, in any corporation, partnership, liability company, joint venture, or other enterprise or entity of any nature whatsoever.

3.07 No Restrictions Against Performance. Neither the execution, delivery nor performance of this Agreement, nor the consummation of the transactions contemplated in this Agreement will, with or without the giving of notice or the passage of time, or both, violate any provisions of, conflict with, result in a breach of, constitute a default under, or result in the creation or imposition of any Lien or adverse condition under:

(a) the Articles of Incorporation and By-Laws of Quanterra;

(b) any Law which is applicable to Quanterra or its Affiliate or any of their properties or assets;

(c) any contract, indenture, instrument, agreement, mortgage, lease, right, or other obligation or restriction to which Quanterra or its Affiliate is a party or by which Quanterra or its Affiliate or any of their properties or assets is or may be bound; or

(d) any order, judgment, writ, injunction, decree, license, franchise, permit or other authorization of any Governmental Authority by which either Quanterra or its Affiliate or any of their properties or assets is or may be bound or by which the Stockholders may be bound.

3.08 Historical Financial Information. The Quanterra Financial Statements, true and complete copies of which have been previously delivered to St. Mary present fairly the financial position, assets and liabilities of Quanterra as of the dates thereof and the revenues, expenses, results of operations and cash flows of Quanterra for the periods covered thereby, on a tax basis with adjustments made in accordance with GAAP so that the net asset value of Quanterra can be determined and reasonably compared with the net asset value of St. Mary. The Quanterra Financial Statements are in accordance with the books and records of Quanterra and do not reflect any transactions which are not bona fide transactions. The books and records of Quanterra have been maintained in accordance with applicable laws, rules and regulations, and in the ordinary course of business. To the best of Stockholders' Knowledge, the accounts and notes receivable of Quanterra reflected in the Quanterra Financial Statements are valid, existing and genuine and represent sales actually made or services actually delivered by Quanterra in bona fide transactions in the ordinary

course of business consistent with past practice and there is no material right of setoff or counterclaim or threat thereof that would jeopardize the collectability of such accounts and notes receivable at the aggregate recorded amounts thereof. The Stockholders have no Knowledge of any material difference that would arise if the Quanterra Financial Statements were prepared in accordance with GAAP as opposed to being prepared on a tax basis with the GAAP-type adjustments that have been made.

3.09 No Undisclosed Liabilities. To the best of Stockholders' Knowledge, no basis exists on the date hereof for assertions against Quanterra of any material claim or liability of any nature other than (i) those which have been disclosed in the Quanterra Financial Statements, or (ii) have been incurred in the ordinary course of the business of Quanterra since December 31, 1998 and which do not constitute a breach of the representation and warranty set forth in Section 3.10. For purposes of this Section 3.09, a claim or liability shall be deemed to be "material" if it involves an amount in excess of $5,000, individually or in the aggregate, as the context requires.

3.10 No Adverse Effects or Changes. Since December 31, 1998, Stockholders are not aware of any event involving either Quanterra or its Affiliate that has had a material adverse effect on their businesses or their assets. Except as listed on Schedule 3.10, since December 31, 1998, neither Quanterra nor its Affiliate has:

(a) made any change in its authorized capital, outstanding securities or in the capital accounts of Quanterra Partnership;

(b) borrowed or agreed to borrow any funds, guaranteed the repayment of any indebtedness or incurred any other contingent financial obligations, except borrowings incurred in the ordinary course of its business in accordance with its past practices;

(c) satisfied any obligation or liability (absolute or contingent), other than obligations and liabilities incurred in the ordinary course of its business in accordance with its past practices;

(d) declared or made, or agreed to declare or make, any payment of

dividends or distributions of any assets of any kind whatsoever in respect of its capital stock, or purchased, redeemed or otherwise acquired, or agreed to purchase, redeem or otherwise acquire, any of its outstanding capital stock;

(e) except as set forth on Schedule 3.10(e), sold, transferred or otherwise disposed of, or agreed to sell transfer or otherwise dispose of, any material assets, properties or rights, except inventory and equipment in the ordinary course of its business in accordance with its past practices, or canceled or otherwise terminated, or agreed to cancel or otherwise terminate, any debts or claims other than accounts receivable write-offs and writedowns in the ordinary course of its business in accordance with its past practices;

(f) other than in the ordinary course of business in accordance with its past practices, entered, or agreed to enter, into any agreement or arrangements to sell any of its assets, properties or rights, including inventories and equipment;

(g) made or permitted any amendment or termination of any material contract, agreement, permit or license to which it is a party or by which it or any of its properties are bound;

(h) except as set forth on Schedule 3.10(h), made, directly or indirectly, any accrual or arrangement for or payment of any bonuses or special compensation of any kind or any severance or termination pay to any present or former officer, director or executive employee;

(i) incurred, or become subject to, any uninsured claim or liability for any material damages for any negligence or other tort or breach of contract;

(j) made any capital expenditures (or commitments therefor) which in the aggregate exceed $25,000;

(k) suffered any damages, destruction or casualty losses in excess of $5,000 as to any single occurrence or $25,000 in the aggregate;

(l) entered into any other material transaction other than in the ordinary course of its business in accordance with its past practices; or

(m) suffered any material adverse change in condition of or title to any of its assets except depletion through normal production within authorized allowables, ordinary changes in rates of production, and depreciation of equipment through ordinary wear and tear.

3.11 Third-Party and Governmental Consents. Except as set forth in Schedule 3.11 hereto, no approval, consent, waiver, order or authorization of, or registration, qualification, declaration, or filing with, or notice to, any

Governmental Authority or other third party is required on the part of the Stockholders, Quanterra or its Affiliate in connection with the execution and delivery of this Agreement by the Stockholders or the consummation of the transactions contemplated hereby. All of the consents and approvals set forth on Schedule 3.11 have been obtained.

3.12 Real and Personal Property

(a) Oil and Gas Leases and Wells. Schedule 3.12(a) sets forth a true, correct and complete list of all oil and gas leases and wells in which either Quanterra or its Affiliate is a party, whether as lessor, lessee, or the owner of any non-cost bearing interest. The interests of either Quanterra or its Affiliate in all leases listed on such Schedule are valid and subsisting and in full force and effect, and all rentals and other payments now due have been paid. Quanterra and its Affiliate enjoy and are in peaceful and undisturbed possession as to their respective ownership share under each lease so listed in which it is a lessee. Neither Quanterra nor its Affiliate have received any notice of, and to the Knowledge of the Stockholders, there does not exist, any event of default or event, occurrence or act which, with the giving of notice or the lapse of time or both, would become a default under any such lease, and neither Quanterra nor its Affiliate have violated any of the terms or conditions under any such lease in any material respect. The real property under the leases referred to in Schedule 3.12(a) is free from material physical defects. Such real property and the fixtures, equipment, and other property attached, situated or appurtenant thereto are in good operating condition and repair, in compliance with all applicable Laws and are adequate and suitable for the purposes for which they are presently being used, except for such matters which in the aggregate would not have a material adverse effect on the business of Quanterra or its Affiliate.

(b) Personal Property. Except as otherwise identified on Schedule 3.12(b) hereto, Quanterra has good, valid, marketable, legal and beneficial

title to all of its personal property, free and clear of all Liens. There are no outstanding options, warrants, commitments, agreements or any other rights of any character entitling any person or entity, other than St. Mary, to acquire any interest in all or any part of the personal property of Quanterra.

3.13 Accounts and Notes Receivable. Schedule 3.13 sets forth a list as of December 31, 1998, of all accounts and notes receivable of Quanterra and its Affiliate together with:

(a) an aging schedule setting forth all such accounts receivable (other than intercompany receivables)

(b) the identity of any asset in which Quanterra or its Affiliate holds a security interest to secure payment of the underlying indebtedness;

(c) a description of the nature and amount of any lien on or security interest in such accounts and notes receivable; and

(d) an identification of the accounts receivable on this Schedule 3.13 which have been collected in their entirety since December 31, 1998.

Except as specifically identified on Schedule 3.13, the Stockholders believe to the best of their Knowledge that the accounts and notes receivable itemized are collectible in the ordinary course of Quanterra's and its Affiliate's businesses.

3.14 Accounts Payables and Promissory Notes. Schedule 3.14 sets forth a list of:

(a) all accounts payable of Quanterra and its Affiliate as of December 31, 1998, together with an appropriate aging schedule;

(b) all long-term and short-term promissory notes, installment contracts, loan agreements and credit agreements to which Quanterra or its Affiliate is a party or to which any of their properties are subject;

(c) all indentures, mortgages, security agreements, pledges, and any other agreements, pledges, and any other agreements of Quanterra and its Affiliate relating thereto or with respect to collateral securing the same; and

(d) an identification of the accounts payable on Schedule 3.14 that have been fully or partially paid since December 31, 1998.

3.15 Insurance and Bonds.

(a) Schedule 3.15 sets forth a list of all insurance policies and bonds held by Quanterra including those covering its properties, buildings, equipment, fixtures, employees, and operations. Such list specifies with respect to each such policy:

(i) the insurer and agent;

(ii) the amount of coverage;

(iii) the dates of premiums or payments due thereunder; and

(b) the expiration date, as applicable.

Each such policy identified is currently in full force and effect. All insurance premiums due according to the applicable payment schedules reflected in such policies have been timely paid. Except as set forth on Schedule 3.15, there are no facts or circumstances known to the Stockholders or under which any claims for uninsured losses or damages are likely to be asserted against Quanterra in an amount in excess of $10,000 nor are there any such claims pending against Quanterra;

(c) the insurance policies currently maintained by Quanterra provide coverage believed by the Stockholders to be adequate for its properties, assets, products and operations;

(d) Quanterra has not requested cancellation of any material policy of insurance at any time during the previous two years;

(e) Quanterra has not sought and been denied any insurance coverage during the two-year period prior to the Closing Date. All bonds issued to secure performance of or payment by Quanterra under any material contract in progress or yet to be completed, including those contracts identified in Schedule 3.15, are in force and effect and are identified on Schedule 3.15. Neither Quanterra nor the Stockholders have made any representations or undertaken any other act

which would give rise to a viable claim that any such existing bond is invalid or unenforceable; there are no facts or circumstances under which the validity or enforceability by Quanterra of any such existing bond could be successfully challenged; and

(f) the transactions contemplated by this Agreement will have no adverse effect on any such existing bond.

3.16 Bank Accounts. Schedule 3.16 sets forth a list of (i) the name of each bank or other financial institution in which Quanterra or its Affiliate have an account or safe deposit box; (ii) the names of all person authorized to draw thereon or to have access thereto; and (iii) the names of all persons other than the officers of Quanterra and its Affiliate who are authorized to incur liabilities on behalf of Quanterra or its Affiliate for borrowed funds.

3.17 Compliance with Laws. To the best of Stockholders' Knowledge, Quanterra and its Affiliate have complied with and are not in default under any

Laws the violation of which could have a material adverse effect on their business, properties or assets.

3.18 Litigation. There is no judicial or administrative claim, action, suit or proceeding pending or, to the Knowledge of the Stockholders, threatened against or relating to the Stockholders, Quanterra, its Affiliate or the officers or directors of Quanterra or its Affiliate in their capacities as officers or directors, the business, properties or assets of Quanterra or its Affiliate or the transactions contemplated by this Agreement, including, but not limited to, actions or proceedings alleging any violation of any Environmental Law, before any federal, state, or local court, arbitration tribunal or Governmental Authority, which would, individually or in the aggregate, materially adversely affect the Stockholders, the business, properties or assets of Quanterra or its Affiliate, or the transactions contemplated by this Agreement and, to the Knowledge of the Stockholders, there does not exist any valid basis for any such claim, action, suit or proceeding. There are no claims, actions, suits, proceedings or investigations pending or, to the Knowledge of the Stockholders, threatened by or against the Stockholders, Quanterra or its Affiliate with respect to this Agreement, or in connection with the transactions contemplated hereby and the Stockholders have no reason to believe there exists a valid basis for any such claim, action, suit, proceeding or investigation.

3.19 Permits. Schedule 3.19 hereto sets forth a true, correct and complete list of all Permits of any federal, state or local regulatory or Governmental Authority relating to the business properties or assets of Quanterra and its Affiliate. The Permits constitute all permits, licenses, franchises, orders, certificates and approvals which are required for the lawful operation of the business, properties and assets of Quanterra and its Affiliate. Further, Quanterra or its Affiliate are in compliance in all material respects with all such Permits and own or have owned or had valid Permits to use all properties, tangible or intangible, necessary for the conduct of its business and the operation of its properties and assets in the manner in which they are now conducted and operated.

3.20 Taxes.

(a) All Tax Reports required to be filed by Quanterra and its Affiliate that are required to be filed on or prior to the Closing have been duly filed and are true, complete and accurate in all material respects. All Taxes owed with respect to the periods covered by such Tax Reports have been duly paid. Quanterra and its Affiliate have complied with all applicable laws, rules and regulations relating to the withholding and payment of Taxes and has timely

withheld and paid to the proper governmental authorities all amounts required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor or stockholder.

(b) There are no agreements, waivers or other arrangements providing for extension of time with respect to the assessment or collection of any Tax on Quanterra or its Affiliate. There are not any actions, suits, proceedings, investigations or claims now pending against Quanterra or its Affiliate in respect of unpaid Taxes, and there are no matters under discussion with any federal, state, county or local Governmental Authority relating to any amount of unpaid Taxes. Except as otherwise set forth on Schedule 3.20, the Tax Reports of Quanterra and its Affiliate have not been audited and are not in the process of being audited by the applicable taxing authorities, and there is no Tax deficiency outstanding, proposed or assessed against Quanterra or its Affiliate, and Quanterra and its Affiliate are not a party to any Tax allocation or Tax sharing agreement.

(c) Since its formation, Quanterra has elected and the Stockholders have consented for Quanterra to be treated as an S Corporation (within the meaning of Code Section 1361(a)) for federal income tax purposes. For all periods since commencing operations, Quanterra has qualified to be treated as an S Corporation for federal income tax purposes. Quanterra has also elected, and its Stockholders have consented, to be treated as an S Corporation for state income tax purposes for all years since its formation. Quanterra has filed all reports consistent with and necessary to maintain its S Corporation status for federal and state income tax purposes. Neither Quanterra nor Stockholders have revoked the S Corporation stature of Quanterra and neither Quanterra nor its Stockholders have done anything to cause a termination of such federal or state tax purposes.

3.21 Employee Benefit Plans and Employment Agreements. Quanterra for itself and its Affiliate has not entered into any employee benefit plan within the meaning of Section 3(3) of ERISA or any written or oral employment or consulting agreement, severance pay plan or agreement, employee relations policy (or practice, agreement, or arrangement), agreements with respect to leased or temporary employees, vacation plan or arrangement, sick pay plan, stock purchase plan, stock option plan, fringe benefit plan, incentive plan, bonus plan, cafeteria or flexible spending accounting plan or any deferred compensation agreement with any present or former employee of Quanterra or its Affiliate. Further, there are currently no employees of either Quanterra or its Affiliate.

3.22 Material Contracts. Quanterra had made available all contracts and arrangements, written, electronic, oral, or otherwise to which Quanterra or its Affiliate is a party or by which they are bound, or to which any of their assets or properties is subject.

3.23 Labor Matters. Quanterra has conducted, and currently is conducting its and its Affiliate business in full compliance with all Laws relating to employment and employment practices, terms and conditions of employment, wages and hours, and nondiscrimination in employment.

3.24 Environmental Matters. Except as set forth in Schedule 3.24:

(a) Quanterra and its Affiliate are currently in compliance in all material respects with all applicable Environmental Laws, have cured any past violations or alleged violations of Environmental Laws to the satisfaction of Governmental Authorities, are not currently in receipt of any notice of violation, are not currently in receipt of any notice of any potential liability for cleanup of Hazardous Materials and are not now subject to any investigation or information request by a Governmental Authority concerning Hazardous Materials or any Environmental Laws. To the Knowledge of the Stockholders, Quanterra and its Affiliate hold and are in compliance with all governmental permits, licenses, and authorizations necessary to operate those aspects of their businesses that relate to siting, wetlands, coastal zone management, air emission, discharges to surface or ground water, discharges to any sewer or septic system, noise emissions, solid waste disposal or the generation, use, transportation or other management of Hazardous Materials. Neither Quanterra nor its Affiliate has ever generated, manufactured, refined, recycled, discharged, emitted, released, buried, processed, produced, reclaimed, stored, treated, transported, or disposed of any Hazardous Materials except in compliance with all applicable Laws, including applicable Permit requirements;

(b) No assets of Quanterra or its Affiliate are subject to any Lien in favor of any person as a result of any Hazardous Material or response thereto;

(c) To the Knowledge of the Stockholders, all facilities where any person has treated, stored, disposed of, reclaimed, or recycled any Hazardous Material on behalf of Quanterra or its Affiliate are in compliance with Environmental Laws.

3.25 Minute Books and Charter Documents. All corporate records and books (including stock transfer ledgers) of Quanterra have been made available to St. Mary for its review.

3.26 Broker's Fees. No agent, broker or other person is or may be entitled to a commission or finder's fee in connection with the transactions contemplated by this Agreement, or is or may be entitled to make any claim against Quanterra or against St. Mary as a result of any actions by the Stockholders or Quanterra. The Stockholders shall indemnify St. Mary against any claim for any such commission or finder's fee made by any agent, broker or other person as a result of any actions by the Stockholders or Quanterra.

3.27 Investment Representation. Each of the Stockholders acknowledges that the issuance to him by St. Mary of the shares of St. Mary Stock constituting the Consideration pursuant to this Agreement has not been registered under the 1933

Act or any state securities law, and that such St. Mary Stock may not be sold or transferred other than pursuant to an effective registration statement under the 1933 Act or pursuant to an available exemption from such registration, and further acknowledges that the certificates representing the St. Mary Stock will bear a restrictive legend to the foregoing effect. Each Stockholder is acquiring the St. Mary Stock for investment purposes only, for his own account (and not for the account(s) of others) and not with a view to the distribution thereof. Each Stockholder confirms that (i) he is familiar with the business of St. Mary and has had the opportunity to ask questions of appropriate executive officers of St. Mary (and that he has received responses thereto to his satisfaction) and to obtain such information about the business and financial condition of St. Mary as he has reasonably requested, and (ii) he has such knowledge and experience in financial and business matters that he is capable of evaluating and accepting the merits and risks of an investment in St. Mary Stock.

3.28 Questionable Payments. Neither Quanterra nor its Affiliate nor any executive employee, agent, or representative of Quanterra or its Affiliate (including the Stockholders) has made, directly or indirectly, any (a) bribes, kickbacks or illegal payments, (b) payments that were falsely recorded on the books and records of Quanterra or its Affiliate, or (c) payments to governmental officials for improper purposes.

3.29 Tax Reports. Schedule 3.29 contains true and correct copies of the Tax Reports filed by either Quanterra or its Affiliate for the past two tax years including tax year 1998.

3.30 Joint Operating Agreements. Neither Quanterra nor its Affiliate has entered into any joint operating agreement regarding any of the leases or wells affected by this Agreement that contains terms or conditions which impose duties or obligations on Quanterra or its Affiliate beyond those customarily contained or

created by joint operating agreements executed in the ordinary course of conducting an oil and gas business.

3.31 Affiliate. The Stockholders represent and warrant to St. Mary with respect to Quanterra Partnership the matters set forth in Section 3.08 and Section 3.09 to the same extent as those representations and warranties by the Stockholders apply to Quanterra. Quanterra Partnership is a limited partnership organized and in good standing under the laws of the State of Montana for which Quanterra is the sole general partner and as such holds a one percent partnership interest in Quanterra Partnership.

3.32 No Misstatements or Omissions. No representation or warranty made in this Agreement or on any Schedule hereto by the Stockholders is false or misleading as to any material fact or omits to state a material fact required to make any of such information not misleading in any material respect. In addition, all other information made available by Quanterra to St. Mary, whether in oral, written, or any other form, is true and correct to the Knowledge of the Stockholders, and such information is not false or misleading as to any material fact. To the Knowledge of the Stockholders, the foregoing representations, warranties, schedules and information constitute full disclosure of all material facts with respect to the business, assets and liabilities of Quanterra and its Affiliate.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF ST. MARY

St. Mary represents and warrants to the Stockholders as follows:

4.01 Organization; Good Standing. St. Mary is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority and legal right to own, operate and lease its properties and assets and to carry on its business as now being conducted and to enter into this Agreement and perform its obligations hereunder, and is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the conduct of its business or the ownership of its property requires such qualification.

4.02 Authority. St. Mary has the corporate power and authority to execute, deliver, and perform its obligations under this Agreement to which it is a party and to consummate the transactions contemplated hereby, and has taken all necessary corporate action to authorize the execution, delivery and

performance of this Agreement. St. Mary has the power and authority to deliver the Consideration, and all necessary corporate action to authorize the delivery of the Consideration has been taken.

4.03 Due Execution and Enforceability. This Agreement is a valid and

binding obligation of St. Mary, enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application referring to or affecting enforcement of creditors' rights and general principles of equity.

4.04 No Restrictions Against Performance. Neither the execution, delivery, authorization or performance of this Agreement, nor the consummation of the transactions contemplated hereby will, with or without the giving of notice or the passage of time, or both, violate any provisions of, conflict with, result in a breach of, constitute a default under, or result in the creation or imposition of any Lien or adverse condition under (i) the Certificate of Incorporation or By-Laws of St. Mary; (ii) any federal, state or local law, which is applicable to St. Mary; (iii) any contract, indenture, instrument, agreement, mortgage, lease, right or other obligation or restriction to which St. Mary is a party or by which it is bound; or (iv) any order, judgment, writ, injunction, decree, license, franchise, permit or other authorization of any Governmental Authority by which St. Mary is bound.

4.05 Capital Stock of St. Mary. The authorized capital stock of St. Mary consists of 50,000,000 shares of common stock of which 10,827,067 are issued and outstanding. All of the issued and outstanding shares of St. Mary Stock are, and all of the shares of St. Mary Stock, when issued in accordance with the terms of this Agreement are or will be, duly and validly authorized and issued and outstanding, fully paid and nonassessable. None of the outstanding shares of St. Mary Stock to be issued pursuant to this Agreement will be issued in violation of any preemptive rights of the current or past holders of St. Mary Stock. Except as disclosed on Schedule 4.05 hereto, as of the date of this Agreement, there are no other equity securities of St. Mary outstanding and no outstanding options, warrants, rights, calls, commitments, conversion rights, rights of exchange, plans or other agreements of any character provided for the purchase, issuance or sale of any shares of the capital stock of St. Mary, other than as contemplated by this Agreement.

4.06 SEC Filings; Financial Statements of St. Mary. St. Mary has timely filed and made available to the Stockholders all SEC Documents required to be filed by St. Mary during calendar year 1998 and since December 31, 1998 . The SEC Documents (i) at the time filed, complied in all material respects with the applicable requirements of the Securities Laws and other applicable Laws, and

(ii) did not, at the time they were filed (or, if amended, or superseded by a filing prior to the date of this Agreement, then on the date of such filing), contain any untrue statement of a material fact or omit to state a material fact required to be stated in the SEC Documents or necessary in order to make the statements in the SEC Documents in light of the circumstances under which they were made, not misleading. Each of the St. Mary financial statements (including, in each case, any related notes) contained in the SEC Documents complied as to form in all material respects with the applicable published rules and regulations of the SEC with respect thereto, was prepared in accordance with GAAP (except to the extent required by changes in GAAP, as may be indicated in the notes to such financial statements or, in the case of unaudited interim statements, as permitted by Form 10-Q under the 1934 Act, as amended), and fairly presented in all material respects the consolidated financial positions of St. Mary and its subsidiaries as at the respective dates and the consolidated results of operations and cash flows of the periods indicated, except that the unaudited interim financial statements were or are subject to normal and recurring year-end adjustments which were not or are not expected to be material in amount or effect.

4.07 Materially Adverse Change of Condition. St. Mary has no Knowledge of any material adverse change in the condition of or title to its assets which have occurred subsequent to December 31, 1998, except depletion through normal production within authorized allowables, ordinary changes and rates of production, and depreciation of equipment through ordinary wear and tear.

4.08 Third-Party and Governmental Consents. Except as set forth on Schedule 4.08 hereto, and those customarily obtained after Closing, no approval, consent, waiver, order or authorization of, or registration, qualification, declaration or filings with, or notice to, any Governmental Authority or other third party is required on the part of St. Mary in connection with the execution of this Agreement, or the consummation of the transactions contemplated hereby. All of the consents and approvals set forth on Schedule 4.08 have been obtained.

4.09 Litigation. There are no claims, actions, suits, proceedings or investigations pending or, to the Knowledge of St. Mary, threatened, by or against St. Mary with respect to this Agreement, or in connection with the transactions contemplated hereby and St. Mary has no reason to believe there exists a valid basis for any such claim, action, suit, proceeding, or investigation.

4.10 Broker's Fees. No agent, broker or other person is or may be entitled to a commission or finder's fee in connection with the transactions

contemplated by this Agreement, or is or may be entitled to make any claim against the Stockholders or Quanterra or against St. Mary or any of its subsidiaries or affiliates as a result of any actions by St. Mary. St. Mary shall indemnify the Stockholders against any claim for any such commission or finder's fee made by any agent, broker or other person as a result of any actions by St. Mary.

4.11 No Misstatements or Omissions. No representation or warranty made in this Agreement by St. Mary is false or misleading as to any material fact or omits to state a material fact required to make any of such information not misleading in any material respect. In addition, all other information made available by St. Mary to the Stockholders, whether in oral, written or any other form, is true and correct to the Knowledge of St. Mary, and such information is not false or misleading as to any material fact. To the knowledge of St. Mary, the foregoing representations, warranties and information, together with the SEC Documents, constitute full disclosure of all material facts with respect to the business, assets and liabilities of St. Mary.

ARTICLE 5
DELIVERIES

5.01 Deliveries by the Stockholders. At the Closing, in addition to any other documents required to be delivered under the terms of this Agreement, the Stockholders shall deliver the following:

(a) A certificate of the Stockholders dated the Closing, certifying that any consents and approvals referred to in Section 3.11, which are obtainable prior to the Closing, have been obtained, together with copies of such consents and approvals.

(b) Copies of the Articles of Incorporation of Quanterra certified as of a recent date by the Secretary of State of Montana.

(c) Copies of the By-Laws of Quanterra including all amendments thereto, certified by the Secretary or an Assistant Secretary of Quanterra.

(d) A Certificate dated not earlier than seven calendar days prior to Closing of the Secretary of State of Montana as to the valid existence of Quanterra.

(e) Certificates of authority dated during 1999 of the Secretary of State of each of the states in which Quanterra is qualified to do business, as to

the due qualification or license of Quanterra as a foreign corporation in such state.

(f) The opinion of Crowley, Haughey, Hanson, Toole & Dietrich, PLLP, counsel to Quanterra and the Stockholders, substantially in the form of Exhibit 5.01(f) hereto.

(g) Evidence in form and substance satisfactory to St. Mary of the resignation of all of the directors of Quanterra.

(h) The Stockholders shall deliver to St. Mary Uniform Commercial Code financing statement searches for the State of Montana and any other state in which Quanterra or the Affiliate do business, dated within 15 calendar days prior to the date of the Closing, showing that there are no security interests, judgments, taxes, other liens or encumbrances outstanding against Quanterra or its Affiliate or their assets, or against the Stockholders.

5.02 Deliveries by St. Mary. At the Closing, in addition to any other documents required to be delivered under the terms of this Agreement, St. Mary shall have delivered or will deliver the following:

(a) A certificate of the President or a Vice President of St. Mary, dated the Closing Date, certifying that any consents and approvals referred to in Section 4.08 have been obtained, together with copies of such consents and approvals.

(b) A copy of the Certificate of Incorporation of St. Mary, certified as of a recent date by the Secretary of State of Delaware.

(c) A copy of the By-Laws of St. Mary, including all amendments thereto, certified by the Secretary or an Assistant Secretary of St. Mary.

(d) A Certificate, dated as of a recent date of the Secretary of State of the State of Delaware as to the valid existence and good standing of St. Mary.

(e) Resolutions adopted by the Board of Directors of St. Mary authorizing this Agreement and the transactions contemplated hereby, certified by the Secretary or an Assistant Secretary of St. Mary.

(f) The opinion of the law firm Ballard Spahr Andrews & Ingersoll, LLP, counsel to St. Mary, substantially in the form of Exhibit 5.02(f) hereto.

ARTICLE 6
INDEMNIFICATION

6.01 Survival of Representations, Warranties and Covenants. Without affecting the validity or applicability of the indemnification provisions set forth in Sections 6.02 and 6.03 of this Agreement, the representations, warranties, and covenants of the Stockholders and St. Mary contained in this Agreement shall survive the Closing and remain in full force and effect until one year after the Closing except that such representations and warranties shall remain in full force and effect until two years after the Closing with respect to any breach thereof resulting in or otherwise involving a claim by a third party against St. Mary, Quanterra or its Affiliate (a "Third Party Claim").

6.02 Indemnification by and on Behalf of the Stockholders. Subject to the provisions of Section 6.05, the Stockholders jointly and severally agree to defend, indemnify and hold St. Mary harmless from and against any and all losses, liabilities, damages, costs or expenses (including reasonable attorneys' fees, penalties, and interest) payable to or for the benefit of, or asserted by, any party, resulting from, arising out of, or incurred as a result of:

(a) the breach of any representation and/or warranty made by the Stockholders herein; or (b) any claim, whether made before or after the date of this Agreement, or any litigation, proceeding or governmental investigation, whether commenced before or after the date of this Agreement, arising out of the businesses of Quanterra or its Affiliate prior to the Closing, or otherwise arising out of any act or occurrence prior to, or any condition or facts existing as of, Closing, regardless of whether or not referred to on a Schedule to this Agreement or otherwise disclosed or known to St. Mary as of Closing. No claim by St. Mary for indemnification by the Stockholders shall be made after one year has elapsed following the Closing except that a claim for indemnification may be made by St. Mary with respect to a Third Party Claim until two years has elapsed following the Closing.

The indemnification obligation of the Stockholders set forth above shall be limited to those amounts attributable solely to Quanterra with respect to interests or activities of it, including those realized with respect to an interest of Quanterra in any property partially owned by it or realized with respect to any partnership interest of Quanterra (including its interest in Quanterra Partnership), and shall not apply with respect to an ownership interest or partnership interest (even if in Quanterra Partnership) of others.

6.03 Indemnification by St. Mary. Subject to the provisions of Section 6.05, St. Mary agrees to defend, indemnify and hold the Stockholders harmless from and against any and all losses, liabilities, damages, costs, or expenses (including reasonable attorneys' fees, penalties and interest) payable to or for the benefit of, or asserted by, any party, resulting from, arising out of, or incurred as a result of the breach of any representation and warranty made by St. Mary herein or in accordance herewith. No claim by the Stockholders for indemnification by St. Mary shall be made after one year has elapsed following the Closing except that a claim for indemnification may be made by the Stockholders with respect to a Third Party Claim until two years has elapsed following the Closing.

6.04 Notice of Claims. The Stockholders and St. Mary shall give prompt written notice to each other of any claim by any party which might give rise to a claim by the Stockholders or St. Mary against the other based upon the indemnity provisions contained herein, stating the nature and basis of the claim and the actual or estimated amount thereof; provided, however, that failure to give such notice will not affect the obligation of the indemnifying party to provide indemnification in accordance with the provisions of this Article 6 unless, and only to the extent that, such indemnifying party is actually prejudiced thereby. In the event that any action, suit or proceeding is brought by a third party against the Stockholders or St. Mary with respect to which the other party may have liability under the indemnification provisions contained herein, the indemnifying party shall have the right, at its sole cost and expense, to defend such action in the name or on behalf of the indemnified party and, in connection with any such action, suit or proceeding, the parties hereto agree to render to each other such assistance as may reasonably be required in order to ensure the proper and adequate defense of any such action, suit or proceeding; provided further, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the

indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate because of actual or potential differing interests between such indemnified party and any other party represented by such counsel. Neither party hereto shall make any settlement of any claim which might give rise to liability of the other party under the indemnification provisions contained herein without the written consent of such other party, which consent such other party covenants shall not be unreasonably withheld.

6.05 Limitation of Liability. Notwithstanding the provisions of this Article 6, neither the Stockholders collectively nor St. Mary shall have any liability to the other with respect to any matter which liability does not exceed $5,000 as to any single liability or $10,000 as to liabilities in the aggregate irrespective of their

single size except that such limitations shall not apply to any Third Party Claim. In the event of any liability of the Stockholders for indemnification, St. Mary may elect to cause such liability to be satisfied in part or in whole by reducing pro rata the St. Mary Stock issued to the Stockholders by the number of shares (rounded to the nearest whole number) equal to the amount of the Stockholders' liability based on the published closing price for a share of St. Mary Stock on the day such liability is quantified, and the certificates of St. Mary Stock issued to the Stockholders shall bear a legend to that effect.

ARTICLE 7
SHARE RESTRICTIONS

7.01 Restricted Shares. The Stockholders hereby agree that during the period beginning on the Closing and, subject to Section 7.05, ending on the date which is three years after the date hereof, the Stockholders will not sell, assign, transfer, pledge, hypothecate, encumber or otherwise dispose of ("Transfer") any shares of St. Mary Stock received as part of the Consideration (the "Restricted Shares"), other than in accordance with the terms of this Article 7 or as otherwise agreed by St. Mary in writing in its sole discretion, and any such purported Transfer shall be void, except that the Stockholders may make a Permitted Transfer (as hereinafter defined), if and only if the transferee in such Permitted Transfer ("Permitted Transferee") executes and delivers a written agreement to the effect that the Restricted Shares transferred to such Permitted Transferee shall be bound by the terms of this Article 7 as if such Permitted Transferee were an original party hereto.

7.02 Permitted Transfer. For purposes of this Article 7, a "Permitted Transfer" of Restricted Shares by any Stockholder is (i) any bona fide gift of such Restricted Shares by the Stockholder, including a charitable gift, (ii) any transfer of such Restricted Shares by the Stockholder to a trustee for the benefit of the Stockholder or the Stockholder's ancestors, descendants or spouse, or (iii) any transfer of such Restricted Shares by a Stockholder to the Stockholder's executors, administrators or legal representatives, heirs or devisees pursuant to the laws of descent and distribution.

7.03 Restrictive Legends; Stop Orders. The certificate or certificates representing Restricted Shares issued to the Stockholders or any Permitted Transferee shall bear an appropriate legend referring to the restrictions on Transfer contained in this Article 7 (together with the legends referred to in Section 3.23 and Section 7.05 hereof) shall be endorsed with substantially the

following legend in addition to any other legend which may appear on such certificate or certificates:

> THE SALE, ASSIGNMENT, TRANSFER, PLEDGE, HYPOTECATION, ENCUMBRANCE OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS OF A STOCK EXCHANGE AGREEMENT DATED JUNE 1, 1999, BETWEEN ST. MARY LAND & EXPLORATION COMPANY AND ROBERT L. NANCE AND ROBERT T. HANLEY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF THIS CERTIFICATE TO THE SECRETARY OF ST. MARY LAND & EXPLORATION COMPANY.

To assure compliance with the terms of this Agreement, St. Mary shall also be permitted to deliver appropriate "stop transfer" instructions covering certificates representing Restricted Shares to any transfer agent or registrar of the shares of St. Mary Stock.

7.04 Termination of Restrictions. Any provision of this Agreement to the contrary notwithstanding, the restrictions on Transfer contained in this Article 7 shall expire three years after the date hereof. The restrictions contained herein shall expire with respect to the Restricted Shares held by the Stockholders in proportion to his respective ownership of shares of St. Mary Stock on the date hereof.

7.05 Removal of Legends. Whenever the restrictions imposed by this Article 7 shall terminate by reason of the passage of time and the Restricted Shares are transferable pursuant to Rule 144(k) under the Securities Act or other available exemption from the registration requirements of the Securities Act, each holder of Restricted Shares shall be entitled to receive from St. Mary, without cost or expense, a new certificate representing such Restricted Shares not bearing the legends set forth in Section 7.03 and Section 3.23 upon receipt of an opinion of counsel reasonably satisfactory to St. Mary that such restrictions have terminated in accordance with their terms and that such Restricted Shares are transferable without registration under the Securities Act pursuant to Rule 144(k) under the Securities Act or other available exemption from the registration requirements of the Securities Act.

7.06 Voting Rights. The holder or holders of Restricted Shares shall retain the full right to vote or to execute and deliver a proxy to vote Restricted Shares on any matter submitted to holders of St. Mary Stock.

ARTICLE 8
GENERAL PROVISIONS

8.01 Expenses. Except as otherwise expressly provided herein, each party to this Agreement shall pay its or his own expenses (including, without limitation, the fees and expenses of its or his agents, representatives, counsel, and accountants) incurred in connection with the negotiation, drafting, execution, delivery and performance of this Agreement and the transactions contemplated hereby.

8.02 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Stockholders and St. Mary and their respective heirs, personal representatives, successors, representatives and assigns.

8.03 Waiver. No provision of this Agreement shall be deemed waived by course of conduct, including the act of closing, unless such waiver is made in writing signed by all then existing or surviving parties hereto, stating that it is intended specifically to modify this Agreement, nor shall any course of conduct operate or be construed as a waiver of any subsequent breach of this Agreement, whether of a similar or dissimilar nature.

8.04 Entire Agreement. This Agreement (together with the Schedules and Exhibits hereto) supersedes any other agreement, whether written or oral, that may have been made or entered into by St. Mary or by the Stockholders (or by any director, officer, employee, agent, or other representative of such parties) relating to the matters contemplated hereby. This Agreement (together with the Schedules and Exhibits hereto) constitutes the entire agreement between the parties and there are no agreements or commitments except as expressly set forth herein.

8.05 Further Assurances. Each of the parties hereto agrees to execute all further documents and instruments and to take or to cause to be taken all reasonable actions which are necessary or appropriate to complete the transactions contemplated by this Agreement.

8.06 Notices. All notices, demands, requests, and other communications hereunder shall be in writing and shall be deemed to have been duly given and

shall be effective upon receipt if delivered by hand, or sent by certified or registered United States mail, postage prepaid and return receipt requested, or by prepaid overnight express service or facsimile transmission (with receipt confirmed). Notices shall be sent to the parties to the following addresses (or at such other addresses for a party as shall be specified by like notice; provided that such notice shall be effective only upon receipt thereof):

If to the Stockholders:

Robert L. Nance
550 N. 31st Street, Suite 500
Billings, MT 59101
Telephone: 406-245-6248
Facsimile: 406-245-9106

Robert T. Hanley
550 N. 31st Street, Suite 500
Billings, MT 59101
Telephone: 406-245-6248
Facsimile: 406-245-9106

with a copy (which shall not constitute notice) to:

Myles J. Thomas

Crowley Haughey Hanson Toole & Dietrich
490 North 31st Street, Suite 500
Billings, Montana 59103
Telephone: 406-252-3441
Facsimile: 406-259-4159

If to St. Mary:

St. Mary Land & Exploration Company
1776 Lincoln Street, Suite 1100
Denver, Colorado 80203
Telephone: 303-861-8140
Facsimile: 303-863-1040
Attention: Milam Randolph Pharo

8.07 Amendments, Supplements, Etc. This Agreement may be amended or modified only by a written instrument executed by all parties hereto which states specifically that it is intended to amend or modify this Agreement.

8.08 Severability. In the event that any provision contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had never been contained herein and, in lieu of each such illegal, invalid or unenforceable provision, there shall be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible but still be legal, valid and enforceable.

8.09 Governing Law. This Agreement and its interpretation shall be governed by the laws of the State of Colorado.

8.10. Counterpart Execution. This Agreement may be executed in counterparts and each counterpart shall constitute a binding agreement as if the parties had executed a single document. The parties agree that such counterpart execution may be evidenced by a facsimile transmission of the execution page for each such party, and such facsimile execution shall constitute a binding execution by such party. At or after Closing, the parties agree that a sufficient number of original counterpart executions will be obtained and affixed to this Agreement so that each party will have an originally executed Agreement.

/s/ Robert L. Nance

Robert L. Nance

/s/ Robert T. Hanley

Robert T. Hanley

ST. MARY LAND & EXPLORATION COMPANY

By: /s/ Mark A. Hellerstein

Mark A. Hellerstein
President

LIST OF SCHEDULES

Schedule 1.01(4) - Consideration - Shares of St. Mary Stock used as Consideration

Schedule 2.02 - Exchange of Shares - Certificates for St. Mary Stock used as Consideration

Schedule 3.01 - Ownership of Shares - Ownership of Quanterra Stock by Stockholders

Schedule 3.04 - Organization Existence - Jurisdictions where Quanterra is qualified to do business; names and addresses of registered agents in such jurisdictions; and names under which Quanterra has conducted or purported to conduct business since date of incorporation

Schedule 3.06 - Subsidiaries - List of Quanterra subsidiaries, ownership in any corporation, partnership, liability company, joint venture, or other enterprise or entity

Schedule 3.10 - No Adverse Effects or Changes - Quanterra or Affiliate

Schedule 3.10(e) - List, if any, of any disposition of any material assets, properties or rights, or canceled or terminated, or agreed to cancel or terminate any debts or claims other accounts receivable write-offs and writedowns in the ordinary course of business (since December 31, 1998)

Schedule 3.10(h) - List, if any, of any accrual or arrangement for or payment of any bonus or special compensation or severance or termination pay to any present or former officer, director, or executive employee (since December 31, 1998)

Schedule 3.11 - Third Party and Governmental Consents - List, if any, of the Third Party and Governmental Consents required on the part of Stockholders, Quanterra, or its Affiliates

Schedule 3.12 - Real and Personal Property

Schedule 3.12(a) - Oil and Gas Leases and Wells List of oil and gas leases in which Quanterra or its Affiliate is a party

Schedule 3.12(b) - Personal Property - List, if any, of any outstanding options, warrants, commitments, agreements or any other right against any of the personal property (other than St. Mary)

Schedule 3.13 - Accounts and Notes Receivable - List of Quanterra's and its Affiliate's accounts and notes receivables as of December 31, 1998

Aging report setting forth all accounts receivables (other than intercompany receivables)

Identify any asset holding a security interest to secure payment of the underlying indebtedness

Description of the nature and amount of any lien on or security interest in such accounts and notes receivable

Identify accounts receivable on Schedule 3.13 which have been collected in their entirety since December 31, 1998.

Schedule 3.14 - Accounts Payables and Promissory Notes Quanterra and its Affiliate. List of:

Accounts payable as of December 31, 1998 with appropriate aging report

Long-term and short-term promissory notes, installment contracts, loan agreements, and credit agreements

Indentures, mortgages, security agreements, pledges, etc.

Identify accounts payable on Schedule 3.13 which have been fully or partially paid since December 31, 1998.

Schedule 3.15 - Bonds and Insurance

List of all insurance policies and bonds. List should include (i) insurer and agent; (ii) amount of coverage; (iii) premium dates; and (iv) expiration dates, if any.

List, if any, of any facts or circumstances under which claims for uninsured losses or damages are likely to be asserted against Quanterra in excess of $10,000 or pending claims against Quanterra

Schedule 3.16 - Bank Accounts - List of (i) names of banks or financial institutions where Quanterra or its Affiliate has banks accounts and safety deposit boxes (ii) names of persons authorized to draw on account or access the safety deposit box; and (iii) names of persons other than officers who are authorized to incur liabilities for borrowed funds

Schedule 3.19 - Permits - List of all federal, state or local regulatory or governmental authority permits

Schedule 3.20 - Taxes - List, if any, of audited Tax reports

Schedule 3.24 - Environmental Matters

Schedule 3.29 - Tax Reports - Copies of tax reports filed by Quanterra or its Affilate for the past two years including 1998

Schedule 4.05 - Capital Stock of St. Mary - List, if any, of outstanding equity securities, options, warrants, rights, call, commitments, conversion rights, rights of exchange, plans or other agreements of any character provided for the purchase, issuance or sale of any shares of capital stock of St. Mary (other than contemplated in this Agreement)

Schedule 4.08 - Third Party and Governmental Consents - List, if any, of the Third Party and Governmental Consents required on the part of St. Mary

Exhibit 5.01(f) - Form opinion letter from Quanterra counsel

Exhibit 5.02(g) - Form opinion letter from St. Mary counsel

DELIVERIES BY ST. MARY

1. A certificate from the President or a Vice President dated the date of Closing, certifying that any third party or governmental consents and approvals have been obtained, together with copies of such consents and approvals.

2. A copy of STML&EC Certificate of Incorporation (recent date) from Secretary of State of Delaware.

3. A copy of the By-Laws of St. Mary, including all amendments thereto certified by the Secretary or an Assistant Secretary of St. Mary.

4. A Certificate of Good Standing for STML&E (recent date) from Secretary of State of Delaware

5. STML&EC Resolutions adopted by the Board of Directors of authorizing transaction

6. Opinion letter from Ballard Spahr Andrews & Ingersoll, LLP

CONDITIONS BY QUANTERRA ENERGY CORPORATION

1. A Stockholders certificate (dated as of Closing) regarding consents and approvals, together with copies of such consents and approvals

2. Certified Articles of Incorporation (recent date) from Secretary of State of Montana.

3. By-Laws including all amendments thereto certified by the Secretary or an Assistant Secretary

4. Certificate from the Montana Secretary of State (dated within seven calendar days prior to Closing) as to the valid existence of Quanterra.

5. Certificates of Authority dated during 1999 from the Secretary of State of each of the states in which Quanterra is qualified to do business

6. Opinion letter from Crowley, Haughey, Hanson, Toole & Dietrich, PLLP

7. Evidence of resignation of all of the directors of Quanterra.

8. Uniform Commercial Code financing statement searches for the State of Montana and any other state in which Quanterra or the Affiliate do business (dated within 15 calendar days prior to the date of the Closing)

EXHIBIT 10.30

LOAN AND STOCK PURCHASE AGREEMENT

among

RESOURCE CAPITAL FUND L.P.

and

ST. MARY LAND & EXPLORATION COMPANY

and

ST. MARY MINERALS INC.

Dated June 25, 1999

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LOAN AND STOCK PURCHASE AGREEMENT

This Loan and Stock Purchase Agreement ("Agreement") is made as of June 25, 1999, by and among Resource Capital Fund L.P., a Cayman Islands limited partnership ("Buyer"), St. Mary Land and Exploration Company, a Delaware corporation ("St. Mary"), and St. Mary Minerals Inc., a Colorado corporation ("St. Mary Minerals," with St. Mary and St. Mary Minerals sometimes referred to together as "Sellers").

RECITALS

A. Sellers made a series of loans (the "Loans") to Summo USA Corporation, a Colorado corporation ("Summo USA") and Summo Minerals Corporation, a British Columbia corporation ("Summo") (collectively, the "Borrowers"), on a joint and several liability basis. The Loans are evidenced by various Promissory Notes of the Borrowers payable to the order of Sellers and executed between October 1, 1997 and January 1, 1999 (collectively, the "Notes"). A schedule of the Notes is attached hereto as Exhibit 1. The Notes were issued pursuant to a series of credit agreements between Sellers and Borrowers executed between May 15, 1997 and January 25, 1999 (collectively, the "Loan Agreements"). A schedule of the Loan Agreements is attached hereto as Exhibit 2.

B. The total principal amount and unpaid interest outstanding on the Notes as of April 30, 1999 is US$3,459,101.

C. Pursuant to the Loan Agreements, Borrowers caused to be assigned and delivered to Sellers certain collateral security documents executed by Summo, Summo USA and the Borrowers, including a Pledge and Security Agreement of Summo USA and Lisbon Valley Mining Co. LLC, a Utah limited liability company ("Lisbon Valley"), a Deed of Trust, Assignment of Rents and Security Agreement of Lisbon Valley and related Uniform Commercial Code ("UCC") Financing Statements (collectively, the "Security Documents"). A schedule of the Security Documents, including recording and filing information, is attached hereto as Exhibit 3.

D. The Notes, the Loan Agreements and the Security Documents collectively are referred to herein as the "Loan Documents."

E. By this Agreement Sellers and Buyer wish to evidence their agreement whereby: (a) Sellers will sell, assign and transfer to Buyer a US$ 2,059,101 portion of their collective rights in the Loan Agreements and Notes (the "Loan Portion"); (b) Sellers will sell, assign and transfer to Buyer an undivided interest in the Security Documents (the "Security Interest") such that the interests of the Buyer and Sellers under the Loan Documents are secured pari passu by the Security Documents; (c) Buyer will purchase and acquire the Loan Portion from Sellers; and (d) Buyer will purchase and acquire the Security Interest from Sellers.

F. By this Agreement St. Mary and Buyer also wish to evidence their agreement whereby: (a) St. Mary will sell, assign and transfer to Buyer the Summo Shares and (b) Buyer will purchase and acquire the Summo Shares from St. Mary.

G. The aggregate consideration to St. Mary for the Loan Portion and the Summo Shares, in addition to the Purchase Price set forth in Section 2.3 of this Agreement, includes the Warrant to be received from Summo pursuant to the Warrant Agreement, which Warrant has a fair market value of $512,569. Based upon the foregoing, the Loan Portion has a fair market value of $1,237,572 and the Summo Shares have an aggregate fair market value of $1,340,098.

AGREEMENT

The parties hereto, intending to be legally bound, agree as follows:

1. DEFINITIONS

For purposes of this Agreement, the following terms have the meanings specified or referred to in this Section 1:

"Agreement" --as defined in the Recitals of this Agreement.

"Amended and Restated Credit Agreement" -- the Amended and Restated Credit Agreement dated as of June 25, 1999 among Borrowers, St. Mary Minerals and the Buyer.

"Assignment" --as defined in Section 2.5 of this Agreement.

"Best Efforts" --the efforts that a prudent Person desirous of achieving a result would use in similar circumstances to ensure that such result is achieved as expeditiously as possible.

"Borrowers" --as defined in the Recitals of this Agreement.

"Breach" --a "Breach" of a representation, warranty, covenant, obligation, or other provision of this Agreement or any instrument delivered pursuant to this Agreement will be deemed to have occurred if there is or has been (a) any inaccuracy in or breach of, or any failure to perform or comply with, such representation, warranty, covenant, obligation, or other provision, or (b) any claim (by any Person) or other occurrence or circumstance that is or was inconsistent with such representation, warranty, covenant, obligation, or other provision, and the term "Breach" means any such inaccuracy, breach, failure, claim, occurrence, or circumstance.

"Buyer" --as defined in the first paragraph of this Agreement.

"Closing" --as defined in Section 2.4.

"Closing Date" --the date and time as of which the Closing actually takes place.

"Consent" --any approval, consent, ratification, waiver, or other authorization (including any Governmental Authorization).

"Contemplated Transactions" --all of the transactions contemplated by this Agreement, including:

(a) the sale of the Loan Portion and Security Interest by Sellers to Buyer;

(b) St. Mary's sale of the Summo Shares to Buyer;

(c) the performance by Buyer and Sellers of their respective covenants and obligations under this Agreement; and

(d) Buyer's acquisition and ownership of the Loan Portion, Security Interest and Summo Shares.

"Damages" --as defined in Section 10.2.

"Encumbrance" --any charge, claim, community property interest, condition, equitable interest, lien, option, pledge, security interest, right of first refusal, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income, or exercise of any other attribute of ownership.

"Governmental Authorization" --any approval, consent, license, permit, waiver, or other authorization issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement.

"Governmental Body" --any:

(a) nation, state, county, city, town, village, district, or other jurisdiction of any nature;

(b) federal, state, local, municipal, foreign, or other government;

(c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal);

(d) multi-national organization or body; or

(e) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

"Knowledge" --an individual will be deemed to have "Knowledge" of a particular fact or other matter if:

(a) such individual is actually aware of such fact or other matter; or

(b) a prudent individual could be expected to discover or otherwise become aware of such fact or other matter in the course of conducting a reasonably comprehensive investigation concerning the existence of such fact or other matter.

A Person (other than an individual) will be deemed to have "Knowledge" of a particular fact or other matter if any individual who is serving, or who has at

any time served, as a director, officer, partner,

executor, or trustee of such Person (or in any similar capacity) has, or at any time had, Knowledge of such fact or other matter.

"Legal Requirement" --any federal, state, local, municipal, foreign, international, multinational, or other administrative order, constitution, law, ordinance, principle of common law, regulation, statute, or treaty.

"Lisbon Valley" --as defined in the Recitals of this Agreement.

"Loan Agreements" --as defined in the Recitals of this Agreement.

"Loan Documents" --as defined in the Recitals of this Agreement.

"Loan Portion" --as defined in the Recitals of this Agreement.

"Loans" --as defined in the Recitals of this Agreement.

"Order" --any award, decision, injunction, judgment, order, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body or by any arbitrator.

"Organizational Documents" --(a) the articles or certificate of incorporation and the bylaws of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (d) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (e) any amendment to any of the foregoing.

"Person" --any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Body.

"Proceeding" --any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"Purchase Price" --as defined in Section 2.3 of this Agreement.

"Representative" --with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants and financial advisors.

"Securities Act" --the Securities Act of 1933 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

"Security Documents" --as defined in the Recitals of this Agreement.

"Security Interest" --as defined in the Recitals of this Agreement.

"Sellers" --as defined in the first paragraph of this Agreement.

"Sellers' Closing Documents" --as defined in Section 2.5 of this Agreement.

"St. Mary" --as defined in the first paragraph of this Agreement.

"St. Mary Minerals" --as defined in the first paragraph of this Agreement.

"Summo" --as defined in the Recitals of this Agreement.

"Summo Share Certificates" --as defined in Section 2.5 of this Agreement.

"Summo Shares" --fifty percent of St. Mary's holdings of fully paid, nonassessable, freely transferrable Summo common stock, but in no event less than 4,962,046 shares of such stock as identified on Schedule 1 hereto.

"Summo USA" --as defined in the Recitals of this Agreement.

"Threatened" --a claim, Proceeding, dispute, action, or other matter will be deemed to have been "Threatened" if any demand or statement has been made (orally or in writing) or any notice has been given (orally or in writing), or if any other event has occurred or any other circumstances exist, that would lead a prudent Person to conclude that such a claim, Proceeding, dispute, action, or other matter is likely to be asserted, commenced, taken, or otherwise pursued in the future.

"UCC Form 3 Assignment" --as defined in Section 2.5 of this Agreement.

2. SALE AND TRANSFER; CLOSING

2.1 Loan Portion and Security Interest

Subject to the terms and conditions of this Agreement, at the Closing, Sellers will sell and transfer the Loan Portion and Security Interest to Buyer, and Buyer will purchase the Loan Portion and Security Interest from Sellers.

2.2 Summo Shares

Subject to the terms and conditions of this Agreement, at the Closing, St. Mary will sell and transfer the Summo Shares to Buyer, and Buyer will purchase the Summo Shares from St. Mary.

2.3 Purchase Price

The purchase price (the "Purchase Price") for the Loan Portion, Security Interest and Summo Shares, collectively, will be US $2,059,101 (Two Million, Fifty-Nine Thousand, One Hundred and One Dollars).

2.4 Closing

The purchase and sale of the Loan Portion, Security Interest and Summo Shares (the "Closing") provided for in this Agreement will take place at the offices of Buyer's counsel at 4700 Republic Plaza Building, Denver, Colorado, at 10:00 a.m. (local time) on June 25, 1999. Subject to the provisions of Section 9, failure to consummate the purchase and sale provided for in this Agreement on the date and time and at the place determined pursuant to this Section 2.4 will not result in the termination of this Agreement and will not relieve any party of any obligation under this Agreement.

2.5 Closing Obligations

At the Closing:

(a) Sellers will deliver to Buyer the following (the "Sellers' Closing Documents"):

(i) an assignment of the Loan Portion and Security Interest in substantially the same form as Exhibit 4 attached hereto, duly executed by Sellers, transferring the Loan Portion and Security Interest from Sellers to Buyer (the "Assignment");

(ii) a UCC Form 3 assignment of the UCC Financing Statements associated with the Security Interest from Sellers to Buyer (the "UCC Form 3 Assignment"); and

(iii) certificates representing the Summo Shares, duly endorsed by St. Mary (or accompanied by duly executed stock powers), with signatures guaranteed by a commercial bank or by a member firm of the New York Stock Exchange, for transfer to Buyer (the "Summo Share Certificates").

(b) Buyer will deliver to Sellers a bank cashier's or certified check payable to the order of Sellers and in the amount of US$ 2,059,101.

3. REPRESENTATIONS AND WARRANTIES OF SELLER

Sellers jointly and severally represent and warrant to the Buyer the following as of the date hereof (except as specified otherwise) and as of the Closing Date:

3.1 Organization and Good Standing

St. Mary is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. St. Mary Minerals is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Colorado.

3.2 Corporate Power and Authority

Sellers and the individuals executing this Agreement on Sellers' behalf have the power and authority to enter into and perform this Agreement and to consummate the Contemplated Transactions. The execution and delivery of this Agreement, the consummation of the Contemplated

Transactions, and the performance by Sellers of all of their obligations under this Agreement have been duly authorized and approved by each of Sellers.

3.3 Enforceability

This Agreement constitutes the legal, valid, and binding obligation of each of Sellers, enforceable against each of Sellers in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, reorganization, moratorium, fraudulent transfer or other similar laws affecting creditors' rights generally or by principles governing the availability of equitable remedies. Upon the execution and delivery by Sellers of the Assignment and the UCC Form 3 Assignment and upon execution and by St. Mary of the Summo

Share Certificates, the Assignment, the UCC Form 3 Assignment and Summo Share Certificates will constitute legal, valid and binding obligations of the respective Sellers, enforceable against Sellers in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, reorganization, moratorium, fraudulent transfer or other similar laws affecting creditors' rights generally or by principles governing the availability of equitable remedies.

3.4 No Conflict

Neither the execution and delivery of this Agreement nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly:

(a) contravene, conflict with, or result in a violation of Sellers' Organizational Documents;

(b) contravene, conflict with, or result in a violation of, or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which either of the Sellers may be subject;

(c) to the knowledge of either Seller, cause Buyer to become subject to, or to become liable for the payment of, any tax by reason of its execution and delivery of this Agreement; or

(d) result in the imposition or creation of any Encumbrance upon or with respect to the Loan Portion, Security Interest or Summo Shares.

Sellers are not nor will be required to give any notice to or obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

3.5 Certain Proceedings

There is no pending Proceeding that has been commenced against either of Sellers and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, this Agreement or any of the Contemplated Transactions. To Sellers' Knowledge, no such Proceeding has been Threatened.

3.6 Regulatory Approvals

No Governmental Authorization is required to be given, filed or obtained by either of Sellers in connection with the execution, delivery and performance by Sellers of this Agreement or the Contemplated Transactions.

3.7 No Commissions

Sellers and their agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement.

3.8 Recitals

The Recitals A. through C. above are true and correct.

3.9 Amendment of Loan Documents; Other Security Interests

The Loan Documents have not been modified or amended in any respect since June 11, 1999, and Sellers hold no other property as security for repayment of the Notes except (a) as described in the Loan Documents and (b) Sellers' rights under applicable law to funds in the Borrower's accounts at either of Seller's.

3.10 Ownership of the Loan Documents and Summo Shares

Sellers are the legal and beneficial owners of the Loan Documents and St. Mary is the legal and beneficial owner of the Summo Shares, and the Loan Documents and Summo Shares are free from Encumbrances or other interests by third parties. Prior to consummation of the Contemplated Transactions, St. Mary owns, in total, 9,924,093 shares of fully paid, nonassessable, freely transferrable Summo common stock.

3.11 Loan Agreements Free of Default; No Defenses to Collection

The Loan Agreements are free of defaults by Sellers and the Notes are not subject to any defenses against collection available to Borrowers arising from actions of Sellers.

3.12 Transferability of Summo Shares

Upon receipt by Buyer, the Summo Shares will be freely transferable on the Toronto Stock Exchange, without holding period requirements, transfer volume limitations or other restrictions.

4. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Sellers as follows:

4.1 Good Standing

Buyer is a limited partnership validly existing and in good standing under the laws of the Cayman Islands.

4.2 Authority; Enforceability

This Agreement constitutes the legal, valid, and binding obligation of Buyer, enforceable against Buyer in accordance with its terms. Buyer and the individuals executing this Agreement on Buyer's behalf have the absolute and unrestricted right, power, and authority to execute and deliver this Agreement.

4.3 No Conflict; Consents

Neither the execution and delivery of this Agreement by Buyer nor the consummation or performance of any of the Contemplated Transactions by Buyer will give any Person the right to prevent, delay, or otherwise interfere with any of the Contemplated Transactions pursuant to any Legal Requirement or Order to which Buyer may be subject. Buyer is not and will not be required to obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

4.4 Certain Proceedings

There is no pending Proceeding that has been commenced against Buyer and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, this Agreement or any of the Contemplated Transactions. To Buyer's Knowledge, no such Proceeding has been Threatened.

4.5 Brokers or Finders

Buyer and its officers and agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement and will indemnify and hold Sellers harmless from any such payment alleged to be due by or through Buyer as a result of the action of Buyer or its officers or agents.

5. COVENANTS OF SELLERS PRIOR TO CLOSING DATE

5.1 Delivery of Documents; Access to Records

Promptly after the date of this Agreement, Sellers shall deliver to Buyer true and correct copies of all of the Loan Documents. Up until the Closing Date, Sellers shall provide, at reasonable times during regular business hours, access to Buyer and its Agents to other records of Sellers pertaining to the Loan Documents.

5.2 Notification

Between the date of this Agreement and the Closing Date, Sellers will promptly notify Buyer in writing if either of Sellers becomes aware of any fact or condition that causes or constitutes a

Breach of any of Sellers' representations and warranties as of the date of this Agreement, or if either of Sellers becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a Breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. During the same period, Sellers will promptly notify Buyer of the occurrence of any Breach of any covenant of Sellers in this Section 5 or of the occurrence of any event that may make the satisfaction of the conditions in Section 7 impossible or unlikely.

5.3 Best Efforts

Between the date of this Agreement and the Closing Date, Sellers will use their Best Efforts to cause the conditions in Sections 7 and 8 to be satisfied.

6. COVENANTS OF BUYER PRIOR TO CLOSING DATE

6.1 Best Efforts

Between the date of this Agreement and the Closing Date, Buyer will use its Best Efforts to cause the conditions in Sections 7 and 8 to be satisfied.

7. CONDITIONS PRECEDENT TO BUYER'S OBLIGATION TO CLOSE

Buyer's obligation to purchase the Loan Portion, Security Interest and Summo Shares and to take the other actions required to be taken by Buyer at the

Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Buyer, in whole or in part):

7.1 Accuracy of Representations

All of Sellers' representations and warranties in this Agreement (considered collectively), and each of these representations and warranties (considered individually), must have been accurate in all material respects as of the date of this Agreement, and must be accurate in all material respects as of the Closing Date as if made on the Closing Date.

7.2 Sellers' Performance

(a) All of the covenants and obligations that Sellers are required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.

(b) Each of Sellers' Closing Documents must have been delivered, and each of the other covenants and obligations in Section 5 must have been performed and complied with in all respects.

7.3 Amended and Restated Credit Agreement

The Borrowers shall have executed the Amended and Restated Credit Agreement and all conditions precedent set forth in Article 5 thereof shall have been satisfied or waived by St. Mary Minerals and the Buyer.

8. CONDITIONS PRECEDENT TO SELLERS' OBLIGATION TO CLOSE

Sellers' obligation to sell the Loan Portion, Security Interest and Summo Shares and to take the other actions required to be taken by Sellers at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Sellers, in whole or in part):

8.1 Accuracy of Representations

All of Buyer's representations and warranties in this Agreement (considered collectively), and each of these representations and warranties (considered individually), must have been accurate in all material respects as of the date of this Agreement and must be accurate in all material respects as of the Closing Date as if made on the Closing Date.

8.2 Buyer's Performance

(a) All of the covenants and obligations that Buyer is required to perform or to comply with pursuant to this Agreement at or prior to the Closing must have been performed and complied with in all material respects.

(b) The Purchase Price must have been delivered to Sellers.

8.3 Amended and Restated Credit Agreement

The Borrowers shall have executed the Amended and Restated Credit Agreement and all conditions precedent set forth in Article 5 thereof shall have been satisfied or waived by St. Mary Minerals and the Buyer.

9. TERMINATION

9.1 Termination Events

This Agreement may, by notice given prior to or at the Closing, be terminated:

(a) by either Buyer or Sellers (acting jointly) if a material Breach of any provision of this Agreement has been committed by the other party and such Breach has not been waived;

(b) (i) by Buyer if any of the conditions in Section 7 has not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Buyer to comply with its obligations under this Agreement) and Buyer has not waived such condition on or before the Closing Date; or (ii) by Sellers, if any of the conditions in Section 8 has not been satisfied of the Closing Date or if satisfaction of such a condition is or becomes

impossible (other than through the failure of Sellers to comply with its obligations under this Agreement) and Sellers have not waived such condition on or before the Closing Date;

(c) by mutual consent of Buyer and Sellers; or

(d) by either Buyer or Sellers (acting jointly) if the Closing has not occurred (other than through the failure of any party seeking to terminate this Agreement to comply fully with its obligations under this Agreement) on or before July 15, 1999, or such later date as the parties may agree upon.

9.2 Effect of Termination

Each party's right of termination under Section 9.1 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. If this Agreement is terminated pursuant to Section 9.1, all further obligations of the parties under this Agreement will terminate; provided, however, that if this Agreement is terminated by a party because of the Breach of the Agreement by the other party or because one or more of the conditions to the terminating party's obligations under this Agreement is not satisfied as a result of the other party's failure to comply with its obligations under this Agreement, the terminating party's right to pursue all legal remedies will survive such termination unimpaired.

10. FURTHER AGREEMENTS OF SELLERS AND BUYER

10.1 Agreement Regarding Share or Loan Sales

In the event that either Buyer or Sellers plans to sell all or any portion of its interest in (a) the Loan, (b) the Summo Shares, (c) any other shares of capital stock of Summo or (d) the Warrants (as defined in the Warrant Agreement of June 25, 1999 among Summo, St. Mary Minerals and Buyer), it shall first give written notice to that effect to the other party indicating the interest to be sold and the purchase price and terms which it expects to obtain. The other party shall thereafter have the right for a period of ten days to sell an equivalent portion of its interest in the Loan, Shares or Warrant (as the case may be) at the same price and on the same terms as the sale to be made by the selling party. If the purchaser of the interest of the selling party is not willing to purchase equivalent portions of the interests of both parties, each may sell a portion of the interest to be purchased by the purchaser determined by multiplying such interest by a fraction the numerator of which is the equivalent portion of such party and the denominator of which is the equivalent portions of both parties.

10.2 Lenders Agreement

Notwithstanding the provisions of Article 11 of the Amended and Restated Credit Agreement, the following acts of the Lenders under the Credit Agreement shall require the unanimous approval of Buyer and St. Mary Minerals:

(a) Any change in the provisions of Section 3.2, 3.3 and 3.4 of the Amended and Restated Credit Agreement relating to the payment of the principal of and the interest on the Loans;

(b) The application of Section 4.3 of the Amended and Restated Credit Agreement with respect to the subordination of liens;

(c) The approval of any modification of the Work Program and Budget; and

(d) The exercise or non-exercise of remedies upon any Event of Default.

In the event of any failure of Buyer and St. Mary Minerals to agree upon any matter set forth above, which failure continues for sixty days after such agreement is first sought, either Buyer or St. Mary Minerals (the "Noticing Party") may give notice to the other (the "Recipient Party") of the price and terms upon which it is willing to sell its Percentage of the Loans after which the Recipient Party shall have 15 days in which, by notice to the Noticing Party, to elect either to purchase such Percentage of the Loans at such price and upon such terms or to elect to sell its Percentage of the Loans at the same price, adjusted for the difference between the Percentage of the Recipient Party and that of the Noticing Party, and upon the same terms. If such notice is not given within such period by the Recipient party, it shall be deemed to have elected to sell its Percentage of the Loans.

11. GENERAL PROVISIONS

11.1 Expenses

Except as otherwise expressly provided in this Agreement, neither party to this Agreement will bear the expenses of the other party incurred in connection with the preparation, execution and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of agents, representatives, counsel and accountants; subject, however, to any rights of any party that may arise from a breach of this Agreement by another party.

11.2 Notices

All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a)

delivered by hand (with written confirmation of receipt), (b) sent by telecopier (with written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and telecopier numbers set forth below (or to such other addresses and telecopier numbers as a party may designate by notice to the other parties):

Sellers: St. Mary Land and Exploration Company
St. Mary Minerals, Inc.
1776 Lincoln Street
Denver, Colorado 80203
Attention: Mark A. Hellerstein
Facsimile No.: (303) 861-0934

with a copy to: Ballard, Spahr, Andrews & Ingersoll, LLP
1225 Seventeenth Street, Suite 2300
Denver, Colorado 80202

Attention: Roger C. Cohen
Facsimile No.: (303) 296-3956

Buyer: Resource Capital Fund L.P.
2150 Republic Plaza Building
370 Seventeenth Street
Denver, Colorado 80202
Attention: James T. McCelements
Facsimile: (303) 607-0150

with a copy to: Davis, Graham & Stubbs
4700 Republic Plaza
370 Seventeenth Street
Denver, Colorado 80202
Attention: Brian T. Dolan
Facsimile No.: (303) 893-1379

11.3 Jurisdiction; Service of Process

Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the parties in the courts of the State of Colorado, County of Denver, or, if it has or can acquire jurisdiction, in the United States District Court for the Colorado District of Denver, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

11.4 Further Assurances

The parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

11.5 Waiver

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed

to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

11.6 Entire Agreement and Modification

This Agreement supersedes all prior agreements between the parties with respect to its subject matter (including the Letter of Intent between Buyer and St. Mary Minerals dated May 1, 1999) and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended except by a written agreement executed by the party to be charged with the amendment.

11.7 Assignments, Successors, and No Third-party Rights

Neither party may assign any of its rights under this Agreement without the prior consent of the other parties, which will not be unreasonably withheld, except that Buyer may assign any of its rights under this Agreement to any affiliate of Buyer. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and assigns.

11.8 Severability

If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

11.9 Section Headings, Construction

The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms.

11.10 Time of Essence

With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

11.11 Governing Law

This Agreement will be governed by, and construed in accordance with, the laws of the State of Colorado without regard to conflicts of laws principles.

11.12 Counterparts

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

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IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

- ---

RESOURCE CAPITAL FUND LP
By Resource Capital Associates LLC,
General Partner

By: /s/ JAMES T. McCLEMENTS
Name: James T. McClements
Title: Managing Director

ST. MARY LAND &
EXPLORATION COMPANY

By: /s/ MARK A. HELLERSTEIN
Name: Mark A. Hellerstein
Title: President and Chief
Executive Officer

ST. MARY MINERALS INC.

By: /s/ MARK A. HELLERSTEIN
Name: Mark A. Hellerstein
Title: President and Chief
Executive Officer

- ---

EXHIBIT 10.31

AMENDED AND RESTATED

CREDIT AGREEMENT

Among

SUMMO USA CORPORATION

and

SUMMO MINERALS CORPORATION

as Borrowers

THE LENDERS

executing this Credit Agreement as a Lender

and

RESOURCE CAPITAL FUND L.P.

as Agent

Dated as of June 25, 1999

CREDIT AGREEMENT

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SCHEDULES

EXHIBITS

AMENDED AND RESTATED CREDIT AGREEMENT

This AMENDED AND RESTATED CREDIT AGREEMENT dated as of June 25, 1999, is by and among SUMMO USA CORPORATION, a corporation organized and existing under

the laws of Colorado ("Summo USA"), SUMMO MINERALS CORPORATION, a corporation organized and existing under the laws of British Columbia ("Summo," with Summo (USA) and Summo referred to as "Borrowers"), the Persons identified on the signature pages hereof as lenders (each a "Lender" and together the "Lenders") and RESOURCE CAPITAL FUND L.P., a Cayman Islands limited partnership (in such capacity, together with its successors and permitted assigns in such capacity, the "Agent").

Recitals

A. Loans evidenced by an Amended and Restated Convertible Promissory Note effective as of January 1, 1999 (the "Existing Credit Agreement") have been extended by St. Mary Minerals Inc. and St. Mary Land & Exploration Company to the Borrowers on a joint and several liability basis and remain outstanding. The loans are currently held by the Lenders as follows: St. Mary Minerals, Inc., in the amount of US$1,400,000, and Resource Capital Fund L.P., in the amount of US$2,059,101.

B. The Lenders and the Borrowers desire hereby to amend, restate and replace the Existing Credit Agreement to provide for loans by Resource Capital Fund L.P. pursuant hereto to the Borrowers of up to an additional US$1,940,899, and in various other particulars as provided herein.

Agreement

NOW, THEREFORE, in consideration of the following mutual covenants and agreements, the Borrowers, the Lenders and the Agent hereby amend, modify, supersede and completely restate the Existing Credit Agreement to read as follows:

ARTICLE 1

CERTAIN DEFINITIONS AND ACCOUNTING PRINCIPLES

1.1 Certain Defined Terms. As used in this Agreement and unless otherwise expressly indicated, the following terms shall have the following meanings:

"Advance" means an advance of the Loans by RCF to the Borrowers as provided in Section 3.1.

"Advance Period" means the period from the Effective Date until the first to occur of (a) December 31, 2000 and (b) any Date of Default pursuant to Section 10.2 hereunder.

"Affiliate" means any Person directly or indirectly controlling or controlled by or under common control with another Person, provided that, for purposes of this definition, "control," as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Agent's Account" means for the account of the Agent, at Morgan Guaranty Trust Company, ABA # 031-100-238, 345 Park Avenue, 7th Floor, New York, New York, Account No. 400-18-158.

"Agent's Fee" has the meaning specified in Section 2.3(b) hereof.

"Agreement" means this Amended and Restated Credit Agreement, as it may be amended, supplemented, or otherwise modified in accordance with its terms and in effect from time to time.

"Amendment to Deed of Trust" means the Amendment to Deed of Trust from Lisbon Valley substantially in the form of Exhibit G hereto.

"Amendment to Pledge and Security Agreement" means the Amendment to Pledge and Security Agreement in the form of Exhibit H hereto.

"Amount Outstanding" means the total aggregate principal amount of Loans outstanding on the date of determination (which shall be a Business Day).

"Applicable Margin" means, with respect to the rate of interest payable by the Borrowers on the Loans, two and one-half percent (2-1/2%) per annum.

"Authorized Representatives" has the meaning specified in Section 3.10.

"Borrowers" means Summo (USA) and Summo, on a joint and several liability basis.

"Borrowers' Account" means a demand deposit account established by the Borrowers at Norwest Bank Colorado, N.A., Account Number 1018025004, into which all Advances will be deposited.

"Breakage Costs" means all actual costs and losses which the Lenders may incur (other than lost profits) as a result of payment of the Principal Amount of any Loan other than at the end of an Interest Period, as referenced in

Section 3.3(c).

"Business Day" means a day of the year on which banks in Denver, Colorado, and New York, New York are open for business.

"Canadian Dollars" and the symbol "C$" each mean lawful money of Canada.

"Capitalized Lease Liabilities" means all monetary obligations of the Borrowers under any leasing or similar arrangement which, in accordance with GAAP, would be classified as capitalized leases, and, for purposes of this Agreement and each other Loan Document, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP, and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Collateral" means all properties, rights and interests subject to any of the Security Documents.

"Contingent Liability" means any agreement, undertaking or arrangement by which any Person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the indebtedness, obligation or any other liability of any other Person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person. The amount of any Person's obligation under any Contingent Liability shall (subject to any limitation set forth therein) be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the debt, obligation or other liability guaranteed thereby, less the value of any bonds, letters of credit or cash collateral of such Person securing such contingent liability.

"Credit Documents" means this Agreement, the Note, the Requests for Advance, and each of the Security Documents, and all modifications and extensions of such Instruments in accordance with their terms.

"Date of Default" shall have the meaning specified in Section 10.2(a).

"Default" means any Event of Default or any condition or event which, after notice or lapse of time or both, would constitute an Event of Default.

"Default Rate" shall mean an annual rate of interest on the Loans, which shall apply at any time that amounts payable hereunder or under the other Credit Documents by the Borrowers, including principal, interest, fees and reimbursable expenses, are due and payable

but unpaid, which rate of interest shall equal the sum of the LIBOR Rate plus the Applicable Margin plus four percent (4%).

"Effective Date" means June 25, 1999.

"Environmental Laws" means national, state and local laws or regulations, codes, orders, decrees, judgments or injunctions issued, promulgated, approved or entered thereunder relating to pollution or protection of the environment, including, without limitation, laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes.

"Establishment Fee" has the meaning specified in Section 2.3(a).

"Event of Default" has the meaning set forth in Section 10.1.

"Existing Loans" means the loans evidenced by the Existing Credit Agreement, being in the aggregate amount (Principal Amount and accrued interest) of US$3,459,101.

"Existing Pledge and Security Agreement" means the Pledge and Security Agreement dated November 23, 1998, made by Summo (USA) and Lisbon Valley in favor of St. Mary.

"Fees" means the Agent's Fee and the Establishment Fee.

"GAAP" means generally accepted accounting principles in the United States and Canada, as applicable to the Borrowers and Lisbon Valley.

"Governmental Acts" has the meaning set forth in Section 3.6.

"Governmental Authority" means the federal governments of the United States and Canada and the provincial, state, territorial, county, city and

political subdivisions in which any property of the Borrowers and Lisbon Valley is located or which exercises valid jurisdiction over any such property, or in which the Borrowers or Lisbon Valley conducts business or is otherwise present, and any agency, department, commission, board, bureau or instrumentality of any of them which exercises valid jurisdiction over the Borrowers or Lisbon Valley.

"Governmental Requirement" means any law, statute, code, ordinance, order, rule, regulation, judgment, decree, injunction, franchise, permit, certificate, license, authorization or other direction or requirement (including, without limitation, Environmental Laws, energy regulations and occupational, safety and health standards or controls) of any Governmental Authority.

"Indebtedness" means, for any Person, without duplication:

(a) all obligations of such Person for borrowed money including (i) in the case of such obligations, all notes payable and drafts accepted representing extensions of credit; and (ii) in the case of the Borrowers, the Borrower's Obligations and all obligations evidenced by bonds, debentures, notes, or other similar Instruments on which interest charges are customarily paid;

(b) all obligations, contingent or otherwise, relative to the face amount of all letters of credit, whether or not drawn, and bankers' acceptances issued for the account of such Person;

(c) all obligations of such Person as lessee under leases which have been or should be, in accordance with GAAP, recorded as Capitalized Lease Liabilities;

(d) all other items which, in accordance with GAAP, would be included as liabilities on the liability side of the balance sheet of such Person as of the date at which Indebtedness is to be determined;

(e) whether or not so included as liabilities in accordance with GAAP, all obligations of such Person to pay the deferred purchase price of property or services, and indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse; and

(f) all Contingent Liabilities of such Person in respect of any of the foregoing.

"Initial Advance" means the first Advance of a Loan made by RCF to the Borrowers under this Agreement.

"Instrument" means any contract, agreement, indenture, mortgage, document or writing (whether formal agreement, letter or otherwise) under which any obligation is evidenced, assumed or undertaken, or any Lien (or right or interest therein) is granted or perfected.

"Interest Period" has the meaning set forth in Section 3.3(b).

"Lenders" means RCF and St. Mary and their respective permitted successors and assigns.

"LIBOR Rate" means, relative to any Interest Period, the rate of interest equal to the average (rounded upwards, if necessary, to the nearest 1/16 of 1%) of the rates per annum quoted by the Reuter Monitor Money Rates Service at which United States Dollar deposits in immediately available funds are offered in the London interbank market as at or about 11:00 a.m., London time, two Business Days prior to the beginning of such Interest Period for delivery on the first day of such Interest Period.

"Lien" means, as to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance in or on, or any interest or title of any vendor, lessor, lender or other secured party to, or of such Person under any conditional sale or other title retention agreement or capital lease with respect to, any property or asset owned or held by such Person, or the signing or filing of a financing statement which names such Person as debtor, or the signing of any security agreement authorizing any other party as the secured party thereunder to file any financing statement. A Person shall be deemed to be the owner of any assets that it has placed in trust for the benefit of the holders of its indebtedness, which indebtedness is deemed to be extinguished under GAAP but for which such Person remains legally liable, and such trust shall be deemed to be a Lien.

"Lisbon Valley" means Lisbon Valley Mining Co. LLC., a limited liability company organized under the laws of Utah, of which Summo and Summo(USA) are the sole members.

"Lisbon Valley Feasibility Study" means the feasibility study by Robert & Schaefer Company of Salt Lake City, Utah, dated June 18, 1996 and updated October 23, 1996, pertaining to the development of the Lisbon Valley Properties.

"Lisbon Valley Properties" means the unpatented mining claims, state and fee leases and fee lands held by Lisbon Valley in San Juan County, Utah, which are identified in Schedule 1.1(a) hereto, together with all extensions and renewals of such rights and interests and any additional rights and interests acquired by the Borrowers, Lisbon Valley, or any Affiliate of any such Person in such rights and interests or lands subject thereto.

"Loans" means the existing Loans and the additional amounts Advanced by RCF to the Borrowers pursuant hereto.

"Losses" shall have the meaning specified in Section 12.6.

"Market Price" means on a specified date, the weighted average price per Share at which the Shares have traded: (a) on The Toronto Stock Exchange; (b) if the Shares are not listed on The Toronto Stock Exchange, on the stock exchange on which the Shares are listed with the highest volume of the trading in the calendar month preceding such determination; or (c) if the Shares are not listed, on the over-the-counter market; during the 20 consecutive trading days (on each of which at least 500 Shares are traded in board lots) ending the third trading day before such date, and the weighted average price shall be determined by dividing

the aggregate sale price of all Shares sold in board lots on the exchange or market, as the case may be, during the 20 consecutive trading days by the number of Shares sold.

"Material Agreements" means the contracts, agreements, leases and other binding commitments and undertakings of the Borrowers and Lisbon Valley, the performance or breach of which could have a Material Adverse Effect on the Borrowers or Lisbon Valley, respectively, which Instruments are identified in Schedule 1.1(b) hereto.

"Material Adverse Effect" means, with respect to any Person, an effect, resulting from any occurrence of whatever nature (including any adverse determination in any litigation, arbitration, or governmental investigation or proceeding), which is materially adverse to:

(a) the consolidated business, assets, revenues, financial condition, operations or prospects of such Person;

(b) the ability of such Person to make any payment or perform any other material obligation required under any material agreement (including, with respect to the Borrowers, this Agreement or any of the Credit Documents); or

(c) in the case of the Borrowers and Lisbon Valley, involves a liability or obligation (other than contractual commitments entered into by either of the Borrowers or Lisbon Valley as contemplated by the Work Program and Budget or otherwise in the ordinary course of business which are not in default) of US$50,000 or more.

"Maturity Date" means the date on which the Loans are payable in full by the Borrowers, being the first to occur of (a) any date on which the Lenders accelerate the due date of any of the Loans by reason of an Event of Default pursuant to Section 10.2, and (b) the Scheduled Maturity Date.

"Maximum Credit Amount" means Five Million Four Hundred Thousand United States Dollars (US$5,400,000).

"month" means a calendar month.

"Note" and "Notes" means the Replacement Promissory Notes of the Borrowers to each Lender substantially in the form of Exhibit B hereto.

"Obligations" means all obligations of the Borrowers with respect to the repayment or performance of all obligations (monetary or otherwise) of the Borrowers arising under or in connection with this Agreement, and each other Transaction Document.

"Other Taxes" shall have the meaning specified in Section 3.9(b).

"Permitted Liens" means the Liens identified in Schedule 6.1(i) and the Liens permitted by clauses (i) through (xi) of Section 8.2.

"Percentage" shall be a percentage amount for each Lender, being an amount determined at any time by dividing the Principal Amount of Loans made by such Lender by the Principal Amount of all Loans hereunder.

"Person" means an individual, partnership, corporation (including a business trust), joint venture limited liability company or other entity, or a foreign state or political subdivision thereof or any agency of such state or subdivision.

"Pledge Agreements" means the Summo Pledge and Security Agreement and the Summo (USA) Pledge and Security Agreement.

"Principal Amount" means, as of any date, the outstanding principal amount of the Loans.

"Project" means the development and operation of an open pit copper mine and associated solvent extraction-electrowinning facilities on the Lisbon Valley Properties and surrounding areas in accordance with the Lisbon Valley Feasibility Study Work Program and Budget.

"Project Assets" means all properties, assets or other rights, whether now owned or hereafter acquired by or for the benefit of Lisbon Valley, the Borrowers or any Affiliate thereof, which are used or intended for use in or forming part of the Project.

"Project Permits" shall have the meaning specified in Section 6.1(r).

"RCF" means Resource Capital Fund L.P., a Cayman Islands limited partnership, in its capacity as a Lender hereunder.

"Repayment Event" means a sale or other disposition by the Borrowers or Lisbon Valley to any Person other than a direct or indirect wholly-owned Subsidiary of the Borrowers or Lisbon Valley of any interest in the Lisbon Valley Properties and the Project in excess of 5%. For purposes hereof, a joint venture, partnership, limited liability company, joint operating agreement or any other cooperative agreement with a Person other than a wholly-owned Subsidiary of the Borrowers or Lisbon Valley shall constitute a sale or other disposition.

"Request for Advance" means the irrevocable request by the Borrowers for an Advance in the form set forth in Exhibit A hereto, signed by an Authorized Representative of the Borrowers.

"Scheduled Maturity Date" means July 1, 2004.

"Security Documents" means the Existing Pledge and Security Agreement, the Amendment to Pledge and Security Agreement, the Amendment to Deed of Trust, the Pledge Agreements, all modifications and amendments thereof, and all financing statements or other Instruments filed or required to be filed or notices given or required to be given in order to perfect the Liens created by any of the foregoing.

"Shares" mean the no par value common shares of capital stock of Summo.

"St. Mary" means St. Mary Minerals Inc., a Colorado corporation, a Lender hereunder.

"Subsidiary" means any corporation, association or other business entity more than 50% of each class of equity or voting securities of which is owned, directly or indirectly, by either of the Borrowers.

"Summo's Pledge and Security Agreement" means the Pledge and Security Agreement executed by Summo substantially in the form of Exhibit F-1 hereto.

"Summo (USA)'s Pledge and Security Agreement" means the Pledge and Security Agreement executed by Summo (USA) substantially in the form of Exhibit F-2 hereto.

"Taxes" shall have the meaning specified in Section 3.9.

"Transaction Documents" means the Credit Documents and the Warrant Agreement, together with all other Instruments executed by the Agent, either of the Lenders, either of the Borrowers or Lisbon Valley in connection therewith.

"United States Dollars" and the symbol "US$" each mean lawful money of the United States of America.

"Warrants" shall have the meaning specified in the Warrant Agreement.

"Warrant Agreement" means the Warrant Agreement appended hereto as Exhibit E.

"Work Program and Budget" means the program for work on and holding, care and maintenance costs associated with the Lisbon Valley Properties and other properties of the Borrowers and other activities, and the budget therefor agreed upon by the Agent and the Borrowers, a copy of which is appended hereto as Schedule 1.1(c).

"year" means a calendar year.

1.2 Accounting Principles. All accounting terms not otherwise defined herein shall be construed, all financial computations required under this Agreement and any other

Transaction Document shall be made and shall be prepared, in accordance with GAAP applied on a basis consistent with the financial statements referred to in

Section 6.1(f) except as specifically provided herein.

1.3 Currency Conversions. For purposes of application of the provisions of this Agreement and the other Credit Documents, United States Dollar, Canadian Dollar and any other relevant currency amounts will be converted by the Agent, by reference to the rate of exchange quoted by Bloomberg as the 12:30-13:30 New York Composite Opening Spot Rate for the relevant currencies on such day.

ARTICLE 2

COMMITMENTS, USE OF PROCEEDS, FEES

2.1 Commitments. Subject to all of the terms and conditions of this Agreement, RCF agrees to make Advances of Loans to the Borrowers from time to time during the Advance Period on a joint and several liability basis as provided in Section 3.1, provided, however, that the aggregated Principal Amount of Existing Loans and Loans Advanced hereunder shall not exceed the Maximum Credit Amount.

2.2 Use of Proceeds. The Borrowers will utilize the proceeds of the Loans exclusively as follows:

(a) to fund holding and other costs of the Lisbon Valley Properties as outlined in the Work Program and Budget;

(b) to fund costs and expenses of Summo associated with copper property identification, evaluation and acquisition in North and South America as outlined in the Work Program and Budget or as otherwise approved by the Agent; and

(c) to fund general working capital requirements of the Borrowers contemplated by the Work Program and Budget or as otherwise approved by the Agent.

2.3 Fees.

(a) Establishment Fee. The Borrowers agree to pay to the Lenders a fee (the "Establishment Fee") at such time as the Borrowers have satisfied (or the Agent has waived, in its sole discretion) all of the conditions precedent set forth in Sections 5.1 and 5.2 hereof in the amount of Eighty Thousand United States Dollars (US$80,000). The Establishment Fee will be payable on the first to occur of (i) the third Business Day after the Agent's notice to the Borrowers that all conditions to the Initial Advance have been satisfied or waived, or (ii) the date of the Initial Advance. The Establishment Fee (which will be

shared by the Lenders 74.07% to RCF and 25.93% to St. Mary) is not refundable to the Borrowers, in whole or in part, under any circumstances.

(b) Agent's Fee. The Borrowers will pay the Agent an annual fee in the amount of US$10,000 (the "Agent's Fee"). The Agent's Fee will be payable by the Borrowers commencing July 1, 2000 and on each July 1 thereafter while any of the Borrowers' Obligations remain outstanding. The Agent's Fee will be retained by the Agent and not distributed to the Lenders. No portion of the Agent's Fee is refundable to the Borrowers under any circumstances.

(c) Fee Payments. Payments of the Fees shall be made in United States Dollars by wire transfer to the Agent's Account or, if payment is being made on the date of the Initial Advance, at the Borrowers' election by written notice to the Agent, deducted from the Initial Advance.

ARTICLE 3

PROCEDURE AND PAYMENT

3.1 Advance Procedure. Not less than two Business Days prior to the desired date of the Advance of a Loan, the Borrowers will jointly submit a Request for Advance to the Agent. Requests for Advance will be submitted approximately quarterly and will pertain to expected unfunded cash requirements of the Borrowers during the following three months which are included in Section 2.2. Each Request for Advance, which will be effective only upon actual receipt by the Agent, will specify the Business Day on which the Advance is requested to be made. Advances, which shall be made solely by RCF, shall be in the minimum amount of US$200,000. No Advances will be made by St. Mary. Each Advance will be made by deposit of the funds Advanced into the Borrowers' Account.

3.2 Principal and Interest Payments Generally. All principal and interest payments due hereunder shall be made in immediately available funds in United States Dollars to the Agent at the Agent's Account or at another account designated by the Lenders, except that to the extent permitted by applicable law and the rules and regulations of The Toronto Stock Exchange, interest payments which are not overdue may, at the Borrowers' election, be made by delivery of Shares in accordance with Section 3.3(d).

3.3 Interest.

(a) General. The Borrowers shall pay interest on the outstanding Principal Amount of the Loans calculated on a 360-day year basis at the LIBOR Rate plus the Applicable Margin or at the Default Rate, whichever is applicable. Interest payable shall be calculated daily and compounded monthly. Interest shall be payable semi-annually in arrears on the first Business Day of July and January, commencing January, 2000 with respect to the

preceding six month period, except that interest accruing while an Event of Default is outstanding and interest accruing at the Default Rate shall be payable on demand. The Borrowers shall pay to St. Mary at closing accrued interest on the $1,400,000 Principal Amount of the St. Mary Loan hereunder, at the interest rate provided in the Existing Credit Agreement, for the period May 1, 1999 through June 25, 1999.

(b) Interest Periods. The interest period for each Advance ("Interest Period") shall be 30 days, or such longer period of days as may be requested by the Borrowers and agreed to by the Agent in its sole discretion, on a 360-day year basis. No Interest Period for a Loan shall end after the Scheduled Maturity Date.

(c) Indemnification. The Borrowers shall indemnify the Lenders against any direct loss or expense (not including lost profits on re-employment of capital) which the Lenders may sustain or incur as a result of the failure by the Borrowers to pay when due the Principal Amount of the Loans. A certificate or other notice of the Lenders submitted to the Borrowers setting forth the amounts necessary to indemnify the Lenders in respect of such loss or expense, shall constitute evidence of the accuracy of the information contained therein in the absence of error and, absent notice from the Borrowers of such error, shall be conclusive and binding for all purposes.

(d) Payment of Interest by Delivery of Shares. The Borrowers may, to the extent permitted by applicable law and the rules and regulations of The Toronto Stock Exchange, elect to pay any interest due hereunder which does not constitute interest which accrued while an Event of Default is outstanding (i) by giving notice to the Lenders not less than five Business Days prior to the due date of such interest payment, or not less than five Business Days prior to the date selected by the Borrowers for any voluntary prepayment of interest which is specified in such notice, which notice shall set forth the undertaking of the Borrowers to pay such interest by delivery of Shares, and (ii) by delivery to the Lenders on such scheduled or specified voluntary interest payment date a number of Shares determined by (y) dividing the interest payment due or to be made (converted to Canadian Dollars in accordance with Section 1.3) by (z) a Canadian Dollar amount reflecting the maximum discount to the Market Price of the Shares permitted by applicable law and the Toronto Stock Exchange (or other applicable exchanges) determined as of the date of such notice by the Borrowers. The Shares so delivered shall be duly issued and nonassessable; shall be evidenced by original certificates issued by Summo reflecting each of the Lenders as the owner thereof, without legend or other notice of restriction on transfer rights; shall be free of Liens or other claims of right or interest by third Persons therein; and, shall be freely tradeable by the Lenders on The Toronto Stock Exchange. Any notice by the Borrowers to pay accrued interest by delivery of Shares to the Lenders shall be irrevocable. The Share certificates issued by Summo to RCF and St. Mary, respectively, shall each be for a number of Shares, determined as provided above, such that the number of Shares so issued to the Lenders is in the same proportion as they would have shared a cash payment of interest.

(e) Interest Act (Canada). For purposes of any required disclosure pursuant to the Interest Act (Canada), the yearly rate of interest to which any rate of interest calculated on the basis of a year of 360 days is equivalent may be determined by multiplying the applicable rate by a fraction, the numerator of which is the number of days to the same calendar date in the next calendar year (or 365 days if the calculation is made as of February 29) and the denominator of which is 360.

3.4 Repayment of the Loans.

(a) Principal Repayment Generally. The Borrowers agree to repay the Principal Amount of the Loans in full not later than the Maturity Date.

(b) Voluntary Prepayment. Upon not less than 30 days' prior notice to the Agent, the Borrowers may prepay all or any part of (subject to the minimum payment amount specified below) the Principal Amount of the Loans at the end of any Interest Period applicable to the Loans. Upon the giving of notice of prepayment, which shall be irrevocable, the prepayment, together with all interest accrued through the prepayment date, shall be due and payable on the date set forth therein, which date must be a Business Day. Any such voluntary prepayment of the Loans shall be in the minimum Principal Amount of US$500,000. Amounts so repaid cannot be reborrowed.

(c) Mandatory Prepayment. The Borrowers will prepay the Loans together with accrued interest thereon, Breakage Costs and unpaid fees (i) in full upon acceleration of the due date thereof by the Lender pursuant to Section 10.2, (ii) in full upon the occurrence of a Repayment Event, unless the Lenders, in their sole discretion elect in writing to waive such payment, (iii) if Summo

pays a cash dividend to its shareholders, in an amount equal to the amount of such cash dividend, payable when such dividend is paid; and (iv) upon any exercise of the Warrants (with the mandatory prepayment to be in the amount received by Summo by reason of such Warrant exercise). If a Warrant is exercised by a Lender, notwithstanding any other provision hereof to the contrary the proceeds to Summo from the exercise of the Warrant shall first be applied to Loan Principal Amount and other amounts due such Lender hereunder, and only after all of the Borrowers' Obligations to such Lender have been paid in full shall any such proceeds be applied to the Borrowers' Obligations to the other Lender.

3.5 Application of Prepayments. All prepayments made by the Borrowers pursuant to Section 3.4 shall be accompanied by payment of the Lenders' Breakage Costs, if any, and shall be applied first to accrued and unpaid interest on the Loans so prepaid as of the end of the most recent Interest Period, then to any other amounts then payable by the Borrowers hereunder including Breakage Costs and fees, then to the Principal Amount of the Loans.

3.6 Increased Costs and Reduction in Return. If due to (a) the introduction of, or any change (including, without limitation, any change by way of imposition or increase of reserve requirements) in, or in the interpretation of, any law or regulation or (b) the

compliance by the Lenders with any guideline or request from any central bank or other governmental agency having jurisdiction over the Lenders (whether or not having the force of law) collectively referred to as "Governmental Acts," there shall be any increase in the cost or reduction in return to the Lenders of agreeing to make or making, funding or maintaining the Loans (other than increases in taxation of income or franchise or similar fees, which are not subject to this Section 3.6), then the Borrowers shall from time to time, upon demand by the Lenders, (which demand shall specify the amount and nature of the increased cost or decreased return) pay to the Lenders additional amounts sufficient to indemnify them against such increased costs or reduction in return; provided that the Lenders agree to use reasonable efforts to mitigate the increased cost or reduction in return to the greatest extent practicable. A certificate as to the nature and amount of such increased cost or reduced return, submitted to the Borrowers by the Lenders, shall be conclusive absent demonstration by the Borrowers of error.

3.7 Payments and Computations. Except as provided in Sections 2.3(b) and 3.3(d), payments by the Borrowers pursuant to this Agreement or any other Credit Document, whether in respect of Principal Amount, interest or otherwise shall be made by the Borrowers to the Lenders by delivery of United States Dollars in immediately available funds to the Agent's Account, or such other account designated from time to time by notice to the Borrowers from the Lenders. All such payments shall be made, without set off, deduction or counterclaim, not later than on the date when due. Any payments received hereunder after the time and date specified in this Section shall be deemed to have been received by the Lenders on the next following Business Day. All interest and fees shall be computed on the basis of the actual number of days (including the first day but excluding the last day) occurring during the period for which such interest or fee is payable over a year comprised of 360 days.

3.8 Payment on Non-Business Days. Whenever any payments to be made hereunder shall be stated to be due on a day which is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be, unless such next succeeding Business Day is after the end of the Interest Period, in which case the payment will be made on the next preceding Business Day and such payment shall not reflect the actual payment date in the computation of interest or fees due and payable.

3.9 Taxes.

(a) General. Any and all payments by the Borrowers hereunder or under any of the Credit Documents shall be made free and clear of and without deduction for any and all present or future taxes, levies, duties, imposts, deductions, charges or withholdings, and all liabilities with respect thereto (excluding taxes imposed on the Lenders' income and franchise taxes imposed on the Lenders) imposed by the jurisdiction under the laws of which any Lender is organized, or Canada or any other jurisdiction under the laws of which any Lender is otherwise subject to tax, or any political subdivision thereof (all such non-excluded

taxes, levies, duties, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrowers shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Lenders, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.9) the Lenders receive an amount equal to the sum they would have received had no such deductions been made, (ii) the Borrowers shall make such deductions and (iii) the Borrowers shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. The foregoing obligation of the Borrowers will apply with respect to any assignee of the

Lenders; provided, however, that the obligations of the Borrowers hereunder shall not be increased by reason of any assignment hereof by any Lender.

(b) Other Taxes. In addition, the Borrowers agree to pay any present or future stamp, sales, use or documentary taxes or any other excise or property taxes, charges, duties or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, any of the Transaction Documents, or any Instrument contemplated thereby (hereinafter referred to as "Other Taxes").

(c) Tax Indemnity. The Borrowers hereby indemnify the Lenders and the Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 3.9) paid by the Lenders or the Agent and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto.

(d) Payment of Taxes. Within 30 days after the date of any payment of Taxes or Other Taxes withheld by the Borrowers in respect of any payment to the Lenders, the Borrowers will furnish to the Lenders a form of evidence of payment thereto acceptable to the Lenders in their sole discretion.

(e) Survival. Without prejudice to the survival of any other agreement hereunder, the agreements and obligations contained in this Section 3.9 shall survive the payment in full of the Loans and interest hereunder.

(f) Further Assurances. After receipt from the Borrowers of each payment made pursuant to this Section 3.9, the Lender shall, if reasonably requested by the Borrowers and at the Borrowers' cost and expense, submit and pursue any necessary applications to obtain any refund, credit, allowance, remission or deduction from income otherwise determined or tax otherwise payable, to which any such Lender may be entitled from the taxation authorities of any relevant taxing jurisdictions in respect of any payment of Taxes or Other Taxes referred to in this Section 3.9. If any such refund shall be received or due payment of tax reduced by reason of such refund, credit, allowance, remission or deduction, the Lenders shall, to the extent that they can do so without prejudice to their ability to retain the amount of such refund, credit, allowance, remission or deduction, promptly notify the

Borrowers thereof and account to them for an amount equal to the refund received or credit, allowance, remission or deduction given. If the Borrowers are required to make any payments pursuant to this Section 3.9, the Lenders shall endeavor to limit the incidence of the Taxes or the Other Taxes in question by causing amounts outstanding hereunder to be administered by or payable to a Subsidiary or Affiliate of a Lender so long as the same can be done in a manner which is not disadvantageous to the Lender and provided that such procedures shall be reasonably practicable, each as determined by the Lenders in their sole discretion, but acting in good faith.

3.10 Authorized Representatives. Appended hereto as Schedule 3.10 are the names, titles and specimen signatures of officers or employees of each of the Borrowers who are authorized to submit Requests for Advances ("Authorized Representatives") and otherwise to act on behalf of the Borrowers with respect to this Agreement and the other Credit Documents. The Borrowers may modify Schedule 3.10 from time to time by submission of a revised version of Schedule 3.10 to the Agent, bearing a date and original specimen signatures, which revision will be effective only upon receipt by the Agent.

ARTICLE 4

COLLATERAL SECURITY

4.1 Right of Set-off.

(a) Upon the occurrence and during the continuance of any Event of Default, the Agent and the Lenders are hereby authorized at any time and from time to time, without notice to the Borrowers (any such notice being expressly waived by the Borrowers), to set off and apply any and all deposits (general or special, time or demand, provisional or final, at any time held and other indebtedness at any time owing by the Lenders to or for the credit or the account of either of the Borrowers against any and all of the Obligations of the Borrowers hereunder or under any other Transaction Document now or hereafter existing, although such Obligations of the Borrowers may be contingent and unmatured. The Lenders agree promptly to notify the Borrowers after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Lenders under this Section 4.1 are in addition to other rights and remedies (including, without limitation, other rights of set-off) which the Lender may have.

(b) In the event any Lender shall obtain from a Borrower payment of any principal of or interest on any Loan owing to it or payment of any other amount under this Agreement or any other Credit Document through the exercise of any right of set-off, banker's lien or counterclaim or similar right or otherwise (other than from Agent as provided herein), such Lender shall cause such amount to be shared by all Lenders in accordance with their respective

Percentages.

(c) The Borrowers hereby consent to the arrangements described in clause (b) above and agree that any Lender so purchasing such a participation or other interest may exercise all rights of set-off, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans or other amounts (as the case may be) owing to such Lender in the amount of such participation.

(d) Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of any of the Borrowers.

4.2 Lisbon Valley Additional Collateral. The Borrowers and the Lenders intend that the Security Documents cover and extend to all right, title and interest of Lisbon Valley, and of all Affiliates of the Borrowers, in and to the Lisbon Valley Properties, all tangible personal property of such Persons located thereon or associated therewith, all intangible personal property of such Persons associated therewith, and all production and proceeds therefrom. The Borrowers agree to do all acts necessary, and to cause Lisbon Valley and all other Affiliates of the Borrowers having interests therein to take all actions necessary, to create and perfect first and prior enforceable Liens in all such real and personal property, subject only the Section 4.3 below.

4.3 Subordination of Liens. The Lenders agree to subordinate their Liens on any property which is subject to any Security Documents pursuant to a written subordination agreement on terms reasonably acceptable to the Lenders: (a) to Liens in favor of a third Person or Persons providing senior debt, secured project financing for the construction and operation of a commercial copper mine and production facility on the Lisbon Valley Properties pursuant to a budget and plan approved by the Lenders in their reasonable discretion; and (b) to Liens in favor of a third Person or Persons providing working capital for the operation of the Lisbon Valley Properties and Project as required by any such approved plan and budget, provided that the terms of such financing are acceptable to the Lenders, and provided further that the Lenders receive Liens in all collateral security received by such Persons extending such financing from the Borrowers and Lisbon Valley, subordinated and second only to the first and prior Liens in favor of such Persons to secure the senior debt extended by such Persons. The foregoing undertaking by Lenders to subordinate is limited to senior, secured debt provided by such Persons and does not apply to any other financing provided by such Persons.

ARTICLE 5

CONDITIONS PRECEDENT

5.1 Conditions Precedent to the Initial Advance. The obligations of RCF to make the Initial Advance are subject to satisfaction (or waiver by RCF in its sole discretion) of the following conditions precedent.

(a) The Agent or its counsel shall have received the following on or before the date of the Initial Advance, with each Instrument dated on or no more than five days prior to such date (or as otherwise agreed by the Agent), and in form and substance as shall be satisfactory to the Lender:

(i) this Agreement, duly executed by the Borrowers;

(ii) the Security Documents, each duly executed by the Borrowers and Lisbon Valley, together with any financing statements or other instruments for filing, amendments thereto, notices or other Instruments determined by the Agent to be necessary or desirable to perfect the Liens established pursuant to the Security Documents;

(iii) the shares of capital stock of Summo (USA) and Nord Resources Corp. pledged by Summo pursuant to the Summo Pledge and Security Agreement, together with undated and blank stock transfers therefor duly executed by Summo, and the certificates of interest in Lisbon Valley pledged by each of Summo and Summo (USA) pursuant to the Pledge Agreements together with undated and blank transfer or assignment instruments therefor duly executed by Summo and Summo (USA), respectively;

(iv) the Warrant Agreement, and the Warrants, each duly executed by Summo;

(v) an Omnibus Certificate for Summo, duly executed by an Authorized Representative thereof, substantially in the form of Exhibit C-1 hereto;

(vi) an Omnibus Certificate for Summo (USA), duly executed by an Authorized Representative thereof, substantially in the form of Exhibit C-2 hereto;

(vii) an Omnibus Certificate for Lisbon Valley, duly executed by an Authorized Representative thereof, substantially in the form of Exhibit

C-3;

(viii) a certificate from the British Columbia Registrar of Companies confirming the organization and good standing of Summo in the Province of British Columbia;

(ix) a certificate from the Colorado Secretary of State confirming the due qualification of Summo to do business in the State of Colorado;

(x) a certificate from the Colorado Secretary of State confirming the organization and good standing of Summo (USA) in the State of Colorado;

(xi) a certificate from the Utah Secretary of State confirming the organization and good standing of Lisbon Valley in the State of Utah;

(xii) an Opinion of Borrowers' and Lisbon Valley's Counsel substantially in the form of Exhibit D-1 hereto;

(xiii) the Security Opinion, substantially in the form of Exhibit D-2 hereto;

(xiv) certificates of issuing insurance companies, confirming compliance by the Borrowers with the insurance requirements set forth in Section 7.4;

(xv) accurate and complete copies of the financial statements referred to in Section 6.1(f);

(xvi) evidence reasonably satisfactory to the Agent that the Warrant Agreement has been entered into, and that the Warrants have been or may be issued by Summo pursuant to approval by the Board of Directors of Summo and in accordance with applicable British Columbia (and as applicable, Ontario) provincial law and the rules and regulations of The Toronto Stock Exchange;

(xvii) evidence of an amendment to the Lisbon Valley Operating Agreement, confirming that Summo and Summo (USA) are the sole members thereof and modifying Section 9 thereof to permit disposition and transfer of the pledged interests in Lisbon Valley upon foreclosure, in form acceptable to the Agent; and

(xviii) such other approvals, opinions or documents as the Agent may reasonably request.

(b) The following shall be completed as of the date of the Initial Advance by RCF:

(i) the Agent shall have approved Lisbon Valley's title to the Lisbon Valley Properties and the Liens established by each Security Document shall be in full force and effect as valid, enforceable first priority Liens on the Collateral, except for Permitted Liens; and

(ii) the Board of Directors of Summo shall consist of the individuals specified in Schedule 5.1(b)(ii).

5.2 Conditions Precedent to All Advances. The obligation of RCF to make each Advance of a Loan hereunder (including the Initial Advance) is subject to the satisfaction (or waiver by the Agent in its sole discretion) of each of the following conditions precedent:

(a) the Borrowers and Lisbon Valley shall have performed and complied with all agreements and conditions herein required to be performed and complied with on or prior to the date of such Advance;

(b) the Agent shall have received a Request for Advance, duly executed by the Borrowers with respect to such Advance;

(c) on the date of such Advance, the Agent shall have received such other approvals, opinions or documents as the Agent may reasonably request;

(d) on the date of such Advance, the Agent shall have satisfied itself of the absence of a Material Adverse Effect with respect to the Borrowers and Lisbon Valley;

(e) there shall exist no Default or Event of Default;

(f) all representations and warranties made by the Borrowers herein shall be true and correct on the date of such Advance, except for (i) such changes therein as shall be acceptable to the Agent or (ii) such changes therein as do not have a Material Adverse Effect on the Borrowers or Lisbon Valley; and

(g) all Governmental Requirements and all material approvals and consents (including, without limitation, all Project Permits) of Governmental Authorities or other Persons, if any, required in connection with the operation

of the Project, the Advance of the Loans and the performance by the Borrowers and Lisbon Valley of their obligations under the Credit Documents, and for the Lenders' realization of their rights thereunder shall have been obtained and complied with by the Borrowers and Lisbon Valley in all material respects and remain in effect.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of Borrowers. The Borrowers jointly and severally represent and warrant as follows:

(a) Organization, Qualification and Subsidiaries. Summo is a corporation duly incorporated, validly existing and in good standing under the laws of the Province of British Columbia and has all requisite corporate power and authority to enter into this Agreement and the Transaction Documents and to carry out the transactions contemplated hereby and thereby. Summo USA is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Colorado and has all requisite corporate power and authority to enter into this Agreement and the Credit Documents and to carry out the transactions contemplated hereby and thereby. Lisbon Valley is a limited liability

company duly established, validly existing and in good standing under the laws of the State of Utah and has all requisite power and authority to enter into the Amendment to Deed of Trust and the other Security Documents to which it is a party. Each of the Borrowers and Lisbon Valley is duly qualified to do business as a foreign corporation in each jurisdiction where the nature of its business or properties requires such qualification. Except as disclosed in Schedule 6.1(a), the Borrowers and Lisbon Valley have no Subsidiaries.

(b) Authorization; No Conflict. The execution, delivery and performance by the Borrowers of this Agreement and of the other Transaction Documents have been duly authorized by all necessary corporate action on the part of the Borrowers and do not and will not (i) require any consent or approval of the stockholders of the Borrowers; (ii) contravene the Borrowers' respective articles of incorporation, charter or bylaws; (iii) violate any provision of any law, rule, regulation (including stock exchange rules and regulations of The Toronto Stock Exchange), order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to the Borrowers; (iv) result in a breach of or constitute a default under or require the consent of any party pursuant to any indenture or loan or credit agreement or any other agreement, lease or instrument to which either of the Borrowers is a party or by which either Borrower or its properties may be bound or affected; or (v) result in, or require, the creation or imposition of any Lien (other than Liens arising under the Security Documents) upon or with respect to any of the properties now owned by the Borrowers; and, to the best knowledge of the Borrowers, the Borrowers are not in default in any material respect under any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument. The execution, delivery and performance by Lisbon Valley of the Amendment of Deed of Trust and the other Security Documents to which it is a party have been duly authorized by all necessary corporate action on the part of Lisbon Valley and do not and will not (i) require any consent or approval of the Members of Lisbon Valley; (ii) contravene Lisbon Valley's organizational documents, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Lisbon Valley; (iv) result in a breach of or constitute a default under or require the consent of any party pursuant to any indenture or loan or credit agreement or any other agreement, lease or instrument to which Lisbon Valley is a party or by which it or its properties may be bound or affected; or (v) result in or require the creation or imposition of any Lien on any property of Lisbon Valley except Liens contemplated thereby.

(c) Governmental and Other Consents. No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority or with The Toronto Stock Exchange is required (i) for the due execution and delivery of, and due performance of the financial and other obligations of the Borrowers or Lisbon Valley, respectively, under any Transaction Document, (ii) for the due performance of all other obligations of the Borrowers and Lisbon Valley, respectively, under any Transaction Document (other than registrations or filings to perfect the liens created by the Security Documents) except (iii) as specifically set out in this Agreement, (iv) such authorizations, approvals or other actions as have been obtained or notices or filings as have been made, and

(v) the filing of the documentation with The Toronto Stock Exchange contemplated in its letter dated May 21, 1999 to counsel for Summo, a copy of which has been provided to the Agent.

(d) Binding Obligations. This Agreement is, and the other Transaction Documents when delivered hereunder will be, the legal, valid and binding obligations of the Borrowers and Lisbon Valley, respectively, enforceable against the Borrowers and Lisbon Valley, respectively, in accordance with their respective terms (except as limited by applicable bankruptcy,

insolvency, reorganization, moratorium and similar laws or equitable principles affecting enforcement of creditors' rights generally at the time in effect).

(e) Litigation. Except as indicated in Schedule 6.1(e) hereto, there is no action, proceeding or investigation pending or threatened in writing against or involving the Borrowers, Lisbon Valley, the Lisbon Valley Properties or the Project which alleges the violation of any laws, or which questions the validity of this Agreement, or any other Transaction Documents, Project Permits or Material Agreements or any action taken or to be taken pursuant to this Agreement, or any of the Transaction Documents or which questions the nature or extent of Lisbon Valley's title to the Lisbon Valley Properties or assets related thereto, which involves any Material Agreement, or which might result, either in any case or in the aggregate, in any Material Adverse Effect on the business, operations, condition (financial or otherwise), aggregate properties or aggregate assets of the Borrowers or Lisbon Valley or in any material liability on the part of the Borrowers or Lisbon Valley.

(f) Financial Statements; No Material Adverse Change. The consolidated balance sheet of Summo as of December 31, 1998, and the related consolidated statements of income and retained earnings of Summo for the period then ended, audited by PriceWaterhouse Coopers LLP, and the unaudited consolidated balance sheet of Summo as of March 31, 1999, and the related unaudited consolidated statement of income and retained earnings of Summo for the three-month period then ended, copies of which have been furnished to the Agent, fairly present the financial condition of the Borrowers and Lisbon Valley as at such dates and the results of the operations of the Borrowers and Lisbon Valley for the period ended on such dates, all in accordance with GAAP consistently applied (except that the unaudited balance sheet and statement of income for Summo may not comply with GAAP in that it does not contain full note disclosures as required by GAAP). Neither the Borrowers nor Lisbon Valley has on the date hereof any material Contingent Liability or liability for taxes, long-term leases or unusual forward or long-term commitments which are not reflected in such financial statements. Since March 31, 1999, except as previously disclosed in writing to the Agent, neither the business, operations or prospects of the Borrowers nor Lisbon Valley, nor any of their respective properties or assets, have been affected by any occurrence or development (whether or not insured against) which would result, either in any case or in the aggregate, in a Material Adverse Effect on the Borrowers or Lisbon Valley.

(g) Other Agreements. Neither the Borrowers nor Lisbon Valley are a party to any indenture, loan or credit agreement or any lease or other agreement or instrument (other than the Material Agreements) or subject to any charter or other corporate or limited liability company restriction which would, upon a default thereunder or otherwise, result in a Material Adverse Effect on any of the Borrowers or Lisbon Valley, or materially impair the ability of the Borrowers or Lisbon Valley to carry out their respective Obligations under this Agreement, or any of the other Transaction Documents or the ability of Lisbon Valley to carry out its obligations under the Amendment to Deed of Trust and the other Security documents to which it is a party.

(h) Information Accurate. Except as disclosed in Schedule 6.1(h) hereto, none of the information delivered to the Lenders or the Agent by the Borrowers contains any material misstatement of fact or omits to state a material fact, and all projections contained in any such information, exhibits or reports, were based on information which when delivered was, to the best knowledge of the Borrowers, true and correct, and to the best knowledge of the Borrowers all calculations contained in such projections were accurate, and such projections presented the Borrowers' then-current estimate of their future business, operations and affairs and, since the date of the delivery of such projections, to the best knowledge of the Borrowers, there has been no material change in the assumptions underlying such projections, or the basis therefor or the accuracy thereof.

(i) Title to Borrowers' Properties and the Lisbon Valley Properties; Liens.

(i) With respect to those properties owned by the Borrowers which are subject to any Security Documents and with respect to the Lisbon Valley Properties, the Borrowers or Lisbon Valley, respectively, are in possession of and own exclusively interests in such properties as disclosed in Schedule 6.1(i), free and clear of all royalties, production payments or other burdens on production and all material defects of title or Liens (except royalties, production payments, other burdens on production, title defects and Liens disclosed in Schedule 6.1(i) hereto or permitted by Section 8.2 hereto).

(ii) With respect to the Lisbon Valley Properties held under leases, licenses or other contracts: (A) Lisbon Valley is in exclusive possession of such properties; (B) Lisbon Valley has not received any notice of, and has no knowledge of any default of any of the terms or provisions of such leases or contracts; (C) no provision of any such lease prohibits or would be breached by the Borrowers' performance of their obligations under this Agreement and the other Transaction Documents or Lisbon Valley's performance of its obligations under the Amendment to Deed of Trust or other Security Documents to which it is a party; (D) to the best of the Borrowers' and Lisbon Valley's knowledge and belief, such leases and contracts are valid and are in good

standing; and (E) to the best of the Borrowers' and Lisbon Valley's knowledge and belief, the properties covered thereby are free and clear of all defects of title or Liens, except for those specifically disclosed in Schedule 6.1(i) or permitted by Section 8.2 hereto or in such leases or contracts.

(iii) The Borrowers have delivered or will make available to the Agent all information concerning title to the properties in the Borrowers' or Lisbon Valley's possession or control, or to which the Borrowers or Lisbon Valley has access, which any Lender requests.

(j) Capital Structure. The Borrowers, Lisbon Valley, and the Subsidiaries, respectively, have the number of authorized, issued and outstanding shares and shares reserved for issuance and other ownership or equity interests specified in Schedule 6.1(j). All shares of stock and other shares or interests identified in such Schedule were duly and validly issued and are non-assessable. Except for the securities contemplated by the Warrant Agreement, and except as indicated in Schedule 6.1(j), the Borrowers, Lisbon Valley and the other Subsidiaries have no outstanding warrants or other obligations to issue additional shares or other equity interests, including any stock or securities convertible into or exercisable or exchangeable for any shares of its capital stock or any rights or options to purchase any of the foregoing, or to convert any existing Indebtedness to equity interests in such Persons.

(k) Material Agreements; Absence of Default. All of the Borrowers' and Lisbon Valley's Material Agreements are identified in Schedule 1.1(b) hereto. All of the Borrowers' Sales Contracts in effect on the Effective Date are identified in Schedule 1.1(d) hereto. The Borrowers and Lisbon Valley are not in default under any of the Material Agreements and have not received any notice of an asserted default thereunder from any other Person that is a party to any such agreement.

(l) Taxes and Other Payments. The Borrowers and Lisbon Valley have each filed all tax returns (including all property tax returns and other similar tax returns applicable to the Lisbon Valley Properties) and reports required by law to have been filed by any of them and each has paid all taxes and governmental charges thereby shown to be owing and all claims for sums due for labor, material, supplies, personal property and services of every kind and character provided with respect to, or used in connection with their respective properties and no claim for the same exists except as permitted hereunder, except any such taxes, charges or amounts which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP have been set aside on the books of the Borrowers or Lisbon Valley.

(m) Environmental Laws. Except as set forth in Schedule 6.1(m) hereto:

(i) all facilities and property of the Borrowers and Lisbon Valley, including the Lisbon Valley Properties, have been, and continue to be, owned, operated, leased or utilized by the Borrowers and Lisbon Valley in material compliance with all applicable laws, including Environmental Laws; and

(ii) there have been no past, and there are no pending or threatened claims, complaints, notices or requests for information received by the Borrowers or Lisbon Valley with respect to any alleged violation of any law, including Environmental Laws.

(n) Borrowers' and Lisbon Valley's Indebtedness. Except as disclosed in Schedule 6.1(n) hereto or specifically identified in the consolidated financial statements of Summo identified in Section 6.1(f), the Borrowers and Lisbon Valley have no existing Indebtedness which is not in the ordinary course of business.

(o) Compliance with Laws, Etc. The Borrowers and Lisbon Valley, respectively, are in material compliance with all laws, regulations and rules of federal, provincial, territorial or local Governmental Authorities applicable to each of them or to the Lisbon Valley Properties. Summo is in material compliance with all rules and regulations of The Toronto Stock Exchange, including in particular, all requirements for public disclosure of information concerning Summo, Summo (USA) and Lisbon Valley, its properties, business and prospects, and for issuance of the securities contemplated by the Warrant Agreement.

(p) Work Program and Budget. The Work Program and Budget has been prepared in accordance with prudent mining practices, has been diligently reviewed by the Borrowers and Lisbon Valley, and the Borrowers and Lisbon Valley are not aware of any facts or state of affairs which would materially hinder or prevent the Borrowers and Lisbon Valley from operating the Project in accordance with the Work Program and Budget.

(q) Project Permits. Except for permits, approvals and consents which are to be obtained from time to time by Lisbon Valley in the ordinary course of business and the absence or delay of which will not materially interfere with the operation of the Lisbon Valley Properties in accordance with the Work Program and Budget, all permits, approvals and consents of Governmental

Authorities which are necessary to develop and operate the Lisbon Valley Properties in accordance with the Work Program and Budget (the "Project Permits") are identified in Schedule 6.1(q) hereto. All Project Permits (as so identified in Schedule 6.1(q)) have been obtained by Lisbon Valley and are in full force and effect, free of material defaults by Lisbon Valley, except as specified in Schedule 6.1(q).

ARTICLE 7

AFFIRMATIVE COVENANTS OF BORROWERS

So long as any Loans shall remain unpaid, or any other Obligation of the Borrowers shall not have been fully performed or waived by the Agent, the Borrowers shall, unless the Agent otherwise consents in writing (which consent the Agent may grant or withhold in its sole discretion), perform all covenants in this Article 7.

7.1 Compliance with Laws, Etc. The Borrowers shall comply, and shall cause Lisbon Valley to comply, in all material respects with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments, and governmental charges imposed upon their respective property, except to the extent contested in good faith and adequately reserved for in accordance with GAAP.

7.2 Reporting Requirements. The Borrowers shall deliver, and shall cause Lisbon Valley to deliver, to each of the Lenders the reports, information and certificates (each in form reasonably acceptable to the Lenders) set forth below:

(a) Monthly Reports. No later than the 15th day of each month, a report concerning their operations and activities and operations of the Project during the preceding month, including cost information and statistics and a comparison of actual expenditures contrasted with projected expenditures as budgeted in the Work Program and Budget, in form and substance reasonably acceptable to the Lenders.

(b) Quarterly Financial Information and Certificate. As soon as available and in any event within 60 days after the end of each quarter of each year, (i) a balance sheet of the Borrowers, as of the end of such quarter and statements of income and retained earnings of the Borrowers for such quarter and for the period commencing at the end of the previous year and ending with the end of such quarter, (ii) a report of any material changes in the forecast budget for such quarter, and (iii) a certificate certified by the chief financial officer of the Borrowers confirming compliance by the Borrowers with the other covenants herein and in the Credit Documents.

(c) Annual Financial Information. As soon as available and in any event within 140 days after the end of each year, a consolidated balance sheet of Summo as of the end of such year and consolidated statements of income, cash flow and retained earnings of Summo for such year (in each case setting out separately for Lisbon Valley a balance sheet and statement of income and retained earnings), audited by PriceWaterhouse Coopers, or other chartered public accountants acceptable to the Lenders.

(d) Environmental Matters, Project Permits. Promptly after the filing or receiving thereof, copies of all notices which either of the Borrowers or Lisbon Valley receives from any Governmental Authority alleging its noncompliance with Environmental Laws or Project Permits and any replies of the Borrowers or Lisbon Valley in response thereto.

(e) Litigation. Promptly after initiation thereof, notice of any litigation by or against either of the Borrowers, Lisbon Valley or the Lisbon Valley Properties.

(f) Securities Law and Exchange Filings and Notices. Promptly after the filing thereof, all reports, notices or other filings by Summo with Canadian provincial or

other Governmental Authorities in respect of securities matters, and all such filings with and notices from The Toronto Stock Exchange or any other exchange on which shares of Summo are traded; provided, however, that if any such filings are made in a manner so as to preserve the confidentiality of the contents thereof, Summo will notify the Lenders that such a filing has been made, but need not provide a copy or disclose the contents thereof to the Lenders until the information therein is provided to Summo's shareholders.

(g) Other Information. Such other information respecting the condition or operations, financial or otherwise, of the Borrowers, Lisbon Valley, the Lisbon Valley Properties, the Project or the Borrowers' properties or activities as any Lender may from time to time reasonably request.

7.3 Inspection. At any reasonable time during normal business hours and from time to time, on reasonable notice, the Borrowers shall permit, and shall cause Lisbon Valley to permit either Lender or the Agent, or their respective

agents or representatives acting reasonably to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrowers and Lisbon Valley and to discuss the affairs, finances and accounts of the Borrowers and Lisbon Valley with any of their respective officers, directors, employees or agents. Neither the Borrowers nor Lisbon Valley will be responsible for injuries to or damages suffered by agents or representatives of the Lenders or the Agent while visiting the properties of the Borrowers or Lisbon Valley unless such injuries or damage are caused or contributed to by the gross negligence or willful misconduct of the Borrowers or Lisbon Valley or their employees or agents.

7.4 Maintenance of Insurance. The Borrowers shall maintain and will cause Lisbon Valley to maintain (with respect to the Lisbon Valley Properties, and the Borrowers will maintain with respect to the Borrowers' assets and business generally, insurance with responsible and reputable insurance companies or associations in covering liabilities, property damage or loss and other risks in at least the amounts set forth in Schedule 7.4. All such insurance shall name the Lenders as loss payee or additional insured, as appropriate, and shall contain an endorsement providing that such insurance cannot be terminated without at least ten days' prior notice to the Agent.

7.5 Keeping of Records and Books of Account. The Borrowers shall keep, and shall cause Lisbon Valley to keep, adequate records and books of account, in which accurate and complete entries shall be made, reflecting all financial transactions of the Borrowers and Lisbon Valley.

7.6 Preservation of Existence, Etc. The Borrowers shall each preserve and maintain, and shall cause Lisbon Valley and the other Subsidiaries to preserve and maintain, their respective corporate limited liability company or other existence, rights, franchises and privileges in the jurisdiction of their incorporation or formation, and will qualify and remain qualified as a foreign corporation or other entity in each jurisdiction in which such qualification is necessary or desirable in view of their business and operations or the

ownership of their properties. The Borrowers will comply, and shall cause Lisbon Valley to comply, with all requirements of applicable law and all rules, regulations and requirements of stock exchanges on which their respective capital stock is traded concerning disclosure of matters relevant to the Borrowers and Lisbon Valley and their properties, and will timely file full and complete reports concerning their business and operations as required by such laws, rules, regulations and requirements.

7.7 Conduct of Business. The Borrowers shall engage, and shall cause Lisbon Valley to engage, solely in the business of developing and operating the Lisbon Valley Properties and the Project, and other prospective copper mineral properties, and in activities incident thereto, in accordance with generally accepted industry practices.

7.8 Notice of Default. The Borrowers shall furnish to the Lenders as soon as possible and in any event within five Business Days after the occurrence of each Event of Default or Default continuing on the date of such statement, a statement of the president or chief financial officer of the Borrowers, as applicable, setting forth the details of such Event of Default or Default, and the action which the Borrowers propose to take with respect thereto.

7.9 Defense of Title. The Borrowers shall defend, or cause Lisbon Valley to defend, at their expense, title to the Lisbon Valley Properties, as such title is represented and warranted in Section 6.1(i), and the Liens in favor of the Agent under the Security Documents and maintain and preserve such Liens as first Liens upon the properties and interests subject to the Security Documents, subject only to Permitted Liens.

7.10 Operations. The Borrowers agree to use, and to cause Lisbon Valley to use, all commercially reasonable efforts to maintain, develop and operate their respective properties, including the Lisbon Valley Properties in particular, in accordance with the Work Program and Budget and prudent mining industry practices.

7.11 Maintenance of the Lisbon Valley Properties. The Borrowers agree to cause Lisbon Valley to maintain its property rights and interests in the Lisbon Valley Properties in full force and effect, and to do all acts reasonably determined by the Lenders to be necessary to preserve such rights and interests, including, by way of example and not limitation, payment and performance of all terms of leases and licenses pertaining to such rights and interests; provided, however, that Lisbon Valley may, in the ordinary course of business, upon not less than thirty (30) days' prior written notice to the Agent, abandon or relinquish interests which the Borrowers do not believe warrant further maintenance expenditures and which are unnecessary for the Project.

7.12 Payment of Project Expenses. The Borrowers will pay, or cause Lisbon Valley to pay, all costs and expenses associated with the Project, including in particular amounts due for labor, services and material, promptly as the same became due and, upon request of the Agent, provide the Agent with evidence of such payment.

ARTICLE 8

NEGATIVE COVENANTS OF BORROWERS

So long as any Loans shall remain unpaid, or any other Obligation of the Borrowers shall not have been fully performed or waived by the Agent, the Borrowers shall, unless the Agent otherwise consents in writing (which consent the Agent may grant or withhold in its sole discretion), perform all covenants in this Article 8.

8.1 Indebtedness. The Borrowers shall not, and shall not permit Lisbon Valley to, directly or indirectly, create, incur, assume or suffer to exist, any Indebtedness except (a) Indebtedness hereunder; (b) Indebtedness secured by Liens permitted by Section 8.2; (c) Indebtedness existing on the date hereof disclosed to the Agent; (d) unsecured or other account trade payables; (e) Indebtedness incurred in the ordinary course of business contemplated by the Work Program and Budget; (f) Indebtedness consisting of purchase or leasehold obligations associated with the Project contemplated by the Development Plan; (g) Indebtedness constituting financing for the Project, which is acceptable to the Lender as provided in Section 4.3; and (h) Indebtedness of Lisbon Valley to either of the Borrowers which is subordinated, on terms acceptable to the Lenders, to Borrowers' Obligations.

8.2 Liens, Etc. The Borrowers shall not, and shall not permit Lisbon Valley to, directly or indirectly, create, incur, assume or suffer to exist any Lien, upon or with respect to any portion of the Lisbon Valley Properties, Material Agreements, the Project or other assets of the Borrowers or Lisbon Valley, now owned or hereafter acquired, or assign or otherwise convey any right to receive the production, proceeds or income therefrom, except:

(a) Liens for taxes, assessments or governmental charges or levies if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings;

(b) Liens imposed by law, such as carriers, warehousemen and mechanics' liens and other similar liens arising in the ordinary course of business associated with amounts not yet due and payable, or which are being disputed in good faith by the Borrowers;

(c) Liens of purchase money mortgages and other security interests on equipment acquired, leased or held by the Borrowers (including equipment held by the Borrowers as lessee under leveraged leases) in the ordinary course of business to secure the purchase price of or rental payments with respect to such equipment or to secure indebtedness incurred solely for the purpose of financing the acquisition (including acquisition as lessee under leveraged leases), construction or improvement of any such equipment to be subject to such mortgages or security interests, or mortgages or other

security interests existing on any such equipment at the time of such acquisition, or extensions, renewals or replacements of any of the foregoing for the same or a lesser amount, provided that no such mortgage or other security interest shall extend to or cover any equipment other than the equipment being acquired, constructed or improved, and no such extension, renewal or replacement shall extend to or cover any property not theretofore subject to the mortgage or security interest being extended, renewed or replaced;

(d) Liens outstanding on the date hereof and described in Schedule 6.1(i) hereto;

(e) Liens arising under the Security Documents;

(f) the Lien or any right of distress reserved in or exercisable under any lease for rent and for compliance with the terms of such lease, provided there is no rent in arrears under such lease;

(g) cash or governmental obligations deposited in the ordinary course of business in connection with contracts, bids, tenders or to secure workmen's compensation, unemployment insurance, surety or appeal bonds, costs of litigation, when required by law, public and statutory obligations, Liens or claims incidental to current construction, mechanics', warehousemen's, carriers' and other similar Liens;

(h) Liens given in the ordinary course of business to a public utility or any municipality or governmental or other public authority when required by such utility or municipality or governmental or other authority in connection with the operations of the Borrowers;

(i) zoning restrictions, easements, rights-of-way and servitudes which in the opinion of the Agent (in its sole discretion) will not in the aggregate materially impair the use of the Lisbon Valley Properties by the Borrowers and Lisbon Valley for the Project;

(j) title defects or irregularities which in the opinion of the Agent (in its sole discretion) are of a minor nature and in the aggregate will

not materially impair the use of the Lisbon Valley Properties for the Project;

(k) all rights reserved to or vested in any governmental body by the terms of any lease, license, franchise, grant or permit held by the Borrowers or Lisbon Valley or by any statutory provision to terminate any such lease, license, franchise, grant or permit or to require annual or then periodic payments as a condition of the continuance thereof or to distrain against or to obtain a lien on any property or assets of the Borrowers or Lisbon Valley in the event of failure to make such annual or other periodic payments; and

(l) Liens securing third-party financing for the Project as contemplated and permitted by Section 4.3.

8.3 Assumptions, Guarantees, Etc. of Indebtedness of Other Persons. The Borrowers shall not, and shall not permit Lisbon Valley to, directly or indirectly, assume, guarantee, endorse or otherwise become directly or contingently liable (including, without limitation, liable by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor or otherwise to assure the creditor against loss) in connection with any Indebtedness of any other Person, except guarantees by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, or in respect of provision of labor or materials for the Project or in connection with bonds, letters of credit or other security posted by the Borrowers or Lisbon Valley in the ordinary course of business in connection with the Project.

8.4 Investments in Other Persons. The Borrowers shall not, and shall not permit Lisbon Valley to, directly or indirectly, (i) make any loan (other than approved capital expenditures and exploration expenses) to any Person utilizing the Loan proceeds except for loans by the Borrowers to Lisbon Valley as permitted by Section 8.1(h), or (ii) purchase or otherwise acquire the capital stock, assets, or obligations of, or any interest in, any Person (other than readily marketable direct obligations of the United States of America or Canada and certificates of time deposit issued by commercial banks of recognized standing operating in the United States of America or Canada or other investment grade instruments reasonably approved by the Agent).

8.5 Mergers, Changes in Capital Structures, Etc.

The Borrowers shall not, and shall not permit Lisbon Valley to, directly or indirectly, merge or consolidate with any Person, or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to any Person, or acquire (whether in one transaction or in any series of transactions) all or substantially all of the assets of any Person. The Borrowers will not establish, or enter into, and shall not permit Lisbon Valley to establish or enter into, agreements or other arrangements which obligate the Borrowers or Lisbon Valley to establish, any capital structure which consists of equity interests in the Borrowers or Lisbon Valley.

8.6 Sale of Project Assets. The Borrowers shall not, and shall not permit Lisbon Valley to, directly or indirectly, sell, transfer, assign or otherwise dispose of any of its assets or properties related to the Project, except for sales of mineral production and other properties and assets related to the Project for full, fair and reasonable consideration in the ordinary course of business.

8.7 Restrictive and Inconsistent Agreements. The Borrowers will not, and shall not permit Lisbon Valley to, enter into any agreement or undertaking or incur or suffer any obligation prohibiting or inconsistent with the performance by the Borrowers of the Obligations or the Material Agreements or the compliance by Lisbon Valley with the

Amendment to Deed of Trust, the other Security Documents to which it is a party, or this Agreement.

8.8 Grant of Royalties. The Borrowers shall not, and shall not permit Lisbon Valley to, grant, sell, transfer or assign any royalty interests or other burdens on or measured by production or proceeds from the sale of production from the Project without the prior written consent of the Lenders; provided, however, that the foregoing covenant shall not prohibit an amendment to the existing Brinton-Knowles royalty payable with respect to production from a portion of the Lisbon Valley Properties.

8.9 Limitation on Issuance of Shares. Prior to December 31, 1999 Summo shall not issue any Shares for a consideration of less than C$0.12 per Share; provided, however, that the foregoing limitation shall not apply to any issuance of Shares in the circumstances described in clauses (1) through (6) of Section 11(d) of the Warrant Agreement.

8.10 Summo Dividends. Summo will not declare or pay any dividends consisting of cash or property on or with respect to the Shares or any other equity interests in Summo while any of the Obligations remain outstanding, provided that the foregoing shall not prohibit Summo from declaring and distributing dividends in the form of additional Shares or from declaring and

implementing stock splits.

ARTICLE 9

THE WARRANT AGREEMENT

9.1 Issuance of Warrant Agreement and Warrants. Concurrently with the execution hereof Summo will execute and deliver the Warrant Agreement and the Warrant in favor of the Lenders as provided therein. It is expressly agreed by Summo and the Lenders that the rights and obligations of Summo and the Lenders under the Warrant Agreement are granted in consideration hereof, and that such rights and obligations are independent of and enforceable without regard to any rights, obligations, claims or disputes between the Borrowers and the Lenders with respect to any of the Loans or other Obligations of the Borrowers hereunder or under any of the Credit Documents.

ARTICLE 10

EVENTS OF DEFAULT

10.1 Events of Default. Each of the following events shall be an "Event of Default" hereunder:

(a) Nonpayment. The Borrowers shall fail to pay any principal when due hereunder (whether at stated maturity or by prepayment or otherwise), or shall fail to pay interest hereunder when due.

(b) Specific Defaults. The Borrowers shall fail to observe or perform any of their covenants contained in Article 8 of this Agreement.

(c) Other Defaults. The Borrowers or Lisbon Valley shall fail to observe or perform any of their covenants contained in this Agreement or in any other Transaction Document, other than the covenants referred to in paragraphs (a) and (b) above, and the Borrowers or Lisbon Valley has not remedied such default within ten Business Days after notice of default has been given by the Agent to the Borrowers or Lisbon Valley, as the case may be.

(d) Representation or Warranty. Any representations or warranty made by the Borrowers (or any of their officers) under or in connection with this Agreement or the other Transaction Documents or made by Lisbon Valley in the Amendment to Deed of Trust or the other Security Agreements to which it is a party shall prove to have been incorrect in any material respect when made.

(e) Cross-Default. A default shall occur under any of the Transaction Documents or under any Material Agreement, or under any agreement pertaining to Indebtedness permitted by Section 8.1, or the Borrowers or Lisbon Valley shall fail to pay any Indebtedness in excess of US$50,000 in principal amount (but excluding Indebtedness included in the Obligations), or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise, and allowing for any applicable grace period) and such failure to pay is not being contested by the Borrowers or Lisbon Valley in good faith; or any other default under any agreement or instrument relating to any such Indebtedness or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness, unless such default or event shall be waived by the holders or trustees for such Indebtedness; or any such Indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof.

(f) Insolvency. Either of the Borrowers or Lisbon Valley shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrowers or Lisbon Valley seeking to adjudicate any of them a bankrupt or insolvent, or seeking a liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of any of such Persons or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of any order for relief or the appointment of a receiver,

trustee, or other similar official for any of such Persons or for any substantial part of its property and, if instituted against the Borrowers or Lisbon Valley shall remain undismissed for a period of 60 days; or the Borrowers or Lisbon Valley shall take any action to authorize any of the actions set forth in this paragraph (f).

(g) Judgments. A final judgment or order for the payment of money in excess of US$50,000 shall be rendered against the Borrowers or Lisbon Valley and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect for any period of ten consecutive days.

(h) Security Interest. Any Security Documents after delivery thereof shall for any reason, except to the extent permitted by the terms thereof or caused by the Lenders or the Agent, cease to create a valid and perfected first priority security interest in any of the Collateral purported to be covered thereby, or the Borrowers or Lisbon Valley shall so state in writing.

(i) Condemnation. Any material portion of the Lisbon Valley Properties is taken by power of expropriation or eminent domain or sold under threat of such taking.

(j) Regulatory Action. Any Governmental Authority shall take or attempt to take any action with respect to the Borrowers, Lisbon Valley or the Project or any other Collateral subject to the Security Documents which would have a Material Adverse Effect on the Borrowers or Lisbon Valley or the Borrowers' ability to repay the Loans or to meet their other Obligations in a timely manner, or on Lisbon Valley or Lisbon Valley's ability to perform its obligations under the Amendment to Deed of Trust or other Security Documents to which it is a party unless such action is set aside, dismissed or withdrawn within ninety (90) days of its institution or such action is being contested in good faith and its effect is stayed during such contest.

(k) Cessation of Project Operations. The Project shall be abandoned or terminated, or operations of the Project shall be terminated or reduced materially from the levels of operations and production provided for in the Work Program and Budget.

(l) Change of Control. Summo (USA) shall cease to be a direct wholly-owned Subsidiary of Summo or Lisbon Valley shall cease to be a direct or indirect wholly-owned subsidiary of the Borrowers.

(m) Summo Stock Exchange Listing. Summo shall fail to be listed and its Shares available for trading on The Toronto Stock Exchange.

(n) Material Adverse Change. A change shall occur in the status, business or prospects of either of the Borrowers or Lisbon Valley which has a Material Adverse Effect on any of such Persons.

10.2 Remedies Upon Event of Default.

(a) Upon the occurrence of an Event of Default specified in Section 10.1(f) of this Agreement or, in the case of any other Event of Default, upon notice by any Lender to the Borrowers of such Lender's election to declare the Borrowers in default, the obligations of such Lender hereunder including, if RCF is the Lender giving such notice, RCF's obligation to Advance Loans, shall terminate. The date on which such notice is sent or, in the case of an Event of Default specified in Section 10.1(f) of this Agreement, the date of such Event of Default, shall be the "Date of Default."

(b) Upon the Date of Default, upon notice thereof from any Lender to the Borrowers in all cases other than the occurrence of an Event of Default as specified in Section 10.1(f), the Loans, all interest thereon, Breakage Costs, and all other amounts owed by the Borrowers hereunder shall be immediately due and payable in full. In the case of an Event of Default specified in Section 10.1(f), no notice from a Lender shall be required, and all amounts owed by the Borrowers hereunder shall be immediately due and payable on the Date of Default, without notice from the Lenders. No such acceleration of the due date of the Loans and other amounts due hereunder shall reduce the rights of the Lenders or the obligations of Lisbon Valley under the Amendment to Deed of Trust or the other Security Documents to which Lisbon Valley is a party.

(c) Upon the occurrence of an Event of Default, all of the remedies provided to the Agent and the Lenders in all of the Security Documents shall immediately become available to the Agent and the Lenders.

(d) Except as expressly provided above in this Section 10.2, presentment, demand, protest and all other notices of any kind are hereby expressly waived.

ARTICLE 11

THE AGENT

11.1 Actions. Each Lender appoints and authorizes the Agent to act on behalf of such Lender under this Agreement and each other Credit Document and, in the absence of other written instructions from the Lenders, received from time to time by the Agent (with respect to which the Agent agree that it will, subject to the last paragraph of this Section, comply in good faith except as otherwise advised by counsel to the effect that any such compliance might subject the Agent to any liability of whatsoever nature), to exercise such powers hereunder and thereunder as are specifically delegated to or required of the Agent by the terms hereof and thereof, together with such powers as may be reasonably incidental thereto.

Each Lender agrees (which agreement shall survive any termination of this Agreement) to indemnify the Agent, pro rata according to such Lender's

Percentage, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may at any time be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or any other Credit Document, including the reimbursement of the Agent for all out-of-pocket expenses (including reasonable attorneys' fees and expenses on a full indemnity basis) incurred by the Agent hereunder or thereunder or in connection herewith or therewith or in enforcing the Obligations of any Borrowers under this Agreement or any other Credit Document, in all cases as to which the Agent is not reimbursed by such Borrowers; provided, however, that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements determined by a court of competent jurisdiction in a final proceeding to have resulted from the Agent's gross negligence or willful misconduct.

The Agent shall not be required to take any action hereunder or under any other Credit Document, or to prosecute or defend any suit in respect of this Agreement or any other Credit Document, unless it is indemnified to its satisfaction by the Lenders against loss, costs, liability and expense. If any indemnity in favor of the Agent shall become impaired, it may call for additional indemnity and cease to do the acts indemnified against until such additional indemnity is given.

11.2 Reliance. The Agent shall be entitled to act upon any notice, certificate, instrument, demand, request, direction, instruction, waiver, receipt, consent or other document or communication furnished hereunder or under any other Credit Document which the Agent in good faith believes to be genuine, and it shall be entitled to rely upon the due execution, validity and effectiveness, and the truth and acceptability of any provisions contained therein. The Agent shall have no responsibility to make any investigation into the facts or matters stated in any notice, certificate, instrument, demand, request, direction, instruction, waiver, receipt, consent or other document or communication furnished to it hereunder or under any other Credit Document. Upon request from the Agent, each party hereto shall deliver to the Agent a list of its authorized signatories of any notice, certificate, instrument, demand, request, direction, instruction, waiver, receipt, consent or other document or communication furnished to the Agent hereunder or under any other Credit Document, and the Agent shall be entitled to rely on such list until a new list is furnished by such party to the Agent.

11.3 Exculpation. Neither the Agent nor any of its directors, officers, employees or agents shall be liable to any Lender for any action taken or omitted to be taken by the Agent or representative thereof under this Agreement or any other Credit Document, or in connection herewith or therewith, except for its own willful misconduct or gross negligence, or responsible for any recitals or warranties herein or therein, or for the effectiveness, enforceability, validity or due execution of this Agreement or any other Credit Document,

or to make any inquiry respecting the performance by any Borrowers of its obligations hereunder or thereunder, or the validity, genuineness, creation, perfection or priority of the Liens and security interests created by any of the Credit Documents, or the validity, genuineness, enforceability, existence, value or sufficiency of any collateral security. The Agent shall be entitled to rely upon the advice of counsel concerning legal matters and upon any notice, consent, certificate, statement, or writing which the Agent believes to be genuine and to have been presented by a proper Person.

11.4 Consultation With Counsel, etc. The Agent may consult with, and obtain advice from, legal counsel, accountants, engineers and other experts, in connection with the performance of its duties hereunder and under any other Credit Document and the Agent shall incur no liability and shall be fully protected in acting in good faith in accordance with the opinion and advice of any such counsel, accountants and other experts (as to matters within such expert's field of expertise). The Agent shall not be responsible to the Lenders for the negligence or misconduct of any counsel, accountants, engineers and other experts selected by the Agent without gross negligence or willful misconduct.

11.5 Successors. The Agent may resign as such at any time upon at least thirty (30) days' prior notice to the Borrowers and all the Lenders. If the Agent at any time shall resign, the Lenders may appoint (subject, as long as no Default shall have occurred and be continuing, to the prior written consent of the Borrowers, such consent not to be unreasonably withheld or delayed) another Lender as a successor Agent which shall thereupon become the Agent hereunder. If no successor Agent shall have been so appointed as aforesaid, and shall have accepted such appointment, within thirty (30) days after the retiring Agent's giving notice of resignation, then the retiring Agent may, on behalf of the Lenders, appoint (subject, as long as no Default shall have occurred and be continuing, to the prior written consent of the Borrowers, such consent not to be unreasonably withheld or delayed) a successor Agent, which shall be one of the Lenders or a commercial banking institution having a combined capital and surplus of at least U.S. $500,000,000 (or the equivalent thereof in another currency). Upon the acceptance of any appointment as the Agent hereunder by the successor Agent, such successor Agent shall be entitled to receive from the

retiring Agent, such documents of transfer and assignment as the successor Agent may reasonably request, and shall thereupon succeed to and become vested with all rights, powers, privileges and duties of the retiring Agent and the retiring Agent shall be discharged from its duties and obligations under this Agreement and each other Credit Document.

11.6 Credit Decisions. Each Lender acknowledges that it has, independently of the Agent and each other Lender, and based on the financial and other information referred to in Article 6 and such other documents, information and investigations as it has deemed appropriate, made its own credit decision to extend its Commitment. Each Lender also acknowledges that it will, independently of the Agent and each other Lender, and based on such other documents, information and investigations as it shall deem appropriate at any time, continue to make its own credit decisions as to exercising or not exercising from time

to time any rights and privileges available to it under this Agreement or any other Credit Document.

11.7 Copies, etc. The Agent shall give prompt notice to each Lender of each notice or request required or permitted to be given to the Agent by any Borrowers pursuant to the terms of this Agreement or any other Loan Document. The Agent will distribute to each Lender a copy of each Instrument received for its account and copies of all other communications received by the Agent from any Borrowers for distribution to the Lenders by the Agent in accordance with the terms of this Agreement or any other Credit Document.

ARTICLE 12

MISCELLANEOUS

12.1 Lenders' Representation on Summo Board of Directors. Each of the Lenders agrees to vote its Shares and Summo shall take all requisite action, such that the number of Directors of Summo shall be fixed at five. To the extent permitted by applicable law, in accordance with the provisions of this Section 12.1, each of the Lenders shall be entitled to be represented on the Board of Directors of Summo while any portion of the Obligations remains outstanding. RCF shall be entitled to have one representative on the Board of Directors as of the Effective Date, to have at least one representative on the Board of Directors thereafter and to have additional representatives on the Board of Directors in proportion to its ownership interests in Summo (considering all Shares held, and all Shares which could be held by RCF upon exercise of the Warrant in full). St. Mary shall be entitled to have a representative receive all materials distributed by Summo to its Board of Directors and to attend all Summo Board of Director meetings as of the Effective Date. After the Effective Date, upon the written request of St. Mary, Summo agrees to use commercially reasonable efforts to change the jurisdiction of its incorporation as soon as practicable from the Province of British Columbia to a jurisdiction, within or without Canada, which does not impose citizenship requirements on the makeup of corporate Boards of Directors. Upon completion of such change, St. Mary shall be entitled to have one representative on the Board of Directors of Summo. The representative or representatives of the Lenders proposed for service on the Board of Directors of Summo shall be subject to the approval of the Board of Directors of Summo, which shall not be unreasonably withheld.

12.2 Amendments, Etc. Except as otherwise expressly provided in this Agreement, no amendment or waiver of any provision of this Agreement, nor consent to any departure by the Borrowers therefrom, shall in any event be effective unless the same shall be in writing and signed by the Lenders, and, in the case of any amendment, by the Borrowers and the Lenders and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

12.3 Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including facsimile communication) and transmitted by facsimile, or delivered,

if to the Borrowers,

Summo Minerals Corporation
Summo USA Corporation
1776 Lincoln Street
Suite 900
Denver, Colorado 80203
Attention: Gregory A. Hahn
Facsimile: (303) 863-1736

if to the Agent,

Resource Capital Fund L.P.
2150 Republic Plaza Building
370 Seventeenth Street
Denver, Colorado 80202
Attention: James T. McClements
Facsimile: (303) 607-0150

and if to a Lender, at the address specified on the signature pages hereof, and as to each party, at such other address or number as shall be designated by such party in a written notice to the other. All such notices and communications shall be effective (a) when received, if physically delivered; and (b) upon confirmation of transmission, if sent by facsimile on a Business Day, addressed in each case as aforesaid, except that notices to the Lenders and the Agent under Articles 2 or 3 shall not be effective until received by the Lenders or the Agent.

12.4 No Waiver; Remedies. No failure on the part of the Lenders to exercise, and no delay in exercising, any right hereunder, or under any other Transaction Document, shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder, or under any other Transaction Document, preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

12.5 Costs, Expenses and Taxes. The Borrowers jointly and severally agree to pay on demand all reasonable costs and expenses of the Agent in connection with the preparation, execution, delivery and administration of this Agreement, the other Transaction Documents and the other documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of legal counsel and any independent consultants to the Agent and all other out-of-pocket expenses of the Agent, and all costs and expenses, if any, of the Lenders and the Agent in connection with the protection of the Lenders' rights with respect

to and the enforcement of this Agreement and the other Transaction Documents, and the other documents to be delivered hereunder (whether incurred before, during or after commencement of any bankruptcy, reorganization or insolvency actions pertaining to either of the Borrowers). All such expenses will be itemized in reasonable detail. In addition, the Borrowers jointly and severally agree to pay any and all stamp, mortgage recording and other taxes, filing fees or charges payable or determined to be payable in connection with the execution and delivery of this Agreement and the other Transaction Documents, and the other documents to be delivered hereunder, and agree to save the Lenders and the Agent harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes, filing fees or charges.

12.6 Indemnification. The Borrowers jointly and severally agree to indemnify the Lenders and the Agent from and against any and all liabilities, obligations, losses (other than loss of profits), damages, penalties, actions, judgments, suits, costs, claims, reasonable expenses or disbursements of any kind whatsoever (collectively "Losses") which may at any time (including, without limitation, at any time following the payment of the Obligations) be imposed on, incurred by or asserted against any Lender or the Agent in any way relating to or arising out of this Agreement or any other Transaction Document, or any Instruments contemplated by or referred to herein or therein or the transactions contemplated thereby, except with respect to Losses arising entirely out of the bad faith, gross negligence or willful misconduct of a Lender or the Agent.

12.7 Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the Borrowers and the Lenders and their respective permitted successors and assigns. The Borrowers shall have no right to assign any of their respective rights or obligations hereunder or any interest herein or in any other Transaction Document without the prior written consent of the Lenders. No such assignment by the Borrowers shall (a) be effective until the assignee has executed an assumption agreement in form satisfactory to the Lenders, or (b) relieve the assigning Person from any obligation or duty, then existing or later arising, under this Agreement or any other Credit Document to which the assigning Person is a party. The Lenders may assign their respective rights and interests hereunder and under the other Credit Documents or may grant participation interests therein or in the Credit Documents, and, to the extent of any such assignment, such assignee shall have the same obligations, rights and benefits with respect to the Borrowers as it would have had if it were an original Lender hereunder.

12.8 GOVERNING LAW. THIS AGREEMENT AND THE OTHER CREDIT DOCUMENTS, EXCEPT THE SECURITY DOCUMENTS, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF COLORADO NOT INCLUDING THE CONFLICTS OF LAW AND CHOICE OF LAW PROVISIONS THEREOF. THE SECURITY DOCUMENTS SHALL BE GOVERNED BY THE LAWS OF THE JURISDICTION SPECIFIED THEREIN, OR IF NONE IS SPECIFIED, BY THE LAWS OF THE JURISDICTION IN WHICH THE COLLATERAL SUBJECT THERETO IS PRINCIPALLY LOCATED.

12.9 Submission to Jurisdiction. For the purpose of assuring that the Lenders may enforce their rights under this Agreement and the other Transaction Documents, the Borrowers for themselves, and their respective successors and assigns, hereby irrevocably (a) agree that any legal or equitable action, suit or proceeding against the Borrowers arising out of or relating to this Agreement or the other Transaction Documents or any transaction contemplated hereby or thereby or the subject matter of any of the foregoing may be instituted in any court in Denver, Colorado; (b) waive any objection which they may now or

hereafter have to the venue of any such action, suit or proceeding or any claim of forum non conveniens; (c) submit themselves to the nonexclusive jurisdiction of any such court for purposes of any such action, suit or proceeding; and (d) waive any immunity from jurisdiction to which they might otherwise be entitled in any such action, suit or proceeding which may be instituted in any such court, and waive any immunity from the maintaining of an action against them to enforce in any such court or elsewhere, any judgment for money obtained in any such action, suit or proceeding and, to the extent permitted by applicable law, any immunity from execution.

12.10 Waiver of Jury Trial. To the extent permitted by applicable law, each party hereto irrevocably and unconditionally waives the right to trial by jury in any legal or equitable action, suit or proceeding arising out of or relating to this Agreement, or the other Transaction Documents, or any transaction contemplated hereby or thereby or the subject matter of any of the foregoing.

12.11 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Each of the parties to this Agreement will be entitled to rely upon delivery by facsimile machine of an executed copy of this Agreement and acceptance of such facsimile copy will be legally effective to create a valid and binding agreement between the parties in accordance with the terms hereof.

12.12 Inconsistent Provisions. In the event of any conflict between this Agreement and any of the other Credit Documents, the provisions of this Agreement shall govern and be controlling.

12.13 Termination of Agreement. Upon payment in full of the Loans and upon payment in full of all other amounts due hereunder and performance of all of the Borrowers' Obligations, this Agreement will terminate. Upon such termination, at the request and expense of the Borrowers, the Lenders or the Agent will provide written evidence of such

termination, will release the Security Documents and will do such further acts, if any, as may be reasonably necessary to release any Liens in favor of the Lenders or the Agent in the Collateral.

12.14 Entire Agreement. This Agreement, including all Schedules and Exhibits hereto, and the other Transaction Documents contain the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, covenants or other agreements relating to the subject matter hereof except as otherwise stated or referred to herein.

12.15 Invalidity, etc. Each of the provisions contained in this Agreement and any Transaction Document is distinct and severable and a declaration of invalidity, illegality or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision of this Agreement or the Transaction Documents. Without limiting the generality of the foregoing, if any amounts on account of interest or fees or otherwise payable by the Borrowers to the Lenders or the Agent hereunder exceed the maximum amount recoverable under the applicable laws of the State of Colorado, the amounts so payable hereunder shall be reduced to the maximum amount recoverable under the applicable laws of the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

BORROWER

SUMMO USA CORPORATION

By: /s/ GREGORY A. HAHN

Gregory A. Hahn
President

BORROWER

SUMMO MINERALS CORPORATION

By: /s/ GREGORY A. HAHN

Gregory A. Hahn
President

AGENT

RESOURCE CAPITAL FUND L.P.
By: Resource Capital Associates L.L.C.,
general partner

By: /s/ JAMES T. McCLEMENTS

Managing Director

LENDER

ST. MARY MINERALS INC.

By: /s/ MARK A. HELLERSTEIN

President and Chief Executive Officer

Commitment Amount: $1,400,000

Address for Notices:

St. Mary Minerals Inc.
1776 Lincoln Street
Suite 1100
Denver, Colorado 80203
Attention: Mark A. Hellerstein
Facsimile: (303) 861-8140

LENDER

RESOURCE CAPITAL FUND L.P.
By: Resource Capital Associates L.L.C., general partner

By: /s/ JAMES T. McCLEMENTS

James T. McClements
Managing Director

Commitment Amount: $4,000,000

Address for Notices:

Resource Capital Fund L.P.
2150 Republic Plaza Building
370 Seventeenth Street
Denver, Colorado 80202
Attention: James C. McClements
Facsimile: (303) 607-0150

EXHIBIT 10.32

REPLACEMENT PROMISSORY NOTE

US$1,400,000 June 25, 1999

FOR VALUE RECEIVED, each of the undersigned, SUMMO USA CORPORATION, a corporation organized and existing under the laws of the State of Colorado ("Summo (USA)"), and SUMMO MINERALS CORPORATION, a corporation organized and existing under the laws of British Columbia ("Summo," with Summo (USA) and Summo referred to together as the "Makers"), hereby jointly and severally and unconditionally promises to pay to the order of ST. MARY MINERALS INC., a corporation organized and existing under the laws of Colorado ("St. Mary Minerals"), or other holder hereof (with St. Mary Minerals and any other holder hereof sometimes referred to herein as "Holder"), in immediately available funds, the principal amount of One Million Four Hundred Thousand Dollars ($1,400,000) or so much thereof as may be advanced to or for the benefit of Makers or otherwise outstanding under that certain Amended and Restated Credit Agreement dated as of June 25, 1999 by and among RESOURCE CAPITAL FUND L.P., St. Mary Minerals and Makers (the "Credit Agreement") as the same may hereafter be amended, modified or supplemented.

The Makers further jointly and severally agree to pay and deliver to Holder, when and as provided in the Credit Agreement, interest on the outstanding principal amount hereof at the rate and at the times specified in the Credit Agreement.

This Note is made by the Makers on a joint and several liability basis pursuant to, and is subject to, all of the terms and conditions of the Credit Agreement. Payment of the principal amount represented hereby and the interest thereon shall be payable at the times and in the manner set forth in the Credit Agreement, and in all events are due and payable not later than July 1, 2004. Capitalized terms which are not defined herein have the meanings given thereto in the Credit Agreement. Reference is made to the Credit Agreement and the documents delivered in connection therewith for a statement of the prepayment rights and obligations of the Makers, a description of the collateral in which liens and security interests have been granted by the Makers to secure the payment and performance of the Makers hereunder, the nature and extent of such liens and security interests, and for a statement of the terms and conditions under which the due date of this Note may be accelerated.

This Note represents an extension and renewal of the outstanding Principal Amount of, and a replacement and substitution for, the Amended and Restated Promissory Note dated January 1, 1999 made by the Makers payable to the order of St. Mary Land & Exploration Company and St. Mary Minerals Inc. (the "Prior Note"). The indebtedness evidenced by the Prior Note is a continuing indebtedness and nothing contained herein shall be construed to deem paid the Prior Note or to release or terminate any Lien or security interest given to secure payment of the Prior Note.

In addition to, and not in limitation of, the foregoing and the provisions of the Credit Agreement, the Makers further agree, subject only to any limitation imposed by applicable law, to pay all expenses, including reasonable attorneys' fees and legal expenses, incurred by any Holder hereof in endeavoring to collect any amounts due and payable hereunder which are not paid and delivered or otherwise satisfied when due, whether by acceleration or otherwise.

The Makers, for themselves and for all endorsers hereof, hereby waive notice, demand, presentment for payment, protest and notice of dishonor.

This Note and the rights of Makers and any Holders hereof are governed by the laws of the State of Colorado.

IN WITNESS WHEREOF, the Makers have executed and delivered this Note as of the date first above written.

SUMMO USA CORPORATION	SUMMO MINERALS CORPORATION
By: /s/ GREGORY A. HAHN	By: /s/ GREGORY A. HAHN
Name: Gregory A. Hahn	Name: Gregory A. Hahn
Title: President	Title: President

EXHIBIT 10.33

PLEDGE AND SECURITY AGREEMENT

This PLEDGE AND SECURITY AGREEMENT (the "Pledge Agreement"), dated as of June 25, 1999, is by and between SUMMO MINERALS CORPORATION, a corporation organized and existing under the laws of British Columbia (the "Pledgor") and RESOURCE CAPITAL FUND L.P., a Cayman Islands limited partnership, as agent (the "Agent") for the Lenders named in the Credit Agreement (hereinafter defined).

RECITALS

A. Pursuant to the Amended and Restated Credit Agreement (the "Credit Agreement"), dated as of June 25, 1999, among the Pledgor, Summo USA Corporation, a corporation organized and existing under the laws of Colorado ("Summo USA," together with Pledgor, sometimes referred to herein as the "Borrowers"), the Lenders as defined and named therein and the Agent, the parties agreed to modify, amend in its entirety and restate certain outstanding credit obligations as set forth therein and to extend additional credit thereunder. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

B. The Pledgor is willing to enter into this Pledge Agreement to secure the due and punctual performance of the obligations of the Pledgor and Summo USA to the Lenders under the Credit Agreement and the other Transaction Documents. The collateral security offered hereby and all rights and remedies granted to the Agent hereunder will be for the ratable benefit of the Lenders.

AGREEMENT

NOW, THEREFORE, the parties hereto agree as follows:

1. Pledge and Grant Security Interest.

(a) For value received and to induce the Lenders to enter into the Credit Agreement and extend additional credit to the Borrowers, the Pledgor hereby pledges to the Agent for the ratable benefit of the Lenders and grants as security to the Agent for the ratable benefit of the Lenders, for all present and future obligations and liabilities of all kinds of the Pledgor to any of the Lenders under the Credit Agreement and the other Transaction Documents, hereunder or otherwise, whether incurred by the Pledgor as maker, endorser, drawer, acceptor, guarantor, accommodation party or otherwise, and whether due or to become due, secured or unsecured, absolute or contingent, joint or several, and howsoever or whensoever incurred by the Pledgor or acquired by any Lender (collectively referred to as the "Obligations"), a charge and first lien on, and security interest in, all its right, title and interest in and to the following:

(i) (A) all of (x) the issued and outstanding shares of the capital stock of Summo USA, any other equity interest in Summo USA whether now existing or hereafter acquired and all additional shares of capital stock of Summo USA from time to time acquired by the Pledgor by purchase, stock dividend, distribution or otherwise and (y) Pledgor's membership and beneficial interest in Lisbon Valley Mining Co. LLC, a Utah limited liability company ("Lisbon Valley"), whether now existing or hereafter acquired, all of Pledgor's share of profits and losses of Lisbon Valley, Pledgor's right to receive distributions of Lisbon Valley property and assets of any type and characterization, and all additional membership, ownership or other interest in Lisbon Valley from time to time acquired by the Pledgor by purchase, distribution or otherwise (all such shares of stock of and interest in Summo USA and interest in Lisbon Valley pledged hereunder being referred to collectively as the "Pledged Interest"), (B) certificates representing any of the Pledged Interest and (C) except as otherwise provided in Section 4 hereof, any and all dividends, cash, securities, instruments, warrants, options and other property, proceeds and distributions from time to time received, receivable, paid or otherwise distributed in respect of, in substitution for, in addition to or in exchange for or evidencing any of the Pledged Interest and all proceeds thereof; and

(ii) all of the Pledgor's Equipment, General Intangibles, Accounts, Chattel Paper, Consumer Goods, Documents, Inventory, Instruments, Fixtures, Goods and Proceeds, as each of such terms is defined in the Uniform Commercial Code (the "UCC") in effect in the state where such property is located, and all other personal property of the Pledgor, whether now existing or hereafter acquired, which is located on, in or under, used, intended for use, used or obtained in connection or otherwise associated with or affixed to the Lisbon Valley Properties as defined in the Credit Agreement and further described in Schedule 1.1(a) thereto, and all renewals or replacements thereof or articles in substitution therefor and all proceeds or profits thereof (collectively, the "Personalty").

(b) The Pledged Interest, the certificates therefor, all dividends, cash, securities, instruments, warrants, options and other property, proceeds and distributions from time to time received, receivable, paid or otherwise distributed in respect of, in substitution for, in addition to or in exchange

for or evidencing any of the Pledged Interest and all proceeds thereof, and the Personalty are referred to herein collectively as the "Pledged Collateral."

2. Delivery of Pledged Interest Certificates; Registry Notations.

(a) All certificates or instruments representing or evidencing the Pledged Interest referred to in Section 1 hereof have previously been delivered or are being delivered to and held by the Agent, for the ratable benefit of the Lenders, concurrently with the execution of this Pledge Agreement and are in suitable form for transfer by delivery, endorsed in blank or accompanied by duly executed undated instruments of transfer or assignments in blank, having attached thereto or to such certificates all requisite federal, state or provincial stock transfer tax stamps, all in form and substance satisfactory to the Agent.

(b) All necessary and appropriate entries, notations and written descriptions in the books, share registry or membership registry of Summo USA and Lisbon Valley evidencing and necessary or desirable to perfect the pledge of the Pledged Collateral pursuant hereto have been or will be made concurrently with the execution of this Pledge Agreement. The Pledgor

shall forthwith take all other actions necessary, appropriate or desirable pursuant to applicable law to perfect the pledge of the Pledged Collateral and all requisite federal, state or provincial fees or taxes therefor have been paid.

3. Representations, Warranties, Covenants and Agreements of the Pledgor.

The Pledgor represents, warrants, covenants and agrees that:

(a) The portion of the Pledged Interest consisting of the shares in Summo USA listed on Schedule 1 hereto constitutes all of the issued and outstanding common stock or other equity interests in Summo USA, and the Pledged Interest listed on Schedule 1 constitutes all of the shares of Summo USA owned or controlled by the Pledgor. The portion of the Pledged Interest described on Schedule 1 consisting of the membership interest in Lisbon Valley constitutes all of the membership interest in Lisbon Valley owned or controlled by the Pledgor.

(b) The Pledged Interest has been duly authorized and is validly issued, fully paid and non-assessable.

(c) Except for the security interests granted hereby, the Pledgor is, and as to Pledged Collateral acquired after the date hereof the Pledgor shall and will be at the time of acquisition, the owner and holder of the Pledged Collateral free from any adverse claim, security interest, encumbrance, lien, charge, or other right, title or interest of any person other than the Agent, except for Permitted Liens, and covenants that at all times the Pledged Collateral will be and remain free of all such adverse claims, security interests, or other liens or encumbrances, other than Permitted Liens.

(d) (i) The Pledgor has full power and lawful authority to enter into this Pledge Agreement and to pledge the Pledged Collateral to the Agent and to grant to the Agent a first and prior security interest therein as herein provided, all of which have been duly authorized by all necessary corporate action.

(ii) The execution and delivery and the performance hereof are not in contravention of any charter, articles of incorporation or by-law provision, or of any Instrument or undertaking to which the Pledgor is a party or by which the Pledgor or its property is bound.

(iii) This Pledge Agreement constitutes the valid and legally binding obligation of the Pledgor enforceable in accordance with its terms.

(iv) The Pledgor will defend the Pledged Collateral against all claims and demands of all persons at any time claiming the same or any interest therein. Any officer, agent or representative acting for or on behalf of the Pledgor in connection with this Pledge Agreement or any aspect hereof, or entering into or executing this Pledge Agreement on behalf of the Pledgor, has been duly authorized to do so, and is fully empowered to act for and represent the Pledgor in connection with this Pledge Agreement and all matters related thereto or in connection therewith.

(e) (i) Pledgor's principal place of business and chief executive office is in Denver, Colorado. Pledgor shall not change the location of its principal place of business or chief executive office without the prior written consent of the Agent, not to be unreasonably withheld.

(ii) The preamble hereof states the correct legal name of the Pledgor and the Pledgor does not conduct business under any other name. Pledgor shall not change its corporate name, nor do business under any name other than its current name, unless the Pledgor has delivered to the Agent written notice of such other names at least 30 days prior to the date of first use thereof by

the Pledgor.

(f) (i) The Pledgor has not heretofore agreed to or signed any pledge, financing statement or security agreement which covers any of the Pledged Collateral, and no such pledge, financing statement or security agreement is now on file in any public office and the Pledgor has not heretofore filed or inserted any entries or notations in the books or share registry of the Pledgor evidencing any pledge of the Pledged Collateral (other than such financing statements, security agreements and share registry notations, if any, of which both written notice and true and correct copies have heretofore been given by the Pledgor to the Agent).

(ii) As long as any amount remains unpaid on any of the Obligations or under any agreements entered into in connection with the Obligations, except as expressly permitted by any such agreements, (A) the Pledgor will not enter into or execute any pledge, security agreement or financing statement covering the Pledged Collateral, other than those pledges, security agreements and financing statements in favor of the Agent hereunder, (B) the Pledgor shall not file or consent to the filing of any pledge, financing statement or statements (or any documents or papers filed as such) covering the Pledged Collateral, other than financing statements in favor of the Agent hereunder, unless in any case the prior written consent of the Agent shall have been obtained, and further (C) the Pledgor shall not insert, file or make any notations in the books, share registry or membership registry of Summo USA or Lisbon Valley evidencing any pledge of the Pledged Collateral, other than such entries and notations in favor of the Agent hereunder.

(iii) The Pledgor authorizes the Agent to file, in its discretion, in jurisdictions where this authorization will be given effect, a financing statement or other instrument for filing required by any jurisdiction applicable to the Pledged Collateral signed only by the Agent covering the Pledged Collateral, and hereby appoints the Agent as the Pledgor's attorney-in-fact to sign and file any such financing statements or other instruments covering the Pledged Collateral. At the request of the Agent, the Pledgor will join the Agent in executing such documents as the Agent may determine from time to time to be necessary or desirable under provisions of any applicable Uniform Commercial Code, Personal Property Security Act or other applicable laws in effect where the Pledged Collateral is located or where the Pledgor conducts business; without limiting the generality of the foregoing, the Pledgor agrees to join the Agent, at the Agent's request, in executing one or more financing statements or other instruments in form satisfactory to the Agent, and the Pledgor will pay the costs of filing or recording the same in all public offices at any time and from time to time whenever filing or recording of any such financing statement is deemed by the Agent to be necessary or desirable.

(g) In the event that the Pledgor receives any promissory notes or evidences of indebtedness of Summo USA or Lisbon Valley, the Pledgor shall hold the same in trust as property of the Agent and forthwith assign, pledge and deliver the same to the Agent.

4. Rights of the Agent and the Pledgor Related to Pledged Collateral.

The Agent may from time to time following the occurrence of an Event of Default, as defined in Section 6 hereof:

(a) Transfer any of the Pledged Collateral into the name of the Agent or its nominee.

(b) Notify parties obligated on any of the Pledged Collateral to make payment to the Agent of any amounts due or to become due thereunder.

(c) Enforce collection of any of the Pledged Collateral by suit or otherwise; surrender, release or exchange all or any part thereof, or compromise or extend or renew for any period (whether or not longer than the original period) any obligation of any nature of any party with respect thereto; and exercise all other rights of the Pledgor in any of the Pledged Collateral, except as hereinafter provided with respect to income from or interest on the Pledged Collateral and except that, prior to an Event of Default, the Pledgor may exercise its voting and consensual rights with respect to any Pledged Collateral constituting voting securities.

(d) Take possession or control of any proceeds of the Pledged Collateral.

Until the occurrence of an Event of Default, the Pledgor shall have the right to receive all income from or interest on the Pledged Collateral, and if the Agent receives any such income or interest prior to the occurrence of an Event of Default, the Agent shall pay the same promptly to the Pledgor, except that in the case of securities or other property distributed by way of a dividend or otherwise with respect to the Pledged Collateral, such securities or other property shall be promptly delivered to the Agent to be held as Pledged Interest or other Pledged Collateral hereunder. Upon the occurrence of an Event of Default, the Pledgor will not demand or receive any income from or interest

on the Pledged Collateral, and if the Pledgor receives any such income or interest without any demand by it, the same shall be held by the Pledgor in trust for the Agent in the same medium in which received, shall not be commingled with any assets of the Pledgor and shall be delivered to the Agent in the form received, properly endorsed to permit collection, not later than the next business day following the day of its receipt. The Agent may apply the net cash received from such income or interest to payment of any of the Obligations, provided that the Agent shall account for and pay over to the Pledgor any such income or interest remaining after payment in full of the Obligations then outstanding.

So long as no Event of Default shall have occurred and be continuing, the Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Collateral or any part thereof for any purpose not inconsistent with the terms of this Pledge and Security Agreement or the Credit Agreement; provided, however, that the Pledgor shall not exercise or refrain from exercising any such right if, in the Agent's judgment, such

action would have a material adverse effect on the value of the Pledged Collateral or any part thereof; and, provided, further, that the Pledgor shall give the Agent at least five days' written notice of the manner in which it intends to exercise, or the reasons for refraining from exercising, any such rights.

The Agent shall never be under any obligation to collect, attempt to collect, protect or enforce the Pledged Collateral or any security therefor, which the Pledgor agrees and undertakes to do at the Pledgor's expense, but the Agent may do so in its discretion at any time after the occurrence of an Event of Default and at such time the Agent shall have the right to take any steps by judicial process or otherwise as it may deem proper to effect the collection of all or any portion of the Pledged Collateral or to protect or to enforce the Pledged Collateral or any security therefor. All expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred or paid by the Agent in connection with or incident to any such collection or attempt to collect the Pledged Collateral or actions to protect or enforce the Pledged Collateral or any security therefor shall be borne by the Pledgor or reimbursed by the Pledgor to the Agent upon demand. The proceeds received by the Agent as a result of any such actions in collecting or enforcing or protecting the Pledged Collateral shall be utilized by the Agent in accordance with Section 9 hereof.

In the event the Agent, after giving notice to the Pledgor thereof and a period of five days after notifying the Pledgor within which to make payment thereon, shall pay any taxes, assessments, interests, costs, penalties or expenses incident to or in connection with the collection of the Pledged Collateral or protection or enforcement of the Pledged Collateral or any security therefor, the Pledgor, upon demand of the Agent, shall pay to the Agent the full amount thereof with interest at a rate per annum (based on a 360-day year for the actual number of days involved) from the date expended by the Agent until repaid equal to the sum of two percent (2%) plus the LIBOR Rate in effect under and defined by the Credit Agreement. So long as the Agent shall be entitled to any such payment, this Pledge Agreement shall operate as security therefor as fully and to the same extent as it operates as security for payment of the other Obligations secured hereunder, and for the enforcement of such repayment, the Agent shall have every right and remedy provided hereunder for enforcement of payment of the Obligations. The Pledged Collateral and all rights and remedies exercised by the Agent hereby shall be for the ratable benefit of the Lenders.

5. Further Assurances.

The Pledgor agrees to take such actions and to execute such stock or bond powers and such other or different writings as the Agent may reasonably request (and irrevocably authorizes the Agent to execute such writings as the Pledgor's agent and attorney-in-fact) further to perfect, confirm and assure the Agent's security interest in the Pledged Collateral and to assist the Agent's realization thereon including, without limitation, the right to receive, indorse, and collect all instruments made payable to the Pledgor representing any dividend, interest payment or other distribution in respect of the Pledged Interest or any part thereof.

6. Event of Default.

The occurrence of any of the following shall constitute an "Event of Default" hereunder:

(a) Failure of the Pledgor to pay any Obligation (including any installment of principal or interest thereon) when due and payable, whether at maturity, by notice of intention to prepay or otherwise;

(b) Default in the timely performance by the Pledgor of any obligation or covenant contained herein or an Event of Default under the Credit Agreement or any other Transaction Document;

(c) Any representation or warranty made by the Pledgor herein or in

any other agreement with or instrument delivered to the Agent, or any statement or representation made in any certificate, report or opinion delivered in connection herewith or in connection with any such other agreement or instrument that proves to be false or misleading in any material respect when made;

(d) The insolvency of the Pledgor, the admission by the Pledgor of its inability to pay its debts as they become due, the commencement of any case by or against the Pledgor under any bankruptcy or insolvency law, or the making by the Pledgor of any assignment for the benefit of creditors; or

(e) The Pledgor shall terminate all or any material part of its current business operations.

7. Rights and Remedies of the Agent Upon Default.

If an Event of Default shall have occurred:

(a) The Agent shall have and may exercise with reference to the Pledged Collateral and the Obligations any and all of the rights and remedies of a secured party under the UCC or the Personal Property Security Act (British Columbia) ("PPSA"), as applicable, and as otherwise granted herein or under any other applicable law or under any other agreement now or hereafter in effect executed by the Pledgor, including, without limitation, the right and power to sell, at public or private sale or sales, or otherwise dispose of, or otherwise utilize the Pledged Collateral and any part or parts thereof in any manner authorized or permitted under said UCC or PPSA after default by a debtor, and to apply the proceeds thereof toward payment of any costs and expenses and attorneys' fees and expenses thereby incurred by the Agent and toward payment of the Obligations in such order or manner as the Agent may elect. Specifically and without limiting the foregoing, the Agent shall have the right to take possession of all or any part of the Pledged Collateral or any security thereof and of all books, records, papers and documents of the Pledgor or in the Pledgor's possession or control relating to the Pledged Collateral which are not already in the Agent's possession, and for such purpose may enter upon any premises upon which any of the Pledged Collateral or any security therefor or any of said books, records, papers and documents are situated and remove the same therefrom without any liability for trespass or damages thereby occasioned. To the extent permitted by law, the Pledgor expressly waives any notice of sale or other disposition of the Pledged Collateral and all other rights or remedies of the Pledgor or formalities prescribed by law relative to sale or disposition of the Pledged Collateral or exercise of any other right or remedy of the Agent existing after default

hereunder; and to the extent any such notice is required and cannot be waived, the Pledgor agrees that if such notice is given in the manner provided in Section 13 hereof at least ten days before the time of the sale or disposition, such notice shall be deemed reasonable and shall fully satisfy any requirement for giving of said notice. The Agent shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. The Agent may adjourn any public or private sale.

(b) Upon notice by the Agent to the Pledgor, the Agent or its nominee or nominees shall have the sole and exclusive right to exercise all voting and consensual powers pertaining to the Pledged Collateral or any part thereof and may exercise such powers in such manner as the Agent may elect.

(c) All dividends, payments of interest and other distributions of every character made upon or in respect of the Pledged Interest or any part thereof shall be deemed to be Pledged Collateral and shall be paid directly to and shall be held by the Agent as additional Pledged Collateral pledged under and subject to this Pledge and Security Agreement.

(d) All rights to marshaling of assets of the Pledgor, including any such right with respect to the Pledged Collateral, are hereby waived by the Pledgor.

(e) All recitals in any instrument of assignment or any other instrument executed by the Agent incident to sale, lease, transfer, assignment or other disposition, lease or utilization of the Pledged Collateral or any part thereof hereunder shall be full proof of the matters stated therein and no other proof shall be requisite to establish full legal propriety of the sale or other action taken by the Agent or of any fact, condition or thing incident thereto, and all requisites of such sale or other action or of any fact, condition or thing incident thereto shall be presumed conclusively to have been performed or to have occurred.

8. Special Provisions for Pledged Interest.

The Pledgor hereby acknowledges that the sale by the Agent of any of the Pledged Interest pursuant to the terms hereof in compliance with federal and applicable state or provincial securities laws or the securities laws of any other applicable jurisdiction exercising valid jurisdiction over the Pledged Interest (as now in effect or as hereafter amended, or any similar statute hereafter adopted with similar purpose or effect, the "Securities Laws") may require strict limitations as to the manner in which the Agent or any subsequent

transferee of the Pledged Interest may dispose of such securities. The Pledgor understands that in order to protect the Agent's interest it may be necessary to sell the Pledged Interest at a price less than the maximum price attainable if a sale were delayed or were made in another manner, such as a public offering requested under the Securities Laws. The Pledgor has no and waives any objection to a sale in such a manner.

9. Application of Proceeds by the Agent.

In the event the Agent sells or otherwise disposes of the Pledged Collateral in the course of exercising the remedies provided for in Section 7 or 8 hereof, any amounts held, realized or received by the Agent pursuant to the provisions hereof, including the proceeds of the

sale of any of the Pledged Collateral or any part thereof, shall be applied by the Agent first toward the payment of any costs and expenses incurred by the Agent and any Lender in enforcing this Pledge Agreement, in realizing on or protecting any Pledged Collateral and in enforcing or collecting any Obligations or any guaranty thereof, including, without limitation, the actual attorneys' fees and expenses incurred by the Agent (all of which costs and expenses are secured by the Pledged Collateral), all of which costs and expenses the Pledgor agrees to pay, and then as provided in the Credit Agreement. Any amounts and any Pledged Collateral remaining after such application and after payment to the Agent of all of the Obligations in full shall be paid or delivered to the Pledgor, its successor or assigns, or as a court of competent jurisdiction may direct.

The Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Pledged Collateral in its possession if the Pledged Collateral is accorded treatment substantially equal to that which the Agent accords its own property, it being understood that the Agent shall not have any responsibility for (x) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Pledged Collateral, whether or not the Agent has or is deemed to have knowledge of such matters or (y) taking any necessary steps to preserve rights against any parties with respect to any Pledged Collateral.

10. Absolute Interest.

(a) All rights of the Agent hereunder, and all obligations of the Pledgor hereunder, shall be absolute and unconditional irrespective of (i) any lack of validity or enforceability of any provision of the Credit Agreement, any agreement with respect to the Obligations or any other agreement or instrument relating to any of the foregoing, (ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement or any other agreement or instrument, (iii) any exchange, release or non-perfection of any Pledged Collateral, or any release or amendment or waiver of or any consent to or departure from any guarantee, for all or any of the Obligations or (iv) any other circumstance which might constitute a defense available to, or a discharge of, the Pledgor in respect of the Obligations or this Pledge Agreement.

(b) The Agent is hereby subrogated to all of the Pledgor's interests, rights and remedies in respect to the Pledged Collateral and all security now or hereafter existing with respect thereto and all guaranties and endorsements thereof and with respect thereto.

11. Termination.

This Pledge Agreement and the security interests created hereunder shall terminate when all the Obligations have been indefeasibly paid in full and when the Lenders have no further obligation to extend credit under the Credit Agreement or any other agreement relating to Obligations, at which time the Agent shall execute and deliver to the Pledgor all documents which the Pledgor shall reasonably request to evidence termination of such security interest and shall return physical possession of any Pledged Collateral then held by the Agent to the Pledgor; provided, however, that all indemnities of the Pledgor contained in this Pledge

Agreement shall survive, and remain in full force and effect regardless of the termination of the security interest of this Pledge Agreement.

12. Additional Information.

The Pledgor agrees to furnish the Agent from time to time such additional information and copies of such documents relating to this Pledge Agreement, the Pledged Collateral, the Obligations and the Pledgor's financial condition as the Agent may reasonably request.

13. Notices.

Any communication, notice or demand to be given hereunder shall be in writing (including telex and facsimile communication) and sent by facsimile or delivered by courier,

if to the Pledgor,

Summo Minerals Corporation
1776 Lincoln Street
Suite 1100
Denver, Colorado 80203
Attention: Gregory A. Hahn
Facsimile: (303) 863-1736;

and if to the Agent,

Resource Capital Fund L.P.
2150 Republic Plaza Building
370 Seventeenth Street
Denver, Colorado 80202
Attention: James T. McClements
Facsimile: (303) 607-0150

as to each party, at such other address or numbers as shall be designated by either party hereto to the other party in a written notice. All such notices and communications shall be effective (a) when received, if physically delivered, and (b) upon confirmation of transmission, if sent by telex or telecopier, addressed in each case as aforesaid.

14. Indemnity and Expenses.

The Pledgor agrees to indemnify the Agent and each of the Lenders, and the officers, directors, employees and agents of the Agent and each of the Lenders (with the foregoing referred to collectively as the "Indemnified Parties"), for, and to hold each Indemnified Party harmless against, any loss, liability, claim judgment, settlement, compromise, obligation, damage or penalty of any kind or nature, including the costs and expenses of the Indemnified Party incurred in defending itself against any claim of liability in connection with or arising out

of this Pledge Agreement, unless arising from the gross negligence or willful misconduct of such Indemnified Party.

15. No Waiver; Cumulative Rights.

No failure on the part of the Agent to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Agent of any right, remedy or power hereunder preclude any other or future exercise of any other right, remedy or power. Each and every right, remedy and power hereby granted to the Agent or allowed it by law or other agreement shall be cumulative and not exclusive of any other and may be exercised by the Agent from time to time.

16. GOVERNING LAW; CONSENT TO JURISDICTION.

THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF COLORADO INCLUDING THE CONFLICTS OF LAW PROVISIONS THEREOF, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE PLEDGE AND THE SECURITY INTEREST HEREUNDER, OR ANY REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL, IS GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF COLORADO. THE PLEDGOR, FOR ITSELF AND ITS SUCCESSORS AND ASSIGNS, HEREBY IRREVOCABLY (a) AGREES THAT ANY LEGAL OR EQUITABLE ACTION, SUIT OR PROCEEDING AGAINST THE PLEDGOR ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR THE SUBJECT MATTER HEREOF MAY BE INSTITUTED IN ANY COURT OF APPROPRIATE JURISDICTION IN DENVER, COLORADO; (b) WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF SUCH ACTION, SUIT OR PROCEEDING OR ANY CLAIM OF FORUM NON CONVENIENS; (c) SUBMITS ITSELF TO THE NON-EXCLUSIVE JURISDICTION OF ANY SUCH COURT, FOR THE PURPOSES OF SUCH ACTION, SUIT OR PROCEEDING; (d) WAIVES ANY IMMUNITY FROM JURISDICTION TO WHICH IT MIGHT OTHERWISE BE ENTITLED IN ANY SUCH ACTION, SUIT OR PROCEEDING WHICH MAY BE INSTITUTED IN ANY SUCH COURT, AND WAIVES ANY IMMUNITY FROM THE MAINTAINING OF AN ACTION AGAINST IT TO ENFORCE IN ANY SUCH COURT, ANY JUDGMENT FOR MONEY OBTAINED IN SUCH ACTION, SUIT OR PROCEEDING AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY IMMUNITY FROM EXECUTION; AND (e) APPOINTS THE PERSON NAMED IN THE NOTICE SECTION HEREOF AS ITS AGENT (THE "PROCESS AGENT") TO RECEIVE ON BEHALF OF THE PLEDGOR AND ITS PROPERTY SERVICE OF COPIES OF THE SUMMONS AND COMPLAINT AND ANY OTHER PROCESS WHICH MAY BE SERVED IN ANY SUCH ACTION OR PROCEEDING. SUCH SERVICE MAY BE MADE BY DELIVERING A COPY OF SUCH PROCESS TO THE PLEDGOR IN CARE OF ITS PROCESS AGENT AT SUCH PROCESS AGENT'S ADDRESS SO INDICATED, AND THE PLEDGOR HEREBY IRREVOCABLY AUTHORIZES AND DIRECTS ITS PROCESS AGENT TO ACCEPT SUCH SERVICE ON ITS BEHALF. AS AN ALTERNATIVE METHOD OF SERVICE, EACH PARTY ALSO IRREVOCABLY CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY

SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO IT AT ITS ADDRESS REFERRED TO IN SECTION 13 HEREOF. NOTHING IN THIS SECTION 16 SHALL AFFECT THE RIGHT OF ANY PARTY TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

17. JURY TRIAL.

THE PLEDGOR AND THE AGENT EACH HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY, IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LEGAL OR EQUITABLE ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS PLEDGE AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN OR THE SUBJECT MATTER HEREOF. THE PROVISIONS OF THIS SECTION 17 ARE A MATERIAL INDUCEMENT FOR THE AGENT TO ENTER INTO THIS PLEDGE AGREEMENT AND THE CREDIT AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREIN AND THEREIN. THE PLEDGOR HEREBY ACKNOWLEDGES THAT IT HAS REVIEWED THE PROVISIONS OF THIS SECTION 17 WITH ITS INDEPENDENT COUNSEL.

18. Execution in Counterparts.

This Pledge Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same agreement.

19. Severability.

If any one or more provisions of this Pledge Agreement should be declared invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected, impaired or prejudiced thereby.

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IN WITNESS WHEREOF, the parties have caused this Pledge Agreement to be duly executed as of the date first above written.

PLEDGOR:

SUMMO MINERALS CORPORATION

By: /s/ GREGORY A. HAHN

Name: Gregory A. Hahn
Title: President

AGENT:

RESOURCE CAPITAL FUND L.P.

By:Resource Capital Associates L.L.C., general partner

By: /s/ JAMES T. McCLEMENTS

James T. McClements
Managing Director

SCHEDULE 1

DESCRIPTION OF PLEDGED INTEREST

Summo USA Corporation

ISSUER	CLASS	CERTIFICATE NUMBER	NUMBER OF SHARES OUTSTANDING	PERCENTAGE OF SHARES OWNED BY PLEDGOR
Summo USA Corp.	Common	1	1,000	100%

Lisbon Valley Mining Co. L.L.C.

PERCENTAGE OF MEMBERSHIP INTEREST OWNED BY PLEDGOR

EXHIBIT 10.34

PLEDGE AND SECURITY AGREEMENT

This PLEDGE AND SECURITY AGREEMENT (the "Pledge Agreement"), dated as of June 25, 1999, is by and between SUMMO USA CORPORATION, a corporation organized and existing under the laws of Colorado (the "Pledgor") and RESOURCE CAPITAL FUND L.P., a Cayman Islands limited partnership, as agent (the "Agent") for the Lenders named in the Credit Agreement (hereinafter defined).

RECITALS

A. Pursuant to the Amended and Restated Credit Agreement (the "Credit Agreement"), dated as of June 25, 1999, among the Pledgor, Summo Minerals Corporation, a corporation organized and existing under the laws of British Columbia ("Summo Minerals," together with Pledgor, sometimes referred to herein as the "Borrowers"), the Lenders as defined and named therein and the Agent, the parties agreed to modify, amend in its entirety and restate certain outstanding credit obligations as set forth therein and to extend additional credit thereunder. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

B. The Pledgor is willing to enter into this Pledge Agreement to secure the due and punctual performance of the obligations of the Pledgor and Summo Minerals to the Lenders under the Credit Agreement and the other Transaction Documents. The collateral security offered hereby and all rights and remedies granted to the Agent hereunder will be for the ratable benefit of the Lenders.

AGREEMENT

NOW, THEREFORE, the parties hereto agree as follows:

1. Pledge and Grant Security Interest.

(a) For value received and to induce the Lenders to enter into the Credit Agreement and extend additional credit to the Borrowers, the Pledgor hereby assigns and pledges to the Agent for the ratable benefit of the Lenders and grants as security to the Agent for the ratable benefit of the Lenders, for all present and future obligations and liabilities of all kinds of the Pledgor to any of the Lenders under the Credit Agreement and the other Transaction Documents, hereunder or otherwise, whether incurred by the Pledgor as maker, endorser, drawer, acceptor, guarantor, accommodation party or otherwise, and whether due or to become due, secured or unsecured, absolute or contingent, joint or several, and howsoever or whensoever incurred by the Pledgor or acquired by any Lender (collectively referred to as the "Obligations"), a charge and first lien on, and security interest in, all its right, title and interest in and to the following:

(i) (A) all of (x) the issued and outstanding shares of the capitol stock of Nord Resources Corporation, a Delaware Corporation ("Nord"), owned by or held for the benefit of the Pledgor, whether now existing or hereafter acquired and all additional shares of capitol stock of Nord from time to time acquired by the Pledgor by purchase, stock dividend, distribution or otherwise and (y) Pledgor's membership and beneficial interest in Lisbon Valley Mining Co. LLC, a Utah limited liability company ("Lisbon Valley"), whether now existing or hereafter acquired, all of Pledgor's share of profits and losses of Lisbon Valley, Pledgor's right to receive distributions of Lisbon Valley property and assets of any type and characterization, and all additional membership, ownership or other interest in Lisbon Valley from time to time acquired by the Pledgor by purchase, distribution or otherwise (all such shares of stock of Nord and interest in Lisbon Valley pledged hereunder being referred to collectively as the "Pledged Interest"), (B) certificates representing any of the Pledged Interest and (C) except as otherwise provided in Section 4 hereof, any and all dividends, distributions, cash, securities, instruments, warrants, options, other property and proceeds from time to time received, receivable, paid or otherwise distributed in respect of, in substitution for, in addition to or in exchange for or evidencing any of the Pledged Interest and all proceeds thereof; and

(ii) all of the Pledgor's Equipment, General Intangibles, Accounts, Chattel Paper, Consumer Goods, Documents, Inventory, Instruments, Fixtures, Goods and Proceeds, as each of such terms is defined in the Uniform Commercial Code (the "UCC") in effect in the state where such property is located, and all other personal property of the Pledgor, whether now existing or hereafter acquired, which is located on, in or under, used, intended for use, used or obtained in connection or otherwise associated with or affixed to the Lisbon Valley Properties as defined in the Credit Agreement and further described in Schedule 1.1(a) thereto, and all renewals or replacements thereof or articles in substitution therefor and all proceeds or profits thereof (collectively, the "Personalty").

(b) The Pledged Interest, the certificates therefor, all distributions, cash, instruments, options, other property and proceeds from time

to time received, receivable, paid or otherwise distributed in respect of, in substitution for, in addition to or in exchange for or evidencing any of the Pledged Interest and all proceeds thereof, and the Personalty are referred to herein collectively as the "Pledged Collateral."

2. Delivery of Pledged Interest Certificates; Registry Notations.

(a) All certificates or instruments representing or evidencing the Pledged Interest referred to in Section 1 hereof have previously been delivered or are being delivered to and held by the Agent, for the ratable benefit of the Lenders, concurrently with the execution of this Pledge Agreement and are in suitable form for transfer by delivery, accompanied by duly executed undated instruments of transfer or assignments in blank, having attached thereto or to such certificates all requisite federal, state or provincial transfer tax stamps, all in form and substance satisfactory to the Agent.

(b) All necessary and appropriate entries, notations and written descriptions in the books, share registry or membership registry of Lisbon Valley and Nord evidencing and necessary or desirable to perfect the pledge of the Pledged Collateral pursuant hereto have been or will be made concurrently with the execution of this Pledge Agreement. The Pledgor shall

forthwith take all other actions necessary, appropriate or desirable pursuant to applicable law to perfect the pledge of the Pledged Collateral and all requisite federal, state or provincial fees or taxes therefor have been paid.

3. Representations, Warranties, Covenants and Agreements of the Pledgor.

The Pledgor represents, warrants, covenants and agrees that:

(a) The Pledged Interest consisting of the membership interest in Lisbon Valley described on Schedule 1 hereto constitutes all of the membership interest in Lisbon Valley owned or controlled by the Pledgor, and the Pledged Interest consisting of the shares of Nord described on Schedule 1 hereto constitutes all of the shares of Nord owned or controlled by the Pledgor.

(b) The Pledged Interest has been duly authorized and is validly issued.

(c) Except for the security interests granted hereby, the Pledgor is, and as to Pledged Collateral acquired after the date hereof the Pledgor shall and will be at the time of acquisition, the owner and holder of the Pledged Collateral free from any adverse claim, security interest, encumbrance, lien, charge, or other right, title or interest of any person other than the Agent, except for Permitted Liens, and covenants that at all times the Pledged Collateral will be and remain free of all such adverse claims, security interests, or other liens or encumbrances, other than Permitted Liens.

(d) (i) The Pledgor has full power and lawful authority to enter into this Pledge Agreement and to pledge the Pledged Collateral to the Agent and to grant to the Agent a first and prior security interest therein as herein provided, all of which have been duly authorized by all necessary corporate action.

(ii) The execution and delivery and the performance hereof are not in contravention of any charter, articles of incorporation or by-law provision, or of any Instrument or undertaking to which the Pledgor is a party or by which the Pledgor or its property is bound.

(iii) This Pledge Agreement constitutes the valid and legally binding obligation of the Pledgor enforceable in accordance with its terms.

(iv) The Pledgor will defend the Pledged Collateral against all claims and demands of all persons at any time claiming the same or any interest therein. Any officer, agent or representative acting for or on behalf of the Pledgor in connection with this Pledge Agreement or any aspect hereof, or entering into or executing this Pledge Agreement on behalf of the Pledgor, has been duly authorized to do so, and is fully empowered to act for and represent the Pledgor in connection with this Pledge Agreement and all matters related thereto or in connection therewith.

(e) (i) Pledgor's principal place of business and chief executive office is in Denver, Colorado. Pledgor shall not change the location of its principal place of business or

chief executive office without the prior written consent of the Agent, not to be unreasonably withheld.

(ii) The preamble hereof states the correct legal name of the Pledgor and the Pledgor does not conduct business under any other name. Pledgor shall not change its corporate name, nor do business under any name other than its current name, unless the Pledgor has delivered to the Agent written notice of such other names at least 30 days prior to the date of first use thereof by the Pledgor.

(f) (i) Except for the Pledge and Security Agreement dated November 23, 1998 between Pledgor and Lisbon Valley, as Debtors, and St. Mary Minerals Inc., as Secured Party and the financing statements incident thereto, the Pledgor has not heretofore agreed to or signed any pledge, financing statement or security agreement which covers any of the Pledged Collateral, and no such pledge, financing statement or security agreement is now on file in any public office and the Pledgor has not heretofore filed or inserted any entries or notations in the books or membership registry of the Pledgor evidencing any pledge of the Pledged Collateral (other than such financing statements, security agreements and membership registry notations, if any, of which both written notice and true and correct copies have heretofore been given by the Pledgor to the Agent).

(ii) As long as any amount remains unpaid on any of the Obligations or under any agreements entered into in connection with the Obligations, except as expressly permitted by any such agreements, (A) the Pledgor will not enter into or execute any pledge, security agreement or financing statement covering the Pledged Collateral, other than those pledges, security agreements and financing statements in favor of the Agent hereunder, (B) the Pledgor shall not file or consent to the filing of any pledge, financing statement or statements (or any documents or papers filed as such) covering the Pledged Collateral, other than financing statements in favor of the Agent hereunder, unless in any case the prior written consent of the Agent shall have been obtained, and further (C) the Pledgor shall not insert, file or make any notations in the books, share registry or membership registry of Lisbon Valley or Nord evidencing any pledge of the Pledged Collateral, other than such entries and notations in favor of the Agent hereunder.

(iii) The Pledgor authorizes the Agent to file, in its discretion, in jurisdictions where this authorization will be given effect, a financing statement or other instrument for filing required by any jurisdiction applicable to the Pledged Collateral signed only by the Agent covering the Pledged Collateral, and hereby appoints the Agent as the Pledgor's attorney-in-fact to sign and file any such financing statements or other instruments covering the Pledged Collateral. At the request of the Agent, the Pledgor will join the Agent in executing such documents as the Agent may determine from time to time to be necessary or desirable under provisions of any applicable Uniform Commercial Code or other applicable laws in effect where the Pledged Collateral is located or where the Pledgor conducts business; without limiting the generality of the foregoing, the Pledgor agrees to join the Agent, at the Agent's request, in executing one or more financing statements or other instruments in form satisfactory to the Agent, and the Pledgor will pay the costs of filing or recording the same in all public offices at any time and from time to time whenever filing or recording of any such financing statement is deemed by the Agent to be necessary or desirable.

(g) In the event that the Pledgor receives any promissory notes or evidences of indebtedness of Lisbon Valley or Nord, the Pledgor shall hold the same in trust as property of the Agent and forthwith assign, pledge and deliver the same to the Agent.

4. Rights of the Agent and the Pledgor Related to Pledged Collateral.

The Agent may from time to time following the occurrence of an Event of Default, as defined in Section 6 hereof:

(a) Transfer any of the Pledged Collateral into the name of the Agent or its nominee.

(b) Notify parties obligated on any of the Pledged Collateral to make payment to the Agent of any amounts due or to become due thereunder.

(c) Enforce collection of any of the Pledged Collateral by suit or otherwise; surrender, release or exchange all or any part thereof, or compromise or extend or renew for any period (whether or not longer than the original period) any obligation of any nature of any party with respect thereto; and exercise all other rights of the Pledgor in any of the Pledged Collateral, except as hereinafter provided with respect to income from or interest on the Pledged Collateral and except that, prior to an Event of Default, the Pledgor may exercise its voting and consensual rights with respect to any Pledged Collateral constituting voting securities.

(d) Take possession or control of any proceeds of the Pledged Collateral.

Until the occurrence of an Event of Default, the Pledgor shall have the right to receive all income from or interest on the Pledged Collateral, and if the Agent receives any such income or interest prior to the occurrence of an Event of Default, the Agent shall pay the same promptly to the Pledgor, except that in the case of securities or other property distributed by way of a dividend or otherwise with respect to the Pledged Collateral, such securities or other property shall be promptly delivered to the Agent to be held as Pledged Collateral hereunder. Upon the occurrence of an Event of Default, the Pledgor

will not demand or receive any income from or interest on the Pledged Collateral, and if the Pledgor receives any such income or interest without any demand by it, the same shall be held by the Pledgor in trust for the Agent in the same medium in which received, shall not be commingled with any assets of the Pledgor and shall be delivered to the Agent in the form received, properly endorsed to permit collection, not later than the next business day following the day of its receipt. The Agent may apply the net cash received from such income or interest to payment of any of the Obligations, provided that the Agent shall account for and pay over to the Pledgor any such income or interest remaining after payment in full of the Obligations then outstanding.

So long as no Event of Default shall have occurred and be continuing, the Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Collateral or any part thereof for any purpose not inconsistent with the terms of this Pledge and Security Agreement or the Credit Agreement; provided, however, that the Pledgor shall not exercise or refrain from exercising any such right if, in the Agent's judgment, such

action would have a material adverse effect on the value of the Pledged Collateral or any part thereof; and, provided, further, that the Pledgor shall give the Agent at least five days' written notice of the manner in which it intends to exercise, or the reasons for refraining from exercising, any such rights.

The Agent shall never be under any obligation to collect, attempt to collect, protect or enforce the Pledged Collateral or any security therefor, which the Pledgor agrees and undertakes to do at the Pledgor's expense, but the Agent may do so in its discretion at any time after the occurrence of an Event of Default and at such time the Agent shall have the right to take any steps by judicial process or otherwise as it may deem proper to effect the collection of all or any portion of the Pledged Collateral or to protect or to enforce the Pledged Collateral or any security therefor. All expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred or paid by the Agent in connection with or incident to any such collection or attempt to collect the Pledged Collateral or actions to protect or enforce the Pledged Collateral or any security therefor shall be borne by the Pledgor or reimbursed by the Pledgor to the Agent upon demand. The proceeds received by the Agent as a result of any such actions in collecting or enforcing or protecting the Pledged Collateral shall be utilized by the Agent in accordance with Section 9 hereof.

In the event the Agent, after giving notice to the Pledgor thereof and a period of five days after notifying the Pledgor within which to make payment thereon, shall pay any taxes, assessments, interests, costs, penalties or expenses incident to or in connection with the collection of the Pledged Collateral or protection or enforcement of the Pledged Collateral or any security therefor, the Pledgor, upon demand of the Agent, shall pay to the Agent the full amount thereof with interest at a rate per annum (based on a 360-day year for the actual number of days involved) from the date expended by the Agent until repaid equal to the sum of two percent (2%) plus the LIBOR Rate in effect under and defined by the Credit Agreement. So long as the Agent shall be entitled to any such payment, this Pledge Agreement shall operate as security therefor as fully and to the same extent as it operates as security for payment of the other Obligations secured hereunder, and for the enforcement of such repayment, the Agent shall have every right and remedy provided hereunder for enforcement of payment of the Obligations. The Pledged Collateral and all rights and remedies exercised by the Agent hereby shall be for the ratable benefit of the Lenders.

5. Further Assurances.

The Pledgor agrees to take such actions and to execute such instruments and such other or different writings as the Agent may reasonably request (and irrevocably authorizes the Agent to execute such writings as the Pledgor's agent and attorney-in-fact) further to perfect, confirm and assure the Agent's security interest in the Pledged Collateral and to assist the Agent's realization thereon including, without limitation, the right to receive, indorse, and collect all instruments made payable to the Pledgor representing any dividend, interest payment or other distribution in respect of the Pledged Interest or any part thereof.

6. Event of Default.

The occurrence of any of the following shall constitute an "Event of Default" hereunder:

(a) Failure of the Pledgor to pay any Obligation (including any installment of principal or interest thereon) when due and payable, whether at maturity, by notice of intention to prepay or otherwise;

(b) Default in the timely performance by the Pledgor of any obligation or covenant contained herein or an Event of Default under the Credit Agreement or any other Transaction Document;

(c) Any representation or warranty made by the Pledgor herein or in

any other agreement with or instrument delivered to the Agent, or any statement or representation made in any certificate, report or opinion delivered in connection herewith or in connection with any such other agreement or instrument that proves to be false or misleading in any material respect when made;

(d) The insolvency of the Pledgor, the admission by the Pledgor of its inability to pay its debts as they become due, the commencement of any case by or against the Pledgor under any bankruptcy or insolvency law, or the making by the Pledgor of any assignment for the benefit of creditors; or

(e) The Pledgor shall terminate all or any material part of its current business operations.

7. Rights and Remedies of the Agent Upon Default.

If an Event of Default shall have occurred:

(a) The Agent shall have and may exercise with reference to the Pledged Collateral and the Obligations any and all of the rights and remedies of a secured party under the UCC and as otherwise granted herein or under any other applicable law or under any other agreement now or hereafter in effect executed by the Pledgor, including, without limitation, the right and power to sell, at public or private sale or sales, or otherwise dispose of, or otherwise utilize the Pledged Collateral and any part or parts thereof in any manner authorized or permitted under said UCC after default by a debtor, and to apply the proceeds thereof toward payment of any costs and expenses and attorneys' fees and expenses thereby incurred by the Agent and toward payment of the Obligations in such order or manner as the Agent may elect. Specifically and without limiting the foregoing, the Agent shall have the right to take possession of all or any part of the Pledged Collateral or any security thereof and of all books, records, papers and documents of the Pledgor or in the Pledgor's possession or control relating to the Pledged Collateral which are not already in the Agent's possession, and for such purpose may enter upon any premises upon which any of the Pledged Collateral or any security therefor or any of said books, records, papers and documents are situated and remove the same therefrom without any liability for trespass or damages thereby occasioned. To the extent permitted by law, the Pledgor expressly waives any notice of sale or other disposition of

the Pledged Collateral and all other rights or remedies of the Pledgor or formalities prescribed by law relative to sale or disposition of the Pledged Collateral or exercise of any other right or remedy of the Agent existing after default hereunder; and to the extent any such notice is required and cannot be waived, the Pledgor agrees that if such notice is given in the manner provided in Section 13 hereof at least ten days before the time of the sale or disposition, such notice shall be deemed reasonable and shall fully satisfy any requirement for giving of said notice. The Agent shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. The Agent may adjourn any public or private sale.

(b) Upon notice by the Agent to the Pledgor, the Agent or its nominee or nominees shall have the sole and exclusive right to exercise all voting and consensual powers pertaining to the Pledged Collateral or any part thereof and may exercise such powers in such manner as the Agent may elect.

(c) All dividends, payments of interest and other distributions of every character made upon or in respect of the Pledged Interest or any part thereof shall be deemed to be Pledged Collateral and shall be paid directly to and shall be held by the Agent as additional Pledged Collateral pledged under and subject to this Pledge and Security Agreement.

(d) All rights to marshaling of assets of the Pledgor, including any such right with respect to the Pledged Collateral, are hereby waived by the Pledgor.

(e) All recitals in any instrument of assignment or any other instrument executed by the Agent incident to sale, lease, transfer, assignment or other disposition, lease or utilization of the Pledged Collateral or any part thereof hereunder shall be full proof of the matters stated therein and no other proof shall be requisite to establish full legal propriety of the sale or other action taken by the Agent or of any fact, condition or thing incident thereto, and all requisites of such sale or other action or of any fact, condition or thing incident thereto shall be presumed conclusively to have been performed or to have occurred.

8. Special Provisions for Pledged Interest.

The Pledgor hereby acknowledges that the sale by the Agent of any of the Pledged Interest pursuant to the terms hereof in compliance with federal and applicable state or provincial securities laws or the securities laws of any other applicable jurisdiction exercising valid jurisdiction over the Pledged Interest (as now in effect or as hereafter amended, or any similar statute hereafter adopted with similar purpose or effect, the "Securities Laws") may require strict limitations as to the manner in which the Agent or any subsequent transferee of the Pledged Interest may dispose of such securities. The Pledgor understands that in order to protect the Agent's interest it may be necessary to

sell the Pledged Interest at a price less than the maximum price attainable if a sale were delayed or were made in another manner, such as a public offering requested under the Securities Laws. The Pledgor has no and waives any objection to a sale in such a manner.

9. Application of Proceeds by the Agent.

In the event the Agent sells or otherwise disposes of the Pledged Collateral in the course of exercising the remedies provided for in Section 7 or 8 hereof, any amounts held,

realized or received by the Agent pursuant to the provisions hereof, including the proceeds of the sale of any of the Pledged Collateral or any part thereof, shall be applied by the Agent first toward the payment of any costs and expenses incurred by the Agent and any Lender in enforcing this Pledge Agreement, in realizing on or protecting any Pledged Collateral and in enforcing or collecting any Obligations or any guaranty thereof, including, without limitation, the actual attorneys' fees and expenses incurred by the Agent (all of which costs and expenses are secured by the Pledged Collateral), all of which costs and expenses the Pledgor agrees to pay, and then as provided in the Credit Agreement. Any amounts and any Pledged Collateral remaining after such application and after payment to the Agent of all of the Obligations in full shall be paid or delivered to the Pledgor, its successor or assigns, or as a court of competent jurisdiction may direct.

The Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Pledged Collateral in its possession if the Pledged Collateral is accorded treatment substantially equal to that which the Agent accords its own property, it being understood that the Agent shall not have any responsibility for (x) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Pledged Collateral, whether or not the Agent has or is deemed to have knowledge of such matters or (y) taking any necessary steps to preserve rights against any parties with respect to any Pledged Collateral.

10. Absolute Interest.

(a) All rights of the Agent hereunder, and all obligations of the Pledgor hereunder, shall be absolute and unconditional irrespective of (i) any lack of validity or enforceability of any provision of the Credit Agreement, any agreement with respect to the Obligations or any other agreement or instrument relating to any of the foregoing, (ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement or any other agreement or instrument, (iii) any exchange, release or non-perfection of any Pledged Collateral, or any release or amendment or waiver of or any consent to or departure from any guarantee, for all or any of the Obligations or (iv) any other circumstance which might constitute a defense available to, or a discharge of, the Pledgor in respect of the Obligations or this Pledge Agreement.

(b) The Agent is hereby subrogated to all of the Pledgor's interests, rights and remedies in respect to the Pledged Collateral and all security now or hereafter existing with respect thereto and all guaranties and endorsements thereof and with respect thereto.

11. Termination.

This Pledge Agreement and the security interests created hereunder shall terminate when all the Obligations have been indefeasibly paid in full and when the Lenders have no further obligation to extend credit under the Credit Agreement or any other agreement relating to Obligations, at which time the Agent shall execute and deliver to the Pledgor all documents which the Pledgor shall reasonably request to evidence termination of such security interest and shall return physical possession of any Pledged Collateral then held by the Agent to

the Pledgor; provided, however, that all indemnities of the Pledgor contained in this Pledge Agreement shall survive, and remain in full force and effect regardless of the termination of the security interest of this Pledge Agreement.

12. Additional Information.

The Pledgor agrees to furnish the Agent from time to time such additional information and copies of such documents relating to this Pledge Agreement, the Pledged Collateral, the Obligations and the Pledgor's financial condition as the Agent may reasonably request.

13. Notices.

Any communication, notice or demand to be given hereunder shall be in writing (including telex and facsimile communication) and sent by facsimile or delivered by courier,

if to the Pledgor,

Summo USA Corporation
1776 Lincoln Street
Suite 1100
Denver, Colorado 80203
Attention: Gregory A. Hahn
Facsimile: (303) 863-1736;

and if to the Agent,

Resource Capital Fund L.P.
2150 Republic Plaza Building
370 Seventeenth Street
Denver, Colorado 80202
Attention: James T. McClements
Facsimile: (303) 607-0150

as to each party, at such other address or numbers as shall be designated by either party hereto to the other party in a written notice. All such notices and communications shall be effective (a) when received, if physically delivered, and (b) upon confirmation of transmission, if sent by telex or telecopier, addressed in each case as aforesaid.

14. Indemnity and Expenses.

The Pledgor agrees to indemnify the Agent and each of the Lenders, and the officers, directors, employees and agents of the Agent and each of the Lenders (with the foregoing referred to collectively as the "Indemnified Parties"), for, and to hold each Indemnified Party harmless against, any loss, liability, claim judgment, settlement, compromise, obligation, damage or penalty of any kind or nature, including the costs and expenses of the Indemnified Party incurred in defending itself against any claim of liability in connection with or arising out

of this Pledge Agreement, unless arising from the gross negligence or willful misconduct of such Indemnified Party.

15. No Waiver; Cumulative Rights.

No failure on the part of the Agent to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Agent of any right, remedy or power hereunder preclude any other or future exercise of any other right, remedy or power. Each and every right, remedy and power hereby granted to the Agent or allowed it by law or other agreement shall be cumulative and not exclusive of any other and may be exercised by the Agent from time to time.

16. GOVERNING LAW; CONSENT TO JURISDICTION.

THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF COLORADO INCLUDING THE CONFLICTS OF LAW PROVISIONS THEREOF, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE PLEDGE AND THE SECURITY INTEREST HEREUNDER, OR ANY REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL, IS GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF COLORADO. THE PLEDGOR, FOR ITSELF AND ITS SUCCESSORS AND ASSIGNS, HEREBY IRREVOCABLY (a) AGREES THAT ANY LEGAL OR EQUITABLE ACTION, SUIT OR PROCEEDING AGAINST THE PLEDGOR ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR THE SUBJECT MATTER HEREOF MAY BE INSTITUTED IN ANY COURT OF APPROPRIATE JURISDICTION IN DENVER, COLORADO; (b) WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF SUCH ACTION, SUIT OR PROCEEDING OR ANY CLAIM OF FORUM NON CONVENIENS; (c) SUBMITS ITSELF TO THE NON-EXCLUSIVE JURISDICTION OF ANY SUCH COURT, FOR THE PURPOSES OF SUCH ACTION, SUIT OR PROCEEDING; (d) WAIVES ANY IMMUNITY FROM JURISDICTION TO WHICH IT MIGHT OTHERWISE BE ENTITLED IN ANY SUCH ACTION, SUIT OR PROCEEDING WHICH MAY BE INSTITUTED IN ANY SUCH COURT, AND WAIVES ANY IMMUNITY FROM THE MAINTAINING OF AN ACTION AGAINST IT TO ENFORCE IN ANY SUCH COURT, ANY JUDGMENT FOR MONEY OBTAINED IN SUCH ACTION, SUIT OR PROCEEDING AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY IMMUNITY FROM EXECUTION; AND (e) APPOINTS THE PERSON NAMED IN THE NOTICE SECTION HEREOF AS ITS AGENT (THE "PROCESS AGENT") TO RECEIVE ON BEHALF OF THE PLEDGOR AND ITS PROPERTY SERVICE OF COPIES OF THE SUMMONS AND COMPLAINT AND ANY OTHER PROCESS WHICH MAY BE SERVED IN ANY SUCH ACTION OR PROCEEDING. SUCH SERVICE MAY BE MADE BY DELIVERING A COPY OF SUCH PROCESS TO THE PLEDGOR IN CARE OF ITS PROCESS AGENT AT SUCH PROCESS AGENT'S ADDRESS SO INDICATED, AND THE PLEDGOR HEREBY IRREVOCABLY AUTHORIZES AND DIRECTS ITS PROCESS AGENT TO ACCEPT SUCH SERVICE ON ITS BEHALF. AS AN ALTERNATIVE METHOD OF SERVICE, EACH PARTY ALSO IRREVOCABLY CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY

SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO IT AT ITS ADDRESS REFERRED TO IN SECTION 13 HEREOF. NOTHING IN THIS SECTION 16 SHALL AFFECT THE RIGHT OF ANY PARTY TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

17. JURY TRIAL.

THE PLEDGOR AND THE AGENT EACH HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY, IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LEGAL OR EQUITABLE ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS PLEDGE AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN OR THE SUBJECT MATTER HEREOF. THE PROVISIONS OF THIS SECTION 17 ARE A MATERIAL INDUCEMENT FOR THE AGENT TO ENTER INTO THIS PLEDGE AGREEMENT AND THE CREDIT AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREIN AND THEREIN. THE PLEDGOR HEREBY ACKNOWLEDGES THAT IT HAS REVIEWED THE PROVISIONS OF THIS SECTION 17 WITH ITS INDEPENDENT COUNSEL.

18. Execution in Counterparts.

This Pledge Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same agreement.

19. Severability.

If any one or more provisions of this Pledge Agreement should be declared invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected, impaired or prejudiced thereby.

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IN WITNESS WHEREOF, the parties have caused this Pledge Agreement to be duly executed as of the date first above written.

PLEDGOR:

SUMMO USA CORPORATION

By: /s/ GREGORY A. HAHN

Name: Gregory A. Hahn
Title: President

AGENT:

RESOURCE CAPITAL FUND L.P.

By: Resource Capital Associates L.L.C., general partner

By: /s/ JAMES T. McCLEMENTS

James T. McClements
Managing Director

SCHEDULE 1

DESCRIPTION OF PLEDGED INTEREST

Lisbon Valley Mining Co. L.L.C.

PERCENTAGE OF MEMBERSHIP INTEREST OWNED BY PLEDGOR

45/46

Nord Resources Corporation

ISSUER	CLASS	CERTIFICATE NUMBER	NUMBER OF SHARES	PERCENTAGE OF SHARES OUTSTANDING OWNED BY PLEDGOR
Nord Resource Corp.	Common	NU53443	1,600,000	Unknown

EXHIBIT 10.35

WARRANT AGREEMENT

This WARRANT AGREEMENT (the "Agreement"), dated as of June 25, 1999, is among SUMMO MINERALS CORPORATION, a corporation organized under the laws of the Province of British Columbia, Canada, (the "Company"), RESOURCE CAPITAL FUND L.P., a Cayman Islands limited partnership ("RCF") and ST. MARY MINERALS, INC., a Delaware corporation ("St. Mary," and together with RCF, the "Holders").

Recitals

A. The Company and Summo USA Corporation, a wholly-owned subsidiary of the Company, as co-borrowers ("Summo (USA)," with the Company and Summo (USA) referred to together as "Borrowers"), RCF, as agent and as a lender, and St. Mary, as a lender, have entered into an Amended and Restated Credit Agreement dated as of June 25, 1999 (the "Credit Agreement"), pursuant to which the Holders have extended credit to the Borrowers.

B. Pursuant to the Credit Agreement, as a portion of the inducement to the Holders to extend the credit provided for therein, the Company has agreed to issue certain warrants as provided herein (the "Warrants") permitting each of RCF and St. Mary, each acting severally and in its sole discretion, to purchase shares of the no par value common stock of the Company (the "Common Stock"), with the Common Stock issuable by the Company upon exercise of the Warrants referred to herein as the "Warrant Shares."

C. The parties intend that capitalized terms used but not defined herein will have the meanings given to them in the Credit Agreement.

Agreement

NOW, THEREFORE, in consideration of the Holders' extension of credit to the Borrowers pursuant to the Credit Agreement and of the covenants herein, the parties hereto agree as follows:

SECTION 1. Warrant Certificates. The Warrants shall be evidenced by two forms of certificate, as appended hereto as Exhibit A-1 (the "RCF Warrant Certificate") and Exhibit A-2 (the "St. Mary Warrant Certificate") with all such certificates collectively referred to as the "Warrant Certificates." The Warrants shall each be in registered form only.

SECTION 2. Execution of Warrant Certificates. Warrant Certificates shall be signed on behalf of the Company by its Chairman of the Board or its President or a Vice President and by its Secretary or an Assistant Secretary under its corporate seal. The seal of the Company shall be impressed on the Warrant Certificates.

Any Warrant Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Warrant Certificate, shall be a proper officer of the Company (as provided above) to sign such Warrant Certificate, although at the date of the execution of this Warrant Agreement any such person was not such an officer.

SECTION 3. Registration. The Company shall number and register the Warrant Certificates in a register as they are issued by the Company. The Company may deem and treat the registered holder(s) (the words "holders" or "holder" as used herein meaning the registered holders or registered holder and any transferee of either of the registered Holders) of the Warrant Certificates as the absolute owner(s) thereof (notwithstanding any notation of ownership or other writing thereon made by anyone), for all purposes, and the Company shall not be affected by any notice to the contrary.

SECTION 4. Registration of Transfers and Exchanges. The Company shall from time to time register the transfer of any outstanding Warrant Certificates upon the records to be maintained by it for that purpose, upon surrender thereof accompanied (if so required by it) by a written instrument or instruments of transfer duly executed by the registered holder or holders thereof or by the duly appointed legal representative thereof or by a duly authorized attorney. Upon any such registration of transfer, a new Warrant Certificate shall be issued to the transferee(s) and the surrendered Warrant Certificate shall be canceled by the Company. Canceled Warrant Certificates shall thereafter be disposed of in a manner satisfactory to the Company.

Warrant Certificates may be exchanged at the option of the holder(s) thereof, when surrendered to the Company at its office for another Warrant Certificate or other Warrant Certificates of like tenor and representing in the aggregate a like number of Warrants. Warrant Certificates surrendered for exchange shall be canceled by the Company.

SECTION 5. Issuance of Warrants. Concurrently with the execution of

this Agreement, the Company will issue the RCF Warrant and the St. Mary Warrant and deliver them to the respective Holders.

SECTION 6. Terms of Warrants; Exercise of Warrants; Company Repurchase Rights.

6.1 Terms of Warrants. The Warrants shall be issued on the following terms, certain of which terms are subject to adjustment as provided in this Agreement:

a. RCF Warrant.

Number of Shares of Common Stock: 50,000,000*
Exercise Price: Canadian $0.12/share of Common Stock*

Exercise Period: The date of this Agreement through June 25, 2004**

b. St. Mary Warrant.

Number of Shares of Common Stock: 17,500,000*

Exercise Price: Canadian $0.12/share of Common Stock*

Exercise Period: The date of this Agreement through June 25, 2004**

* Subject to adjustment as provided in Section 11 below.

** Not subject to adjustment, even if amounts due under the Credit Agreement are paid prior to the Expiry Date.

6.2 Exercise of Warrants.

a. Exercise by Holders. Each Holder, acting severally, may elect, in its sole discretion, to exercise its respective Warrants, in whole or in part, at any time and from time to time during the Exercise Period for such Warrant set forth in Section 6.1, in the manner specified in Paragraph b. below.

b. General Provisions Regarding Exercise. To exercise any Warrant, in whole or in part, a Holder shall deliver to the Company during the Exercise Period for such Warrant (a) the Warrant Certificate or Certificates for the Warrant being exercised, (b) written notice, in substantially the form of the Subscription Notice appended hereto as Exhibit B, of such Holder's election to exercise such Warrant, which notice shall specify the number of shares of Common Stock to be purchased, the denominations of the share certificate or certificates desired and the name or names in which such certificates are to be registered and (c) payment of the Exercise Price with respect to such shares of Common Stock. Such payment may be made, at the option of such Holder, by cash, certified or bank cashier's check or wire transfer. Each exercise of a Warrant shall, upon delivery of all of the foregoing to the Company before 5:00 p.m. on June 25, 2004, be irrevocable.

Upon such surrender of Warrant Certificates, delivery of a Subscription Notice and payment of the Exercise Price, the Company shall issue and cause to be delivered with all reasonable dispatch to or upon the written order of the Warrant holder and in such name or names as the holder may designate, a certificate or certificates for the number of full Warrant Shares issuable upon the exercise of such Warrants together with cash as provided in Section 12, if applicable, provided, however, that if any consolidation, merger or lease or sale of assets is proposed to be effected by the Company as described in subsection (m) of Section 11 hereof, or a tender offer or an exchange offer for shares of Common Stock of the Company shall be made, upon such surrender of Warrants and payment of the Exercise Price as aforesaid, the Company shall, as soon as possible, but in any event not later than two business days thereafter, issue and cause to be delivered the full number of Warrant Shares issuable upon the exercise of such Warrants in the manner described in this sentence together with cash, if applicable, as provided in Section 12. Such certificate or certificates shall be deemed to have been issued and any person

so designated to be named therein shall be deemed to have become a holder of record of such Warrant Shares as of the date of the surrender of such Warrants

and payment of the Exercise Price.

Each Warrant shall be exercisable, at the election of the holder thereof, either in full or from time to time in part and, in the event that a certificate evidencing Warrants is exercised in respect of fewer than all of the Warrant Shares issuable on such exercise at any time prior to the date of expiration of the Warrants, a new certificate evidencing the remaining Warrant or Warrants will be issued pursuant to the provisions of this Section.

All Warrant Certificates surrendered upon exercise of Warrants shall be canceled by the Company. Such canceled Warrant Certificates shall then be disposed of by the Company.

SECTION 7. Payment of Taxes. The Company will pay all documentary stamp taxes attributable to the initial issuance of Warrant Shares upon the exercise of Warrants; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issue of any Warrant Certificates or any certificates for Warrant Shares in a name other than that of the registered holder of a Warrant Certificate surrendered upon the exercise of a Warrant, and the Company shall not be required to issue or deliver such Warrant Certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

SECTION 8. Mutilated or Missing Warrant Certificates. In case any of the Warrant Certificates shall be mutilated, lost, stolen or destroyed, the Company may in its discretion issue in exchange and substitution for and upon cancellation of the mutilated Warrant Certificate, or in lieu of and substitution for the Warrant Certificate lost, stolen or destroyed, a new Warrant Certificate of like tenor and representing an equivalent number of Warrants, but only upon receipt of evidence satisfactory to the Company of such loss, theft or destruction of such Warrant Certificate and indemnity, if requested, also satisfactory to them. Applicants for such substitute Warrant Certificates shall also comply with such other reasonable regulations and pay such other reasonable charges as the Company may prescribe.

SECTION 9. Reservation of Warrant Shares. The Company will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Common Stock or its authorized and issued Common Stock held in its treasury, for the purpose of enabling it to satisfy any obligation to issue Warrant Shares upon exercise of Warrants, the maximum number of shares of Common Stock which may then be deliverable upon the exercise of all outstanding Warrants.

The Company or, if appointed, the transfer agent for the Common Stock (the "Transfer Agent") and every subsequent transfer agent for any shares of the Company's capital stock issuable upon the exercise of, any Warrant, will be irrevocably authorized and directed at all times to reserve such number of authorized shares as shall be required for such purpose. The Company will keep a copy of this Agreement on file with the Transfer Agent and with every subsequent transfer agent for any shares of the Company's capital stock issuable upon the exercise of any Warrant. The Company will supply such Transfer Agent with duly executed

certificates for such purposes and will provide or otherwise make available any cash which may be payable as provided in Section 12. The Company will furnish such Transfer Agent a copy of all notices of adjustments and certificates related thereto, transmitted to each holder pursuant to Section 13 hereof.

Before taking any action which would cause an adjustment pursuant to Section 11 hereof to reduce the Exercise Price below the then par value (if any) of the Warrant Shares, the Company will take any corporate action which may, in the opinion of its counsel (which may be counsel employed by the Company), be necessary in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares at the Exercise Price as so adjusted.

The Company covenants that all Warrant Shares which are issued upon exercise of Warrants will, upon issue, be fully paid, nonassessable, free of preemptive rights and free from all taxes, liens, charges and security interests with respect to the issue thereof.

SECTION 10. Stock Exchange Listing; Free Tradeability of Warrant Shares. The Company will from time to time take all action which may be necessary so that the Warrant Shares, immediately upon their issuance upon the exercise of Warrants, will be listed on the Toronto Stock Exchange (or other such exchange on which the Common Stock is traded) and, subject to any applicable statutory hold period, tradeable without restriction by the holder thereof immediately upon receipt.

SECTION 11. Adjustment of Exercise Price and Number of Warrant Shares Issuable. The Exercise Price applicable to each Warrant and the number of

Warrant Shares issuable upon the exercise of each Warrant are subject to adjustment from time to time upon the occurrence of the events enumerated in this Section 11. For purposes of this Section 11, "Common Stock" means shares, now or hereafter authorized, of any class of common stock of the Company and any other stock of the Company, however designated, that has the right (subject to any prior rights of any class or series of preferred stock) to participate in any distribution of the assets or earnings of the Company without limit as to per share amount.

(a) Adjustment for Change in Capital Stock.

If the Company:

(1) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock;

(2) subdivides its outstanding shares of Common Stock into a greater number of shares;

(3) combines its outstanding shares of Common Stock into a smaller number of shares;

(4) makes a distribution on its Common Stock in shares of its capital stock other than Common Stock; or

(5) issues by reclassification of its Common Stock any shares of its capital stock;

then, the Exercise Price in effect immediately prior to such action shall be proportionately adjusted so that the holder of any Warrant thereafter exercised may receive the aggregate number and kind of shares of capital stock of the Company which it would have owned immediately following such action if such Warrant had been exercised immediately prior to such action.

The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, combination or reclassification.

If after an adjustment a holder of a Warrant may, upon exercise of the Warrant, receive shares of two or more classes of capital stock of the Company, the Company shall determine the allocation of the adjusted Exercise Price between the classes of capital stock. After such allocation, the exercise privilege and the Exercise Price of each class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Section.

Such adjustment shall be made successively whenever any event listed above shall occur.

(b) Adjustment for Rights Issue.

If the Company distributes any rights, options or warrants to all holders of its Common Stock entitling them for a period expiring within 60 days after the record date mentioned below to purchase shares of Common Stock at a price per share less than the current Market Price per share on that record date, each Exercise Price shall be adjusted in accordance with the formula:

$$E' = E \times \frac{O + \frac{N \times P}{M}}{O + N}$$

where:

E' = the adjusted Exercise Price.

E = the current Exercise Price.

O = the number of shares of Common Stock outstanding on the record date.

N = the number of additional shares of Common Stock offered.

P = the offering price per share of the additional shares.

M = the current Market Price per share of Common Stock on the

record date, with "Market Price" meaning the closing price on the last day preceding the date of adjustment on which Common Stock traded.

The adjustment shall be made successively whenever any such rights, options or warrants are issued and shall become effective immediately after the record date for the determination of stockholders entitled to receive the rights, options or warrants. If at the end of the period during which such rights, options or warrants are exercisable, not all rights, options or warrants shall have been exercised, the Exercise Price shall be immediately readjusted to what it would have been if "N" in the above formula had been the number of shares actually issued.

(c) Adjustment for Other Distributions.

If the Company distributes to all holders of its Common Stock any of its assets or debt securities or any rights or warrants to purchase debt securities, assets or other securities of the Company, each Exercise Price shall be adjusted in accordance with the formula:

$$E' = E \times \frac{M - F}{M}$$

where:

E' = the adjusted Exercise Price.

E = the current Exercise Price.

M = the current Market Price per share of Common Stock on the record date mentioned below.

F = the fair market value on the record date of the assets, securities, rights or warrants applicable to one share of Common Stock. The Board of Directors shall determine the fair market value.

The adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of stockholders entitled to receive the distribution.

This subsection (c) does not apply to cash dividends or cash distributions paid out of consolidated current or retained earnings as shown on the books of the Company prepared in accordance with generally accepted accounting principles. Also, this subsection does not apply to rights, options or warrants referred to in subsection (b) of this Section 11.

(d) Adjustment for Common Stock Issue.

If the Company issues shares of Common Stock for a consideration per share less than the current Market Price per share on the date the Company fixes the offering price of such additional shares, each Exercise Price shall be adjusted in accordance with the formula:

$$E' = E \times \frac{O + \frac{P}{M}}{A}$$

where:

E' = the adjusted Exercise Price.

E = the then current Exercise Price.

O = the number of shares of Common Stock outstanding immediately prior to the issuance of such additional shares.

P = the aggregate consideration received for the issuance of such additional shares.

M = the current Market Price per share of Common Stock on the date the Company fixes the offering price of such additional shares.

A = the number of shares of Common Stock outstanding immediately after the issuance of such additional shares.

The adjustment shall be made successively whenever any such issuance is made, and shall become effective immediately after such issuance.

This subsection (d) does not apply to:

(1) any of the transactions described in subsections (b) and (c) of this Section 11;

(2) the exercise of Warrants, or the conversion or exchange of other securities convertible or exchangeable for Common Stock;

(3) Common Stock issued to the Company's employees under bona fide incentive stock option agreements entered into in accordance with the policies of the applicable securities regulatory bodies, and approved by the holders of Common Stock when required by law;

(4) Common Stock issued upon the exercise of rights or warrants issued to the holders of Common Stock;

(5) Common Stock issued to shareholders of any person which merges into the Company in proportion to their stock holdings of such person immediately prior to such merger, upon such merger; or

(6) Common Stock issued in a bona fide public offering in which an investment dealer has been retained as agent or underwriter.

(e) Adjustment for Convertible Securities Issue.

If the Company issues any securities convertible into or exchangeable for Common Stock (other than securities issued in transactions described in subsections (b) and (c) of this Section 11) for a consideration per share of Common Stock initially deliverable upon conversion or exchange of such securities less than the current Market Price per share on the date of issuance of such securities, each Exercise Price shall be adjusted in accordance with this formula:

$$E' = E \times \frac{O + \frac{P}{M}}{O + D}$$

where:

E' = the adjusted Exercise Price.

E = the then current Exercise Price.

O = the number of shares of Common Stock outstanding immediately prior to the issuance of such securities.

P = the aggregate consideration received for the issuance of such securities.

M = the current Market Price per share of Common Stock on the date of issuance of such securities.

D = the maximum number of shares of Common Stock deliverable upon conversion or in exchange for such securities at the initial conversion or exchange rate.

The adjustment shall be made successively whenever any such issuance is made, and shall become effective immediately after such issuance.

If all of the Common Stock deliverable upon conversion or exchange of such securities have not been issued when such securities are no longer outstanding, then the Exercise Price shall promptly be readjusted to the Exercise Price which would then be in effect had the adjustment upon the issuance of such securities been made on the basis of the actual number of shares of Common Stock issued upon conversion or exchange of such securities.

This subsection (e) does not apply to:

(1) convertible securities issued to shareholders of any person which merges into the Company, or with a subsidiary of the Company, in proportion to their stock holdings of such person immediately prior to such merger, upon such merger, or

(2) convertible securities issued in a bona fide public offering in which an investment dealer has been retained as agent or underwriter.

(f) Consideration Received.

For purposes of any computation respecting consideration received pursuant to subsections (d) and (e) of this Section 11, the following shall apply:

(1) in the case of the issuance of shares of Common Stock for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions, discounts or other expenses incurred by the Company for any underwriting of the issue or otherwise in connection therewith;

(2) in the case of the issuance of shares of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined in good faith by the Board of Directors of the Company (irrespective of the accounting treatment thereof), whose determination shall be conclusive, and described in a Board resolution, a copy of which shall be mailed to each holder; and

(3) in the case of the issuance of securities convertible into or exchangeable for shares, the aggregate consideration received therefor shall be deemed to be the consideration received by the Company for the issuance of such securities plus the additional minimum consideration, if any, to be received by the Company upon the conversion or exchange thereof (the consideration in each case to be determined in the same manner as provided in clauses (1) and (2) of this subsection).

(g) When De Minimis Adjustment May Be Deferred.

No adjustment in any Exercise Price need be made unless the adjustment would require an increase or decrease of at least 1% in such Exercise Price. Any adjustments that are not made shall be carried forward and taken into account in any subsequent adjustment.

All calculations under this Section shall be made to the nearest cent or to the nearest l/l00th of a share, as the case may be.

(h) When No Adjustment Required.

No adjustment need be made for a transaction referred to in subsections (a), (b), (c), (d) or (e) of this Section 11 if Warrant holders are to participate in the transaction on a basis and with notice that the Board of Directors determines to be fair and appropriate

in light of the basis and notice on which holders of Common Stock participate in the transaction.

No adjustment need be made for rights to purchase Common Stock pursuant to a Company plan for reinvestment of dividends or interest.

No adjustment need be made for a change in the par value of the Common Stock.

To the extent the Warrants become convertible into cash, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash.

(i) Notice of Adjustment.

Whenever any Exercise Price is adjusted, the Company shall provide the notices required by Section 13 hereof.

(j) Voluntary Reduction.

The Company from time to time may reduce any Exercise Price by any amount for any period of time if the period is at least 20 days and if the reduction is irrevocable during the period; provided, however, that in no event may any Exercise Price be less than the par value of a share of Common Stock.

Whenever any Exercise Price is reduced, the Company shall mail to Warrant holders a notice of the reduction. The Company shall mail the notice at least 15 days before the date the reduced Exercise Price takes effect. The notice shall state the reduced Exercise Price and the period it will be in effect.

A reduction of the Exercise Price does not change or adjust the Exercise Price otherwise in effect for purposes of subsections (a), (b),

(c), (d) and (e) of this Section 11.

(k) Notice of Certain Transactions.

If:

(1) the Company takes any action that would require an adjustment in the Exercise Price pursuant to subsections (a), (b), (c), (d), (e) or (l) of this Section 11 and if the Company does not arrange for Warrant holders to participate pursuant to subsection (h) of this Section 11;

(2) the Company takes any action that would require a supplemental Warrant Agreement pursuant to subsection (m) of this Section 11; or

(3) there is a liquidation or dissolution of the Company;

then, the Company shall mail to Warrant holders a notice stating the proposed record date for a dividend or distribution or the proposed effective date of a subdivision,

combination, reclassification, consolidation, merger, transfer, lease, liquidation or dissolution. The Company shall mail the notice at least 15 days before such date. Failure to mail the notice or any defect in it shall not affect the validity of the transaction.

(l) Reorganization of Company.

If the Company consolidates or merges with or into, or transfers or leases all or substantially all its assets to, any person, upon consummation of such transaction the Warrants shall automatically become exercisable for the kind and amount of securities, cash or other assets which the holder of a Warrant would have owned immediately after the consolidation, merger, transfer or lease if the holder had exercised the Warrant immediately before the effective date of the transaction. Concurrently with the consummation of such transaction, the corporation formed by or surviving any such consolidation or merger if other than the Company, or the person to which such sale or conveyance shall have been made, shall enter into a supplemental Warrant Agreement so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Section. The successor Company shall mail to Warrant holders a notice describing the supplemental Warrant Agreement.

If the issuer of securities deliverable upon exercise of Warrants under the supplemental Warrant Agreement is an affiliate of the formed, surviving, transferee or lessee corporation, that issuer shall join in the supplemental Warrant Agreement.

If this subsection (l) applies, subsections (a), (b), (c), (d) and (e) of this Section 11 do not apply.

(m) When Issuance or Payment May Be Deferred.

In any case in which this Section 11 shall require that an adjustment in any Exercise Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event (i) issuing to the holder of any Warrant exercised after such record date the Warrant Shares and other capital stock of the Company, if any, issuable upon such exercise over and above the Warrant Shares and other capital stock of the Company, if any, issuable upon such exercise on the basis of the applicable Exercise Price and (ii) paying to such holder any amount in cash in lieu of a fractional share pursuant to Section 12; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional Warrant Shares, other capital stock and cash upon the occurrence of the event requiring such adjustment.

(n) Adjustment in Number of Shares.

Upon each adjustment of any Exercise Price pursuant to this Section 11, each Warrant outstanding prior to the making of the adjustment in the Exercise Price shall thereafter evidence the right to receive upon payment of the adjusted Exercise Price that number of shares of Common Stock (calculated to the nearest hundredth) obtained from the following formula:

$$N' = N \times \frac{E}{E'}$$

where:

N' = the adjusted number of Warrant Shares issuable upon exercise of a Warrant by payment of the adjusted Exercise Price.

N = the number or Warrant Shares previously issuable upon exercise of a Warrant by payment of the Exercise Price prior to adjustment.

E' = the adjusted Exercise Price.

E = the Exercise Price prior to adjustment.

(o) Form of Warrants.

Irrespective of any adjustments in the Exercise Price or the number or kind of shares purchasable upon the exercise of the Warrants, Warrants theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the Warrants initially issuable pursuant to this Agreement.

(p) Limitation on Exercise Price Adjustment.

Notwithstanding the provisions of subsections 11(b), (c), (d) and (e), in no event shall the Exercise Price be reduced by the application of such subsections to a price less than C$0.1125, prior to the application, if at all, of subsection 11(a).

SECTION 12. Fractional Interests. The Company shall not be required to issue fractional Warrant Shares on the exercise of Warrants. If more than one Warrant shall be presented for exercise in full at the same time by the same holder, the number of full Warrant Shares which shall be issuable upon the exercise thereof shall be computed on the basis of the aggregate number of Warrant Shares purchasable on exercise of the Warrants so presented. If any fraction of a Warrant Share would, except for the provisions of this Section 12, be issuable on the exercise of any Warrants (or specified portion thereof), the Company shall pay an amount in cash equal to the Exercise Price on the day immediately preceding the date the Warrant is presented for exercise, multiplied by such fraction.

SECTION 13. Notices to Warrant Holders. Upon any adjustment of the Exercise Price pursuant to Section 11, the Company shall promptly thereafter cause to be given to each of the registered holders of the Warrant Certificates at its address appearing on the Warrant register a certificate of a firm of independent public accountants of recognized standing selected by the Board of Directors of the Company (who may be the regular auditors of the Company) setting forth the Exercise Price after such adjustment and

setting forth in reasonable detail the method of calculation and the facts upon which such calculations are based and setting forth the number of Warrant Shares (or portion thereof) issuable after such adjustment in the Exercise Price, upon exercise of a Warrant and payment of the adjusted Exercise Price, which certificate shall be conclusive evidence of the correctness of the matters set forth therein, by first-class mail, postage prepaid. Where appropriate, such notice may be given in advance and included as a part of the notice required to be mailed under the other provisions of this Section 13.

In case:

(a) the Company shall authorize the issuance of rights, options or warrants to subscribe for or purchase shares of Common Stock or of any other subscription rights or warrants to all holders of shares of Common Stock; or

(b) the Company shall authorize the distribution of evidences of its indebtedness or assets (other than cash dividends or cash distributions payable out of consolidated earnings or earned surplus or dividends payable in shares of Common Stock or distributions referred to in subsection (a) of Section 11 hereof) to all holders of shares of Common Stock; or

(c) of any consolidation or merger to which the Company is a party and for which approval of any shareholders of the Company is required, or of the conveyance or transfer of the properties and assets of the Company substantially as an entirety, or of any reclassification or change of Common Stock issuable upon exercise of the Warrants (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or a tender offer or exchange

offer for shares of Common Stock; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up of the Company; or

(e) the Company proposes to take any action (other than actions of the character described in Section 11(a)) which would require an adjustment of the Exercise Price pursuant to Section 11;

then, the Company shall cause to be given to each of the registered holders of the Warrant Certificates at its address appearing on the Warrant register, at least 20 days (or 10 days in any case specified in clauses (a) or (b) above) prior to the applicable record date hereinafter specified, or promptly in the case of events for which there is no record date, by first-class mail, postage prepaid, a written notice stating (i) the date as of which the holders of record of shares of Common Stock to be entitled to receive any such rights, options, warrants or distribution are to be determined, or (ii) the initial expiration date set forth in any tender offer or exchange offer for shares of Common Stock, or (iii) the date on which any such consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up is expected to become effective or consummated, and the date as of which it

is expected that holders of record of shares of Common Stock shall be entitled to exchange such shares for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up. The failure to give the notice required by this Section 13 or any defect therein shall not affect the legality or validity of any distribution, right, option, warrant, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up, or the vote upon any action.

Nothing contained in this Agreement or in any of the Warrant Certificates shall be construed as conferring upon the holders thereof the right to vote or to consent or to receive notice as shareholders in respect of the meetings of shareholders or the election of Directors of the Company or any other matter, or any rights whatsoever as shareholders of the Company.

SECTION 14. Notices to Company. Any notice or demand authorized by this Agreement to be given or made by the Company or by the registered holder of any Warrant Certificate to or on the Company shall be sufficiently given or made when and if deposited in the mail, first class or registered, postage prepaid, addressed (until another address is filed in writing by the Company), as follows:

SUMMO MINERALS CORPORATION
1776 Lincoln Street
Suite 900
Denver, Colorado 80203
Fax No.: 303-863-1736

In case the Company shall fail to maintain such office or agency or shall fail to give such notice of the location or of any change in the location thereof, presentations may be made and notices and demands may be served at the principal office of the Transfer Agent.

SECTION 15. Supplements and Amendments. The Company and the Warrant holders may from time to time supplement or amend this Agreement with the approval of all holders of Warrant Certificates.

SECTION 16. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Holders shall bind and inure to the benefit of their respective successors and assigns hereunder.

SECTION 17. Termination. This Agreement shall terminate at 5:00 p.m., Mountain Standard Time on June 25, 2004. Notwithstanding the foregoing, this Agreement will terminate on any earlier date if all Warrants have been exercised.

SECTION 18. Governing Law; Jurisdiction and Venue. This Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the internal laws of the State of Colorado and for all purposes shall be construed in accordance with the internal laws of said State.

All judicial proceedings arising out of or relating to this Agreement and each Warrant Certificate issued hereunder may be brought in

any court of competent jurisdiction in the City and County of Denver, Colorado, and by execution and delivery of this Agreement, the Company accepts for itself generally and unconditionally, the nonexclusive jurisdiction of the aforesaid courts and waives any defense of forum non convenience and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement or any Warrant Certificate issued hereunder.

SECTION 19. Transferabilitv and Nonnegotiabilitv of Warrant. The Warrants may not be transferred or assigned in whole or in part without compliance by the transferor and transferee with all applicable Canadian and United States, federal, provincial and state securities laws and with all applicable rules and policies of any stock exchange having jurisdiction. Subject to compliance with such laws, rules and policies, title to the Warrants may be transferred by endorsement of the Warrant Certificate and delivery in the same manner as a negotiable instrument transferable by endorsement and delivery.

SECTION 20. Exchange of Warrant Upon a Transfer. On surrender of the Warrant Certificate for exchange, properly endorsed on the Assignment Form and subject to the provisions of this Agreement with respect to compliance with applicable securities laws and with the limitations on assignments and transfers and contained in Section 19, the Company at its expense shall issue to or on the order of the Holder a new Warrant Certificate of like tenor, in the name of the Holder or as the Holder may direct, for the number of shares issuable upon exercise hereof.

SECTION 21. Compliance with Securities Laws. Each Holder agrees that it will not offer, sell or otherwise dispose of its Warrant or any shares of Common Stock to be issued upon exercise hereof except under circumstances that will not result in a violation of the Canadian or United States federal or any provincial or state securities laws or in a violation of any applicable rules and policies of any stock exchange having jurisdiction. Prior to any proposed transfer of any Warrant, the Holder thereof shall give written notice to the Company of its intention to effect such transfer. Each such notice shall describe the manner of the proposed transfer and, if requested by the Company, shall be accompanied by an opinion of counsel reasonably satisfactory to the Company to the effect that the proposed transfer may be effected without registration under applicable laws, whereupon the Holder shall be entitled to transfer this Warrant in accordance with the terms of its notice; provided, however, that no such opinion of counsel shall be required for a transfer to one or more partners of the transferor (in the case of a transferor that is a partnership) or to an affiliated corporation (in the case of a transferor that is a corporation).

SECTION 22. Benefits of This Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company, each of the Holders and the registered holders of the Warrant Certificates any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and

exclusive benefit of the Company, each of the Holders and the registered holders of the Warrant Certificates.

SECTION 23. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

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

SUMMO MINERALS CORPORATION

By: /s/ GREGORY A. HAHN

Name: Gregory A. Hahn

Title: President

[Seal]

Attest:

Secretary

RESOURCE CAPITAL FUND L.P.
By: Resource Capital Associates L.L.C,
General Partner

By: /s/ JAMES T. McCLEMENTS

James T. McClements
Managing Director

ST. MARY MINERALS, INC.

By: /s/ MARK A. HELLERSTEIN

Name: Mark A. Hellerstein

Title: President

EXERCISABLE ON OR BEFORE JUNE 25, 2004

No. 1 50,000,000 Warrants

RCF Warrant Certificate

SUMMO MINERALS CORPORATION

This Warrant Certificate certifies that RESOURCE CAPITAL FUND L.P., or registered assigns, is the registered holder of 50,000,000 Warrants expiring June 25, 2004 (the "Warrants") to purchase Common Stock, no par value per share (the "Common Stock"), of Summo Minerals Corporation, a British Columbia corporation (the "Company"). Each Warrant entitles the holder upon exercise to receive from the Company on or before 5:00 p.m. Mountain Standard Time on June 25, 2004, one fully paid and nonassessable share of Common Stock (a "Warrant Share") at the initial exercise price (the "Exercise Price") of C$0.12 payable in lawful money of Canada upon surrender of this Warrant Certificate and payment of the Exercise Price at the office of the Company, but only subject to the conditions set forth herein and in the Warrant Agreement referred to herein. The Exercise Price and number of Warrant Shares issuable upon exercise of the Warrants are subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement.

No Warrant may be exercised after 5:00 p.m. Mountain Standard Time on June 25, 2004, and to the extent not exercised by such time such Warrants shall become void.

This Warrant Certificate shall be governed and construed in accordance with the internal laws of the State of Colorado.

All judicial proceedings arising out of or relating to this Warrant Certificate may be brought in any court of competent jurisdiction in the City and County of Denver, Colorado, and by execution and delivery of this Agreement, the Company accepts for itself generally and unconditionally, the nonexclusive jurisdiction of the aforesaid courts and waives any defense of forum non conveniens and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Warrant Certificate.

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants expiring June 25, 2004 entitling the holder on exercise to receive shares of Common Stock, and are issued or to be issued pursuant to a Warrant Agreement dated as of June 25, 1999 (the "Warrant Agreement"), duly executed and delivered by the Company to Resource Capital Fund L.P. ("RCF") and St. Mary Minerals, Inc. ("St. Mary"), which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Company, the Holders and the holders (the words "holders" or "holder" meaning the registered holders or registered holder and any transferee of the registered Holder) of the Warrants. A copy of the

Warrant Agreement may be obtained by the holder hereof upon written request to the Company.

Warrants may be exercised at any time on or before 5:01 p.m. Mountain Standard Time, June 25, 2004. The holder of Warrants evidenced by this Warrant Certificate may exercise them by surrendering this Warrant Certificate, with the form of election to purchase set forth hereon properly completed and executed, together with payment of the Exercise Price in cash at the office of the Company. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his assignee a new Warrant Certificate evidencing the number of Warrants not exercised. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of this Warrant.

The Warrant Agreement provides that upon the occurrence of certain events the Exercise Price set forth on the face hereof may, subject to certain conditions, be adjusted. If the Exercise Price is adjusted, the Warrant Agreement provides that the number of shares of Common Stock issuable upon the exercise of each Warrant shall be adjusted. No fractions of a share of Common Stock will be issued upon the exercise of any Warrant, but the Company will pay the cash value thereof determined as provided in the Warrant Agreement.

Warrant Certificates, when surrendered at the office of the Company by the registered holder thereof may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement, but without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor evidencing in the aggregate a like number of Warrants.

Upon due presentation for registration of transfer of this Warrant Certificate at the office of the Company a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company may deem and treat the registered holder(s) thereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof, and for all other purposes, and the Company shall not be affected by any notice to the contrary. Neither the Warrants nor this Warrant Certificate entitles any holder hereof to any rights of a stockholder of the Company.

IN WITNESS WHEREOF, SUMMO MINERALS CORPORATION has caused this Warrant Certificate to be signed by its President and by its Secretary, and has caused its corporate seal to be affixed hereunto or imprinted hereon.

Dated: June ___, 1999

SUMMO MINERALS CORPORATION

By

President

By

Secretary

EXERCISABLE ON OR BEFORE JUNE 25, 2004

No. 2 17,500,000 Warrants

St. Mary Warrant Certificate

SUMMO MINERALS CORPORATION

This Warrant Certificate certifies that ST. MARY MINERALS, INC., or registered assigns, is the registered holder of 17,500,000 Warrants expiring June 25, 2004 (the "Warrants") to purchase of Common Stock, no par value per share (the "Common Stock"), of Summo Minerals Corporation, a British Columbia corporation (the "Company"). Each Warrant entitles the holder upon exercise to receive from the Company on or before 5:00 p.m.

Mountain Standard Time on June 25, 2004, one fully paid and nonassessable share of Common Stock (a "Warrant Share") at the initial exercise price (the "Exercise Price") of C$0.12 payable in lawful money of Canada upon surrender of this Warrant Certificate and payment of the Exercise Price at the office of the Company, but only subject to the conditions set forth herein and in the Warrant Agreement referred to herein. The Exercise Price and number of Warrant Shares issuable upon exercise of the Warrants are subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement.

No Warrant may be exercised after 5:00 p.m. Mountain Standard Time on June 25, 2004, and to the extent not exercised by such time such Warrants shall become void.

This Warrant Certificate shall be governed and construed in accordance with the internal laws of the State of Colorado.

All judicial proceedings arising out of or relating to this Warrant Certificate may be brought in any court of competent jurisdiction in the City and County of Denver, Colorado, and by execution and delivery of this Agreement, the Company accepts for itself generally and unconditionally, the nonexclusive jurisdiction of the aforesaid courts and waives any defense of forum non conveniens and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Warrant Certificate.

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants expiring June 25, 2004 entitling the holder on exercise to receive shares of Common Stock, and are issued or to be issued pursuant to a Warrant Agreement dated as of June 25, 1999 (the "Warrant Agreement"), duly executed and delivered by the Company to Resource Capital Fund L.P. ("RCF") and St. Mary Minerals, Inc. ("St. Mary"), which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Company, the Holders and the holders (the words "holders" or "holder" meaning the registered holders or registered holder and any transferee of the registered Holder) of the Warrants. A copy of the Warrant Agreement may be obtained by the holder hereof upon written request to the Company.

Warrants may be exercised at any time on or before 5:01 p.m. Mountain Standard Time, June 25, 2004. The holder of Warrants evidenced by this Warrant Certificate may exercise them by surrendering this Warrant Certificate, with the form of election to purchase set forth hereon properly completed and executed, together with payment of the Exercise Price in cash at the office of the Company. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his assignee a new Warrant Certificate evidencing the number of Warrants not exercised. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of this Warrant.

The Warrant Agreement provides that upon the occurrence of certain events the Exercise Price set forth on the face hereof may, subject to certain conditions, be adjusted. If the Exercise Price is adjusted, the Warrant Agreement provides that the number of shares of Common Stock issuable upon the exercise of each Warrant shall be adjusted. No fractions of a share of Common Stock will be issued upon the exercise of any Warrant, but the Company will pay the cash value thereof determined as provided in the Warrant Agreement.

Warrant Certificates, when surrendered at the office of the Company by the registered holder thereof may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement, but without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor evidencing in the aggregate a like number of Warrants.

Upon due presentation for registration of transfer of this Warrant Certificate at the office of the Company a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company may deem and treat the registered holder(s) thereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof, and for all other purposes, and the Company shall not be affected

by any notice to the contrary. Neither the Warrants nor this Warrant Certificate entitles any holder hereof to any rights of a stockholder of the Company.

IN WITNESS WHEREOF, SUMMO MINERALS CORPORATION has caused this Warrant Certificate to be signed by its President and by its Secretary, and has caused its corporate seal to be affixed hereunto or imprinted hereon.

Dated: June ___, 1999

SUMMO MINERALS CORPORATION

By

President

By

Secretary

2

TO: SUMMO MINERALS CORPORATION

THE HOLDER HEREBY SUBSCRIBES FOR shares of Common Stock of Summo Minerals Corporation (or such number of shares or other security or property to which such subscription entitles the undersigned in lieu thereof under the provision of the Warrant Agreement) at $ (Cdn.) per share of Common Stock (or the adjusted dollar amount per share at which the undersigned is entitled to purchase such shares under the provisions of the Warrant Agreement) and on the other terms set out in the applicable Warrant Certificate and Warrant Agreement and encloses herewith a certified cheque, bank draft or money order in Canadian dollars payable to "Summo Minerals Corporation" in payment of the aggregate subscription price therefor.

The undersigned hereby irrevocably directs that the shares of Common Stock be delivered, subject to the conditions set out in this certificate and the provisions of the Warrant Agreement, and that the said shares of Common Stock be registered as follows:

Name(s) in Full	Address(es) (Include Postal Code)	Number of Shares
	TOTAL:	

(Please print full name in which certificate(s) are to be issued. If any of the shares of Common Stock are to be issued to a person or persons other than the Warrantholder, the Transfer Form must also be completed and the Warrantholder must pay to the Company all requisite taxes or other government charges, if any.)

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DATED this day of , .

Signature of Subscriber

Name of Subscriber

Address of Subscriber

(Include Postal Code)

EXHIBIT 21.1

SUBSIDIARIES
OF
ST. MARY LAND & EXPLORATION COMPANY

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

1 St. Mary Minerals, Inc., a Colorado corporation
2. Parish Corporation, a Colorado corporation
3. St. Mary Operating Company, a Colorado corporation
4. Nance Petroleum Corporation, a Montana corporation
5. St. Mary Acquisition Corporation, a Colorado corporation

B. Wholly owned subsidiaries of Parish Corporation:

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

C. Partnership interests held by Parish Corporation:

1. Hilltop Investment Partners, a Colorado general partnership (50%)
2. C-470 Venture, a Colorado general partnership (68.858%)
3. Parish Ventures, a Colorado general partnership (100%)

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this registration statement.

/S/ ARTHUR ANDERSEN LLP

Denver, Colorado
August 17, 1999

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of St. Mary Land & Exploration Company and Subsidiaries on Form S-4 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 audits of the financial statements of St. Mary Land & Exploration Company and Subsidiaries for the year ended December 31, 1996, which report is incorporated by reference in this Form S-4. We also consent to the reference to our firm under the caption "Experts."

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Denver, Colorado
August 17, 1999

EXHIBIT 23.3

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Registration Statement of St. Mary Land & Exploration Company on Form S-4 of our report on King Ranch Energy, Inc. and Subsidiaries dated March 2, 1999, appearing in this proxy and consent statement/propextus, which is part of this Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectus.

/S/ DELOITTE & TOUCHE LLP

Houston, Texas
August 18, 1999

EXHIBIT 23.5

August 18, 1999

King Ranch, Inc.
1415 Louisiana, Suite 2300
Wedge International Tower
Houston, Texas 77002

Gentlemen:

We hereby consent to the filing of our opinion to you dated July 27, 1999, with the Securities and Exchange Commission as Exhibit 8.1 to the St. Mary Land & Exploration Company Registration Statement on Form S-4, and to the use of our name in the Joint Proxy/Consent Statement forming a part of the Registration Statement under the caption "Legal Matters."

Very truly yours,

/s/ Locke Liddell & Sapp LLP

LOCKE LIDDELL & SAPP LLP

EXHIBIT 23.6

August 13, 1999

Mr. Bill Gardiner
Chief Financial Officer
King Ranch, Inc.
1415 Louisiana, Suite 2300
Wedge International Tower
Houston, TX 77002

Dear Bill:

We hereby consent to the inclusion of our opinion as an exhibit to the Form S-4 Registration Statement under the Securities Act of 1933 of the Company and the reference to and summary of our opinion in such Form S-4 Registration Statement.

Ernst & Young LLP

/S/ ERNST & YOUNG LLP

EXHIBIT 23.7

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

The undersigned hereby consents to the incorporation by reference in the proxy and consent statement/prospectus constituting part of the St. Mary Land & Exploration Company registration statement on Form S-4 (Registration No. 333-_____) of data derived from our reserve report dated January 15, 1999 relating to the oil and gas reserves of St. Mary Land & Exploration Company at December 31, 1998. We also consent to the reference to this firm under the caption "Experts" and elsewhere in such proxy and consent statement/prospectus.

/S/ RYDER SCOTT COMPANY, L.P.

RYDER SCOTT COMPANY, L.P.

Denver, Colorado
August 13, 1999

EXHIBIT 23.8

CONSENT OF DEUTSCHE BANK SECURITIES INC.

We hereby consent to (i) the use of our opinion letter to the Board of Directors of St. Mary Land & Exploration Company (the "Company") included as Annex B to the proxy and consent statement/prospectus constituting a part of the Registration Statement on Form S-4 relating to the proposed merger of the Company and King Ranch Energy, Inc., and (ii) the references to such opinion in such proxy and consent statement/prospectus. In giving such consent, we do not admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder, nor do we hereby admit that we are experts with respect to any part of such Registration Statement within the meaning of the term "experts" as used in the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder.

DEUTSCHE BANK SECURITIES INC.

By: /S/ CLIVE R. HOLMES

Clive R. Holmes
Managing Director

August 12, 1999

EXHIBIT 23.9

CONSENT OF NESBITT BURNS SECURITIES INC.

We hereby consent to (i) the use of our opinion letter to the Board of Directors of King Ranch, Inc. as Annex C to the proxy and consent statement/prospectus constituting a part of the Registration Statement on Form S-4 relating to the proposed merger of King Ranch Energy, Inc. and St. Mary Land & Exploration Company, and (ii) the references to such opinion in such proxy and consent statement/prospectus. In giving such consent, we do not admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder, nor do we hereby admit that we are experts with respect to any part of such Registration Statement within the meaning of the term "experts" as used in the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder.

NESBITT BURNS SECURITIES INC.

By: /S/ SYLVIA K. BARNES

Sylvia K. Barnes
Managing Director

August 13, 1999

EXHIBIT 23.10

CONSENT OF INDEPENDENT PETROLEUM AND GEOLOGICAL ENGINEERS

The undersigned hereby consents to the incorporation by reference in the joint proxy statement/prospectus constituting part of the St. Mary Land & Exploration Company registration statement on Form S-4 (Registration No. 333-_____) of data derived from our reserve report dated February 5, 1999 relating to the oil and gas reserves of King Ranch Energy at December 31, 1998. We also consent to the reference to this firm under the caption "Experts" and elsewhere in such joint proxy statement/prospectus.

/s/ RYDER SCOTT COMPANY, L.P.

RYDER SCOTT COMPANY, L.P.

August 18, 1999

EXHIBIT 23.11

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

We hereby consent to the incorporation by reference in the joint proxy statement/prospectus constituting part of the St. Mary Land & Exploration Company registration statement on Form S-4 (Registration No. 333-_____) of data derived from our reserve report dated April 9, 1999 relating to the oil and gas reserves of King Ranch Energy, Inc. at December 31, 1998. We also consent to the reference to our firm under the caption "Experts" and elsewhere in such joint proxy statement/prospectus.

NETHERLAND SEWELL & ASSOCIATES, INC.

By: /s/ Frederic D. Sewell

Frederic D. Sewell

Dallas, Texas
August 17, 1999

EXHIBIT 24.1

ST. MARY LAND & EXPLORATION COMPANY
POWER OF ATTORNEY

Each person whose signature appears below hereby authorizes, constitutes and appoints Thomas E. Congdon and Mark A. Hellerstein, and each of them, with full power to act without the other, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his own name, place and stead, in any and all capacities, to sign a Registration Statement on Form S-4 relating to the issuance of St. Mary Land & Exploration Company common stock in connection with the merger of King Ranch Energy, Inc. with and into a wholly-owned subsidiary of St. Mary Land & Exploration Company and any and all amendments (including post-effective amendments and other amendments thereto) to such Registration Statement and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing as he or she could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

SIGNATURE	TITLE	DATE
/S/ THOMAS E. CONGDON Thomas E. Congdon	Chairman of the Board and Director	August 19, 1999
/S/ MARK A. HELLERSTEIN Mark A. Hellerstein	President, Chief Executive Officer and Director	August 19, 1999
Ronald D. Boone	Executive Vice President, Chief Operating Officer and Director	August __, 1999
/S/ RICHARD C. NORRIS Richard C. Norris	Vice President - Finance, Secretary and Treasurer	August 19,1999
/S/ GARRY A. WILKENING Garry A. Wilkening	Vice President - Administration and Controller	August 19, 1999
/S/ LARRY W. BICKLE Larry W. Bickle	Director	August 16, 1999
/S/ DAVID C. DUDLEY David C. Dudley	Director	August 13, 1999
/S/ RICHARD C. KRAUS Richard C. Kraus	Director	August 17, 1999
R. James Nicholson	Director	August __, 1999
/S/ AREND J. SANBULTE Arend J. Sandbulte	Director	August 15, 1999
John M. Seidl	Director	August __, 1999

EXHIBIT 99.1

FORM OF ST. MARY LAND & EXPLORATION COMPANY PROXY CARD

[Front]

PROXY ST. MARY LAND & EXPLORATION COMPANY PROXY

1776 Lincoln Street, Suite 1100
Denver, Colorado 80203

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS
FOR THE SPECIAL MEETING OF STOCKHOLDERS ON SEPTEMBER 30, 1999

The undersigned hereby appoints Mark A. Hellerstein and Richard C. Norris, or either of them, with power of substitution, as proxies for the undersigned to vote all shares of St. Mary Land & Exploration Company common stock which the undersigned is entitled to vote at the special meeting of stockholders to be held on September 30, 1999, and at any reconvened meeting after any adjournment thereof, as directed on the matter referred to below and described in the accompanying proxy statement for the meeting, and at their discretion on any other matters that may properly be presented at the meeting.

- To approve the issuance of a total of 2,666,252 shares of St. Mary common stock under the merger agreement whereby St. Mary will acquire King Ranch Energy, Inc.

FOR	AGAINST	ABSTAIN
[ ]	[ ]	[ ]

The St. Mary board of directors recommends a vote "FOR"approval of the issuance of a total of 2,666,252 shares of St. Mary common stock under the merger agreement.

[Back]

This proxy when properly executed will be voted in the manner directed by the undersigned stockholder.

IF THIS PROXY IS PROPERLY EXECUTED BUT NO VOTING DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED "FOR" APPROVAL OF THE ISSUANCE OF A TOTAL OF 2,666,252 SHARES OF ST. MARY COMMON STOCK UNDER THE MERGER AGREEMENT.

This proxy also confers discretionary authority to the proxies to vote on any other matters that may properly be presented at the meeting. As of the date of the accompanying proxy statement, St. Mary management did not know of any other matters to be presented at the meeting. If any other matters are properly presented at the meeting, this proxy will be voted in accordance with the recommendations of St. Mary management.

Please sign exactly as your name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by the president or other authorized officer. If a partnership or limited liability company, please sign in such name by an authorized person.

Please complete, date and sign this proxy card and return it promptly in the accompanying envelope.

Dated: _____, 1999

Signature:

Signature:

(If held jointly)

EXHIBIT 99.2

KING RANCH ENERGY, INC.

WRITTEN CONSENT

Unless otherwise indicated below, the undersigned, a holder of record of shares of Class A Common Stock, par value $.01 per share, of King Ranch Energy, Inc. (the "Corporation"), hereby waives notice of a meeting and hereby consents to the following action:

(1) ADOPTION OF THE AGREEMENT AND PLAN OF MERGER, DATED AS OF JULY 27, 1999, AMONG KING RANCH, INC., THE CORPORATION, ST. MARY LAND & EXPLORATION COMPANY AND ST. MARY ACQUISITION CORPORATION, AND THE TRANSACTIONS CONTEMPLATED BY SUCH AGREEMENT AND PLAN OF MERGER

_____ FOR _____ AGAINST _____ ABSTAIN

In the absence of a denotation that you do not consent or that you abstain being indicated above, the undersigned hereby consents to the action listed above.

THE UNDERSIGNED UNDERSTANDS AND ACKNOWLEDGES THAT (1) EXECUTION AND DELIVERY OF THIS CONSENT CONSTITUTES A WAIVER OF THE UNDERSIGNED'S RIGHT TO DEMAND APPRAISAL OF SHARES OF CLASS A AND CLASS B COMMON STOCK OF THE CORPORATION, IF ANY, HELD BY THE UNDERSIGNED, PURSUANT TO SECTION 262 OF THE GENERAL CORPORATION LAW OF THE STATE OF DELAWARE, (2) IF THE UNDERSIGNED PREVIOUSLY DELIVERED A DEMAND FOR APPRAISAL WITH RESPECT TO ANY SUCH SHARES, THE EXECUTION AND DELIVERY OF THIS CONSENT CONSTITUTES A WITHDRAWAL OF SUCH DEMAND AND (3) THE UNDERSIGNED HAS RECEIVED THE CONSENT STATEMENT AND THE NOTICE OF DISTRIBUTION AND STOCKHOLDER FORUM OF THE CORPORATION (WITH A COPY OF SECTION 262 OF THE GENERAL CORPORATION LAW OF THE STATE OF DELAWARE ATTACHED THERETO), DATED AUGUST ___, 1999.

Shares of Class A Common Stock

Owned:_____

(Please sign exactly as your name appears below)

Dated: _____