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

FORM 10-Q/A-3

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

For the Quarterly Period Ended June 30, 1999

Commission File Number 0-20872

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

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

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

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

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

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

As of August 2, 1999 the registrant had 11,094,852 shares of Common Stock, $.01 par value, outstanding.

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THIS AMENDMENT ON FORM 10-Q/A-3 TO THE REGISTRANT'S FORM 10-Q/A-2 FOR THE QUARTER ENDED JUNE 30, 1999 IS BEING FILED TO REFLECT CERTAIN ADDITIONAL DISCLOSURES IN RESPONSE TO COMMENTS RECEIVED FROM THE SEC STAFF IN CONNECTION WITH ST. MARY LAND & EXPLORATION COMPANY'S REGISTRATION STATEMENT ON FORM S-4 AMENDMENT NO. 2 FILED ON NOVEMBER 12, 1999. THIS AMENDMENT ALSO REFLECTS THE RECOGNITION OF $386,000 OF INTEREST INCOME AND $49,717 OF OTHER INCOME, BOTH OF WHICH HAD BEEN NETTED AGAINST THE SUMMO NOTE RECEIVABLE IN THE REGISTRANT'S FORM 10-Q/A-2 FOR THE QUARTER ENDED JUNE 30, 1999.

ST. MARY LAND & EXPLORATION COMPANY

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

ASSETS

<TABLE>
<CAPTION>

	June 30, 1999	December 31, 1998
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 5,244	$ 7,821
Accounts receivable	12,775	17,937
Prepaid expenses and other	816	795
Refundable income taxes	211	391
Deferred income taxes	91	125
Total current assets	19,137	27,069
Property and equipment (successful efforts method), at cost:		
Proved oil and gas properties	252,803	241,021
Unproved oil and gas properties, net of impairment allowance of $4,229 in 1999 and $5,987 in 1998	31,455	25,588
Other property and equipment	4,654	4,051
	288,912	270,660
Less accumulated depletion, depreciation, amortization and impairment	(136,714)	(126,835)
	152,198	143,825
Other assets:		
Khanty Mansiysk Oil Corporation receivable and stock	6,839	6,839
Summo Minerals Corporation investment and receivable	1,566	2,869
Restricted cash	-	720
Other assets	3,526	3,175
	11,931	13,603
	$ 183,266	$ 184,497

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	$ 10,315	$ 16,926
Current portion of stock appreciation rights	272	358
Total current liabilities	10,587	17,284
Long-term liabilities:		
Long-term debt	20,087	19,398
Deferred income taxes	11,918	11,158
Stock appreciation rights	455	422
Other noncurrent liabilities	1,250	1,493
	33,710	32,471
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value: authorized - 50,000,000 shares: issued and outstanding - 11,269,361 shares in 1999 and 10,992,447 shares in 1998	113	110
Additional paid-in capital	71,083	67,761
Treasury stock - at cost: 182,800 shares in 1999 and 147,800 shares in 1998	(2,995)	(2,470)
Retained earnings	70,573	69,341
Unrealized gain on marketable equity securities-available for sale	195	-
Total stockholders' equity	138,969	134,742
	$ 183,266	$ 184,497

</TABLE>

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

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

<TABLE>
<CAPTION>

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
Operating revenues:				
Oil and gas production	$ 15,809	$ 20,233	$ 29,578	$ 39,258
Gain (loss) on sale of proved properties	(81)	(14)	114	(14)
Other revenues	177	88	323	202
Total operating revenues	15,905	20,307	30,015	39,446
Operating expenses:				
Oil and gas production	3,960	4,173	7,954	8,116
Depletion, depreciation and amortization	5,281	6,503	10,683	11,880
Impairment of proved properties	247	1,077	247	1,445
Exploration	1,203	3,052	2,942	6,473
Abandonment and impairment of unproved properties	336	312	800	615
General and administrative	2,030	1,477	3,638	4,424
Loss in equity investees	13	510	58	571
Other	213	57	338	92
Total operating expenses	13,283	17,161	26,660	

33,616				
Income from operations	2,622	3,146	3,355	5,830
Nonoperating income and (expense):				
Interest income	542	371	638	526
Interest expense	(275)	(360)	(516)	(754)
Income before income taxes	2,889	3,157	3,477	5,602
Income tax expense	982	1,121	1,161	1,896
Income from continuing operations	1,907	2,036	2,316	3,706
Gain on sale of discontinued operations, net of taxes	-	34	-	34
Net income	$ 1,907	$ 2,070	$ 2,316	$ 3,740
Basic earnings per common share:				
Income from continuing operations	$ .17	$ .19	$ .21	$ .34
Gain on sale of discontinued operations	-	-	-	-
Basic net income per common share	$ .17	$ .19	$ .21	$ .34
Diluted earnings per common share:				
Income from continuing operations	$ .17	$ .18	$ .21	$ .33
Gain on sale of discontinued operations	-	-	-	-
Diluted net income per common share	$ .17	$ .18	$ .21	$ .33
Basic weighted average common shares outstanding	10,913	10,984	10,879	10,984
Diluted weighted average common shares outstanding	10,934	11,079	10,892	11,102
Cash dividend declared per share	$ 0.05	$ 0.05	$ 0.10	$ 0.10

</TABLE>

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

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

<TABLE>

<CAPTION>

	For the Six Months Ended June 30,	
	1999	1998
<S>	<C>	<C>
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 2,316	$ 3,740
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on sale of proved properties	(114)	14
Depletion, depreciation and amortization	10,683	11,880
Impairment of proved properties	247	1,445
Exploratory dry hole costs	(119)	2,945
Abandonment and impairment of unproved properties	800	615
Loss in equity investees	58	571
Deferred income taxes	760	1,410
Other	(567)	239
	14,064	22,859
Changes in current assets and liabilities:		
Accounts receivable	5,947	7,081
Prepaid expenses and other	2,507	(986)
Accounts payable and accrued expenses	(2,171)	(1,600)
Stock appreciation rights	(86)	7
Net cash provided by operating activities	20,261	27,361
Cash flows from investing activities:		
Proceeds from sale of oil and gas properties	713	59
Capital expenditures	(20,478)	(29,391)
Acquisition of oil and gas properties	(1,869)	(2,026)
Investment in and loans to Summo Minerals Corporation	(220)	(566)
Collections on loan to Summo Minerals Corporation	2,096	-
Receipts from restricted cash	720	-
Investment in Nance Petroleum	684	-
Other	(352)	(922)
Net cash used in investing activities	(18,706)	(32,846)
Cash flows from financing activities:		
Proceeds from long-term debt	7,550	24,395
Repayment of long-term debt	(10,250)	(20,387)
Proceeds from sale of common stock	177	-
Repurchase of common stock	(525)	-
Dividends paid	(1,084)	(1,098)
Net cash provided by (used in) financing activities	(4,132)	2,910
Net decrease in cash and cash equivalents	(2,577)	(2,575)
Cash and cash equivalents at beginning of period	7,821	7,112
Cash and cash equivalents at end of period	$ 5,244	$ 4,537

</TABLE>

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

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

Supplemental schedule of additional cash flow information and noncash activities:

<TABLE>
<CAPTION>

	For the Six Months Ended

	June 30,	
	1999	1998
	(In thousands)	
<S>	<C>	<C>
Cash paid for interest	$ 558	$ 771
Cash paid for income taxes	188	444
Cash paid for exploration expenses	2,596	6,425

</TABLE>

In June 1999, the Company acquired Nance Petroleum Corporation and Quanterra Alpha Limited Partnership for 259,494 shares of the Company's common stock valued at $3,091,000 together with the assumption of $3,189,000 of Nance Petroleum Corporation debt. The acquisition was accounted for as a purchase.

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

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

June 30, 1999

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in the Annual Report on Form 10-K of St. Mary Land & Exploration Company and Subsidiaries (the "Company") for the year ended December 31, 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 the Company'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.

Note 2 - Investments

In June 1999, the Company participated in a financing package arrangement with Summo Minerals Corporation ("Summo") and Resource Capital Fund L.P. ("RCF"). The Company received $2,096,000 and 17,500,000 Summo warrants in exchange for reducing Summo's note receivable to $1,400,000 and transferring 4,962,047 Summo common shares to RCF. The proceeds received from RCF were applied to the outstanding principle balance of the Summo note receivable and to accrued interest. The loan is secured by Summo's interest in the Lisbon Valley Project and bears interest at LIBOR plus 2.5%. The warrants have an excercise price of CDN$0.12 per share, are fully vested and expire on June 25, 2004. No value has been assigned to the warrants in the financial statements. The remaining 4,962,046 shares of Summo common stock that the Company still owns have a recorded cost basis of zero due to the writedown in the fourth quarter of 1998. The recorded net book value of the Company's investment in Summo, including the note receivable, common stock, warrants, unrealized losses in equity and the unrealized gain on marketable equity securities discussed below is $1,566,000. Management believes that this recorded net book value is realizable. The Company continuously analyzes its net investment in Summo and the effect of persistent depressed copper prices and increased worldwide copper inventory levels on Summo's stock price.

The transfer of Summo common shares to RCF reduced the Company's ownership percentage from 37% to 18%. Consequently, the accounting for this investment was changed from the equity method to the cost method in June 1999.

The Company recorded $58,000 of equity in Summo's losses in 1999 through May 31, 1999 under the equity method. Under the cost method the Company will record unrealized gains or losses resulting from the fluctuation in the market price of Summo's common stock as a component of comprehensive income within the consolidated statements of shareholders' equity. Losses can only be recorded to the extent of the company's investment, which includes the note receivable from Summo as well as the Summo common shares and warrants owned. As a result of changing to the cost method for the investment in Summo, the Company recorded an unrealized gain of $195,000 in June 1999. This represents the difference in trading value of the Company's ownership in Summo common stock and the recorded basis of the common stock.

The June 1999 financing package also resulted in the termination of the May 1997 agreement which was discussed in the Company's Annual Report on Form 10-K/A for the year ended December 31, 1998.

In June 1999, the Company completed the purchase of Nance Petroleum Corporation ("Nance") and Quanterra Alpha Limited Partnership for 259,494 shares of the Company's common stock valued at $3,091,000 together with the assumption of $3,189,000 of Nance debt. The acquisition included the 26% of Panterra Petroleum the Company did not previously own as well as certain other properties. The properties acquired are located in the Williston Basin of Montana and North Dakota. The acquisition was accounted for as a purchase.

Note 3 - Capital Stock

In August 1998, the Company's Board of Directors approved a stock repurchase program whereby the Company may purchase from time to time, in open market purchases or negotiated sales, up to one million shares of its common stock. During the first quarter of 1999 the Company repurchased 35,000 shares of its common stock under the program at a weighted average price of $15.00 per share, bringing the total number of shares repurchased under the program to 182,800 at a weighted-average price of $16.38 per share. Management anticipates that additional purchases of shares by the Company may occur as market conditions warrant. Such purchases would be funded with internal cash flow and borrowings under the Company's credit facility.

Note 4 - Income Taxes

Federal income tax expense for 1999 and 1998 differ from the amounts that would be provided by applying the statutory U.S. Federal income tax rate to income before income taxes primarily due to Section 29 credits, percentage depletion, and the effect of state income taxes.

Note 5 - Subsequent Event

In July 1999 the Company signed an agreement to acquire King Ranch Energy, Inc. ("KRE") in a merger in which the Company will issue 2,666,252 common shares in exchange for all of the outstanding shares of KRE. The agreement is subject to approval by shareholders of both the Company and KRE.

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

Overview

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

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

Internal exploration, drilling and production personnel conduct the Company's activities in the Mid-Continent and ArkLaTex regions and in south Louisiana. Prior to June 1, 1999, activities in the Williston Basin were conducted through Panterra Petroleum ("Panterra"), a general partnership managed by Nance Petroleum Corporation ("Nance"). The Company owned a 74% interest in Panterra. On June 1, 1999, the Company closed on the acquisition of Nance which

owned the remaining 26% interest in Panterra. All of the Company's activities in the Williston Basin are now conducted through Nance as a wholly owned subsidiary of the Company. Activities in the Permian Basin are primarily contracted through an oil and gas property management company with extensive experience in the basin.

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

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

The results of operations include several property acquisitions made during recent years and their subsequent further development by the Company. In 1996, 1997 and 1998 the Company purchased a series of interests totaling $15.8 million that formed a new core area of focus in the Permian Basin of New Mexico and west Texas. In late 1998 St. Mary, through Panterra, acquired the interests of Texaco, Inc. in several fields in the Williston Basin for $2.1 million. In 1997 the Company acquired an 85% working interest in certain Louisiana properties of Henry Production Company for $3.9 million, and the remaining 15% working interest in these properties was acquired in the first quarter of 1999. In the first and second quarters of 1999, St. Mary acquired additional interests in the West Cameron Block 39 property located offshore Louisiana and various other properties in Louisiana and Oklahoma totaling $1.9 million.

In the second quarter of 1999, the Company acquired Nance and Quanterra Alpha Limited Partnership for 259,494 shares of St. Mary common stock valued at $3.1 million and the assumption of $3.2 million in debt. The acquisition was accounted for as a purchase. This acquisition included Nance's 26% interest in Panterra that the Company did not previously own.

In July 1999, the Company entered into an agreement to acquire King Ranch Energy, Inc. ("KRE") in a merger in which the Company will issue 2,666,252 shares of its common stock to shareholders of KRE, and KRE will become a wholly owned subsidiary of St. Mary. KRE's properties are located primarily in the Gulf of Mexico and the onshore Gulf Coast. KRE's 1998 production was 48.8 MMCF equivalent per day. KRE's reported reserves at December 31, 1998, plus an acquisition made early in 1999, were 64.7 BCF equivalent and 82% natural gas. The merger agreement, which has been unanimously approved by the Boards of Directors of both companies, is subject to obtaining a favorable vote of the shareholders of St. Mary and KRE.

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

The Company pursues opportunities to monetize selected assets at a premium and as part of its continuing strategy to focus and rationalize its operations. In December 1998 St. Mary sold a package of non-strategic properties in Oklahoma to ONEOK Resources Company for $22.2 million and sold its remaining minor interests in Canada for $1.2 million, realizing a pre-tax gain of $7.7 million.

St. Mary has one principal equity investment, Summo Minerals Corporation ("Summo"). In the second quarter of 1999, the Company's ownership in Summo was reduced to 17.7%, and the Company now uses the investment method to account for this investment. Prior to this reduction, the Company accounted for its investment in Summo under the equity method and included its share of the income or loss from this entity in its consolidated results of operations. The Company recorded $58,000 of equity in Summo's losses in 1999 through the date of the ownership reduction.

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

In August 1998 the Company's Board of Directors authorized a stock repurchase program whereby St. Mary may purchase from time-to-time, in open market transactions or negotiated sales, up to 1,000,000 of its own common shares. The Company has repurchased a total of 182,800 shares of common stock under this plan through the second quarter of 1999.

The Company seeks to protect its rate of return on acquisitions of producing properties by hedging up to the first 24 months of an acquisition's production at prices approximately equal to those used in the Company's acquisition evaluation and pricing model. The Company also periodically uses hedging contracts to hedge or otherwise reduce the impact of oil and gas price fluctuations on production from each of its core operating areas. The Company's strategy is to ensure certain minimum levels of operating cash flow and to take advantage of windows of favorable commodity prices. The Company generally limits its aggregate hedge position to no more than 50% of its total production. The Company seeks to minimize basis risk and indexes the majority of its oil hedges to NYMEX prices and the majority of its gas hedges to various regional index prices associated with pipelines in proximity to the Company's areas of gas production. The Company has hedged approximately 27% of its remaining estimated 1999 gas production at an average fixed price of $2.10 per MMBtu, and 31% of its remaining estimated 1999 oil production at an average fixed price of $16.49 per Bbl, approximately 8% of its estimated 2000 gas production at an average fixed price of $2.42 per MMBtu and 14% of its estimated 2000 oil production at an average fixed price of $16.96 per Bbl and less than 1% of its estimated 2001 gas and oil production at average fixed prices of $2.46 and $15.73, respectively. The Company has also purchased options resulting in price collars on approximately 15% of the Company's remaining estimated 1999 gas production with price ceilings between $2.00 and $3.00 per MMBtu and price floors between $1.50 and $2.30 per MMBtu and price collars on approximately 13% of its remaining estimated 1999 oil production with price floors between $15.00 and $16.70 and price ceilings between $16.85 and $20.90. In 2000 the Company has price collars on approximately 22% of its estimated gas production with price ceilings between $2.50 and $2.94 and price floors between $2.00 and $2.30 and approximately 18% of its estimated oil production with price floors between $15.00 and $18.00 and price ceilings between $16.85 and $21.00. In 2001 the Company has price collars on approximately 9% of its estimated gas production with price ceilings between $2.90 and $2.94 and a price floor of $2.30 and approximately 9% of its estimated oil production with a price floor of $16.44 and price ceilings between $20.64 and $20.65.

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

Results of Operations

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

<TABLE>
<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
	(In thousands, except BOE data)			
<S>	<C>	<C>	<C>	<C>
Oil and gas production Revenues:				
Working interests	$ 14,921	$ 17,862	$ 28,060	$ 34,872
Louisiana royalties	888	2,371	1,518	4,386
Total	$ 15,809	$ 20,233	$ 29,578	$ 39,258
Net production:				
Oil (MBbls)	313	370	596	692
Gas (MMcf)	5,404	7,255	10,744	13,614
MBOE	1,214	1,579	2,387	2,961
Average sales price (1):				
Oil (per Bbl)	$ 15.44	$ 13.55	$ 13.57	$ 14.18
Gas (per Mcf)	2.03	2.10	2.00	2.16
Oil and gas production costs:				
Lease operating expense	$ 2,878	$ 3,118	$ 5,975	$ 5,959
Production taxes	1,082	1,055	1,979	2,157
Total	$ 3,960	$ 4,173	$ 7,954	$ 8,116
Additional per BOE data:				
Sales price	$ 13.03	$ 12.81	$ 12.39	$ 13.26
Lease operating expense	2.37	1.97	2.50	2.01
Production taxes	.89	.67	.83	.73
Operating margin	$ 9.77	$ 10.17	$ 9.06	$ 10.52
Depreciation, depletion and amortization	$ 4.35	$ 4.12	$ 4.48	$ 4.01
Impairment of proved properties	.20	.68	.10	.49
General and administrative	1.67	.94	1.52	1.49

</TABLE>

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

Oil and Gas Production Revenues. Oil and gas production revenues decreased $4.4 million, or 22% to $15.8 million for the second quarter of 1999 compared with $20.2 million in 1998. Oil production volumes decreased 16% and gas production volumes decreased 26% for the second quarter of 1999 compared with 1998. Average net daily production declined to 13.3 MBOE for the second quarter of 1999 compared with 17.4 MBOE in 1998. The decline resulted from the significant loss of production at the South Horseshoe Bayou Field in 1998 and 1999 and the sale of certain Oklahoma properties in December 1998. The average realized oil price for the second quarter of 1999 increased 14% to $15.44 per Bbl, while average realized gas prices decreased 3% to $2.03 per Mcf, from their respective 1998 levels.

Oil and gas production revenue decreased $9.7 million or 25% to $29.6 million for the six months ended June 30, 1999 compared with $39.3 million in 1998. Oil production volumes decreased 14% and gas production volumes decreased 21% for the six months ended June 30, 1999 compared with 1998. Average net daily production was 13.2 MBOE for the six months ended June 30, 1999 compared with 16.4 in 1998. The production decrease resulted from the significant loss of production at the South Horseshoe Bayou Field in 1998 and 1999 and the sale of certain Oklahoma properties which occurred in late 1998. The average oil price for the six months ended June 30, 1999 decreased 4% to $13.57 per Bbl, and gas prices decreased 7% to $2.00 per Mcf from their respective 1998 levels.

The Company hedged approximately 47% of its oil production for the second quarter of 1999 or 148.0 MBbls at an average NYMEX price of $16.41 and realized a $175,000 decrease in oil revenue or $.56 per Bbl on these contracts compared with a $113,000 increase or $.31 per Bbl in 1998. The Company also hedged 62% of its 1999 second quarter gas production or 3.7 million MMBtu at an

average indexed price of $2.126 and realized a $67,000 increase in gas revenues or $.01 per Mcf from these hedge contracts compared with a $246,000 increase in gas revenues or $.04 per Mcf in 1998.

Oil and Gas Production Costs. Oil and gas production costs consist of lease operating expense and production taxes. Total production costs decreased $213,000 or 5% to $4.0 million for the second quarter of 1999 from $4.2 million in 1998. Total oil and gas production costs per BOE increased 23% to $3.26 for the second quarter of 1999 compared with $2.64 in 1998 due to increased workover costs, reduction in production volumes at South Horseshoe Bayou and the December 1998 sale of producing properties in Oklahoma with lower production costs per BOE.

Total production costs decreased $162,000 or 2% to $8.0 million for the six months ended June 30, 1999 from $8.1 million in 1998. Total oil and gas production costs per BOE increased 22% to $3.33 in the first six months of 1999 compared with $2.74 in 1998 due to increased workover costs, reduction in production volumes at South Horseshoe Bayou and the December 1998 sale of producing properties in Oklahoma with lower production costs per BOE.

Depreciation, Depletion, Amortization and Impairment. Depreciation, depletion and amortization expense ("DD&A") decreased $1.2 million or 19% to $5.3 million for the second quarter of 1999 from $6.5 million in 1998. DD&A expense per BOE increased 6% to $4.35 in the second quarter of 1999 compared with $4.12 in 1998. This increase is due to the reduction in volumes produced at South Horseshoe Bayou, decreased royalty production from the Fee Lands and the December 1998 sale of producing properties in Oklahoma with lower DD&A expense per BOE. The Company recorded a $247,000 impairment of proved oil and gas properties on the Greensburg prospect in Louisiana for the second quarter of 1999 compared with $1.1 million in 1998. This decrease was due to marginal wells drilled in Oklahoma and Louisiana in 1998 and the adverse effects of low oil prices in the Williston Basin in 1998.

DD&A decreased $1.2 million or 10% to $10.7 million for the six months ended June 30, 1999 compared with $11.9 million in 1998. DD&A expense per BOE increased 12% to $4.48 in the six months ended June 30, 1999 compared with $4.01 in 1998. This increase is due to the reduction in volumes produced at South Horseshoe Bayou, decreased royalty production from the Fee Lands, the effect of continued low prices on the Company's oil and gas reserves in the first quarter of 1999, and the December 1998 sale of producing properties in Oklahoma with lower DD&A expense per BOE. The Company recorded $247,000 of impairments of proved oil and gas properties for the six months ended June 30, 1999 due to an unsuccessful recompletion attempt in the Greensburg prospect in Louisiana, compared with $1.4 million in 1998. This decrease was also due to marginal wells drilled in Oklahoma and Louisiana in 1998 and the adverse effects of low oil prices in the Williston Basin in 1998.

Abandonment and impairment of unproved properties increased $24,000 or 8% to $336,000 for the second quarter of 1999 compared with $312,000 in 1998 due to additional abandonment of expired leases in 1999.

Abandonment and impairment of unproved properties increased $185,000 or 30% to $800,000 for the six months ended June 30, 1999 compared with $615,000 in 1998 due to additional abandonment of expired leases in 1999.

Exploration. Exploration expense decreased $1.9 million or 61% to $1.2 million for the second quarter of 1999 compared with $3.1 million in 1998. The decrease results from improved exploratory drilling results in 1999.

Exploration expense decreased $3.6 million or 55% to $2.9 million for the six months ended June 30, 1999 compared with $6.5 million in 1998. The decrease results from $795,000 of nonrecurring delay rental payments for the Atchafalaya project in 1998 and improved exploratory drilling results in 1999.

General and Administrative. General and administrative expenses increased $553,000 or 37% to $2.0 million in the second quarter of 1999 compared with $1.5 million in 1998. This increase was due to an increase in compensation expense related to stock appreciation rights expenses.

General and administrative expenses decreased $786,000 or 18% to $3.6 million for the six months ended June 30, 1999 compared with $4.4 million in 1998. Compensation expense decreased $1.3 million due to a decrease in bonus expense in 1999. This decrease in compensation expense was partially offset by a $490,000 reduction in overhead reimbursements from outside interest owners in properties operated by the Company.

Other Operating Expenses. Other operating expenses primarily consist of legal expenses in connection with ongoing oil and gas activities. This expense increased $156,000 or 274% to $213,000 for the second quarter of 1999 compared with $57,000 in 1998. This increase was due to increased activity in the pending litigation that seeks to recover damages from the drilling contractor in connection with the St. Mary Land & Exploration No. 1 well at South Horseshoe

Bayou.

Other operating expenses increased $246,000 or 267% to $338,000 for the six months ended June 30, 1999 compared with $92,000 in 1998. This increase was due to increased activity in the pending litigation that seeks to recover damages from the drilling contractor in connection with the St. Mary Land & Exploration No. 1 well at South Horseshoe Bayou.

Equity in Loss of Summo Minerals Corporation. The Company accounted for its investment in Summo under the equity method through May 31, 1999, and included its share of Summo's loss in its results of operations. The Company decreased its investment in Summo during the second quarter of 1999 and consequently now accounts for its investment in Summo under the investment method. The Company recorded equity in the net loss of Summo of $13,000 for the second quarter of 1999 compared with $509,000 in 1998. This decrease was primarily due to Summo's write-off of its investment in its Cashin and Champion properties in the second quarter of 1998.

The Company recorded equity in the net loss of Summo of $58,000 for the six months ended June 30, 1999 compared with $571,000 in 1998. This decrease was due to Summo's write-off of its investment in its Cashin and Champion properties in the second quarter of 1998.

Non-Operating Income and Expense. Net non-operating income increased $256,000 to $267,000 in the second quarter of 1999 compared with $11,000 in 1998 due to recognition of interest income on the Company's loan to Summo.

Net non-operating income increased $350,000 to $122,000 for the six months ended June 30, 1999 compared with $228,000 net non-operating expense in 1998 due to recognition of interest income on the Company's loan to Summo.

Income Taxes. Income tax expense totaled $982,000 in the second quarter of 1999 and $1.1 million in 1998, resulting in effective tax rates of 34.0% and 35.5%, respectively. The reduced expense reflects lower net income from operations before income taxes for 1999 due to lower oil and gas production and lower gas prices. The reduced rate reflects a higher impact on lower net income from Section 29 credits and percentage depletion in 1999.

Income tax expense was $1.2 million for the six months ended June 30, 1999 and $1.9 million in 1998, resulting in effective tax rates of 33.4% and 33.8%, respectively. The reduced expense reflects lower net income from operations before income taxes for 1999 due to lower oil and gas production and lower gas prices. The reduced rate reflects a higher impact on lower net income from Section 29 credits and percentage depletion in 1999.

Net Income. Net income for the second quarter of 1999 decreased $164,000 or 8% to $1.9 million compared with $2.1 million in 1998. The 22% decrease in oil and gas revenues caused by reductions in produced volumes in the second quarter of 1999 was partially offset by decreases in DD&A, impairment of proved properties, exploration expense, and income tax expense.

Net income for the six months ended June 30, 1999 decreased $1.4 million or 38% to $2.3 million compared with $3.7 million in 1998. The 25% decrease in oil and gas revenues caused by reductions in both price and produced volumes was partially offset by decreases in DD&A, impairment of proved properties, exploration expense, general and administrative expense and income tax expense, and by an increase in net non-operating income.

Liquidity and Capital Resources

The Company's primary sources of liquidity are the cash provided by operating activities, debt financing, sales of non-strategic properties and access to the capital markets. The Company's cash needs are for the acquisition, exploration and development of oil and gas properties and for the payment of debt obligations, trade payables and stockholder dividends. The Company generally finances its exploration and development programs from internally generated cash flow, bank debt and cash and cash equivalents on hand. The Company continually reviews its capital expenditure budget based on changes in cash flow and other factors.

Cash Flow. The Company's net cash provided by operating activities decreased $7.1 million or 26% to $20.3 million for the six months ended June 30, 1999 compared with $27.4 million in 1998. Revenues decreased by $9.7 million due to decreased production at South Horseshoe Bayou, decreased production in Oklahoma from the sale of producing properties and due to lower oil and gas prices. Additionally, adjustments for non-cash expenses decreased due to lower DD&A of $1.2 million, a decrease in impairment of proved properties of $1.2

million, and a decrease in accounts receivable of $1.1 million along with an increase in prepaid expenses and other of $3.5 million.

Exploratory dry hole costs are included in cash flows from investing activities even though these costs are expensed as incurred. If exploratory dry hole costs had been included in operating cash flows, the net cash provided by operating activities would have been $20.4 million and $24.4 million in 1999 and 1998, respectively.

Net cash used in investing activities decreased $14.1 million or 43% to $18.7 million for the six months ended June 30, 1999 compared with $32.8 million in 1998. The decrease is due to an $8.9 million decrease in capital expenditures, an $800,000 increase resulting from acquisitions, a $1.4 million increase from property sales and a $2.4 million decrease resulting from the reduction of the Company's investment in Summo in the first half of 1999. Total capital expenditures, including acquisitions of oil and gas properties, in the first half of 1999 decreased $9.1 million or 29% to $22.3 million compared with $31.4 million in the first half of 1998.

If exploratory dry hole costs had been included in operating cash flows rather than in investing cash flows, net cash used in investing activities would have been $18.8 million and $29.9 million in 1999 and 1998, respectively.

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

Net cash used in financing activities increased $7.0 million or 242% to $4.1 million for the six months ended June 30, 1999 compared with net cash provided by financing activities of $2.9 million in 1998. The increase was due to a reduction of long-term debt in 1999 compared with an increase in long-term debt in 1998.

The Company had $5.2 million in cash and cash equivalents and had working capital of $8.6 million as of June 30, 1999 compared with $7.8 million in cash and cash equivalents and working capital of $9.8 million as of December 31, 1998. The reduction in cash and cash equivalents is the result of payments to reduce debt levels.

Credit Facility. On June 30, 1998, the Company entered into a long-term revolving credit agreement with a maximum loan amount of $200.0 million. The lender may periodically re-determine the aggregate borrowing base depending upon the value of the Company's oil and gas properties and other assets. In May 1999 the borrowing base was reduced $25.0 million by the lender to $80.0 million as a result of reduced reserve pricing and the write down of South Horseshoe Bayou reserves. The accepted borrowing base was $40.0 million at June 30, 1999. The credit agreement has a maturity date of December 31, 2005, and includes a revolving period that matures on December 31, 2000. The Company can elect to allocate up to 50% of available borrowings to a short-term tranche due in 364 days. The Company must comply with certain covenants including maintenance of stockholders' equity at a specified level and limitations on additional indebtedness. As of June 30, 1999, and December 31, 1998, $8.0 million and $10.5 million, respectively, was outstanding under this credit agreement. These outstanding balances accrue interest at rates determined by the Company's debt to total capitalization ratio. During the revolving period of the loan, loan balances accrue interest at the Company's option of either (a) the higher of the Federal Funds Rate plus 1/2% or the prime rate, or (b) LIBOR plus 1/2% when the Company's debt to total capitalization is less than 30%, up to a maximum of either (a) the higher of the Federal Funds Rate plus 5/8% or the prime rate plus 1/8%, or (b) LIBOR plus 1-1/4% when the Company's debt to total capitalization is equal to or greater than 50%.

Panterra, in which the Company had a 74% general partnership interest, maintained a separate credit facility with a $21.0 million borrowing base as of December 31, 1998. Upon being acquired by the Company, Nance assumed the responsibility for this credit facility in the second quarter of 1999. Outstanding borrowings under this separate credit facility were $12.1 million as of June 30, 1999 and $12.0 million as of December 31, 1998. St. Mary's portion of the December 31, 1998 outstanding balance was $8.9 million. The credit agreement includes a revolving period converting to a five-year amortizing loan on June 30, 2000. During the revolving period of the loan, loan balances accrue interest at Nance's option of either (a) the bank's prime rate or (b) LIBOR plus 3/4% when Nance's debt to capital ratio is less than 30%, up to a maximum of either (a) the bank's prime rate or (b) LIBOR plus 1-1/4% when Nance's debt to partners' capital ratio is greater than 100%. The Company anticipates using its primary credit facility to retire the balance due on the Nance credit facility.

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

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

In June 1999 the Company completed the purchase of Nance and Quanterra Alpha Limited Partnership for 259,494 shares of the Company's common stock valued at $3.1 million and the assumption of $3.2 million of Nance debt.

Capital and Exploration Expenditures. The Company's expenditures for exploration and development of oil and gas properties and acquisitions are the primary use of its capital resources.

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

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

The Company anticipates incurring approximately $101.0 million for capital and exploration expenditures in 1999 with $37.0 million allocated for ongoing exploration and development in its core operating areas, $9.0 million for large-target, higher-risk exploration and development projects, and $55.0 million for acquisitions of producing properties. These anticipated expenditures include the acquisition of Nance through the issuance of St. Mary common stock and the assumption of Nance debt. These numbers also assume that the KRE acquisition closes through the issuance of St. Mary common stock.

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

The results of operations also include the results of the Company's large-target exploration ideas. During the first half of 1999 two confirmed wells were drilled at the West Cameron Block 39 project. The Company has several prospects in its pipeline of large-target exploration ideas. Drilling was completed at the Stallion project in July 1999, and production tests have recorded rates of 9.4 MMcf per day. The well is currently shut in awaiting pipeline connection. The Company expects to commence the drilling of three additional significant tests in 1999 at its South Horseshoe Bayou, North Parcperdue and Patterson projects in south Louisiana.

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

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

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

now owns 4.96 million shares or 17.7% of Summo.

In June 1999, the Company participated in a financing package arrangement with Summo Minerals Corporation ("Summo") and Resource Capital Fund L.P. ("RCF"). This package resulted in the Company receiving $2.1 million in exchange for reducing Summo's note receivable to $1.4 million and transferring 4.96 million Summo shares to RCF. Also as part of the arrangement, the Company was granted 17.5 million warrants with an exercise price of CDN$0.12 per share that are fully vested and expire on June 25, 2004. No value has been assigned to the warrants in the financial statements. The proceeds received from RCF were applied to the outstanding principle balance of the Summo note receivable and to accrued interest resulting in a remaining net book value of the Company's entire investment in Summo of $1,566,000. The loan is secured by Summo's interest in the Lisbon Valley Project and bears interest at LIBOR plus 2.5%.The Company continuously analyzes its net investment in Summo and the effect of persistent depressed copper prices and increased worldwide copper inventory levels on Summo's stock price.

Future development and financial success of the Lisbon Valley Project are largely dependent on the market price of copper, which is determined in world markets and is subject to significant fluctuations.

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

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

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

i) Review and assessment of all internal information technology (IT) systems and significant non-IT systems for Year 2000 compliance;
ii) Identify and prioritize systems with Year 2000 compliance issues;
iii) Repair or replace and test non-Year 2000 compliant systems;
iv) Survey and assess the Year 2000 readiness of the Company's significant vendors, suppliers, purchasers and transporters of oil and natural gas; and,
v) Design and implement contingency plans for those systems, if any, that cannot be made Year 2000 compliant before December 31, 1999.

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

Phase iii) of the Company's plan of repair and replacement of non-Year 2000 compliant systems is approximately 95% complete. The telephone system and personal computers have been replaced with Year 2000 compliant hardware and software as part of the Company's ongoing upgrade program. The Company purchased a Year 2000 compliant release of the reservoir engineering system and anticipates conversion to and testing of the new system in the third quarter of 1999. In the fourth quarter of 1998 Panterra licensed a Year 2000 compliant system and converted to the new system in January 1999. Nance is now using that system. The systems that have been either upgraded or replaced will be further tested to confirm their Year 2000 compliance. Testing of the Company's primary accounting, lease records and production accounting system was performed during the second quarter of 1999 as planned and confirmed the system to be Year 2000 compliant. The Company presently believes that other less significant IT and non-IT systems can be upgraded to mitigate any Year 2000 issues with modifications to existing software or conversions to new systems. Modifications or conversions to new systems for the less significant systems, if not completed timely, would have neither a material impact on the operations of the Company nor on its results of operations.

Under phase iv) of the plan, the Company initiated formal

communications with its significant vendors, suppliers and purchasers and transporters of oil and natural gas to determine the extent to which the Company is vulnerable to those third parties' failures to remediate their own Year 2000 issues. The process of collecting information from these third parties is over 50% complete. All of the responses received to date confirm that the respondents will be Year 2000 compliant on a timely basis. Completion of phase iv) of the plan is anticipated in the third quarter of 1999. Until this phase of the plan is complete, management cannot currently predict if third party compliance issues will materially affect the Company's operations. There can be no assurance that the systems of these third parties will be converted timely, or that a failure to remediate Year 2000 compliance issues by another company would not have a material adverse effect on the Company.

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

Through June 30, 1999, the Company has spent approximately $450,000 on its Year 2000 efforts. This includes the costs of consultants as well as the cost of repair or replacement of non-compliant hardware and software systems. Additional costs to complete the Company's plan are estimated at approximately $25,000. The Company has not specifically tracked its internal costs of addressing the Year 2000 issue. However, management does not believe these costs to be material.

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

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

Accounting Matters

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

In June 1999 the FASB issued SFAS No.137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133--An Amendment of FASB Statement No. 133." SFAS No. 137 delayed the effective date of the requirements of SFAS No. 133 to all fiscal quarters of fiscal years beginning after June 15, 2000.

Effects of Inflation and Changing Prices

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

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

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

The last half of 1998 and most of the first quarter of 1999 were characterized by historically low oil prices and weakening gas markets. Capital left the oil and gas industry and caused a significant decrease in the number of working drilling rigs. Consequently, in early 1999 there was an abundance of available drilling rigs, personnel, supplies and services with a corresponding reduction of costs. Oil and gas prices have increased from December 31, 1998 levels during the second quarter of 1999. If prices continue to increase, there could be a return to shortages and a corresponding increase in the costs to the Company of exploration, drilling and production of oil and gas.

Financial Instrument Market Risk

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

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

Commodity Price Risk. The Company uses various hedging arrangements to manage the Company's exposure to price risk from its natural gas and crude oil production. These hedging arrangements have the effect of locking in for specified periods, at predetermined prices or ranges of prices, the prices the Company will receive for the volumes to which the hedge relates. Consequently, while these hedging arrangements are structured to reduce the Company's exposure to decreases in prices associated with the hedged commodity, they also limit the benefit the Company might otherwise receive from price increases associated with the hedged commodity. A hypothetical 10% change in the quarter-end market prices of commodity-based swaps and futures contracts on a notional amount of 9.5 million MMBtu would have caused a potential $141,000 change in net income before income taxes for the Company for gas contracts in place on June 30, 1999. A 10% change in the quarter-end market prices of commodity-based swaps and future contracts on a notional amount of 675 MBbls would have caused a potential $457,000 change in net income before income taxes for the Company for oil contracts in place on June 30, 1999. These hypothetical changes were discounted to present value using a 7.5% discount rate since the latest expected maturity date of some of the swaps and futures contracts is greater than one year from the reporting date. The derivative gain or loss effectively offsets the loss or gain on the underlying commodity exposures that have been hedged. The fair values of the swaps are estimated based on quoted market prices of comparable contracts and approximate the net gains or losses that would have been realized if the contracts had been closed out at quarter end. The fair values of the futures are based on quoted market prices obtained from the New York Mercantile Exchange.

Interest Rate Risk. Market risk is estimated as the potential change in fair value resulting from an immediate hypothetical one percentage point parallel shift in the yield curve. A sensitivity analysis presents the hypothetical change in fair value of those financial instruments held by the Company at June 30, 1999, which are sensitive to changes in interest rates. For fixed-rate debt, interest rate changes affect the fair market value but do not impact results of operations or cash flows. Conversely for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future results of operations and cash flows, assuming other factors are held constant. The carrying amount of the Company's floating rate debt approximates its fair value. At June 30, 1999, the Company had floating rate debt of $20.1 million and had no fixed rate debt. Assuming constant debt levels, the results of operations and cash flows impact for the remainder of the year resulting from a one percentage point change in interest rates would be approximately $101,000 before taxes.

PART II. OTHER INFORMATION

Item 2. Changes in Securities

As discussed in Item 5 of this Part II, the Board of Directors of St. Mary Land & Exploration Company adopted a Shareholder Rights Plan on July 15, 1999. Pursuant to the Plan each share of common stock of the Company also represents a right to Purchase one additional share of common stock of the Company at the price of $100 per share.

Item 5. Other Information

On July 15, 1999 the Board of Directors of St. Mary Land & Exploration Company adopted a Shareholder Rights Plan. Pursuant to the Plan each share of common stock of the Company also represents a right to purchase one additional share of common stock of the Company at a price of $100 per share. In the event of an acquisition of twenty percent or more of the Company in a transaction not approved by the Board of Directors, each Right will entitle the holder to purchase one share of common stock of the Company or of the acquiror at a price equal to one-half of the trading market price of such stock. The Company may at any time elect to redeem the rights by the payment of $.001 per Right. Rights will not be represented by separate certificates and will not have any public trading market.

The Board of Directors of the Company reserves the right at any time to amend the Shareholder Rights Plan. Adoption of the Plan was not in response to any prospective acquisition effort known to the Company.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit	Description
2.1	Agreement and Plan of Merger
4.1	Shareholder Rights Plan
27.1	Financial Data Schedule

(b) There were no reports on Form 8-K filed during the quarter ended June 30, 1999.

SIGNATURES

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

ST. MARY LAND & EXPLORATION COMPANY

November 12, 1999 By /s/ MARK A. HELLERSTEIN
Mark A. Hellerstein
President and Chief Executive Officer

November 12, 1999 By /s/ RICHARD C. NORRIS
Richard C. Norris
Vice President - Finance, Secretary and Treasurer

November 12, 1999 By /s/ GARRY A. WILKENING
Garry A. Wilkening
Vice President - Administration and Controller

EXHIBIT 2.1

AGREEMENT AND PLAN OF MERGER

dated

July 27, 1999

among

ST. MARY LAND & EXPLORATION COMPANY,

ST. MARY ACQUISITION CORPORATION,

KING RANCH, INC.

and

KING RANCH ENERGY, INC.

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SCHEDULES/EXHIBITS

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 aquirer) 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 material 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

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.

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

EXHIBIT 4.1

ST. MARY LAND & EXPLORATION COMPANY

SHAREHOLDER RIGHTS PLAN

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SHAREHOLDER RIGHTS PLAN

This Shareholder Rights Plan (the "Plan") of St. Mary Land & Exploration Company, a Delaware corporation (the "Company"), is made effective as of the 1st day of August, 1999.

RECITALS

On July 15, 1999 the Board of Directors of the Company authorized and declared a dividend of one right ("Right") for each share of Common Stock, $.01 par value, of the Company (a "Common Share") outstanding as of the close of business on August 5, 1999 (the "Record Date"), with each Right initially representing the right to purchase one Common Share, upon the terms and subject to the conditions hereinafter set forth, and further authorized the issuance of one Right with respect to each Common Share issued by the Company after the Record Date but prior to the Distribution Date (as hereinafter defined);

Section 1. Certain Definitions. For purposes of this Plan, the following terms shall have the meanings indicated:

(a) "Acquiring Person" shall mean any Person (other than the Company or any Related Person) who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of twenty percent or more of the Common Shares then outstanding; provided however that (i) any Person who or which, together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of twenty percent or more of the Common Shares then outstanding in connection with a transaction or series of transactions approved prior to such transaction or transactions by the Board of Directors of the Company shall not be deemed an Acquiring Person by virtue of such transactions or series of transactions, and (ii) a Person shall not be deemed to have become an Acquiring Person solely as a result of a reduction in the number of Common Shares outstanding, unless subsequent to such reduction such Person or any Affiliate or Associate of such Person shall become the Beneficial Owner of any

additional Common Shares other than as a result of a stock dividend, stock split or similar transaction effected by the Company in which all shareholders are treated equally.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act, as in effect on the date of this Plan.

(c) A Person shall be deemed the "Beneficial Owner" of and shall be deemed to "beneficially own" any securities:

(i) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing), or upon the exercise of conversion rights, exchange rights, rights (other than the Rights), warrants or options, or otherwise; provided however that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange; or

(ii) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of, including pursuant to any agreement, arrangement or understanding (whether or not in writing); or

(iii) of which any other Person is the Beneficial Owner if such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing) with such other Person (or any of such other Person's Affiliates or Associates) with respect to acquiring, holding, voting or disposing of any securities of the Company other than pursuant to a revocable proxy or a securities underwriting arrangement.

(d) "Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the State of Colorado are authorized or obligated by law or executive order to close.

(e) "Close of Business" on any given date shall mean 5:00 p.m., Mountain Time, on such date; provide however, that if such date is not a Business Day it shall mean 5:00 p.m., Mountain Time, on the next succeeding Business Day.

(f) "Common Shares" when used with reference to the Company shall mean the Common Stock, $.01 par value, of the Company; provided, however, that, if the Company is the continuing or surviving corporation in a transaction described in Section 6(a)(ii) or Section 8(a)(ii) hereof, "Common Shares" when used with reference to the Company shall mean the capital stock or equity security with the greatest aggregate voting power of the Company. "Common Shares" when used with reference to any corporation or other legal entity, other than the Company, including an Issuer (as defined in Section 8(b) hereof), shall mean the capital stock or equity security with the greatest aggregate voting power of such corporation or other legal entity.

(g) "Company" shall mean St. Mary Land & Exploration Company, a Delaware corporation.

(h) "Distribution Date" shall mean the earlier of:

(i) the Close of Business on the twentieth calendar day (or if the Share Acquisition Date results from the consummation of a Permitted Offer, such later date as may be determined by the Company's Board of Directors before the Distribution Date) after the Share Acquisition Date; or

(ii) the Close of Business on the twentieth calendar day (or such later date as may be specified by the Board of Directors prior to such time as any Person becomes an Acquiring Person) after the date of the commencement of a tender or exchange offer (as determined by reference to Rule 14d-2(a) under the Exchange Act) by any Person (other than the Company or any Related Person), the consummation of which could result in beneficial ownership by such Person of twenty percent or more of the outstanding Common Shares (including any such date which is after the date of this Plan and prior to the issuance of the Rights).

(i) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(j) "Expiration Date" shall mean the earlier of (i) the Close of Business on the Final Expiration Date and (ii) the time at which the Rights are redeemed as provided in Section 11 hereof.

(k) "Final Expiration Date" shall mean December 31, 2004.

(1) "Flip-in Event" shall mean any event described in clauses (A), (B) or (C) of Section 6(a)(ii)hereof.

(m) "Flip-over Event" shall mean any event described in subsections (i), (ii) or (iii) of Section 8(a) hereof.

(n) "Issuer" shall have the meaning set forth in Section 8(b) of this Plan.

(o) "NASDAQ" shall mean the National Association of Securities Dealers, Inc. Automated Quotation System.

(p) "Permitted Offer" shall mean a tender offer or an exchange offer for all outstanding shares of Common Stock at a price and on terms for all outstanding shares of Common Stock determined by at least a majority of the members of the Board of Directors who are not officers or employees of the Company and who are not representatives, nominees, Affiliates or Associates of an Acquiring Person to be (a) at a price and on terms that are fair to shareholders (taking into account all factors that such members of the Board deem relevant including, without limitation, prices that could reasonably be achieved if the Company or its assets were sold on an orderly basis designed to realize maximum value) and (b) otherwise in the best interests of the Company and its shareholders.

(q) "Person" shall mean any individual, firm, corporation, partnership or other legal entity, and shall include any successor (by merger or otherwise) of such entity.

(r) "Purchase Price" shall mean initially $100.00 per share of Common Stock and shall be subject to adjustment from time to time as provided in this Plan.

(s) "Redemption Price" shall mean $.001 per Right, subject to adjustment by resolution of the Board of Directors of the Company to reflect any stock split, stock dividend or similar transaction occurring after the date hereof.

(t) "Related Person" shall mean (i) any Subsidiary of the Company or (ii) any employee benefit or stock ownership plan of the Company or any entity holding Common Shares for or pursuant to the terms of any such plan.

(u) "Right" shall have the meaning set forth in the Recitals to this Plan.

(v) "Right Certificates" shall mean certificates evidencing the Rights as indicated in Section 2 of this Plan.

(w) "Securities Act" shall mean the Securities Act of 1933,as amended.

(x) "Share Acquisition Date" shall mean the first date of public announcement by the Company or an Acquiring Person (by press release, filing made with the Securities and Exchange Commission or otherwise) that an Acquiring Person has become such.

(y) "Subsidiary" of any Person shall mean any corporation or other legal entity of which a majority of the voting power of the voting equity securities or equity interests is owned, directly or indirectly, by such Person.

(z) "Trading Day" shall mean any day on which the principal national securities exchange or other transaction reporting system on which the Common Shares are listed or admitted to trading is open for the transaction of business or, if the Common Shares are not listed or admitted to trading on any national securities exchange or other transaction reporting system, a Business Day.

(aa)"Triggering Event" shall mean any Flip-in Event or Flip-over Event.

Section 2. Rights. (i) The Rights will be evidenced by the certificates representing Common Shares registered in the names of the record holders thereof (which certificates representing Common Shares shall also be deemed to be Right Certificates) and not by separate Right Certificates, (ii) the Rights will be transferable only in connection with the transfer of the underlying Common Shares, and (iii) the transfer of any certificates evidencing Common Shares shall also constitute the transfer of the Rights associated with the Common Shares evidenced by such certificates.

Section 3. Exercise of Rights; Purchase Price; Expiration Date Of Rights.

(a) Prior to the Expiration Date, the registered holder of any Right may exercise such Right by written notice to the Company of such exercise together with payment of the Purchase Price for the Common Share as to which such Right is exercised. The Purchase Price shall be payable in lawful money of the United States of America by certified check or bank draft payable to the order of the Company.

(b) Subject to Section 6(a)(ii) hereof, upon the exercise of a Right and payment as described above, the Company shall promptly (i) requisition from any transfer agent of the Common Shares certificates representing the number of Common Shares to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, (ii) after receipt of such certificates cause the same to be delivered to or upon the order of the registered holder of such Right, registered in such name or names as may be designated by such holder, (iii) if appropriate, deliver to or upon the order of the registered holder of such Right the amount of cash to be paid in lieu of the issuance of fractional shares in accordance with Section 9 hereof or in lieu of the issuance of Common Shares in accordance with Section 6(a)(iii) hereof, and (iv) deliver any due bill or other instrument to the registered holder of such Right as provided by Section 6(j) hereof.

(c) Notwithstanding anything in this Plan to the contrary, the Rights shall not be exercisable in any jurisdiction if the requisite qualification or registration in such jurisdiction shall not have been effected or the exercise of the Rights shall not be permitted under applicable laws, including but not limited to the Securities Act and applicable state securities laws.

Section 4. Company Covenants Concerning Shares and Rights. The Company covenants and agrees that:

(a) It will cause to be reserved and kept available out of its authorized and unissued Common Shares the number of Common Shares that will be sufficient to permit the exercise pursuant to Section 3 hereof of all outstanding Rights.

(b) So long as the Common Shares (and, following the occurrence of a Triggering Event, Common Shares and/or other securities) issuable and deliverable upon the exercise of the Rights may be listed on a national securities exchange or other transaction reporting system, it will endeavor to cause, from and after such time as the Rights become exercisable, all shares reserved for such issuance to be listed on such exchange or system upon official notice of issuance.

(c) It will take all such action as may be necessary to ensure that all Common Shares (and, following the occurrence of a Triggering Event, Common Shares and/or other securities) delivered upon exercise of Rights, at the time of delivery of the certificates for such shares, shall be (subject to payment of the Purchase Price) duly and validly authorized and issued, fully paid and nonassessable shares, free and clear of any liens, encumbrances or other adverse claims and not subject to any rights of call or first refusal.

(d) It will pay when due and payable any and all federal and state transfer taxes and charges that may be payable in respect of the issuance or delivery of the Rights or of any Common Shares (or other securities, as the case may be) upon the exercise of Rights; provided however that it will not be required to pay any transfer tax or charge which may be payable in respect of any transfer, issuance or delivery of certificates representing Common Shares (or other securities, as the case may be).

(e) It will use its best efforts to (i) file on an appropriate form, as soon as practicable following the later to occur of a Triggering Event or the Distribution Date, a registration statement under the Securities Act with respect to the securities purchasable upon exercise of the Rights, (ii) cause such registration statement to become effective as soon as practicable after such filing, and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities, or (B) the Expiration Date. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights; provided however that the Company may temporarily suspend the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective and upon any such suspension, the Company will issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect.

(f) Notwithstanding anything in this Plan to the contrary, the Company covenants and agrees that, after the Distribution Date, it will not, except as permitted by Section 11 or Section 14 hereof, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish or otherwise eliminate the benefits intended to be afforded by the Rights.

(g) In the event that the Company is obligated to issue other securities of the Company, pay cash and/or distribute other property pursuant to Sections 6 and 8 hereof, it will make all arrangements necessary so that such other securities, cash and/or property are available for distribution, if and when appropriate.

Section 5. Record Date. Each Person in whose name any certificate representing Common Shares (or other securities, as the case may be) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Common Shares (or other securities, as the case may be) represented thereby on, and such certificate shall be dated, the date upon which the Rights were duly exercised hereunder and payment of the Purchase Price (and all applicable transfer taxes) was made. Prior to the exercise of a Right, the holder of such Right shall not be entitled by virtue thereof to any rights of a shareholder of the Company with respect to securities for which the Right shall be exercisable, including without limitation the right to vote, receive dividends or other distributions or exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company except as provided herein.

Section 6. Adjustment of Purchase Price, Number and Type of Shares or Number of Rights. The Purchase Price, the number and kind of shares covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 6.

(a) (i) In the event that the Company shall at any time after the date of this Plan (A) declare a dividend on the Common Shares payable in Common Shares, (B) subdivide the outstanding Common Shares, (C) combine the outstanding Common Shares into a smaller number of shares or (D) issue any shares of its capital stock in a reclassification of the Common Shares (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and/or the number and/or kind of shares of capital stock issuable on such date upon exercise of a Right, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive upon payment of the Purchase Price then in effect the aggregate number and kind of shares of capital stock which, if such Right had been exercised immediately prior to such date and at a time when the Common Shares transfer books of the Company were open, he or she would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. If an event occurs which would require an adjustment under both this Section 6(a)(i) and Section 6(a)(ii) hereof or Section 8 hereof, the adjustment provided for in this Section 6(a)(i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 6(a)(ii) or Section 8 hereof.

(ii) In the event that:

(A) any Acquiring Person or any Associate or Affiliate of any Acquiring Person, at any time after the date of this Plan, directly or indirectly, shall (1) merge into the Company or otherwise combine with the Company and the Company shall be the continuing or surviving corporation of such merger or combination (other than in a transaction subject to Section 8 hereof), (2) merge or otherwise combine with any Subsidiary of the Company, (3) in one or more transactions (other than in connection with the exercise of Rights or the exercise or conversion of securities exercisable or convertible into capital stock of the Company or any of its Subsidiaries) transfer any assets to the Company or any of its Subsidiaries in exchange (in whole or in part) for shares of any class of capital stock of the Company or any of its Subsidiaries or for securities exercisable for or convertible into shares of any class of capital stock of the Company or any of its Subsidiaries, or otherwise obtain from the Company or any of its Subsidiaries, with or without consideration, any additional shares of any class of capital stock of the Company or any of its Subsidiaries or securities exercisable for or convertible into shares of any class of capital stock of the Company or any of its Subsidiaries (other than as part of a pro rata distribution to all holders of such shares of any class of capital stock of the Company, or any of its Subsidiaries), (4) sell, purchase, lease, exchange, mortgage, pledge, transfer or otherwise dispose (in one or more transactions) of any assets (including securities), to, from, with or of, as the case may be, the Company or any of its Subsidiaries (other than in a transaction subject to Section 8 hereof), (5) receive any compensation from the Company or any of its Subsidiaries other than compensation as a director or for full-time employment as a regular employee, in either case, at rates in accordance with the Company's (or its Subsidiaries') past practices, or (6) receive the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantage provided by the Company or any of its Subsidiaries; or

(B) during such time as there is an Acquiring Person, there shall be any reclassification of securities (including any reverse stock split), or recapitalization of the Company, or any merger or consolidation of the Company with any of its Subsidiaries or any other transaction or series of transactions involving the Company or any of its Subsidiaries (whether or not with or into or otherwise involving an Acquiring Person), other than a transaction subject to Section 8 of this Plan, which has the effect, directly or indirectly, of increasing by more than one percent the proportionate share of the outstanding shares of any class of equity securities or of securities exercisable for or convertible into equity

securities of the Company or any of its Subsidiaries of which an Acquiring Person or any Associate or Affiliate of any Acquiring Person, is the Beneficial Owner; or

(C) any Person (other than the Company or any Related Person) who or which, together with all Affiliates and Associates of such Person, shall at any time after the date of this Plan, become an Acquiring Person other than through a purchase of Common Shares pursuant to a tender offer made in the manner prescribed by Section 14(d) of the Exchange Act and the rules and regulations promulgated thereunder and which is a Permitted Offer; then in each such case proper provision shall be made so that each holder of a Right, except as provided below, shall thereafter have a right to receive, upon exercise thereof in accordance with the term of this Plan at an exercise price per Right equal to the product of the then-current Purchase Price multiplied by the number of Common Shares for which a Right was exercisable immediately prior to the first occurrence of such Flip-in Event (but assuming the rights were then exercisable), such number of Common Shares as shall equal the result obtained by multiplying the then-current Purchase Price by the number of Common Shares for which a Right was exercisable immediately prior to the first occurrence of such Flip-in Event (assuming exercisability), and dividing that product by fifty percent of the current per share market price of a Common Share (determined pursuant to Section 6(d) hereof) on the date of the first occurrence of any such Flip-in Event. Notwithstanding anything in this Plan to the contrary, from and after the first occurrence of any such Flip-in Event, any Rights of which any Acquiring Person or any Associate or Affiliate of such Acquiring Person involved in such Flip-in Event is or was at any time the Beneficial Owner after the date upon which such Acquiring Person became such shall become void and any holder of such Rights shall thereafter have no right to exercise such Rights under any provision of this Plan.

(iii) In the event that there shall not be sufficient authorized but unissued Common Shares or authorized and issued Common Shares held in treasury to permit the exercise in full of the Rights in accordance with the foregoing subsection (ii), and the Company is unable to obtain the authorization of the necessary additional Common Shares within ninety calendar days after the occurrence of the Flip-in Event, then, notwithstanding anything in this Plan to the contrary, the Company shall determine the excess of the value of the Common Shares issuable upon the exercise of a Right over the Purchase Price (such excess being hereinafter referred to as the "Spread") and shall be obligated to deliver, upon the exercise of such Right and without requiring payment of the Purchase Price, Common Shares (to the extent available) and cash (to the extent permitted by applicable law and any agreements or instruments to which the Company is a party in effect immediately prior to the first occurrence of any Flip-in Event) in an amount equal to the Spread. To the extent that any legal or contractual restrictions prevent the Company from paying the full amount of cash payable in accordance with the foregoing sentence, the Company shall pay to holders of the Rights as to which such payments are payable all amounts which are not then restricted on a pro rata basis and shall continue to make payments on a pro rata basis as funds become available until the full amount due to each such Right holder has been paid.

(b) In the event that the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Common Shares entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Common Shares (or securities having equivalent rights, privileges and preferences as the Common Shares ("equivalent common shares")) or securities convertible into Common Shares or equivalent common shares at a price per Common Share or equivalent common share (or having a conversion price per share, if a security convertible into Common or equivalent common shares) less than the current per share market price of the Common Shares (as determined pursuant to Section 6(d) hereof) on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of Common Shares outstanding on such record date plus the number of Common Shares which the aggregate offering price of the total number of Common Shares and/or

equivalent common shares so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such current per share market price and the denominator of which shall be the number of Common Shares outstanding on such record date plus the number of additional Common Shares and/or equivalent common shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a written statement which shall be conclusive for all purposes. Common Shares owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such rights, options or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In the event that the Company shall fix a record date for the making of a distribution to all holders of Common Shares (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness, cash (other than a regular periodic cash dividend at a rate not in excess of 125 percent of the rate of the highest regular periodic cash dividend paid during the immediately preceding two years), assets, stock (other than a dividend payable in Common Shares) or subscription rights, options or warrants (excluding those referred to in Section 6(b) hereof), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the current per share market price of the Common Shares (as determined pursuant to Section 6(d) hereof) on such record date or, if earlier, the date on which Common Shares begin to trade on an ex-dividend or when-issued basis with respect to such distribution, less the fair market value (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a written statement which shall be conclusive for all purposes) of the portion of the cash, assets, stock or evidences of indebtedness so to be distributed (in the case of periodic cash dividends, only that portion in excess of 125 percent of the rate of the highest regular periodic cash dividend paid during the immediately preceding two years) or of such subscription rights, options or warrants applicable to Common Shares, and the denominator of which shall be such current per share market price of the Common Shares. Such adjustments shall be made successively whenever such a record date is fixed; in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) For the purpose of any computation hereunder, the "current per share market price" of Common Shares on any date shall be deemed to be the average of the daily closing prices per share of such Common Shares for the thirty consecutive Trading Days immediately prior to such date; provided however that in the event that the current per share market price of the Common Shares is determined during a period following the announcement by the issuer of such Common Shares of (A) a dividend or distribution on such Common Shares payable in such Common Shares or securities convertible into such Common Shares (other than the Rights) or (B) any subdivision, combination or reclassification of such Common Shares, and prior to the expiration of thirty Trading Days after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the current per share market price shall be appropriately adjusted to take into account ex-dividend trading or to reflect the current per share market price per Common Share equivalent. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Common Shares are listed or admitted to trading or, if the Common Shares are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use, or, if on any such date the Common Shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Common Shares selected by the Board of Directors of the Company. If the Common Shares are not so listed or traded, or not the subject of available bid and asked quotes, "current per share market price" shall mean the fair value per share as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a written statement which shall be conclusive for all purposes.

(e) Except as set forth below, no adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least one percent in such price; provided, however, that any adjustments

which by reason of this Section 6(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under Section 6 shall be made to the nearest cent or to the nearest whole Common Share or other share, as the case may be. Notwithstanding the first sentence of this Section 6(e), any adjustment required by Section 6 shall be made no later than the earlier of (i) three years from the date of the transaction which requires such adjustment or (ii) the Expiration Date.

(f) If as a result of an adjustment made pursuant to Section 8(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than Common Shares, thereafter the number of such other shares so receivable upon exercise of any Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Shares contained in this Section 6 and the provisions of Sections 3, 4, 5, 8 and 9 hereof with respect to the Common Shares shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of Common Shares purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided in this Plan.

(h) Upon each adjustment of the Purchase Price as a result of the calculations made in Section 6(b) hereof and Section 6(c) hereof made with respect to a distribution of subscription rights, options or warrants applicable to Common Shares, each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of Common Shares (calculated to the nearest whole Common Share) obtained by (i) multiplying the number of Common Shares covered by a Right immediately prior to this adjustment by the Purchase Price in effect immediately prior to such adjustment of the Purchase Price and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) Before taking any action that would cause an adjustment reducing the Purchase Price below the par value of the Common Shares issuable upon exercise of the Rights, the Company shall take any corporate action which may be necessary in order that the Company may validly and legally issue fully paid and nonassessable Common Shares at such adjusted Purchase Price.

(j) In any case in which this Section 6 shall require that an adjustment in the Purchase 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 the issuance to the holder of any Right exercised after such record date the number of Common Shares or other capital stock or securities of the Company, if any, issuable upon such exercise over and above the number of Common Shares or other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; 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 shares, capital stock or securities upon the occurrence of the event requiring such adjustment.

(k) Notwithstanding anything in this Plan to the contrary, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 6, as and to the extent that in their good faith judgment the Board of Directors of the Company shall determine to be advisable in order that any (i) consolidation or subdivision of the Common Shares, (ii) issuance wholly for cash of Common Shares at less than the current per share market price therefor, (iii) issuance wholly for cash of securities which by their terms are convertible into or exchangeable for Common Shares, (iv) stock dividends, or (v) issuance of rights, options or warrants referred to in this Section 6, hereafter made by the Company to holders of its Common Shares shall not be taxable to such shareholders.

(l) Notwithstanding anything in this Plan to the contrary, in the event that the Company shall at any time after the date of this Plan and prior to the Distribution Date (i) declare a dividend on the outstanding Common Shares payable in Common Shares, (ii) subdivide the outstanding Common Shares, (iii) combine the outstanding Common Shares into a smaller number of shares, or (iv) issue any shares of its capital stock in a reclassification of the outstanding Common Shares, the number of Rights associated with each Common share then outstanding, or issued or delivered thereafter but prior to the Distribution Date, shall be proportionately adjusted so that the number of Rights thereafter associated with each Common Share following any such event shall equal the result obtained by multiplying the number of Rights associated with each Common Share immediately prior to such event by a fraction the numerator of which shall be the total number of Common Shares outstanding immediately prior to the

occurrence of the event and the denominator of which shall be the total number of Common Shares outstanding immediately following the occurrence of such event, provided that any resulting fractional amount shall be rounded to the nearest whole number.

Section 7. Certificate of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Section 6 or Section 8(a) hereof, the Company shall

(a) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment,

(b) promptly file with the transfer agent for the Common Shares, a copy of such certificate, and

(c) if such adjustment is made after the Distribution Date, mail a brief summary of such adjustment to each holder of a Right in accordance with Section 13 hereof.

Section 8. Consolidation, Merger or Sale or Transfer of Assets or Earning Power.

(a) Except as provided in Section 8(c) of this Plan, in the event that, following the Share Acquisition Date, directly or indirectly,

(i) the Company shall consolidate with, or merge with or into, any other Person (other than a Related Person in a transaction which complies with Section 4(f) hereof) and the Company shall not be the continuing or surviving corporation of such consolidation or merger;

(ii) any Person (other than a Related Person in a transaction which complies with Section 4(f) hereof) shall consolidate with the Company, or merge with or into the Company and the Company shall be the continuing or surviving corporation of such merger or consolidation and, in connection with such merger or consolidation, all or part of the Common Shares shall be changed into or exchanged for stock or other securities of such other Person or cash or any other property; or

(iii) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one or more transactions, assets or earning power (including without limitation securities creating any obligation on the part of the Company and/or any of its Subsidiaries) representing in the aggregate more than fifty percent of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Acquiring Person or Persons (other than the Company or any Related Person in one or more transactions each of which complies with Section 4(f) hereof),

then, and in each such case, proper provision shall be made so that (A) except as provided below, each holder of a Right shall thereafter have the right to receive, upon the exercise of it in accordance with the terms of this Plan at an exercise price per Right equal to the product of the then-current Purchase Price multiplied by the number of Common Shares for which a Right is then exercisable, in lieu of Common Shares, such number of validly authorized and issued, fully paid, nonassessable and freely tradeable Common Shares of the Issuer (as such term is hereinafter defined), free and clear of any liens, encumbrances and other adverse claims and not subject to any rights of call or first refusal, as shall be equal to the result obtained by multiplying the then-current Purchase Price by the number of Common Shares for which a Right is exercisable immediately prior to the first occurrence of any Flip-over Event (or, if a Flip-in Event has occurred prior to the first occurrence of a Flip-over Event, multiplying the number of Common Shares for which a Right was exercisable immediately prior to the first occurrence of a Flip-in Event, assuming the Rights were then exercisable by the Purchase Price in effect immediately prior to such first occurrence), and dividing that product by fifty percent of the current per share market price of the Common Shares of the Issuer (determined pursuant to Section 6(d) hereof), on the date of consummation of such Flip-over Event; (B) the Issuer shall thereafter be liable for, and shall assume, by virtue of such Flip-over Event, all the obligations and duties of the Company pursuant to this Plan; (C) the term "Company" shall thereafter be deemed to refer to the Issuer; and (D) the Issuer shall take such steps (including without limitation the reservation of a sufficient number of its Common Shares to permit the exercise of all outstanding Rights) in connection with such consummation as may be necessary to ensure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be possible, in relation to its Common Shares thereafter deliverable upon the exercise of the Rights. Notwithstanding anything in this Plan to the contrary, from and after the first occurrence of any such Flip-Over Event, any Rights of which the Issuer or any Associate or Affiliate of the Issuer involved in such Flip-Over Event is or was at any time the Beneficial Owner after the date upon which the Issuer became such shall become void and any holder of such Rights shall thereafter have no right to exercise such Rights under any provision of this Plan.

(b) For purposes of this Section 8, "Issuer" shall mean (i) in the case of any Flip-over Event described in Sections 8(a)(i) or (ii) above, the Person that is the continuing, surviving, resulting or acquiring Person (including the Company as the continuing or surviving corporation of a transaction described in Section 8(a)(ii) above), and (ii) in the case of any Flip-over Event described in Section 8(a)(iii) above, the Person that is the party receiving the greatest portion of the assets or earning power (including without limitation securities creating any obligation on the part of the Company and/or any of its Subsidiaries) transferred pursuant to such transaction or transactions; provided however that in any such case, (A) if (1) no class of equity security of such Person is, at the time of such merger, consolidation or transaction and has been continuously over the preceding twelve-month period, registered pursuant to Section 12 of the Exchange Act, and (2) such Person is a Subsidiary, directly or indirectly, of another Person, a class of equity security of which is and has been so registered, the term "Issuer" shall mean such other Person; and (B) in case such Person is a Subsidiary, directly or indirectly, of more than one Person, a class of equity security of two or more of which are and have been so registered, the term "Issuer" shall mean whichever of such Persons is the issuer of the equity security having the greatest aggregate market value. Notwithstanding the foregoing, if the Issuer in any of the Flip-over Events listed above is not a corporation or other legal entity having outstanding equity securities, then, and in each such case, (i) if the Issuer is directly or indirectly wholly owned by a corporation or other legal entity having outstanding equity securities, then all references to Common Shares of the Issuer shall be deemed to be references to the Common Shares of the corporation or other legal entity having outstanding equity securities which ultimately controls the Issuer, and (ii) if there is no such corporation or other legal entity having outstanding equity securities, (Y) proper provision shall be made so that the Issuer shall create or otherwise make available for purposes of the exercise of the Rights in accordance with the terms of this Plan, a type or types of security or securities having a fair market value at least equal to the economic value of the Common Shares which each holder of a Right would have been entitled to receive if the Issuer had been a corporation or other legal entity having outstanding equity securities; and (Z) all other provisions of this Plan shall apply to the issuer of such securities as if such securities were Common Shares.

(c) Notwithstanding anything contained in this Plan to the contrary, the adjustments described in Section 8(a) of this Plan shall not be made upon the occurrence of an event described in Section 8(a)(i) or Section 8(a)(ii) if all of the following are met:

(i) the Company shall merge or consolidate with an Acquiring Person (or a wholly owned subsidiary of such Acquiring Person) who became an Acquiring Person pursuant to a Permitted Offer;

(ii) the per share consideration offered in such merger or consolidation is equal to or greater than the price per Common Share paid to all holders of Common Stock whose shares were purchased pursuant to such Permitted Offer; and

(iii) the form of consideration being offered to the remaining holders of shares of Common Stock pursuant to such transaction is the same as the form of consideration paid pursuant to such Permitted Offer.

(d) The Company shall not consummate any Flip-over Event unless the Issuer shall have a sufficient number of authorized Common Shares (or other securities as contemplated in Section 8(b) above) which have not been issued or reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 8 and unless prior to such consummation the Company and the Issuer shall have both executed an agreement providing for the terms set forth in subsections (a) and (b) of this Section 8 and further providing that as soon as practicable after the consummation of any Flip-over Event, the Issuer will

(i) prepare and file on an appropriate form a registration statement under the Securities Act, with respect to the Rights and the securities purchasable upon exercise of the Rights, and will use its best efforts to cause such registration statement to (A) become effective as soon as practicable after such filing and (B) remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the Expiration Date; and

(ii) deliver to holders of the Rights historical financial statements of the Issuer and each of its Affiliates which comply in all respects with the requirements for registration on Form 10 under the Exchange Act. (e) The provisions of this Section 8 shall similarly apply to successive mergers or consolidations or

sales or other transfers. In the event that a Flip-over Event occurs at any time after the occurrence of a Flip-in Event, the Rights which have not theretofore been exercised shall thereafter become exercisable in the manner described in this Section 8.

Section 9. Fractional Rights and Fractional Shares.

(a) The Company shall not be required to issue fractions of Rights. In lieu of any fractional Rights which would otherwise result from this Plan, the number of Rights to be issued to a shareholder of the Company shall be rounded to the nearest whole Right.

(b) The Company shall not be required to issue fractions of Common

Shares upon exercise of the Rights or to distribute certificates which evidence fractional Common Shares. In lieu of any fractional Common Shares which would otherwise result from this Plan, the number of Common Shares to be issued by the Company under the Plan shall be rounded to the nearest whole Common Share.

Section 10. Agreement of Rights Holders. Every holder of a Right by accepting the same consents and agrees with the Company and with every other holder of a Right that, notwithstanding anything in this Plan to the contrary, the Company shall not have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Plan by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation; provided however that the Company shall use its best efforts to have any such order, decree or ruling lifted or otherwise overturned as soon as reasonably possible.

Section 11. Redemption.

(a) The Board of Directors of the Company may at its option redeem all but not less than all of the then-outstanding Rights at the Redemption Price at any time prior to the Close of Business on the earlier of (i) the Final Expiration Date or (ii) the tenth business day following the Share Acquisition Date.

(b) If after the occurrence of a Share Acquisition Date and following the expiration of the right of redemption hereunder but prior to the occurrence of a Triggering Event, each of the following shall have occurred and remain in effect: (i) a Person who is an Acquiring Person shall have transferred or otherwise disposed of a number of Common Shares in a transaction, or series of transactions, which did not result in the occurrence of any Triggering Event such that such Person is thereafter a Beneficial Owner of fifteen percent or less of the outstanding Common Shares, (ii) there are no other Persons, immediately following the occurrence of the event described in clause (i), who are Acquiring Persons, and (iii) the transfer or other disposition described in clause (i) above was other than pursuant to a transaction, or series of transactions, which directly or indirectly involved the Company or any of its Subsidiaries, then the right of redemption set forth in Section 11(a) shall be reinstated and thereafter be subject to the provisions of this Section 11.

(c) Immediately upon the action of the Board of Directors of the Company ordering the redemption of the Rights, and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. Promptly after the action of the Board of Directors ordering the redemption of the Rights, the Company shall publicly announce such action and within ten calendar days thereafter the Company shall give notice of such redemption to the holders of the then-outstanding Rights by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Company or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. The Company may at its option pay the Redemption Price in cash, Common Shares (based upon the current per share market price of the Common Shares (determined pursuant to Section 6(d) hereof), at the time of redemption) or any other form of consideration deemed appropriate by the Board of Directors.

(d) The Board of Directors of the Company may at any time relinquish any or all of the rights to redeem the Rights under Sections 11(a) or 11(b) hereof by duly adopting a resolution to that effect. Promptly after adoption of such a resolution, the Company shall publicly announce such action. Immediately upon adoption of such resolution, the rights of the Board of Directors under the portions of this Section 11 specified in such resolution shall terminate without further action and without any notice.

Section 12. Notice of Certain Events.

(a) In case after the Distribution Date the Company shall propose (i) to pay any dividend payable in stock of any class to the holders of Common Shares or to make any other distribution to the holders of Common Shares (other than a regular periodic cash dividend at a rate not in excess of 125 percent of the rate of the highest regular periodic cash dividend paid during the immediately preceding two years), (ii) to offer to the holders of Common Shares

rights, options or warrants to subscribe for or to purchase any additional Common Shares or shares of stock of any class or any other securities, rights or options, (iii) to effect any reclassification of its Common Shares (other than a reclassification involving only the subdivision of outstanding Common Shares), or (iv) to effect any consolidation or merger into or with, or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one or more transactions, of assets or earning power (including without limitation securities creating any obligation on the part of the Company and/or any of its Subsidiaries) representing more than fifty percent of the assets and earning power of the Company and its Subsidiaries, taken as a whole, to any other Person or Persons, then in each such case the Company shall give to each holder of a Right notice in accordance with Section 13 hereof of such proposed action which shall specify the record date for the purposes of such stock dividend, distribution or offering of rights, options or warrants, or the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of the Common Shares, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least twenty calendar days prior to the record date for determining holders of the Common Shares for purposes of such action, and in the case of any such other action at least twenty calendar days prior to the date of the taking of such proposed action or the date of participation therein by the holders of the Common Shares, whichever shall be the earlier.

(b) In case any Triggering Event shall occur, then in each such case the Company shall as soon as practicable thereafter give to each holder of a Right notice in accordance with Section 13 hereof of the occurrence of such event which shall specify the event and the consequences of the event to holders of Rights.

Section 13. Notices.

(a) Notices or demands authorized by this Plan to be given or made by the holder of any Right to or on the Company shall be sufficiently given or made if sent by (i) confirmed telefax or (ii) first-class mail with postage prepaid, addressed (until written notice of another address is given to the holders of Rights) as follows:

St. Mary Land & Exploration Company
1776 Lincoln Street
Suite 1100
Denver, CO 80203
Telefax: (303) 861-0934
Attn: Mr. Richard C. Norris, Secretary

(b) Notices or demands authorized by this Plan to be given or made by the Company to or on the holder of any Right shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 14. Supplements and Amendments. Prior to the Share Acquisition Date, the Company shall supplement or amend any provision of this Plan in any manner which the Company may deem desirable without the approval of any holders of Rights or certificates representing Common Shares. Notwithstanding anything in this Plan to the contrary, no supplement or amendment shall be made which decreases the stated Redemption Price or the period of time remaining until the Final Expiration Date.

Section 15. Successors; Certain Covenants. All the covenants and provisions of this Plan by or for the benefit of the Company shall bind and inure to the benefit of its successors and assigns hereunder.

Section 16. Severability. If any term, provision, covenant or restriction of this Plan is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 17. Governing Law. This Plan and each Right issued hereunder shall be deemed to be a contract made under the internal substantive laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the internal substantive laws of such State applicable to contracts to be made and performed entirely within such State.

Section 18. Descriptive Headings. Descriptive headings of the several sections of this Plan are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the Company has caused this Shareholder Rights Plan to be duly executed on its behalf as of the date first above written.

ST. MARY LAND & EXPLORATION COMPANY
a Delaware corporation

By: /S/ MARK A. HELLERSTEIN

Mark A. Hellerstein, President and
Chief Executive Officer

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