

ENERGY PARTNERS LTD  
Form 424B3  
September 26, 2003

Filed pursuant to Rule 424(B)(3)  
Registration No. 333-108540

PROSPECTUS

\$150,000,000

(ENERGY PARTNERS, LTD. LOGO)

ENERGY PARTNERS, LTD.  
EXCHANGE OFFER FOR ALL OUTSTANDING  
8 3/4% SENIOR NOTES DUE 2010  
OF ENERGY PARTNERS, LTD.  
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THE EXCHANGE NOTES

- The terms of the exchange notes we are issuing will be substantially identical to the outstanding notes that we issued on August 5, 2003, except for the elimination of some transfer restrictions, registration rights and additional interest payments relating to the outstanding notes.
- Interest on the exchange notes will accrue at the rate of 8 3/4% per year, payable on February 1 and August 1 of each year, beginning February 1, 2004, and the notes will mature on August 1, 2010.
- The exchange notes will be unsecured and will rank equally with all our other unsecured and unsubordinated indebtedness.
- We may redeem some or all of the exchange notes at any time at the prices described under the heading "Description of Exchange Notes -- Optional Redemption." The exchange notes will not have the benefit of any sinking fund.
- The exchange notes are expected to be eligible for trading in The Portal(SM) Market ("Portal"), a subsidiary of The Nasdaq Stock Market, Inc.

MATERIAL TERMS OF THE EXCHANGE OFFER

- The exchange offer expires at 5:00 p.m., New York City time, on October 27, 2003, unless extended.
- The exchange offer is not conditioned on any minimum principal amount of outstanding notes being tendered.
- Our completion of the exchange offer is subject to customary conditions, which we may waive.
- Upon our completion of the exchange offer, all outstanding notes that are validly tendered and not withdrawn will be exchanged for an equal principal amount of exchange notes that are registered under the Securities Act of 1933.
- Tenders of outstanding notes may be withdrawn at any time before the expiration of the exchange offer.

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- The exchange of exchange notes for outstanding notes will not be a taxable exchange for U.S. Federal income tax purposes.
- We will not receive any proceeds from the exchange offer.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for old notes where such old notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the expiration date (as defined herein), we will make this prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

FOR A DISCUSSION OF FACTORS THAT YOU SHOULD CONSIDER BEFORE PARTICIPATING IN THIS EXCHANGE OFFER, SEE "RISK FACTORS" BEGINNING ON PAGE 7 OF THIS PROSPECTUS.

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Neither the Securities and Exchange Commission nor any state securities commission has approved of or disapproved of these securities or passed on the adequacy or accuracy of this prospectus or the investment merits of the notes offered hereby. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 25, 2003.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS DOCUMENT MAY ONLY BE USED WHERE IT IS LEGAL TO SELL THESE SECURITIES. THE INFORMATION IN THIS DOCUMENT OR IN THE DOCUMENTS INCORPORATED BY REFERENCE HEREIN MAY ONLY BE ACCURATE ON THE DATE OF THIS

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DOCUMENT OR SUCH INCORPORATED DOCUMENT, AS APPLICABLE.

### FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact contained in this prospectus, the documents incorporated by reference in this prospectus and other written or oral statements made by us or on our behalf are forward-looking statements. When used herein, the words "anticipates," "expects," "believes," "goals," "intends," "plans" or "projects" and similar expressions are intended to identify forward-looking statements. It is important to note that forward-looking statements are based on a number of assumptions about future events and are subject to various risks, uncertainties and other factors that may cause our actual results to differ materially from the views, beliefs and estimates expressed or implied in such forward-looking statements. We refer you specifically to the section entitled "Risk Factors" in this prospectus as well as the disclosure contained in our latest annual report on Form 10-K and the other documents incorporated by reference herein. Although we believe that the assumptions on which any forward-looking statements in this prospectus and periodic reports filed by us are reasonable, no assurance can be given that such assumptions will prove correct. All forward-looking statements in this prospectus are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this prospectus and in the documents incorporated by reference.

### REFERENCE TO ADDITIONAL MATERIAL

THIS PROSPECTUS INCORPORATES IMPORTANT BUSINESS AND FINANCIAL INFORMATION ABOUT ENERGY PARTNERS, LTD. THAT IS NOT INCLUDED IN OR DELIVERED WITH THIS PROSPECTUS. SUCH INFORMATION IS AVAILABLE WITHOUT CHARGE BY WRITTEN OR VERBAL REQUEST TO ENERGY PARTNERS, LTD., 201 ST. CHARLES AVENUE, SUITE 3400, NEW ORLEANS, LOUISIANA 70170, ATTENTION: CORPORATE SECRETARY, TELEPHONE NUMBER: (504) 569-1875. IF YOU WOULD LIKE TO

REQUEST COPIES OF THESE DOCUMENTS, PLEASE DO SO BY OCTOBER 20, 2003, IN ORDER TO RECEIVE THEM BEFORE THE EXPIRATION OF THE EXCHANGE OFFER.

### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We file annual, quarterly and current reports, proxy statements and other information with the SEC.

We incorporate by reference in this prospectus the following documents filed with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"):

1. Annual Report on Form 10-K for the fiscal year ended December 31, 2002;
2. Quarterly Report on Form 10-Q for the quarter ended March 31, 2003;
3. Quarterly Report on Form 10-Q for the quarter ended June 30, 2003;  
and
4. Current Reports on Form 8-K filed on March 17, April 3, July 3 (other than the information contained in Item 9) and August 8, 2003.

We also incorporate by reference any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act (excluding any information furnished pursuant to Item 9 or Item 12 on any Current Report on Form 8-K), until the expiration of the exchange offer.

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The information incorporated by reference is an important part of this prospectus and information that we file later with the SEC will automatically update and supersede this information as well as the information included in this prospectus.

You may read and copy any document we file with the SEC at the SEC public reference room located at:

Room 1024, Judiciary Plaza  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information on the public reference room and its copy charges. Our SEC filings are also available to the public on the SEC's web site at <http://www.sec.gov> and through the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which our shares of common stock are traded. In addition, we maintain a web site at [www.eplweb.com](http://www.eplweb.com) which contains information about us, including links to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all related amendments. Our web site and the information contained in it and connected to it are not incorporated by reference into this prospectus.

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### SUMMARY

You should read the following summary together with the more detailed information appearing elsewhere in this prospectus and the financial statements and related notes and other information included or incorporated by reference in this prospectus. In this prospectus, when we use the terms "Energy Partners," the "Company," "we," "our" or "us," we mean Energy Partners, Ltd. and its subsidiaries on a consolidated basis, unless otherwise indicated or the context requires otherwise. Throughout this prospectus, we use the terms "old notes" and "outstanding notes" to refer to our currently outstanding 8 3/4% Senior Notes due 2010 for which the exchange notes are being offered for exchange. Unless otherwise stated or the context otherwise requires, references to "senior notes" refer to the outstanding old notes and the exchange notes, collectively.

### ABOUT ENERGY PARTNERS, LTD.

We are an independent oil and natural gas exploration and production company focused on the shallow to moderate depth waters of the Gulf of Mexico Shelf. We concentrate on the Gulf of Mexico Shelf region because that area provides us with favorable geologic and economic conditions, including multiple reservoir formations, regional economies of scale, extensive infrastructure and comprehensive geologic databases. We believe that this region offers a balanced and expansive array of existing and prospective exploration, exploitation and development opportunities in both established productive horizons and deeper geologic formations. In addition, we believe the Gulf of Mexico is a critical supply basin in the United States. As of December 31, 2002, we had estimated proved reserves of approximately 127.0 billion cubic feet of natural gas and 26.4 million barrels of oil, or an aggregate of approximately 47.5 million barrels of oil equivalent, with a present value of estimated pre-tax future net cash flows of \$608.3 million, and of estimated after-tax future net cash flows of \$476.9 million based upon year-end 2002 prices and a discount rate of 10%.

Since our incorporation in January 1998 by Richard A. Bachmann, our founder, chairman, president and chief executive officer, we have assembled a team of geoscientists and management professionals with considerable region-specific geological, geophysical, technical and operational experience.

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We have grown through a combination of exploration, exploitation and development drilling and multi-year, multi-well drill-to-earn programs, as well as strategic acquisitions of mature oil and natural gas fields in the Gulf of Mexico Shelf area, and in particular the acquisition of Hall-Houston Oil Company ("Hall-Houston") in early 2002. The acquisition of Hall-Houston strengthened our management team, expanded our property base, reduced our geographic concentration, and moved us to a more balanced oil and natural gas reserves and production profile. This acquisition also expanded our technical knowledge base through the addition of quality personnel and geophysical and geological data. Furthermore, the acquisition significantly improved our portfolio of exploration opportunities by adding 12 offshore exploratory blocks to complement our development and drill-to-earn portfolio.

### CORPORATE AND STOCKHOLDER INFORMATION

We are a publicly traded company with our common stock listed on the NYSE under the symbol "EPL."

Our principal executive offices are located at 201 St. Charles Avenue, Suite 3400, New Orleans, Louisiana 70170. Our telephone number is (504) 569-1875. We also maintain a web site at [www.eplweb.com](http://www.eplweb.com) which contains information about us. Our web site and the information contained in it and connected to it will not be deemed incorporated by reference into this prospectus.

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### THE EXCHANGE OFFER

The following is a brief summary of certain terms of this exchange offer. For a more complete description of the terms of the exchange offer, see "The Exchange Offer" in this prospectus.

THE EXCHANGE OFFER..... The exchange offer relates to the exchange of up to \$150 million aggregate principal amount of our 8 3/4% Senior Notes due 2010 that have been registered under the Securities Act of 1933 for an equal aggregate principal amount of our outstanding unregistered 8 3/4% Senior Notes due 2010. On August 5, 2003, we issued and sold \$150 million in aggregate principal amount of these old notes in a private placement. The form and terms of the exchange notes are substantially the same as the form and terms of the old notes, except that the exchange notes have been registered under the Securities Act and will not bear legends restricting their transfer. We issued the old notes under an indenture which grants you a number of rights. The exchange notes also will be issued under that indenture and you will have the same rights under the indenture as the holders of the old notes. See "Description of Exchange Notes." We are offering to exchange \$1,000 principal amount of our exchange notes for each \$1,000 principal amount of old notes.

ACCRUED INTEREST ON THE EXCHANGE NOTES..... Interest on the exchange notes will accrue from the last interest payment date on which interest was paid on the old notes or, if no

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interest was paid on the old notes, from the date of issuance of the old notes, which was August 5, 2003. Holders whose old notes are accepted for exchange will be deemed to have waived the right to receive any interest accrued on the old notes.

NO MINIMUM CONDITION..... We are not conditioning the exchange offer on the tender of any minimum principal amount of old notes.

EXPIRATION DATE..... The exchange offer will expire at 5:00 p.m., New York City time, on October 27, 2003 unless we decide to extend the exchange offer.

WITHDRAWAL RIGHTS..... You may withdraw your tender at any time before the exchange offer expires.

CONDITIONS TO THE EXCHANGE OFFER..... The exchange offer is subject to customary conditions, which we may waive. We currently anticipate that each of the conditions will be satisfied and that we will not need to waive any conditions. We reserve the right to terminate or amend the exchange offer at any time before the expiration date if any of the conditions occurs. See "The Exchange Offer -- Certain Conditions to the Exchange Offer."

PROCEDURES FOR TENDERING OLD NOTES..... If you are a holder of old notes who wishes to accept the exchange offer, you must:

- complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, and mail or otherwise deliver the letter of transmittal, together with your old notes, to the exchange agent at the address provided in the section "The Exchange Offer -- Exchange Agent"; or
- arrange for The Depository Trust Company to transmit certain required information, including an agent's message forming part

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of a book-entry transfer in which you agree to be bound by the terms of the letter of transmittal, to the exchange agent in connection with a book-entry transfer.

RESALE WITHOUT FURTHER REGISTRATION..... We believe that you may resell or otherwise transfer the exchange notes that you receive in the exchange offer without complying with the registration and prospectus delivery provisions of the Securities Act so long as you are not a broker-dealer and you meet the following conditions:

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- you are not an "affiliate" of ours within the meaning of Rule 405 of the Securities Act;
- you are acquiring the exchange notes issued in the exchange offer in the ordinary course of your business; and
- you have no arrangement or understanding with any person to participate in the distribution of the exchange notes.

By signing the letter of transmittal and tendering your old notes or making arrangements with The Depository Trust Company as described above, you will be making representations to this effect. You may incur liability under the Securities Act if:

- any of the representations listed above are not true; and
- you transfer any exchange note issued to you in the exchange offer without complying with the registration and prospectus delivery requirements of the Securities Act, unless the transfer otherwise meets an exemption from the registration requirements under the Securities Act.

We do not assume, or indemnify you against, liability under these circumstances, which means that we will not protect you from any loss you incur as a result of this liability.

RESTRICTIONS ON RESALE BY  
BROKER-DEALERS.....

Each broker-dealer that has received exchange notes for its own account in exchange for old notes that were acquired as a result of market-making or other trading activities must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the exchange notes. A broker-dealer may use this prospectus in connection with any resale for a period of 180 days after the end of the exchange offer.

SPECIAL PROCEDURES FOR  
BENEFICIAL OWNERS.....

If you beneficially own old notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes in the exchange offer, you should contact the registered holder promptly and instruct it to tender on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your old notes, either arrange to have your old notes registered in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.

GUARANTEED DELIVERY PROCEDURES.....	If you wish to tender your old notes and time will not permit your required documents to reach the exchange agent by the expiration date, or the procedures for book-entry transfer cannot be completed on time, you may tender your old notes according to the guaranteed delivery procedures described in the section "The Exchange Offer -- Procedures for Tendering Old Notes."
ACCEPTANCE OF OLD NOTES AND DELIVERY OF EXCHANGE NOTES....	We will accept for exchange all old notes which are properly tendered in the exchange offer prior to 5:00 p.m., New York City time, on the expiration date. The exchange notes issued in the exchange offer will be delivered promptly following the expiration date. See "The Exchange Offer -- Acceptance of Old Notes for Exchange; Delivery of Exchange Notes."
USE OF PROCEEDS.....	We will not receive any proceeds from the issuance of exchange notes in the exchange offer. We will pay for our expenses incident to the exchange offer.
FEDERAL INCOME TAX.....	The exchange of exchange notes for old notes in the exchange offer will not be a taxable event for federal income tax purposes. See "Certain U.S. Federal Income Tax Considerations."
EFFECT ON HOLDERS OF OLD NOTES.....	As a result of this exchange offer, we will have fulfilled a covenant contained in the registration rights agreement dated as of August 5, 2003 by and among Energy Partners, Ltd., each subsidiary guarantor and each of the initial purchasers named in the agreement and accordingly, there will be no increase in the interest rate on the old notes. If you do not tender your old notes in the exchange offer: <ul style="list-style-type: none"> <li style="margin-top: 1em;">- you will continue to hold the old notes and will be entitled to all the rights and limitations applicable to the old notes under the indenture governing the notes, except for any rights under the registration rights agreement that terminate as a result of the completion of the exchange offer; and</li> <li style="margin-top: 1em;">- you generally will not have any further registration or exchange rights and your old notes will continue to be subject to restrictions on transfer. Accordingly, the trading market for untendered old notes could be adversely affected.</li> </ul>
EXCHANGE AGENT.....	Wells Fargo Bank, N.A. is serving as exchange agent in connection with the exchange offer.



THE EXCHANGE NOTES

ISSUER..... Energy Partners, Ltd.

EXCHANGE NOTES OFFERED..... Up to \$150,000,000 aggregate principal amount of 8 3/4% Senior Notes due 2010. The form and terms of the exchange notes will be the same as the form and terms of the old notes, except that:

- the exchange notes will have been registered under the Securities Act, will not contain transfer restrictions and will not bear legends restricting their transfer;
- the exchange notes will not contain terms providing for the payment of additional interest under circumstances relating to our obligation to file and cause to be effective a registration statement;
- the exchange notes will be represented by one or more global notes in book-entry form; and
- the exchange notes will be issuable in denominations of \$1,000 and multiples thereof.

MATURITY DATE..... August 1, 2010.

INTEREST..... 8 3/4% per annum, payable semi-annually in arrears on February 1 and August 1, commencing February 1, 2004. Interest will accrue from August 5, 2003, the date of issuance of the old notes, or, if interest has already been paid, from the date it was most recently paid.

OPTIONAL REDEMPTION..... Except as set forth below, we cannot redeem the exchange notes before August 1, 2007. On or after August 1, 2007, we can redeem some or all of the exchange notes in cash at the redemption prices described in this prospectus, plus accrued and unpaid interest to the date of redemption.

In addition, at any time and from time to time prior to August 1, 2006, we may redeem up to 35% of the exchange notes with the proceeds of certain equity offerings at a redemption price of 108.75% of the principal amount of the exchange notes, plus accrued and unpaid interest to the redemption date.

CHANGE OF CONTROL..... If a change of control occurs, subject to certain conditions, we must give holders of the exchange notes an opportunity to sell us the exchange notes at a purchase price of 101% of the principal amount of the exchange notes,

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plus accrued and unpaid interest to the date of the purchase. See "Description of Exchange Notes -- Change of Control."

SUBSIDIARY GUARANTEES..... The payment of the principal, premium and interest on the exchange notes will be fully and unconditionally guaranteed on a senior unsecured basis by some of our current and future subsidiaries. See "Description of Exchange Notes -- Subsidiary Guarantees."

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RANKING..... The exchange notes will be our senior unsecured obligations. The exchange notes and the guarantees will rank:

- equally with any of our and the guarantors' existing and future senior indebtedness;
- senior to any of our and the guarantors' existing and future subordinated indebtedness; and
- effectively junior to our secured indebtedness and that of the guarantors to the extent of the collateral securing the secured indebtedness.

As of June 30, 2003, after giving effect (i) to amendments to our bank credit facility and (ii) to our offering of the old notes in August 2003 and the application of the net proceeds to us from the offering, our secured indebtedness would have been approximately \$0.5 million and we would have had \$59.9 million of borrowing capacity under our bank credit facility, all of which would be secured indebtedness effectively ranking senior to the exchange notes. See "Description of Exchange Notes -- Ranking."

RESTRICTIVE COVENANTS..... The indenture governing the exchange notes contains covenants that limit our ability and certain of our subsidiaries' ability to:

- incur additional debt or issue certain types of preferred stock;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated debt;
- make investments;
- create liens on our assets;
- create restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments to us;
- engage in transactions with our affiliates;

- transfer or sell assets or shares of stock of our subsidiaries; and
- consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries.

These covenants are subject to important exceptions and qualifications, which are described under the caption "Description of Exchange Notes -- Certain Covenants."

USE OF PROCEEDS.....	We will not receive any cash proceeds from the exchange offer.
TRADING.....	We expect the exchange notes to be eligible for trading in The Portal(SM) Market, a subsidiary of The Nasdaq Stock Market, Inc. See "Plan of Distribution."
OTHER.....	The exchange notes and any old notes not exchanged for the exchange notes will constitute a single series of senior notes under the indenture and will therefore vote together as a single class for purposes of determining whether the holders of the requisite percentage in outstanding principal amount have taken certain actions or exercised certain rights under the indenture.

#### RISK FACTORS

You should consider carefully each of the risks described below, together with all of the other information contained or incorporated by reference in this prospectus, before deciding to invest in the exchange notes.

#### RISKS RELATING TO THE OIL AND NATURAL GAS INDUSTRY

EXPLORING FOR AND PRODUCING OIL AND NATURAL GAS ARE HIGH-RISK ACTIVITIES WITH MANY UNCERTAINTIES THAT COULD ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS.

Our future success will depend on the success of our exploration and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Please read "-- Reserve estimates depend on many assumptions that may prove to be inaccurate" for a discussion of the uncertainty involved in these processes. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

- pressure or irregularities in geological formations;

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- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions, such as hurricanes and tropical storms;
- reductions in oil and natural gas prices;
- title problems; and
- limitations in the market for oil and natural gas.

WE MAY INCUR SUBSTANTIAL LOSSES AND BE SUBJECT TO SUBSTANTIAL LIABILITY CLAIMS AS A RESULT OF OUR OIL AND NATURAL GAS OPERATIONS.

Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;
- fires and explosions;
- personal injuries and death; and
- natural disasters.

Any of these risks could adversely affect our ability to conduct operations or result in substantial losses to our company. We maintain insurance at levels that we believe are consistent with industry practices, but we are not fully insured against all risks. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, it could adversely affect us.

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A SUBSTANTIAL OR EXTENDED DECLINE IN OIL AND NATURAL GAS PRICES MAY ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS AND OUR ABILITY TO MEET OUR CAPITAL EXPENDITURE OBLIGATIONS AND FINANCIAL COMMITMENTS.

The price we receive for our oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control. These factors include:

- changes in the global supply, demand and inventories of oil;

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- domestic natural gas supply, demand and inventories;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of foreign imports of oil;
- political conditions, including embargoes, in or affecting other oil-producing countries;
- economic and energy infrastructure disruptions caused by actual or threatened acts of war, or terrorist activities, or national security measures deployed to protect the United States from such actual or threatened acts or activities;
- economic stability of major oil and natural gas companies and the interdependence of oil and natural gas and energy trading companies;
- the level of worldwide oil and natural gas exploration and production activity;
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

Lower oil and natural gas prices may not only decrease our revenues on a per unit basis, but also may reduce the amount of oil and natural gas that we can produce economically. A substantial or extended decline in oil and natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures. Further, oil prices and natural gas prices do not necessarily move together.

RESERVE ESTIMATES DEPEND ON MANY ASSUMPTIONS THAT MAY PROVE TO BE INACCURATE. ANY MATERIAL INACCURACIES IN THESE RESERVE ESTIMATES OR UNDERLYING ASSUMPTIONS WILL MATERIALLY AFFECT THE QUANTITIES AND PRESENT VALUE OF OUR RESERVES.

The process of estimating oil and natural gas reserves is complex. This process requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves incorporated by reference in this prospectus.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates.

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You should not assume that the present value of future net revenues from our proved reserves referred to in this prospectus is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate.

MARKET CONDITIONS OR OPERATIONAL IMPEDIMENTS MAY HINDER OUR ACCESS TO OIL AND NATURAL GAS MARKETS OR DELAY OUR PRODUCTION.

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business. We may be required to shut in wells for lack of a market or because of inadequacy or unavailability of oil or natural gas pipeline or gathering system capacity. If that were to occur, we would be unable to realize revenue from those wells until production arrangements were made to deliver to market.

WE ARE SUBJECT TO COMPLEX FEDERAL, STATE AND LOCAL LAWS AND REGULATIONS, INCLUDING ENVIRONMENTAL LAWS, THAT COULD ADVERSELY AFFECT OUR BUSINESS.

Exploration for and development, exploitation, production and sale of oil and natural gas in the United States are subject to extensive federal, state and local laws and regulations, including complex tax laws and environmental laws and regulations. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations could harm our business, results of operations and financial condition. We may be required to make large expenditures to comply with environmental and other governmental regulations. In addition, some of our offshore operations are conducted on federal leases that are regulated by the Minerals Management Service of the U.S. Department of Interior. Accordingly, these properties will undergo more frequent on-site governmental reviews and will be subject to a greater number of compliance procedures, which could result in increased compliance or operating costs or production being delayed or suspended.

Matters subject to regulation include oil and natural gas production and our processing, handling and disposal of hazardous materials, such as hydrocarbons and naturally occurring radioactive materials, discharge permits for drilling operations, spacing of wells, environmental protection and taxation. We could incur significant costs as a result of violations of or liabilities under environmental or other laws, including third-party claims for personal injuries and property damage, reclamation costs, remediation and clean-up costs resulting from oil spills and discharges of hazardous materials, fines and sanctions, and other environmental damages. See "Items 1 & 2. Business and Properties -- Regulatory Matters" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002 for additional information regarding regulations applicable to us.

### RISKS RELATING TO ENERGY PARTNERS

OUR LIMITED OPERATING HISTORY MAKES EVALUATING OUR BUSINESS DIFFICULT.

We have only a limited operating history upon which you can evaluate our business and prospects. Because of our limited operating history, our future results of operations are difficult to estimate accurately. We also completed

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two acquisitions in 2000 and the acquisition of Hall-Houston in January 2002, which have changed our company.

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A SIGNIFICANT PART OF THE VALUE OF OUR PRODUCTION AND RESERVES IS CONCENTRATED IN ONE PROPERTY. BECAUSE OF THIS CONCENTRATION, ANY PRODUCTION PROBLEMS OR INACCURACIES IN RESERVE ESTIMATES RELATED TO THIS PROPERTY COULD IMPACT OUR BUSINESS ADVERSELY.

During the month of June 2003, 40% of our net daily production came from our East Bay field. If mechanical problems, storms or other events curtail a substantial portion of this production, our cash flow would be affected adversely. Also, at December 31, 2002, approximately 58% of our proved reserves were located on this property. If the actual reserves associated with this property are less than our estimated reserves, our business, financial condition or results of operations could be adversely affected.

RELATIVELY SHORT PRODUCTION LIVES FOR GULF OF MEXICO PROPERTIES SUBJECT US TO HIGHER RESERVE REPLACEMENT NEEDS.

Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. High production rates generally result in recovery of a relatively higher percentage of reserves from properties during the initial few years of production. All of our operations are on the Gulf of Mexico Shelf. Production from reserves in reservoirs in the Gulf of Mexico generally declines more rapidly than from reservoirs in many other producing regions of the world. As a result, our reserve replacement needs from new investments are relatively greater. Our future oil and natural gas reserves and production, and, therefore, our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves.

RAPID GROWTH MAY PLACE SIGNIFICANT DEMANDS ON OUR RESOURCES.

We have experienced rapid growth in our operations and expect that expansion of our operations will continue. Our acquisition of Hall-Houston generated most of our growth in 2002. Our rapid growth has placed, and our anticipated future growth will continue to place, a significant demand on our managerial, operational and financial resources due to:

- the need to manage relationships with various strategic partners and other third parties;
- difficulties in hiring and retaining skilled personnel necessary to support our business;
- complexities in integrating acquired businesses and personnel;
- the need to train and manage our employee base; and
- pressures for the continued development of our financial and information management systems.

If we have not made adequate allowances for the costs and risks associated with these demands or if our systems, procedures or controls are not adequate to support our operations, our business could be harmed.

PROPERTIES THAT WE BUY MAY NOT PRODUCE AS PROJECTED, AND WE MAY BE UNABLE TO FULLY IDENTIFY LIABILITIES ASSOCIATED WITH THE PROPERTIES OR OBTAIN PROTECTION

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FROM SELLERS AGAINST THEM.

Our strategy includes acquisitions. The successful acquisition of producing properties requires assessments of many factors, which are inherently inexact and may be inaccurate, including:

- the amount of recoverable reserves;
- future oil and natural gas prices;
- estimates of operating costs;
- estimates of future development costs;
- estimates of the costs and timing of plugging and abandonment; and
- potential environmental and other liabilities.

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Our assessments will not reveal all existing or potential problems, nor will they permit us to become familiar enough with the properties to evaluate fully their deficiencies and capabilities. In the course of our due diligence, we may not inspect every well, platform or pipeline. We cannot necessarily observe structural and environmental problems, such as pipeline corrosion or groundwater contamination, when an inspection is conducted. We may not be able to obtain contractual indemnities from the seller for liabilities that it created. We may be required to assume the risk of the physical condition of the properties in addition to the risk that the properties may not perform in accordance with our expectations.

SUBSTANTIAL ACQUISITIONS, DRILL-TO-EARN PROGRAMS OR OTHER TRANSACTIONS COULD REQUIRE SIGNIFICANT EXTERNAL CAPITAL AND COULD CHANGE OUR RISK AND PROPERTY PROFILE.

In order to finance acquisitions of additional producing properties, finance the development of any discoveries made through any expanded exploratory program that might be undertaken or enter into significant drill-to-earn programs, we may need to alter or increase our capitalization substantially through the issuance of debt or equity securities, the sale of production payments or other means. These changes in capitalization may significantly affect our risk profile. Additionally, significant acquisitions, drill-to-earn programs or other transactions can change the character of our operations and business. The character of the new properties may be substantially different in operating or geological characteristics or geographic location than our existing properties. Furthermore, we may not be able to obtain external funding for any such acquisitions, drill-to-earn programs or other transactions or to obtain external funding on terms acceptable to us.

OUR PRINCIPAL STOCKHOLDER IS IN A POSITION TO AFFECT OUR ONGOING OPERATIONS, CORPORATE TRANSACTIONS AND OTHER MATTERS.

Our principal stockholder, Evercore Capital Partners L.P., together with its affiliates ("Evercore"), beneficially owned, as of August 26, 2003, approximately 14% of our outstanding shares of common stock and Evercore is entitled to nominate two of our ten directors. Evercore's approval is required to take a number of corporate actions, including making acquisitions, selling assets, adopting or amending capital and operating budgets, incurring indebtedness, increasing compensation, issuing our stock, declaring dividends, engaging in hedging transactions and entering joint ventures. As a result, Evercore is in a position to control or influence substantially the manner in



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which our business is operated and the outcome of stockholder votes on the election of directors and other matters.

THE UNAVAILABILITY OR HIGH COST OF DRILLING RIGS, EQUIPMENT, SUPPLIES, PERSONNEL AND OILFIELD SERVICES COULD ADVERSELY AFFECT OUR ABILITY TO EXECUTE ON A TIMELY BASIS OUR EXPLORATION AND DEVELOPMENT PLANS WITHIN OUR BUDGET.

All of our operations are on the Gulf of Mexico Shelf. Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our exploration and development operations, which could have a material adverse effect on our business, financial condition or results of operations. Periodically, drilling activity in the Gulf of Mexico has increased, and we have experienced increases in associated costs, including those related to drilling rigs, equipment, supplies and personnel and the services and products of other vendors to the industry. Increased drilling activity in the Gulf of Mexico also decreases the availability of offshore rigs. We cannot assure you that costs will not increase again or that necessary equipment and services will be available to us at economical prices.

THE LOSS OF KEY PERSONNEL COULD ADVERSELY AFFECT US.

To a large extent, we depend on the services of our founder, chairman, president and chief executive officer, Richard A. Bachmann, and other senior management personnel. The loss of the services of Mr. Bachmann or other senior management personnel could have a material adverse effect on our operations. We do not maintain any insurance against the loss of any of these individuals.

The Gulf of Mexico Shelf area is highly competitive, and our success there will depend largely on our ability to attract and retain experienced geoscientists and other professional staff.

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OUR HEDGING TRANSACTIONS COULD RESULT IN LOSSES OR LIMIT OUR POTENTIAL GAINS.

We enter into hedging transactions with major financial institutions to reduce exposure to fluctuations in the price of oil and natural gas. Our hedging program uses financially-settled crude oil and natural gas swaps, zero-cost collars and a combination of options used to provide floor prices with varying upside price participation. Our hedged volume as of June 30, 2003 approximated 27% of our estimated production from proved reserves through the balance of the terms of our hedging contracts.

We may in the future enter into these and other types of hedging arrangements to reduce our exposure to fluctuations in the market prices of oil and natural gas. Hedging transactions expose us to risk of financial loss in some circumstances, including if production is less than expected, the other party to the contract defaults on its obligations, or there is a change in the expected differential between the underlying price in the hedging agreement and actual prices received. Hedging transactions may limit the benefit we would have otherwise received from increases in the prices for oil and natural gas. Furthermore, if we do not engage in hedging transactions, we may be more adversely affected by declines in oil and natural gas prices than our competitors who engage in hedging transactions.

COMPETITION IN THE OIL AND NATURAL GAS INDUSTRY IS INTENSE, WHICH MAY ADVERSELY AFFECT OUR ABILITY TO COMPETE.

We operate in a highly competitive environment for acquiring oil and natural gas properties, marketing oil and natural gas and securing trained personnel. Many of our competitors possess and employ financial, technical and

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personnel resources substantially greater than ours, which can be particularly important in Gulf of Mexico activities. Those companies may be able to pay more for productive oil and natural gas properties and exploratory prospects and to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Our ability to acquire additional prospects and to discover reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Also, there is substantial competition for capital available for investment in the oil and natural gas industry. We cannot make assurances that we will be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital.

### RISKS RELATING TO OUR INDEBTEDNESS AND THE SENIOR NOTES

OUR LEVERAGE AND DEBT SERVICE OBLIGATIONS MAY ADVERSELY AFFECT OUR CASH FLOW AND OUR ABILITY TO MAKE PAYMENTS ON THE SENIOR NOTES.

After giving effect to our offering of the old notes in August 2003 and the application of the net proceeds to us from the offering, we would have had total debt of \$150.5 million and stockholders' equity of \$250.0 million as of June 30, 2003. Our level of debt could have potential consequences, including:

- we will need to use a portion of the money we earn to pay interest on our debt which will reduce the amount of money we have to finance our operations and other business activities;
- we may be more vulnerable to economic downturns and adverse developments in our industry; and
- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We will not be able to control many of these factors, such as economic conditions and governmental regulation. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our debt, including the senior notes, and meet our other obligations. If we do not have enough money, we may be required to refinance all or part of our existing debt, including the senior notes, reduce capital expenditures and other expenditures we incur in our business, sell assets, borrow more money or raise equity. We may not be able to refinance our debt, sell assets, borrow more money or raise equity on terms acceptable to us, if at all. Further, failing to comply with

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the financial and other restrictive covenants in our indebtedness could result in an event of default under such indebtedness, which could adversely affect our business, financial condition and results of operations.

IN ADDITION TO OUR CURRENT INDEBTEDNESS, WE MAY BE ABLE TO INCUR SUBSTANTIALLY MORE DEBT. THIS COULD EXACERBATE THE RISKS DESCRIBED ABOVE.

Together with our subsidiaries, we may be able to incur substantially more debt in the future. Although the indenture governing the senior notes contains restrictions on our incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and under certain circumstances, indebtedness incurred in compliance with these restrictions could

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be substantial. Also, these restrictions do not prevent us from incurring obligations that do not constitute indebtedness. As of June 30, 2003, after giving effect (i) to amendments to our bank credit facility and (ii) to our offering of the old notes in August 2003 and the application of the net proceeds to us from the offering, we would have had approximately \$59.9 million of borrowing capacity available under our bank credit facility. To the extent new debt is added to our current debt levels, the risks described above could substantially increase.

THE SENIOR NOTES ARE NOT SECURED BY OUR ASSETS OR THOSE OF OUR SUBSIDIARY GUARANTORS.

The senior notes are our general unsecured obligations and are effectively subordinated in right of payment to all of our secured indebtedness to the extent of the value of the assets securing such indebtedness. If we become insolvent or are liquidated, our assets which serve as collateral under our secured indebtedness would be made available to satisfy our obligations under any secured debt before any payments are made on the senior notes. Our obligations under our bank credit facility are secured by substantially all of our assets. As of June 30, 2003, after giving effect (i) to amendments to our bank credit facility and (ii) to our offering of old notes in August 2003 and the application of the net proceeds to us from the offering, our secured indebtedness would have been approximately \$0.5 million and we would have had \$59.9 million of borrowing capacity under our bank credit facility, all of which would be secured indebtedness. Although the indenture contains limitations on the amount of indebtedness that we may incur, under certain circumstances the amount of such indebtedness could be substantial and, in any case, such indebtedness may be secured indebtedness. See "Description of Exchange Notes -- Certain Covenants -- Limitation on Indebtedness," "-- Limitation on Liens" and "Description of Other Indebtedness and Series D Preferred Stock -- Bank Credit Facility."

A SUBSIDIARY GUARANTEE COULD BE VOIDED IF IT CONSTITUTES A FRAUDULENT TRANSFER UNDER U.S. BANKRUPTCY OR SIMILAR STATE LAW, WHICH WOULD PREVENT THE HOLDERS OF THE SENIOR NOTES FROM RELYING ON THAT SUBSIDIARY TO SATISFY CLAIMS.

Under U.S. bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee can be voided, or claims under the guarantee may be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee or, in some states, when payments become due under the guarantee, received less than reasonably equivalent value or fair consideration for the incurrence of the guarantee and:

- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay those debts as they mature.

A guarantee may also be voided, without regard to the above factors, if a court found that the guarantor entered into the guarantee with the actual intent to hinder, delay or defraud its creditors.

A court would likely find that a guarantor did not receive reasonably equivalent value or fair consideration for its guarantee if the guarantor did not substantially benefit directly or indirectly from the issuance of the senior notes. If a court were to void a guarantee, you would no longer have a claim against the guarantor. Sufficient funds to repay the senior notes may not be available from other sources, including the remaining

guarantors, if any. In addition, the court might direct you to repay any amounts that you already received from the subsidiary guarantor.

The measures of insolvency for purposes of fraudulent transfer laws vary depending upon the governing law. Generally, a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all its assets;
- the present fair saleable value of its assets were less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they became absolute and mature; or
- it could not pay its debts as they became due.

Each subsidiary guarantee will contain a provision intended to limit the guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its subsidiary guarantee to be a fraudulent transfer. This provision may not be effective to protect the subsidiary guarantees from being voided under fraudulent transfer law.

IF WE EXPERIENCE A CHANGE OF CONTROL, WE MAY BE UNABLE TO REPURCHASE THE SENIOR NOTES AS REQUIRED UNDER THE INDENTURE.

In the event of a change of control, you will have the right to require us, subject to various conditions, to repurchase the senior notes. We may not have sufficient financial resources to pay the repurchase price for the senior notes, or may be prohibited from doing so under our bank credit facility or other debt agreements. In addition, before we can purchase any senior notes, we may be required to:

- repay our bank debt; or
- obtain a consent from lenders of senior debt to repurchase the senior notes.

If a change of control occurs and we are prohibited from repurchasing the senior notes, our failure to do so would cause us to default under the indenture, which in turn is likely to be a default under our bank credit facility and any future debt. Any other default under our bank credit facility or other debt would also likely prohibit our repurchasing the senior notes.

YOU CANNOT BE SURE THAT AN ACTIVE TRADING MARKET WILL DEVELOP FOR THE EXCHANGE NOTES.

The exchange notes will constitute a new issue of securities for which there is no established trading market. We do not intend to list the exchange notes on any national securities exchange or seek the admission of the exchange notes for quotation through the National Association of Securities Dealers Automated Quotation System. We have been informed by some of the initial purchasers of the old notes that they intend to make a market in the exchange notes after this exchange offer is completed. However, the initial purchasers are not obligated to do so and may cease their market-making activities at any time. The liquidity of the trading market for the exchange notes will depend in part on the level of participation of the holders of the old notes in the exchange offer. The greater the participation in the exchange offer, the greater the liquidity of the trading market for the exchange notes and the less the

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liquidity of the trading market for the old notes not tendered during the exchange offer. We do not know how many holders of our old notes will accept this exchange offer and, therefore, do not know what principal amount of exchange notes will be issued. In addition, market-making activity by the initial purchasers will be subject to the limits imposed by the Securities Act and the Exchange Act. As a result, we cannot assure you that any market for the exchange notes will develop, or, if one does develop, that it will be maintained. If an active market for the exchange notes fails to develop, or be maintained, the trading price and liquidity of the exchange notes could be adversely affected.

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Future trading prices of the exchange notes would depend on many factors, including, among others, prevailing interest rates, our operating results and the market for similar securities. Depending on these and other factors, the exchange notes could trade at a discount from their principal amount.

IF YOU FAIL TO EXCHANGE YOUR OLD NOTES BY PROPERLY TENDERING THEM FOR EXCHANGE NOTES IN THE EXCHANGE OFFER, YOUR OLD NOTES WILL CONTINUE TO BE SUBJECT TO TRANSFER RESTRICTIONS AND MAY HAVE REDUCED LIQUIDITY.

We will issue exchange notes only in exchange for old notes that you timely and properly tender. Therefore, you should allow sufficient time to ensure timely delivery of the old notes, and you should carefully follow the instructions on how to tender your old notes. Neither we nor the exchange agent is required to tell you of any defects or irregularities with respect to your tender of old notes.

If you do not exchange your old notes for exchange notes in the exchange offer by properly tendering them for exchange notes, your old notes will continue to be subject to the restrictions on transfer described in the legend on your old notes. The restrictions on transfer of your old notes arise because we issued the old notes under exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, you may only offer or sell the old notes if they are registered under the Securities Act and applicable state securities laws, or offered and sold under an exemption from these requirements. As we do not intend to register the old notes under the Securities Act, in the event the exchange offer is completed, holders of old notes which have not been exchanged who seek liquidity in their investment would have to rely on exemptions from the registration requirements under the securities laws, including the Securities Act. Consequently, holders of old notes who do not participate in the exchange offer could experience significant diminution in the value of their old notes compared to the value of the exchange notes. See "The Exchange Offer -- Consequences of Failure to Exchange Old Notes" for a discussion of possible consequences of failing to exchange your old notes.

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### USE OF PROCEEDS

We will not receive any proceeds from the exchange of the exchange notes for the old notes pursuant to the exchange offer.

We have used the aggregate net proceeds of the offering of the old notes to redeem the \$38.4 million outstanding of our 11% senior subordinated notes due 2009, to repay \$39.9 million of borrowings under our bank credit facility and for general corporate purposes.

## CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2003:

- on an actual basis; and
- on an as adjusted basis to give effect to our offering of the old notes in August 2003 and the use of the net proceeds from the offering. Please read "Use of Proceeds."

You should read this table in conjunction with our consolidated financial statements and the notes to those financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2002 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, which are incorporated by reference in this prospectus.

	AS OF JUNE 30, 2003	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
Cash and cash equivalents.....	\$ 8,796	\$ 75,825
	=====	=====
Current maturities of long-term debt.....	\$ 96	\$ 96
Bank facility(1).....	40,000	100
8 3/4% senior notes due 2010.....	--	150,000
11% senior subordinated notes due 2009.....	38,371	--
Other debt.....	267	267
	-----	-----
Total debt.....	78,734	150,463
	-----	-----
Preferred stock.....	34,902	34,902
Common stock.....	320	320
Additional paid-in capital.....	227,273	227,273
Accumulated other comprehensive loss.....	(2,720)	(2,720)
Accumulated deficit(2).....	(9,569)	(9,753)
	-----	-----
Total stockholders' equity.....	250,206	250,022
	-----	-----
Total capitalization.....	\$328,940	\$400,485
	=====	=====

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- (1) After giving effect to the offering of the old notes and the related amendments to our bank credit facility, as described under "Description of Other Indebtedness and Series D Preferred Stock -- Bank Credit Facility," we would have had \$59.9 million available for borrowing under our bank credit facility as of June 30, 2003.
- (2) Includes the effect of a charge of \$0.2 million, net of \$0.1 million of taxes, for the write-off of unamortized costs relating to the reduction of our borrowing capacity under the bank credit facility as a result of the offering of the old notes.

## SELECTED FINANCIAL DATA

The following table contains our selected consolidated financial data as of and for the four years ended December 31, 2002 and the period January 29, 1998 (inception) to December 31, 1998 and as of and for the six months ended June 30, 2003 and 2002. We have prepared this information from audited consolidated financial statements for the years ended December 31, 1999 through December 31, 2002 and the period ended December 31, 1998 and from unaudited consolidated financial statements for the six months ended June 30, 2003 and 2002. In our opinion, the information for the six months ended June 30, 2003 and 2002 reflects all adjustments consisting only of normal recurring adjustments, necessary to fairly present the results of operations and financial condition. Results for interim periods should not be considered indicative of results for any other periods or for the year. The data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2002 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 incorporated by reference in this prospectus.

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER		
	2003	2002	2002	2001	2000
	(IN THOUSANDS, EXCEPT FOR RA				
STATEMENT OF OPERATIONS DATA:					
Revenue.....	\$111,456	\$ 65,988	\$134,031	\$ 146,201	\$ 103,2
Costs and expenses:					
Lease operating.....	17,444	17,344	34,400	36,543	24,2
Taxes, other than on earnings.....	4,151	3,165	6,572	7,190	6,3
Exploration expenditures and dry hole costs.....	5,236	3,440	10,735	15,141	1,7
Depreciation, depletion and amortization.....	37,104	34,258	64,513	46,870	25,5
General and administrative(1).....	13,469	12,676	24,168	19,833	54,0
Total costs and expenses.....	77,404	70,883	140,388	125,577	111,9
Income (loss) from operations.....	34,052	(4,895)	(6,357)	20,624	(8,7
Interest income.....	46	72	107	329	5
Interest expense.....	(3,429)	(3,438)	(6,988)	(1,916)	(7,4
Gain (loss) on sale of oil and natural gas assets.....	--	--	(243)	39	7,7
Income (loss) before income taxes and cumulative effect of change in accounting principle.....	30,669	(8,261)	(13,481)	19,076	(7,7
Income taxes.....	(11,191)	2,893	4,682	(7,102)	(10,9
Net income (loss) before cumulative effect of change in accounting principle.....	19,478	(5,368)	(8,799)	11,974	(18,6
Cumulative effect of change in accounting					

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principle.....	2,268	--	--	--	
Net income (loss).....	21,746	(5,368)	(8,799)	11,974	(18,6
Less dividends earned on preferred stock and accretion of discount and issuance costs.....	(1,808)	(1,591)	(3,330)	--	(6,7
Net income (loss) available to common stockholders.....	\$ 19,938	\$ (6,959)	\$ (12,129)	\$ 11,974	\$ (25,3
OTHER FINANCIAL DATA:					
Capital expenditures.....	\$ 64,045	\$ 22,291	\$ 55,562	\$ 122,340	\$ 165,3
Net cash provided by (used in) operating activities.....	60,926	(2,374)	25,417	91,847	50,7
Net cash used in investing activities....	(63,739)	(21,839)	(54,380)	(121,067)	(130,3
Net cash provided by financing activities.....	11,493	25,465	29,079	25,871	60,7
Ratio of earnings to fixed charges(2)....	5.9x	--	--	9.3x	
EBITDA(3).....	64,390	22,631	57,913	67,533	64,9
Exploration expenditures and dry hole costs(3).....	5,236	3,440	10,735	15,141	1,7

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	AS OF JUNE 30,		AS OF DECEMBER 31,			
	2003	2002	2002	2001	2000	1999
	(IN THOUSANDS)					
BALANCE SHEET DATA:						
Total assets.....	\$440,157	\$359,459	\$384,220	\$242,777	\$208,149	\$69,276
Long-term debt, including current maturities.....	78,734	99,284	103,779	25,493	100	10,150
Mandatorily redeemable preferred stock.....	--	--	--	--	--	56,475
Stockholders' equity.....	250,206	196,062	191,922	164,867	150,591	(3,815)

(1) The 2000 loss from operations includes a one time non-cash stock compensation charge for shares released from escrow to management and director stockholders of \$38.2 million and a non-cash charge of \$2.1 million for bonus shares awarded to employees at the time of our initial public offering. Although these charges reduced our net income, they increased paid-in capital and thus did not result in a net reduction of total stockholders' equity.

(2) For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of income from operations before income taxes and the cumulative effect of change in accounting method, interest expense and the portion of the rent expense deemed to represent interest. Fixed charges consist of interest incurred, whether expensed or capitalized, including amortization of debt issuance costs, if applicable, and the portion of rent expense deemed to represent interest. For the six months ended June 30, 2002 and the years ended December 31, 2002, 2000, 1999 and 1998, the ratio of earnings to fixed charges was less than a one-to-one coverage due to a



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deficiency of \$10.2 million, \$17.5 million, \$15.7 million, \$3.8 million and \$1.4 million, respectively. For the indicated periods there were no preferred stock dividends declared or paid by our subsidiaries.

- (3) EBITDA is defined as net income (loss) before interest expense, income taxes, depreciation, depletion and amortization and cumulative effect of change in accounting principle. We have reported EBITDA because we believe EBITDA is a measure commonly reported and widely used in our industry as an indicator of a company's ability to internally fund its exploration and development activities and incur and service debt. EBITDA is not a calculation based on generally accepted accounting principles (GAAP) in the United States and should not be used as an exclusive measure of net cash provided by operating activities, as determined in accordance with GAAP or as a measure of our ability to meet cash needs. Investors should carefully consider the specific items included in our computation of EBITDA. While EBITDA has been disclosed herein to permit a more complete comparative analysis of our debt service ability relative to other oil and natural gas companies, investors should be cautioned that EBITDA as reported by us may not be comparable in all instances to EBITDA as reported by other companies in our industry. Because we use the successful efforts method of accounting, we expense exploration expenditures and dry hole costs. In order to compare us to an oil and natural gas company using the full cost method of accounting, which capitalizes these expenses, investors should add exploration expenditures and dry hole costs to EBITDA (commonly referred to as EBITDAX). We have provided these expenses for the applicable periods in Other Financial Data to facilitate this comparison.

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The following table reconciles the differences between net cash provided by operating activities, the most comparable GAAP measure, and EBITDA.

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,			
	2003	2002	2002	2001	2000	1999
	(IN THOUSANDS)					
EBITDA.....	\$ 64,390	\$ 22,631	\$ 57,913	\$67,533	\$64,931	\$ 3,690
Less:						
Interest expense, net.....	(3,383)	(3,366)	6,881	1,587	6,842	2,635
Current income taxes.....	--	--	(29)	79	150	--
Amortization of deferred revenue.....	--	1,935	3,420	--	--	--
Gain (loss) on sale of oil and natural gas assets...	207	--	(243)	39	7,781	--
Add back:						
Stock compensation expense.....	479	204	453	1,651	2,757	--
Exploration expenditures...	3,009	1,840	5,909	13,575	1,657	1,570
Amortization of deferred financing costs.....	205	159	370	968	1,090	91
Non-cash effect of derivative instruments...	--	514	514	1,928	--	--
Other.....	189	--	52	--	--	--
Changes in operating assets and liabilities.....	(10,522)	(29,153)	(29,765)	7,897	(4,959)	(7,310)

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Net cash provided by (used in) operating activities...	\$ 60,926	\$ (2,374)	\$ 25,417	\$91,847	\$50,703	\$ (4,594)
	=====	=====	=====	=====	=====	=====

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THE EXCHANGE OFFER

As of the date of this prospectus, \$150 million in principal amount of the old notes is outstanding. This prospectus, together with the letter of transmittal, is first being sent to holders on September 25, 2003.

PURPOSE OF THE EXCHANGE OFFER

We issued the old notes on August 5, 2003 in a transaction exempt from the registration requirements of the Securities Act. Accordingly, the old notes may not be reoffered, resold, or otherwise transferred unless so registered or unless an applicable exemption from the registration and prospectus delivery requirements of the Securities Act is available.

In connection with the sale of the old notes, we entered into a registration rights agreement, which requires us to:

- file a registration statement with the Securities and Exchange Commission (the "Commission") relating to the exchange offer on or prior to 90 days after the date of issuance of the old notes;
- use our commercially reasonable efforts to cause the registration statement relating to the exchange offer to become effective under the Securities Act within 180 days after the date of issuance of the old notes; and
- complete the exchange offer no later than 40 days after the exchange offer registration statement becomes effective.

We are making the exchange offer to satisfy our obligations under the registration rights agreement. Other than pursuant to the registration rights agreement, we are not required to file any registration statement to register any outstanding old notes. Holders of old notes who do not tender their old notes or whose old notes are tendered but not accepted in the exchange offer must generally rely on an exemption from the registration requirements under the securities laws, including the Securities Act, if they wish to sell their old notes.

We are making the exchange offer in reliance on the position of the staff of the Commission as set forth in interpretive letters addressed to third parties in other transactions. However, we have not sought our own interpretive letter and we can provide no assurance that the staff would make a similar determination with respect to the exchange offer as it has in interpretive letters to third parties. Based on these interpretations by the staff, we believe that the exchange notes issued in the exchange offer in exchange for old notes may be offered for resale, resold and otherwise transferred by a holder other than any holder who is a broker-dealer or an "affiliate" of ours within the meaning of Rule 405 of the Securities Act, without further compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:

- the exchange notes are acquired in the ordinary course of the holder's business;

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- the holder has no arrangement or understanding with any person to participate in the distribution of the exchange notes; and
- the holder is not engaged in, and does not intend to engage in a distribution of the exchange notes.

For additional information, see "-- Resale of Exchange Notes."

If you tender in the exchange offer for the purpose of participating in a distribution of the exchange notes, or if you are a broker-dealer who purchased the old notes from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act, you cannot rely on the interpretations by the staff of the Commission stated in these no-action letters. Instead, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer, unless an exemption from these requirements is otherwise available.

Further, each broker-dealer that receives the exchange notes for its own account in exchange for the old notes, where the broker-dealer acquired the old notes as a result of market-making or other trading activities, must acknowledge in a letter of transmittal that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of those exchange notes. The letter of transmittal states that by

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making this acknowledgment and delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. We have agreed that this prospectus may be used by a broker-dealer for any resale of exchange notes issued to it in the exchange offer for a period of 180 days after the expiration date of the exchange offer. See "Plan of Distribution."

### TERMS OF THE EXCHANGE

We are offering to exchange, subject to the conditions described in this prospectus and in the letter of transmittal accompanying this prospectus, \$150 million in aggregate principal amount of our 8 3/4% senior notes due 2010 that have been registered under the Securities Act for a like principal amount of our outstanding unregistered 8 3/4% senior notes due 2010. The terms of the exchange notes are identical in all material respects to the terms of the old notes, except that:

- the exchange notes will have been registered under the Securities Act, will not contain transfer restrictions, and will not bear legends restricting their transfer;
- the exchange notes will not contain terms providing for the payment of additional interest under circumstances relating to our obligation to file and cause to be effective a registration statement;
- the exchange notes will be represented by one or more global notes in book entry form unless exchanged for notes in definitive certificated form under the limited circumstances described under "Description of Exchange Notes -- Global Notes and Book-Entry System"; and
- the exchange notes will be issuable in denominations of \$1,000 and integral multiples thereof.

The exchange notes generally will be freely transferable by holders of the exchange notes and will not be subject to the terms of the registration rights

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agreement. The exchange notes will evidence the same indebtedness as the old notes exchanged therefor and will be entitled to the benefits of the indenture. For additional information, see "Description of Exchange Notes."

The exchange offer is not conditioned upon the tender of any minimum principal amount of old notes.

The exchange notes will accrue interest from the last interest payment date on which interest was paid on the old notes or, if no interest was paid on the old notes, from the date of issuance of the old notes, which was on August 5, 2003. Holders whose old notes are accepted for exchange will be deemed to have waived the right to receive any interest accrued on the old notes.

Tendering holders of the old notes will not be required to pay brokerage commissions or fees or transfer taxes, except as specified in the instructions in the letter of transmittal, with respect to the exchange of the old notes in the exchange offer.

### EXPIRATION DATE; EXTENSION; TERMINATION; AMENDMENT

The exchange offer will expire at 5:00 p.m., New York City time, on October 27, 2003, unless we, in our sole discretion, have extended the period of time for which the exchange offer is open. The time and date, as it may be extended, is referred to herein as the "expiration date." The expiration date will be at least 20 business days after the commencement of the exchange offer in accordance with Rule 14e-1(a) under the Exchange Act. We expressly reserve the right, at any time or from time to time, to extend the period of time during which the exchange offer is open, and thereby delay acceptance for exchange of any old notes. We may extend the expiration date by giving oral or written notice of the extension to the exchange agent and by timely public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date. During the extension, all old notes previously tendered will remain subject to the exchange offer unless properly withdrawn.

We expressly reserve the right to:

- terminate or amend the exchange offer and not to accept for exchange any old notes not previously accepted for exchange upon the occurrence of any of the events specified in "-- Certain Conditions to the Exchange Offer" which have not been waived by us; and

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- amend the terms of the exchange offer in any manner which, in our good faith judgment, is advantageous to the holders of the old notes, whether before or after any tender of the old notes.

If any termination or amendment occurs, we will notify the exchange agent and will either issue a press release or give oral or written notice to the holders of the old notes as promptly as practicable.

For purposes of the exchange offer, a "business day" means any day other than Saturday, Sunday or a date on which banking institutions are required or authorized by New York State law to be closed, and consists of the time period from 12:01 a.m. through 12:00 midnight, New York City time. Unless we terminate the exchange offer prior to 5:00 p.m., New York City time, on the expiration date, we will exchange the exchange notes for the old notes promptly following the expiration date.

### PROCEDURES FOR TENDERING OLD NOTES

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Our acceptance of old notes tendered by a holder will constitute a binding agreement between the tendering holder and us upon the terms and subject to the conditions described in this prospectus and in the accompanying letter of transmittal. All references in this prospectus to the letter of transmittal are deemed to include a facsimile of the letter of transmittal.

A holder of old notes may tender the old notes by:

- properly completing and signing the letter of transmittal;
- properly completing any required signature guarantees;
- properly completing any other documents required by the letter of transmittal; and
- delivering all of the above, together with the certificate or certificates representing the old notes being tendered, to the exchange agent at its address set forth below at or prior to 5:00 p.m., New York City time, on the expiration date; or
- complying with the procedure for book-entry transfer described below; or
- complying with the guaranteed delivery procedures described below.

The method of delivery of old notes, letters of transmittal and all other required documents is at the election and risk of the holders. If the delivery is by mail, it is recommended that registered mail properly insured, with return receipt requested, be used. In all cases, sufficient time should be allowed to ensure timely delivery. Holders should not send old notes or letters of transmittal to us.

The signature on the letter of transmittal need not be guaranteed if:

- tendered old notes are registered in the name of the signer of the letter of transmittal; and
- the exchange notes to be issued in exchange for the old notes are to be issued in the name of the holder; and
- any untendered old notes are to be reissued in the name of the holder.

In any other case, the tendered old notes must be:

- endorsed or accompanied by written instruments of transfer in form satisfactory to us;
- duly executed by the holder; and
- the signature on the endorsement or instrument of transfer must be guaranteed by a bank, broker, dealer, credit union, savings association, clearing agency or other institution, each an "eligible institution" that is a member of a recognized signature guarantee medallion program within the meaning of Rule 17Ad-15 under the Exchange Act.

If the exchange notes and/or old notes not exchanged are to be delivered to an address other than that of the registered holder appearing on the note register for the old notes, the signature in the letter of transmittal must be guaranteed by an eligible institution.

The exchange agent will make a request within two business days after the

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date of receipt of this prospectus to establish accounts with respect to the old notes at The Depository Trust Company, the "book-entry transfer facility," for the purpose of facilitating the exchange offer. We refer to The Depository Trust Company in this prospectus as "DTC." Subject to establishing the accounts, any financial institution that is a participant in the book-entry transfer facility's system may make book-entry delivery of old notes by causing the book-entry transfer facility to transfer the old notes into the exchange agent's account with respect to the old notes in accordance with the book-entry transfer facility's procedures for the transfer. Although delivery of old notes may be effected through book-entry transfer into the exchange agent's account at the book-entry transfer facility, an appropriate letter of transmittal with any required signature guarantee and all other required documents, or an agent's message, must in each case be properly transmitted to and received or confirmed by the exchange agent at its address set forth below under "-- Exchange Agent" prior to the expiration date, or, if the guaranteed delivery procedures described below are complied with, within the time period provided under such procedures.

The exchange agent and DTC have confirmed that the exchange offer is eligible for the DTC Automated Tender Offer Program. We refer to the Automated Tender Offer Program in this prospectus as "ATOP." Accordingly, DTC participants may, in lieu of physically completing and signing the letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of the exchange offer by causing DTC to transfer old notes to the exchange agent in accordance with DTC's ATOP procedures for transfer. DTC will then send an agent's message.

The term "agent's message" means a message which:

- is transmitted by DTC;
- received by the exchange agent and forming part of the book-entry transfer;
- states that DTC has received an express acknowledgment from a participant in DTC that is tendering old notes which are the subject of the book-entry transfer;
- states that the participant has received and agrees to be bound by all of the terms of the letter of transmittal; and
- states that we may enforce the agreement against the participant.

If a holder desires to accept the exchange offer and time will not permit a letter of transmittal or old notes to reach the exchange agent before the expiration date or the procedure for book-entry transfer cannot be completed on a timely basis, the holder may effect a tender if the exchange agent has received at its address set forth below on or prior to the expiration date, a letter, telegram or facsimile transmission, and an original delivered by guaranteed overnight courier, from an eligible institution setting forth:

- the name and address of the tendering holder;
- the names in which the old notes are registered and, if possible, the certificate numbers of the old notes to be tendered; and
- a statement that the tender is being made thereby and guaranteeing that within three business days after the expiration date, the old notes in proper form for transfer, or a confirmation of book-entry transfer of such old notes into the exchange agent's account at the book-entry transfer facility and an agent's message, will be delivered by the eligible institution together with a properly completed and duly executed

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letter of transmittal and any other required documents.

Unless old notes being tendered by the above-described method are deposited with the exchange agent, a tender will be deemed to have been received as of the date when:

- the tendering holder's properly completed and duly signed letter of transmittal, or a properly transmitted agent's message, accompanied by the old notes or a confirmation of book-entry transfer of the old notes into the exchange agent's account at the book-entry transfer facility is received by the exchange agent; or

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- a notice of guaranteed delivery or letter, telex or facsimile transmission to similar effect from an eligible institution is received by the exchange agent.

Issuances of exchange notes in exchange for old notes tendered pursuant to a notice of guaranteed delivery or letter, telex or facsimile transmission to similar effect by an eligible institution will be made only against deposit of the letter of transmittal and any other required documents and the tendered old notes or a confirmation of book-entry and an agent's message.

All questions as to the validity, form, eligibility, including time of receipt, and acceptance of old notes tendered for exchange will be determined by us in our sole discretion, which determination will be final and binding. We reserve the absolute right to reject any and all tenders of any old notes not properly tendered or not to accept any old notes which acceptance might, in our judgment or the judgment of our counsel, be unlawful. We also reserve the absolute right to waive any defects or irregularities or conditions of the exchange offer as to any old notes either before or after the expiration date, including the right to waive the ineligibility of any holder who seeks to tender old notes in the exchange offer. The interpretation of the terms and conditions of the exchange offer, including the letter of transmittal and the instructions contained in the letter of transmittal, by us will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of old notes for exchange must be cured within such reasonable period of time as we determine. Neither we, the exchange agent nor any other person has any duty to give notification of any defect or irregularity with respect to any tender of old notes for exchange, nor will any of us incur any liability for failure to give such notification.

If the letter of transmittal is signed by a person or persons other than the registered holder or holders of old notes, the old notes must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders appear on the old notes.

If the letter of transmittal or any old notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and, unless waived by us, such persons must submit proper evidence satisfactory to us of their authority to so act.

By tendering, each holder represents to us that, among other things:

- the exchange notes acquired pursuant to the exchange offer are being acquired in the ordinary course of business of the holder;
- the holder is not participating, does not intend to participate, and has

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no arrangement or understanding with any person to participate, in the distribution of the exchange notes; and

- the holder is not an "affiliate" of ours within the meaning of Rule 405 of the Securities Act.

Each broker-dealer that receives exchange notes for its own account in exchange for old notes, where the broker-dealer acquired the old notes as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. See "Plan of Distribution."

### TERMS AND CONDITIONS OF THE LETTER OF TRANSMITTAL

The letter of transmittal contains, among other things, the following terms and conditions, which are part of the exchange offer.

The party tendering old notes for exchange notes exchanges, assigns and transfers the old notes to us and irrevocably constitutes and appoints the exchange agent as the party's agent and attorney-in-fact to cause the old notes to be assigned, transferred and exchanged. We refer to the party tendering notes herein as the "transferor." The transferor represents and warrants that the transferor has full power and authority to tender, exchange, assign and transfer the old notes and to acquire exchange notes issuable upon the exchange of the tendered old notes, and that, when the same are accepted for exchange, we will acquire good and unencumbered title to the tendered old notes, free and clear of all liens, restrictions, charges and encum-

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brances and not subject to any adverse claim. The transferor also warrants that the transferor will, upon request, execute and deliver any additional documents deemed by the exchange agent or us to be necessary or desirable to complete the exchange, assignment and transfer of tendered old notes or transfer ownership of the old notes on the account books maintained by a book-entry transfer facility. The transferor further agrees that the acceptance of any tendered old notes by us and the issuance of exchange notes in exchange for old notes will constitute performance in full by us of various of our obligations under the registration rights agreement. All authority conferred by the transferor will survive the death or incapacity of the transferor and every obligation of the transferor will be binding upon the heirs, legal representatives, successors, assigns, executors and administrators of the transferor.

The transferor certifies that the transferor: is not an "affiliate" of ours within the meaning of Rule 405 under the Securities Act; is acquiring the exchange notes offered hereby in the ordinary course of the transferor's business; and has no arrangement with any person to participate in the distribution of the exchange notes.

Each holder, other than a broker-dealer, must acknowledge that the holder is not engaged in, and does not intend to engage in, a distribution of the exchange notes. Each transferor which is a broker-dealer receiving the exchange notes for its own account must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. By so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

### WITHDRAWAL RIGHTS

Tenders of old notes may be withdrawn at any time before 5:00 p.m. New York City time, on the expiration date.



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For a withdrawal to be effective, a written notice of withdrawal sent by telex, facsimile transmission, or letter must be received by the exchange agent at the address set forth in this prospectus before 5:00 p.m. New York City time, on the expiration date. Any notice of withdrawal must:

- specify the name of the person having tendered the old notes to be withdrawn;
- identify the old notes to be withdrawn, including the certificate number or numbers and principal amount of such old notes;
- include a statement that the holder is withdrawing the holder's election to have the old notes exchanged;
- be signed by the holder in the same manner as the original signature on the letter of transmittal by which the old notes were tendered or as otherwise described above, including any required signature guarantees, or be accompanied by documents of transfer sufficient to have the trustee under the indenture register the transfer of the old notes into the name of the person withdrawing the tender; and
- specify the name in which any such old notes are to be registered, if different from that of the person who tendered the old notes.

The exchange agent will return the properly withdrawn old notes promptly following receipt of the notice of withdrawal. If old notes have been tendered pursuant to the procedure for book-entry transfer, any notice of withdrawal must specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn old notes or otherwise comply with the book-entry transfer facility procedure. All questions as to the validity of notices of withdrawals, including time of receipt, will be determined by us and our determination will be final and binding on all parties.

Any old notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any old notes which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder without cost to the holder. In the case of old notes tendered by book-entry transfer into the exchange agent's account at the book-entry transfer facility pursuant to the book-entry transfer procedures described above, the old notes will be credited to an account with the book-entry transfer

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facility specified by the holder. In either case, the old notes will be returned promptly after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn old notes may be retendered by following one of the procedures described in "-- Procedures for Tendering Old Notes" at any time before the expiration date.

### ACCEPTANCE OF OLD NOTES FOR EXCHANGE; DELIVERY OF EXCHANGE NOTES

Upon satisfaction or waiver of all the conditions to the exchange offer, we will accept, on the expiration date, all old notes properly tendered and not validly withdrawn and will issue or cause to be issued the exchange notes promptly after such acceptance. See the discussion under "-- Certain Conditions to the Exchange Offer" for more detailed information. For purposes of the exchange offer, we will be deemed to have accepted properly tendered old notes for exchange when, and if, we have given oral or written notice of our acceptance to the exchange agent.

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For each old note accepted for exchange, the holder of the old note will receive an exchange note having a principal amount equal to that of the surrendered old note.

In all cases, issuance of exchange notes for old notes that are accepted for exchange pursuant to the exchange offer will be made only after:

- timely receipt by the exchange agent of certificates for the old notes or a timely book-entry confirmation of the old notes into the exchange agent's account at the book-entry transfer facility;
- a properly completed and duly executed letter of transmittal, or a properly transmitted agent's message; and
- timely receipt by the exchange agent of all other required documents.

If any tendered old notes are not accepted for any reason described in the terms and conditions of the exchange offer or if old notes are submitted for a greater principal amount than the holder desires to exchange, the unaccepted or nonexchanged old notes will be returned without expense to the tendering holder of the old notes. In the case of old notes tendered by book-entry transfer into the exchange agent's account at the book-entry transfer facility pursuant to the book-entry transfer procedures described above, the non-exchanged old notes will be credited to an account maintained with the book-entry transfer facility. In either case, the old notes will be returned as promptly as practicable after the expiration of the exchange offer.

### CERTAIN CONDITIONS TO THE EXCHANGE OFFER

Notwithstanding any other provision of the exchange offer, or any extension of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any old notes and may terminate or amend the exchange offer, by oral or written notice to the exchange agent or by a timely press release, if, at any time before the acceptance of the old notes for exchange or the exchange of the exchange notes for such old notes, in our reasonable judgment any of the following conditions exists:

- any action or proceeding is instituted or threatened in any court or by or before any governmental agency with respect to the exchange offer which, in our judgment would reasonably be expected to impair our ability to proceed with the exchange offer; or
- the exchange offer, or the making of any exchange by a holder, violates applicable law or any applicable interpretation of the staff of the Commission.

Regardless of whether any of the conditions has occurred, we may amend the exchange offer in any manner which, in our good faith judgment, is advantageous to holders of the old notes.

The conditions described above are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to the condition or we may waive any condition in whole or in part at any time and from time to time in our sole discretion. Our failure at any time to exercise any of the rights described above will not be deemed a waiver of the right and each right will be deemed an ongoing right which we may assert at any time and from time to time.

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If we waive or amend the conditions above, we will, if required by law, extend the exchange offer for a minimum of five business days from the date that

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we first give notice, by public announcement or otherwise, of the waiver or amendment, if the exchange offer would otherwise expire within the five business-day period. Any determination by us concerning the events described above will be final and binding upon all parties.

The exchange offer is not conditioned upon any minimum principal amount of old notes being tendered.

### EXCHANGE AGENT

Wells Fargo Bank, N.A. has been appointed as the exchange agent for the exchange offer. All executed letters of transmittal should be directed to the exchange agent at one of the addresses set forth below:

By Registered or Certified Mail	Facsimile Transactions: (Eligible Institutions Only)	By Hand or Overnight Delivery:
Wells Fargo Bank, N.A. Corporate Trust Operations MAC N9303-121 P.O. Box 1517 Minneapolis, MN 55480-1517	(612) 667-4927  To Confirm by Telephone or for Information Call: (800) 344-5128	Wells Fargo Bank, N.A. Corporate Trust Operations Sixth and Marquette MAC N9303-121 Minneapolis, MN 55479

You should direct questions, requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery to the exchange agent at the address and telephone number set forth in the letter of transmittal.

Delivery to an address other than as set forth on the letter of transmittal, or transmission of instructions via a facsimile number other than the one set forth on the letter of transmittal, will not constitute a valid delivery.

### SOLICITATION OF TENDERS; FEES AND EXPENSES

We have not retained any dealer-manager in connection with the exchange offer and will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offer. We, however, will pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses in connection therewith. We will also pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of this and other related documents to the beneficial owners of the old notes and in handling or forwarding tenders for their customers.

We will pay the expenses incurred in connection with the exchange offer. Such expenses include, among others, the fees and expenses of the exchange agent and trustee, registration fees, and accounting, legal, printing and related fees and expenses.

No person has been authorized to give any information or to make any representations in connection with the exchange offer other than those contained in this prospectus. If given or made, such information or representations should not be relied upon as having been authorized by us. Neither the delivery of this prospectus nor any exchange made pursuant to this prospectus, under any circumstances, creates any implication that there has been no change in our affairs since the respective dates as of which information is given in this prospectus. The exchange offer is not being made to, and tenders will not be accepted from or on behalf of, holders of old notes in any jurisdiction in which

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the making of the exchange offer or the acceptance of the exchange offer would not be in compliance with the laws of the jurisdiction. However, we may, at our discretion, take such action as we may deem necessary to make the exchange offer in the jurisdiction and extend the exchange offer to holders of old notes in the jurisdiction. In any jurisdiction the securities laws or blue sky laws of which require the exchange offer to be made by a licensed broker or dealer, the exchange offer is being made on our behalf by one or more registered brokers or dealers which are licensed under the laws of the jurisdiction.

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### TRANSFER TAXES

We will pay all transfer taxes, if any, applicable to the exchange of old notes pursuant to the exchange offer. However, the transfer taxes will be payable by the tendering holder if:

- certificates representing exchange notes or old notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of the old notes tendered; or
- tendered old notes are registered in the name of any person other than the person signing the letter of transmittal; or
- a transfer tax is imposed for any reason other than the exchange of old notes pursuant to the exchange offer.

We will bill the amount of the transfer taxes directly to the tendering holder if satisfactory evidence of payment of the taxes or exemption therefrom is not submitted with the letter of transmittal.

### ACCOUNTING TREATMENT

For accounting purposes, we will not recognize gain or loss upon the exchange of the exchange notes for old notes. We will amortize costs incurred in connection with the issuance of the exchange notes over the term of the exchange notes.

### CONSEQUENCES OF FAILURE TO EXCHANGE

Holders of old notes who do not exchange their old notes for exchange notes pursuant to the exchange offer will continue to be subject to the restrictions on transfer of the old notes as described in the legend on the old notes. Old notes not exchanged pursuant to the exchange offer will continue to remain outstanding in accordance with their terms. In general, the old notes may not be offered or sold unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently anticipate that we will register the old notes under the Securities Act.

Participation in the exchange offer is voluntary, and holders of old notes should carefully consider whether to participate. Holders of old notes are urged to consult their financial and tax advisors in making their own decision on what action to take.

As a result of the making of, and upon acceptance for exchange of all validly tendered old notes pursuant to the terms of, this exchange offer, we will have fulfilled a covenant contained in the registration rights agreement. Holders of old notes who do not tender their old notes in the exchange offer will continue to hold the old notes and will be entitled to all the rights and

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subject to the limitations applicable to the old notes under the indenture, except for any rights under the registration rights agreement that by their terms terminate or cease to have further effectiveness as a result of the making of this exchange offer. All untendered old notes will continue to be subject to the restrictions on transfer described in the indenture. To the extent that old notes are tendered and accepted in the exchange offer, the trading market for untendered old notes could be adversely affected.

We may in the future seek to acquire, subject to the terms of the indenture, untendered old notes in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plan to acquire any old notes which are not tendered in the exchange offer.

### RESALE OF EXCHANGE NOTES

We are making the exchange offer in reliance on the position of the staff of the Commission as set forth in interpretive letters addressed to third parties in other transactions. However, we have not sought our own interpretive letter and we can provide no assurance that the staff would make a similar determination with respect to the exchange offer as it has in such interpretive letters to third parties. Based on these

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interpretations by the staff, we believe that the exchange notes issued pursuant to the exchange offer in exchange for old notes may be offered for resale, resold and otherwise transferred by a holder, other than any holder who is a broker-dealer or an "affiliate" of ours within the meaning of Rule 405 of the Securities Act, without further compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:

- the exchange notes are acquired in the ordinary course of the holder's business; and
- the holder is not participating, and has no arrangement or understanding with any person to participate, in a distribution of the exchange notes.

However, any holder who:

- is an "affiliate" of ours;
- has an arrangement or understanding with respect to the distribution of the exchange notes to be acquired pursuant to the exchange offer; or
- is a broker-dealer who purchased old notes from us to resell pursuant to Rule 144A or any other available exemption under the Securities Act,

cannot rely on the applicable interpretations of the staff and must comply with the registration and prospectus delivery requirements of the Securities Act. A broker-dealer who holds old notes that were acquired for its own account as a result of market-making or other trading activities may be deemed to be an "underwriter" within the meaning of the Securities Act and must, therefore, deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of exchange notes. Each such broker-dealer that receives exchange notes for its own account in exchange for old notes, where the broker-dealer acquired the old notes as a result of market-making activities or other trading activities, must acknowledge, as provided in the letter of transmittal, that it will deliver a prospectus in connection with any resale of such exchange notes. For more detailed information, see "Plan of Distribution."

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### SHELF REGISTRATION STATEMENT

If:

(1) applicable interpretations of the staff of the Commission do not permit us to effect the exchange offer;

(2) for any other reason we do not consummate the exchange offer within 220 days after the original issuance of the old notes;

(3) an initial purchaser notifies us following consummation of the exchange offer that old notes held by it are not eligible to be exchanged for exchange notes in the exchange offer; or

(4) any holder, other than a participating broker-dealer, is not eligible to participate in the exchange offer or, in the case of any holder, other than a participating broker-dealer, that participates in the exchange offer, such holder does not receive freely tradeable exchange notes on the date of the exchange and such holder so requests,

then, we will, subject to certain exceptions:

(1) promptly file a shelf registration statement covering resales of the old notes or the exchange notes, as the case may be;

(2) (A) in the case of clause (1) above, use our commercially reasonable efforts to cause the shelf registration statement to be declared effective under the Securities Act on or prior to the 180th day following the original issuance of the old notes and (B) in the case of clause (2), (3) or (4) above, use our commercially reasonable efforts to cause the shelf registration statement to be declared effective under the Securities Act on or prior to the 75th day after the date on which the shelf registration statement is required to be filed; and

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(3) keep the shelf registration statement effective until the earliest of (A) the time when the senior notes covered by the shelf registration statement can be sold under Rule 144 without any limitations under clauses (c), (e), (f) and (h) of Rule 144, (B) two years from the effective date of the shelf registration statement and (C) the date on which all senior notes registered thereunder are disposed of in accordance therewith.

We will, in the event that a shelf registration statement is filed, among other things, provide to each holder for whom such shelf registration statement was filed copies of the prospectus which is a part of the shelf registration statement, notify each such holder when the shelf registration statement has become effective and take certain other actions as are required to permit unrestricted resales of the old notes or the exchange notes, as the case may be. A holder selling such old notes or exchange notes under the shelf registration statement generally would be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the registration rights agreement that are applicable to such holder (including certain indemnification obligations).

### ADDITIONAL INTEREST

The registration rights agreement states that if a Registration Default (as defined below) occurs, then we will be required to pay additional interest to

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each holder of senior notes. During the first 90-day period that a Registration Default occurs and is continuing, we will pay additional interest on the senior notes at a rate of 0.50% per annum. The additional interest rate shall increase by an additional 0.50% per annum with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum additional interest rate of 2.0% per annum. Such additional interest will accrue only for those days that a Registration Default occurs and is continuing. All accrued additional interest will be paid to the holders of the senior notes on the regular interest payment dates. Following the cure of all Registration Defaults, no more additional interest will accrue unless a subsequent Registration Default occurs.

A "Registration Default" shall occur if:

- we fail to file any of the registration statements required by the registration rights agreement on or before the date specified for such filing; or
- any of such registration statements is not declared effective by the Commission on or before the date specified for such effectiveness; or
- we fail to complete the exchange offer on or before the date specified for such completion; or
- any of such registration statements is declared effective but thereafter ceases to be effective or usable in connection with resales of the old notes during the period specified in the registration rights agreement.

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### DESCRIPTION OF OTHER INDEBTEDNESS AND SERIES D PREFERRED STOCK

#### BANK CREDIT FACILITY

We have a bank credit facility consisting of a revolving line of credit with a group of banks available through March 30, 2005. The bank credit facility, as amended effective as of July 28, 2003, currently has a borrowing base of \$60 million that is subject to redetermination based on the proved reserves of the oil and natural gas properties that serve as collateral for the bank credit facility as set out in the reserve report delivered to the banks each April 1 and October 1. The bank credit facility permits both prime rate based borrowing and LIBOR borrowings plus a floating spread. The spread will float up or down based on our utilization of the bank credit facility. The spread can range from 1.50% to 2.25% above LIBOR and 0% to 0.75% above prime. The borrowing base under the bank credit facility is secured by substantially all of our assets. The bank credit facility contains customary events of default and requires that we satisfy various financial covenants. At June 30, 2003, after giving effect (i) to amendments to our bank credit facility and (ii) to our offering of the old notes in August 2003 and the application of the net proceeds to us from the offering, we would have had approximately \$59.9 million of borrowing capacity available under our bank credit facility.

#### SERIES D PREFERRED STOCK

As of June 30, 2003, we had outstanding \$37.3 million liquidation preference of Series D exchangeable convertible preferred stock. The Series D preferred stock pays semi-annual dividends as follows:

DIVIDEND PERIOD ENDING

DIVIDEND RATE

June 30, 2002 to December 31, 2004.....	7%
June 30, 2005 to December 31, 2005.....	8%
June 30, 2006 to December 31, 2006.....	9%
June 30, 2007 and thereafter.....	10%

The dividends are payable in cash from the issue date until December 31, 2005, in cash or in additional shares of Series D preferred stock (at our option) after December 31, 2005 and on or before December 31, 2008, and in cash again from January 1, 2009 forward. The Series D preferred stock is convertible into our common stock at a fixed conversion price of \$8.54 per share, and is convertible in the aggregate into 4,374,600 shares of our common stock. The Series D preferred stock does not have a final maturity date and is not subject to any put or other obligation on our part to redeem or otherwise purchase such stock. The Series D preferred stock is redeemable at our option beginning January 1, 2005 and is exchangeable (at our option) for convertible subordinated debt securities with similar economic terms and maturing in January 2009 in an aggregate principal amount equal to the liquidation preference of such preferred stock.

DESCRIPTION OF EXCHANGE NOTES

Energy Partners, Ltd. issued the outstanding notes and will issue the exchange notes under the indenture (the "Indenture") dated August 5, 2003, among itself, the Subsidiary Guarantors (as defined below) and Wells Fargo Bank, N.A., as Trustee. The terms of the exchange notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act.

We define certain terms used in this description under "-- Certain Definitions" below. In this description, the words "Company," "we," "us" and "our" refer only to Energy Partners, Ltd. and not to any of its subsidiaries.

The following description is only a summary of the material provisions of the Indenture. We urge you to read the Indenture because it, not this description, defines your rights as Holders of these exchange notes. You may request a copy of the Indenture at our address set forth under "Summary -- Corporate and Stockholder Information."

BRIEF DESCRIPTION OF THE EXCHANGE NOTES

The exchange notes will:

- be senior unsecured obligations of the Company;
- mature on August 1, 2010;
- be equal ("pari passu") in right of payment with all existing and future Senior Indebtedness of the Company;
- be senior in right of payment to any future Subordinated Obligations of the Company;
- be guaranteed on a senior unsecured basis by each Subsidiary Guarantor;
- be eligible for trading in The Portal(SM) Market; and



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- be substantially identical to the old notes, except for the elimination of some transfer restrictions, registration rights and additional interest payments relating to the old notes.

### PRINCIPAL, MATURITY AND INTEREST

The Company will issue the exchange notes initially with a maximum aggregate principal amount of \$150 million. The exchange notes will be issued in denominations of \$1,000 and any integral multiples of \$1,000 and will mature on August 1, 2010. Subject to our compliance with the covenant described below under "-- Certain Covenants -- Limitation on Indebtedness," we are entitled to, without the consent of the Holders, issue more senior notes under the Indenture on the same terms and conditions as the exchange notes offered hereby in an unlimited principal amount (the "Additional Notes"). The exchange notes, the old notes and the Additional Notes, if any, will be treated as a single class for all purposes of the Indenture, including waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, for all purposes of the Indenture and this description of the exchange notes, references to the exchange notes include any Additional Notes actually issued.

Interest on the exchange notes will accrue at the rate of 8 3/4% per annum and will be payable semiannually in arrears on February 1 and August 1, commencing on February 1, 2004. We will make each interest payment to the Holders of record of the exchange notes on the immediately preceding January 15 and July 15. We will pay interest on overdue principal at 1% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful.

Interest on these exchange notes will accrue from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

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### OPTIONAL REDEMPTION

Except as set forth in the following paragraph, the exchange notes will not be redeemable at our option prior to August 1, 2007. Thereafter, the exchange notes will be redeemable, at our option, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each Holder's registered address, at the following redemption prices (expressed in percentages of principal amount), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on August 1 of the years set forth below:

PERIOD	REDEMPTION PRICE
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2007.....	104.375%
2008.....	102.188%
2009 and thereafter.....	100.000%

In addition, prior to August 1, 2006, we may at our option on one or more occasions redeem senior notes (which includes Additional Notes, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount

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of the senior notes (which includes Additional Notes, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of 108.75%, plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more Equity Offerings; provided that

(1) at least 65% of such aggregate principal amount of senior notes (which includes Additional Notes, if any) remains outstanding immediately after the occurrence of each such redemption (other than senior notes held, directly or indirectly, by us or our Affiliates); and

(2) each such redemption occurs within 90 days after the date of consummation of the related Equity Offering.

In the case of any partial redemption, the Trustee will select the exchange notes for redemption on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion deems to be fair and appropriate, although no exchange note of \$1,000 in original principal amount or less will be redeemed in part. If any exchange note is to be redeemed in part only, the notice of redemption relating to such exchange note will state the portion of the principal amount thereof to be redeemed. A new exchange note in principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder thereof upon cancellation of the original exchange note. Exchange notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest will cease to accrue on exchange notes or portions of them called for redemption.

### MANDATORY REDEMPTION; OFFERS TO PURCHASE; OPEN MARKET PURCHASES

We are not required to make any mandatory redemption or sinking fund payments with respect to the exchange notes. However, under certain circumstances, we may be required to offer to purchase exchange notes as described under the captions "-- Change of Control" and "-- Certain Covenants -- Limitation on Sales of Assets and Subsidiary Stock." We may at any time and from time to time purchase exchange notes in the open market or otherwise.

### SUBSIDIARY GUARANTEES

The Subsidiary Guarantors, jointly and severally, as primary obligors and not merely as sureties, will irrevocably, fully and unconditionally guarantee (each, a "Subsidiary Guarantee") on a senior unsecured basis the performance and the punctual payment when due, whether at Stated Maturity, by acceleration or otherwise, of all our obligations under the Indenture and the exchange notes (all such obligations guaranteed by the Subsidiary Guarantors being herein called the "Guaranteed Obligations"). The Subsidiary Guarantors initially include all of our active Subsidiaries existing on the Issue Date, and we and such active Subsidiaries collectively own substantially all of our consolidated assets and produce substantially all of our consolidated

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cash flow. In addition, subject to certain exceptions described below under "-- Certain Covenants -- Future Subsidiary Guarantors," the Subsidiary Guarantors will include future Restricted Subsidiaries that Incur Indebtedness. We will derive a substantial portion of our operating income and cash flow from, and a substantial portion of our assets will be held by, our Subsidiaries, including the Subsidiary Guarantors. Each Subsidiary Guarantor will agree to pay, in addition to the amount stated above, any and all expenses, including reasonable counsel fees and expenses, incurred by the Trustee and the Holders in enforcing any rights under the Subsidiary Guarantee with respect to the Subsidiary Guarantor.

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Each Subsidiary Guarantee will be limited in amount to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness, including guarantees and other contingent liabilities, of the applicable Subsidiary Guarantor, and depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero. Please read "Risk Factors -- Risks Relating to Our Indebtedness and the Senior Notes -- A subsidiary guarantee could be voided if it constitutes a fraudulent transfer under U.S. bankruptcy or similar state law, which would prevent the holders of the senior notes from relying on that subsidiary to satisfy claims."

Each Subsidiary Guarantor that makes a payment under its Subsidiary Guarantee will be entitled to a contribution from each other Subsidiary Guarantor in an amount equal to such other Subsidiary Guarantor's pro rata portion of such payment based on the respective net assets of all the Subsidiary Guarantors, determined in accordance with GAAP, at the time of such payment.

Each Subsidiary Guarantee is a continuing guarantee and is intended to:

- (1) subject to certain limited exceptions, remain in full force and effect until payment in full of all the obligations relating to the exchange notes;
- (2) be binding upon the Subsidiary Guarantor; and
- (3) inure to the benefit of and be enforceable by the Trustee, the Holders and their successors, transferees and assigns.

Under the Indenture, a Subsidiary Guarantor may consolidate with, merge with or into, or transfer all or substantially all its assets to any other Person to the extent described below under "-- Certain Covenants -- Merger and Consolidation"; provided, however, that, except in the case of a release pursuant to the following paragraph, if such Person is not us, the Subsidiary Guarantor's obligations under the Indenture and its Subsidiary Guarantee must be expressly assumed by such other Person.

The Subsidiary Guarantee of a Subsidiary Guarantor will be released in the event of a sale or other disposition (including by way of consolidation or merger) of all or substantially all of the assets or all of the Capital Stock of that Subsidiary Guarantor to a Person other than the Company or a Subsidiary of the Company; provided, however, that such sale or disposition is permitted by, and the proceeds from any such sale or disposition are applied in accordance with, the Indenture as described under "-- Certain Covenants -- Limitation on Sales of Assets and Subsidiary Stock." In addition, if the Board of Directors designates a Subsidiary Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, then such Subsidiary Guarantor will be released and relieved of any obligations under its Subsidiary Guarantee.

### RANKING

The indebtedness evidenced by the exchange notes and the Subsidiary Guarantees will be unsecured, general obligations of the Company and the relevant Subsidiary Guarantor, as the case may be, ranking pari passu in right of payment with all senior unsecured Indebtedness of the Company or the relevant Subsidiary Guarantor, as the case may be, whether outstanding on the Issue Date or thereafter incurred.

The exchange notes and the Subsidiary Guarantees will be effectively junior in right of payment to all existing and future secured Indebtedness of the Company and of the Subsidiary Guarantors, as the case may be, including under the Credit Agreement, to the extent of the value of the assets securing such Indebtedness.

As of June 30, 2003, after giving pro forma effect to our offering of the old notes in August 2003 and the application of the net proceeds from the offering, we and our Subsidiary Guarantors would have had \$0.5 million of Indebtedness that effectively ranked senior in right of payment to the exchange notes or to the Subsidiary Guarantees because of security granted to secure such Indebtedness. In addition, as of such date on a pro forma basis as indicated, and after giving effect to the amendment to the Credit Agreement as described under "Description of Other Indebtedness and Series D Preferred Stock," we would be able to borrow up to \$59.9 million of secured Indebtedness under the Credit Agreement. Substantially all of our oil and natural gas properties, and the oil and natural gas properties of our Subsidiaries, are mortgaged and pledged to secure obligations under the Credit Agreement.

Although the Indenture contains limitations on the amount of additional Indebtedness that we and the Subsidiary Guarantors may incur, under certain circumstances the amount of such Indebtedness could be substantial and, in any case, such Indebtedness may be Secured Indebtedness. Please read "-- Certain Covenants -- Limitation on Indebtedness" and "-- Certain Covenants -- Limitation on Liens."

A substantial portion of our operations are currently conducted through our Subsidiaries. All of our active Subsidiaries are guaranteeing the exchange notes. However, our inactive subsidiaries are not guaranteeing, and certain of our future Subsidiaries may not be required to guarantee, the exchange notes. Claims of creditors of any non-guarantor Subsidiaries, including trade creditors, secured creditors and creditors holding guarantees issued by such non-guarantor Subsidiaries, and claims of preferred stockholders (if any) of such non-guarantor Subsidiaries generally would have priority with respect to the assets and earnings of such non-guarantor Subsidiaries over the claims of our creditors, including Holders of the exchange notes, even though such obligations would not constitute Senior Indebtedness of such non-guarantor Subsidiaries. The exchange notes, therefore, would be effectively subordinated to creditors, including trade creditors, and preferred stockholders, if any, of such non-guarantor Subsidiaries of the Company. Although the Indenture limits the incurrence of Indebtedness and the issuance of preferred stock by certain of our Subsidiaries, such limitation is subject to a number of significant qualifications. In addition, the Indenture does not impose any limitation on the incurrence by such Subsidiaries of liabilities that are not considered Indebtedness under the Indenture. Please read "-- Certain Covenants -- Limitation on Indebtedness."

#### CHANGE OF CONTROL

(a) Upon the occurrence of any of the following events (each a "Change of Control"), each Holder will have the right to require that we repurchase such Holder's exchange notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date), in accordance with the terms contemplated in paragraph (b) below:

(1) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a Permitted Holder, is or becomes the

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beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause (1) such person will be deemed to have "beneficial ownership" of all shares that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 35% of the total voting power of the Voting Stock of the Company (for the purposes of this clause (1), such person will be deemed to beneficially own any Voting Stock of a specified corporation held by a parent corporation, if such person is the beneficial owner (as defined in this clause (1)), directly or indirectly, of more than 35% of the voting power of the Voting Stock of such parent corporation);

(2) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either

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directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office;

(3) the stockholders of the Company have approved any plan of liquidation or dissolution of the Company; or

(4) the merger or consolidation of the Company with or into another Person or the merger of another Person with or into the Company, or the sale, lease, conveyance or transfer of all or substantially all the assets of the Company and its Restricted Subsidiaries, taken as a whole, to another Person or group of related Persons (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than the Permitted Holders, and, in the case of any such merger or consolidation, the securities of the Company that are outstanding immediately prior to such transaction and that represent 100% of the aggregate voting power of the Voting Stock of the Company are changed into or exchanged for cash, securities or property, unless pursuant to such transaction such securities are changed into or exchanged for, in addition to any other consideration, securities of the surviving corporation that represent immediately after such transaction, at least a majority of the aggregate voting power of the Voting Stock of the surviving corporation.

If at the time a Change of Control occurs the terms of the Indebtedness under the Credit Agreement restrict or prohibit the repurchase of exchange notes under this covenant, then prior to the mailing of the notice to Holders provided for in paragraph (b) below, but in any event within 30 days following any Change of Control, we will:

(1) repay in full the Indebtedness under the Credit Agreement; or

(2) obtain the requisite consent under the agreements governing the Indebtedness under the Credit Agreement to permit the repurchase of the exchange notes as provided for in paragraph (b) below.

(b) Within 30 days following a Change of Control, we will mail a notice to each Holder with a copy to the Trustee stating:

(1) that a Change of Control has occurred and that such Holder has the right to require us to purchase such Holder's exchange notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued

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and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control (including reasonably available information with respect to pro forma historical income, cash flow and capitalization, in each case after giving effect to such Change of Control);

(3) the purchase date, which will be no earlier than 30 days nor later than 60 days from the date such notice is mailed; and

(4) the instructions determined by us, consistent with this covenant, that a Holder must follow in order to have its exchange notes purchased.

(c) We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of exchange notes under this covenant. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this covenant, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under this covenant by virtue thereof.

The Change of Control purchase feature of the exchange notes

(1) may in certain circumstances make more difficult or discourage a sale or takeover of the Company and, thus, the removal of incumbent management; and

(2) is a result of negotiations between us and the Initial Purchasers.

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Management has no present intention to engage in a transaction involving a Change of Control, although it is possible that we would decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to Incur additional Indebtedness are contained in the covenants described under "-- Certain Covenants -- Limitation on Indebtedness" and "-- Limitation on Liens." Such restrictions can only be waived with the consent of the Holders of a majority in principal amount of the exchange notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford holders of the exchange notes protection in the event of a highly leveraged transaction.

The Credit Agreement may prohibit us from purchasing any exchange notes and provides that the occurrence of certain change of control events would constitute a default thereunder. If a Change of Control occurs at a time when we are prohibited from purchasing exchange notes, we could seek the consent of our lenders to the purchase of exchange notes or could attempt to refinance the borrowings that contain such prohibition. If we do not obtain such a consent or repay such borrowings, we will remain prohibited from purchasing exchange notes. In such case, our failure to purchase tendered exchange notes would constitute an Event of Default under the Indenture that would, in turn, constitute a default under the Credit Agreement.

Our future indebtedness may contain prohibitions on the occurrence of

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certain events that would constitute a Change of Control or require such indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require us to repurchase the exchange notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to the Holders of exchange notes following the occurrence of a Change of Control may be limited by our then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The definition of "Change of Control" includes a disposition of all or substantially all of the assets of the Company and its Restricted Subsidiaries, taken as a whole, to another Person or group of related Persons (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than the Permitted Holders. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Company and its Restricted Subsidiaries, taken as a whole. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of exchange notes may require the Company to make an offer to repurchase the exchange notes as described above.

The provisions under the Indenture relating to our obligation to make an offer to repurchase the exchange notes as a result of a Change of Control may be waived or modified with the written consent of the Holders of a majority in principal amount of the exchange notes.

We will not be required to make an offer to purchase the exchange notes as a result of a Change of Control if a third party:

(1) makes such offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture relating to our obligations to make such an offer; and

(2) purchases all exchange notes validly tendered and not withdrawn under such an offer.

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### CERTAIN COVENANTS

The Indenture contains covenants including, among others, the following:

#### COVENANT SUSPENSION

During any period that the exchange notes have a rating equal to or higher than BBB- by S&P and Baa3 by Moody's ("Investment Grade Ratings") and no Default has occurred and is continuing, we and our Restricted Subsidiaries will not be subject to the following covenants:

(a) "-- Limitation on Indebtedness";

(b) "-- Limitation on Restricted Payments";

(c) "-- Limitation on Restrictions on Distributions from Restricted Subsidiaries";

(d) "-- Limitation on Sales of Assets and Subsidiary Stock";

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(e) "-- Limitation on Affiliate Transactions";

(f) clause (3) of the covenant described under "-- Merger and Consolidation"; and

(g) "-- Future Subsidiary Guarantors'

(collectively, the "Suspended Covenants"). In the event that we and our Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the preceding sentence, and subsequently one or both of S&P and Moody's downgrades the rating assigned to the exchange notes below BBB-, in the case of S&P, and below Baa3, in the case of Moody's, then we and our Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants (subject to subsequent suspension if the exchange notes again receive Investment Grade Ratings). With respect to Restricted Payments proposed to be made after the time of such a downgrade, the permissibility of proposed Restricted Payments will be calculated in accordance with the terms of the covenant described below under "-- Limitation on Restricted Payments" as though such covenant had been in effect since the Issue Date.

### LIMITATION ON INDEBTEDNESS

(a) We will not, and will not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness; provided, however, that we or a Restricted Subsidiary may Incur Indebtedness if, on the date of such Incurrence and after giving effect thereto, no Default has occurred and is continuing and the Consolidated Coverage Ratio exceeds 2.5 to 1.0.

(b) Notwithstanding the foregoing paragraph (a), we and any Restricted Subsidiary may Incur the following Indebtedness:

(1) Indebtedness Incurred under any Credit Facility, so long as the aggregate amount of all Indebtedness outstanding under all Credit Facilities pursuant to this clause (b)(1) does not exceed the greater of (x) \$100 million less the sum of all principal payments since the Issue Date with respect to such Indebtedness under paragraph (a)(3)(A) of the covenant described under "-- Limitation on Sales of Assets and Subsidiary Stock" and (y) 25% of ACNTA as of the date of such Incurrence;

(2) Indebtedness owed to and held by us or any Restricted Subsidiary; provided, however, that (A) any subsequent issuance or transfer of any Capital Stock that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to us or a Restricted Subsidiary) will be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon and (B) if the Company is the obligor on such Indebtedness, unless such Indebtedness is owed to a Subsidiary Guarantor, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the exchange notes;

(3) The senior notes (other than any Additional Notes);

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(4) Indebtedness outstanding on the Issue Date (other than Indebtedness described in clause (1), (2) or (3) of paragraph (b) of this covenant);

(5) Indebtedness of a Restricted Subsidiary Incurred and outstanding on or prior to the date on which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by us (other than Indebtedness



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Incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions by which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by us); provided, however, that on the date of such Incurrence and after giving pro forma effect thereto, we would have been entitled to Incur at least \$1.00 of additional Indebtedness under paragraph (a) of this covenant;

(6) Refinancing Indebtedness in respect of Indebtedness Incurred under paragraph (a) or under clause (3), (4), (5) above, this clause (6) or clause (7) below; provided, however, that to the extent such Refinancing Indebtedness directly or indirectly Refinances Indebtedness of a Restricted Subsidiary Incurred under clause (5), such Refinancing Indebtedness will be Incurred only by such Restricted Subsidiary or the Company;

(7) Non-recourse Purchase Money Indebtedness;

(8) Indebtedness arising from any agreement providing for indemnities, Guarantees, purchase price adjustments, holdbacks, contingency payment obligations based on the performance of the acquired or disposed assets or similar obligations (other than Guarantees of Indebtedness) Incurred by any Person in connection with the acquisition or disposition of assets and Indebtedness under the Earnout Agreement;

(9) Indebtedness consisting of the Subsidiary Guarantees and any Guarantee by the Company or a Subsidiary Guarantor of Indebtedness permitted by the Indenture to be Incurred by the Company or a Subsidiary other than Non-recourse Purchase Money Indebtedness;

(10) Hedging Obligations consisting of Interest Rate Agreements directly related to Indebtedness outstanding on the Issue Date or permitted to be Incurred by the Company and its Restricted Subsidiaries under the Indenture;

(11) Hedging Obligations consisting of Oil and Gas Hedging Contracts and Currency Agreements entered into in the ordinary course of business for the purpose of limiting risks that arise in the ordinary course of business of the Company and its Restricted Subsidiaries;

(12) obligations in respect of bid, performance or surety bonds, including Guarantees and letters of credit functioning as or supporting such bid, performance or surety bonds, completion guarantees and other reimbursement obligations provided by the Company or any Restricted Subsidiary in the ordinary course of business (in each case other than for an obligation for money borrowed);

(13) in-kind obligations relating to oil and gas balancing positions arising in the ordinary course of business; and

(14) Indebtedness in an aggregate amount that, together with the amount of all other Indebtedness of the Company and its Restricted Subsidiaries outstanding on the date of such Incurrence (other than Indebtedness permitted by clauses (1) through (13) above or paragraph (a)) does not exceed \$35 million of which not more than \$10 million may be Indebtedness of Restricted Subsidiaries that are not Subsidiary Guarantors.

(c) Notwithstanding the foregoing, we will not, and will not permit any Subsidiary Guarantor to, Incur any Indebtedness under the foregoing paragraph (b) if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations unless such Indebtedness is subordinated to the senior notes or the relevant Subsidiary Guarantee, as the case may be, to at least the same extent as such Subordinated Obligations.

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The Company will not, and will not permit any Subsidiary Guarantor to, directly or indirectly, incur any Indebtedness that by its terms (or by the terms of any agreement governing such Indebtedness) is subordinated to any other Indebtedness of the Company or of such Guarantor, as the case may be, unless such

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Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinate to the exchange notes or the Subsidiary Guarantee of such Subsidiary Guarantor, as the case may be, pursuant to terms no less favorable to the Holders of the exchange notes.

(d) For purposes of determining compliance with the foregoing covenant:

(1) if an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, or is entitled to be incurred in compliance with the Consolidated Coverage Ratio in clause (a) of this covenant, we, in our sole discretion, may classify such item of Indebtedness (or any portion thereof) at the time of Incurrence in any manner that complies with this covenant and will only be required to include the amount and type of such Indebtedness in one of the above clauses; and

(2) we will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described above or treat such Indebtedness as having been incurred in compliance with the Consolidated Coverage Ratio in clause (a) of this covenant.

### LIMITATION ON RESTRICTED PAYMENTS

(a) We will not, and will not permit any Restricted Subsidiary to, directly or indirectly, make a Restricted Payment if at the time we make or such Restricted Subsidiary makes such Restricted Payment:

(1) a Default or an Event of Default has occurred and is continuing (or would result therefrom);

(2) we are not entitled to Incur an additional \$1.00 of Indebtedness under paragraph (a) of the covenant described under "-- Limitation on Indebtedness"; or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of, without duplication:

(A) 50% of the aggregate Consolidated Net Income of the Company accrued during the period (treated as one accounting period) commencing on the first day of the fiscal quarter during which the Issue Date occurs and ending on the last day of the most recent fiscal quarter for which financial statements of the Company are publicly available prior to the date of such proposed Restricted Payment (or, if such aggregate Consolidated Net Income is a deficit, minus 100% of such deficit); plus

(B) 100% of (i) the aggregate Net Cash Proceeds, and (ii) the Fair Market Value of (a) Capital Stock (other than Capital Stock of the Company) of a Person (other than an Affiliate of the Company) engaged primarily in the Oil and Gas Business, provided that Person becomes a Restricted Subsidiary of the Company, and (b) other assets used in the Oil and Gas Business, in the case of clauses (i) and (ii) received by us from the issuance or sale of our Capital Stock (other than Disqualified

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Stock) subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Company and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees); plus

(C) the aggregate Net Cash Proceeds received by us subsequent to the Issue Date from the issue or sale of our Capital Stock (other than Disqualified Stock) to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees; provided, however, that if such employee stock ownership plan or trust Incurs any Indebtedness to finance the purchase of such Capital Stock, such aggregate amount will be limited to the excess of such Net Cash Proceeds over the amount of such Indebtedness plus an amount equal to any increase in the Consolidated Net Worth of the Company resulting from principal repayments made by such employee stock ownership plan or trust with respect to such Indebtedness; plus

(D) the amount by which our Indebtedness is reduced on our balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Issue Date of any of our Indebtedness that is convertible or exchangeable for our Capital Stock (other than

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Disqualified Stock) (less the amount of any cash, or the fair value of any other Property, distributed by us upon such conversion or exchange); provided, however, that the foregoing will not exceed the Net Cash Proceeds received by the Company or any Restricted Subsidiary from the sale of such Indebtedness (excluding Net Cash Proceeds from sales to a Subsidiary of the Company or to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees); plus

(E) an amount equal to the sum of (x) the net reduction in Investments (other than Permitted Investments) made by us or any Restricted Subsidiary in any Person resulting from repurchases, repayments or redemption of such Investments by such Person, proceeds realized on the sale of such Investment and proceeds representing the return of capital, in each case received by us or any Restricted Subsidiary, and (y) to the extent such Person is an Unrestricted Subsidiary, the portion (proportionate to our equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary; provided, however, that to the extent the foregoing sum exceeds, in the case of any such Person or Unrestricted Subsidiary, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Company or any Restricted Subsidiary in such Person or Unrestricted Subsidiary, such excess will not be included in this clause (E) unless the amount represented by such excess has not been and will not be taken into account in one of the foregoing clauses (A) through (D); plus

(F) \$5 million.

(b) The provisions of the foregoing paragraph (a) will not prohibit:

(1) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant; provided, however, that such dividend will be included in the calculation of the amount of Restricted Payments at the time of payment;

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(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Capital Stock or Subordinated Obligations of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees); provided, however, that (A) such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value will be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale will be excluded from the calculation of amounts under clause (3)(B) of paragraph (a) above (but only to the extent that such Net Cash Proceeds were used to purchase, repurchase, redeem, defease or otherwise acquire or retire for value such Capital Stock or Subordinated Obligations as provided in this clause (2));

(3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness that is permitted to be Incurred under the covenant described under "-- Limitation on Indebtedness"; provided, however, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value will be excluded in the calculation of the amount of Restricted Payments;

(4) so long as no Default or Event of Default has occurred and is continuing, the purchase, redemption or other acquisition or retirement for value of shares of Capital Stock of the Company or any of our Subsidiaries from employees, former employees, directors or former directors of the Company or any of our Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), under the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such purchases, redemptions and other acquisitions and retirements (excluding

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amounts representing cancellation of Indebtedness) will not exceed \$2 million in any calendar year; provided, further, however, that such purchases, redemptions and other acquisitions and retirements will be excluded in the calculation of the amount of Restricted Payments;

(5) so long as no Default or Event of Default has occurred and is continuing, any declaration or payment of dividends and other distributions in respect of, but excluding any purchase, redemption or other acquisition or retirement for value of, the Existing Preferred Stock; provided, however, that such dividends and distributions will be included in the calculation of the amount of Restricted Payments for purposes of determining whether any subsequent Restricted Payment may be made under paragraph (a) of this covenant;

(6) repurchases, acquisitions or retirements of shares of Company common stock deemed to occur upon the exercise of stock options or similar rights issued under employee benefit plans or warrants when shares are surrendered to pay all or a portion of the exercise price or to satisfy any federal income tax obligations; provided, however, that the aggregate amount of such repurchases, acquisitions or retirements (i) effected to

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satisfy any federal income tax obligations shall not exceed \$2 million in any twelve-month period and (ii) will be excluded in the calculation of the amount of Restricted Payments;

(7) the payment of cash in lieu of fractional shares of Capital Stock in connection with any transaction otherwise permitted under this covenant; provided, however, that such payment will be excluded in the calculation of the amount of Restricted Payments;

(8) upon the occurrence of a Change of Control or an Asset Disposition and within 60 days after the completion of the offer to repurchase the senior notes under the covenants described under "-- Change of Control" above or "-- Limitation on Sales of Assets and Subsidiary Stock" below (including the purchase of all exchange notes tendered), any purchase, repurchase, redemption, defeasance, acquisition or other retirement for value of Subordinated Obligations required under the terms thereof as a result of such Change of Control or Asset Disposition at a purchase or redemption price not to exceed 101% of the outstanding principal amount thereof, plus accrued and unpaid interest thereon, if any; provided, however, that (A) at the time of such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, no Default or Event of Default has occurred and is continuing (or would result therefrom), and (B) such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value will be excluded in the calculation of the amount of Restricted Payments; or

(9) the redemption, repurchase or repayment of our 11% Senior Subordinated Notes due 2009 with the proceeds from the issuance of the old notes; provided, however, that such redemption, repurchase or repayment will be excluded in the calculation of the amount of Restricted Payments.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the assets proposed to be transferred by the Company or such Restricted Subsidiary, as the case may be, in accordance with the Restricted Payment.

For purposes of determining compliance with this covenant, if a Restricted Payment meets the criteria of more than one of the types of Restricted Payments described above, we, in our sole discretion, may order and classify such Restricted Payment in any manner in compliance with this covenant.

### LIMITATION ON RESTRICTIONS ON DISTRIBUTIONS FROM RESTRICTED SUBSIDIARIES

We will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary (a) to pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness owed to us

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or a Restricted Subsidiary, (b) to make any loans or advances to us or a Restricted Subsidiary or (c) to transfer any of its Property to us or a Restricted Subsidiary, except:

(1) with respect to clauses (a), (b) and (c),

(i) any encumbrance or restriction in the Credit Agreement on the Issue Date or under any other agreement governing Indebtedness or Capital Stock in effect at or entered into on the Issue Date;

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(ii) any encumbrance or restriction relating to Indebtedness of a Restricted Subsidiary and existing at the time it became a Restricted Subsidiary, provided that such encumbrance or restriction relates solely to such Restricted Subsidiary and was not created in anticipation of or in connection with the transactions by which such Restricted Subsidiary became a Restricted Subsidiary;

(iii) any encumbrance or restriction under an agreement effecting a Refinancing of Indebtedness Incurred under an agreement referred to in clause (i) or (ii) of clause (1) of this covenant or this clause (iii) or contained in any amendment to, or modification, restatement, renewal, increase, supplement, replacement or extension of, an agreement referred to in clause (i) or (ii) of clause (1) of this covenant or this clause (iii); provided, however, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such refinancing agreement or amendment, modification, restatement, renewal, increase, supplement, replacement or extension are not materially more restrictive, taken as a whole, to the Noteholders than encumbrances and restrictions with respect to such Restricted Subsidiary contained in such predecessor agreements;

(iv) customary restrictions with respect to a Restricted Subsidiary imposed under an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(v) customary restrictions contained in agreements entered into in the ordinary course of business of the types described in the definition of the term "Permitted Business Investments"; and

(2) with respect to clause (c) only,

(A) customary nonassignment provisions, including provisions forbidding subletting or sublicensing, in leases governing leasehold interests and licenses to the extent such provisions restrict the transfer of the lease or license or the property leased or licensed thereunder;

(B) any encumbrance or restriction under Liens permitted to be in effect without also securing the exchange notes as described under "-- Limitation on Liens" that limit the right of the debtor to dispose of the Property subject to such Lien;

(C) any encumbrance or restriction with respect to Property at the time it is acquired by us or a Restricted Subsidiary, provided that such encumbrance or restriction relates solely to the Property so acquired and was not created in anticipation of or in connection with such acquisition;

(D) restrictions on cash or other deposits imposed by customers under contracts entered into in the ordinary course of business;

(E) encumbrances and restrictions contained in contracts entered into in the ordinary course of business, not relating to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of, or from the ability of the Company and the Restricted Subsidiaries to realize the value of, property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary; and

(F) restrictions on the transfer of property or assets required by any regulatory authority having jurisdiction over the Company or such

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Restricted Subsidiary.

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### LIMITATION ON SALES OF ASSETS AND SUBSIDIARY STOCK

(a) We will not, and will not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Disposition unless:

(1) we receive or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the fair market value (including as to the value of all non-cash consideration) (as determined in good faith by the Board of Directors or an officer with responsibility for such transaction), of the shares and assets subject to such Asset Disposition;

(2) at least 75% of the consideration thereof received by us or such Restricted Subsidiary is in the form of (a) cash or cash equivalents, (b) oil and natural gas properties, (c) Capital Stock of a Person that becomes a Restricted Subsidiary as a result of such acquisition and all or substantially all of whose assets consist of oil and natural gas properties or (d) capital assets to be used by us or any Restricted Subsidiary in the Oil and Gas Business; and

(3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by us (or such Restricted Subsidiary, as the case may be):

(A) to the extent we elect (or are required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness of the Company or any Subsidiary Guarantor or Indebtedness of a Wholly Owned Subsidiary that is not a Subsidiary Guarantor (in each case other than Indebtedness owed to us or a Subsidiary of the Company) within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

(B) to the extent we elect, to acquire Additional Assets or to make capital expenditures in the Oil and Gas Business within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and

(C) to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and/or (B), to make an offer to the Holders of the senior notes (and to holders of other Senior Indebtedness of the Company designated by us) to purchase senior notes (and such other Senior Indebtedness of the Company) pursuant to and subject to the conditions contained in the Indenture;

provided, however, that in connection with any prepayment, repayment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness under clause (A) or (C) above, we or such Restricted Subsidiary must permanently retire such Indebtedness and cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased.

Notwithstanding the foregoing provisions of this covenant, we and the Restricted Subsidiaries will not be required to apply any Net Available Cash in accordance with this covenant except to the extent that the aggregate Net Available Cash from all Asset Dispositions that is not applied in accordance with this covenant exceeds \$10 million.

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For the purposes of this covenant, the following are deemed to be cash or cash equivalents:

(1) the assumption of Indebtedness of the Company or any Restricted Subsidiary and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition; and

(2) securities received by the Company or any Restricted Subsidiary from the transferee that are converted by the Company or such Restricted Subsidiary into cash within 120 days of receipt.

Notwithstanding the foregoing, the 75% limitation referred to in paragraph (a)(2) above will be deemed satisfied with respect to any Asset Disposition in which the cash or cash equivalents portion of the consideration received therefrom, determined in accordance with the foregoing provision on an after-tax basis,

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is equal to or greater than what the after-tax proceeds would have been had such Asset Disposition complied with the aforementioned 75% limitation.

The requirement of clause (a)(3)(B) above will be deemed to be satisfied if an agreement (including a lease, whether a capital lease or an operating lease) committing to make the acquisitions or expenditures referred to therein is entered into by us or a Restricted Subsidiary within the time period specified in such clause and such Net Available Cash is subsequently applied in accordance with such agreement within six months following such agreement.

(b) If an Asset Disposition occurs that requires the purchase of senior notes (and other Senior Indebtedness of the Company) under clause (a)(3)(C) above, we will

(1) make such offer to purchase senior notes on or before the 366th day after the later of the date of such Asset Disposition or the receipt of such Net Available Cash, and

(2) purchase senior notes tendered under an offer by us for the senior notes (and such other Senior Indebtedness of the Company) at a purchase price of 100% of their principal amount (or, in the event such other Senior Indebtedness of the Company was issued with significant original issue discount, 100% of the accreted value thereof) without premium, plus accrued but unpaid interest (or, in respect of such other Senior Indebtedness of the Company, such lesser price, if any, as may be provided for by the terms of such Senior Indebtedness of the Company) in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture.

If the aggregate purchase price of the securities tendered exceeds the Net Available Cash allotted to their purchase, we will select the securities to be purchased on a pro rata basis but in round denominations, which in the case of the exchange notes will be denominations of \$1,000 principal amount or multiples thereof. We will not be required to make such an offer to purchase senior notes (and other Senior Indebtedness of the Company) under this covenant if the Net Available Cash available therefor is less than \$10 million (which lesser amount will be carried forward for purposes of determining whether such an offer is required with respect to the Net Available Cash from any subsequent Asset Disposition). Upon completion of such an offer to purchase, Net Available Cash will be deemed to be reduced by the aggregate amount of such offer.



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(c) We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of senior notes under this covenant. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this covenant, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under this covenant by virtue thereof.

### LIMITATION ON AFFILIATE TRANSACTIONS

(a) We will not, and will not permit any Restricted Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any Property or the rendering of any service) with any Affiliate of the Company (an "Affiliate Transaction") unless:

(1) the terms thereof are no less favorable to us or such Restricted Subsidiary than those that could be obtained at the time of such transaction in arm's-length dealings with a Person who is not such an Affiliate;

(2) if such Affiliate Transaction involves an amount in excess of \$5 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the non-employee directors of the Company who are disinterested with respect to such Affiliate Transaction have determined in good faith that the criteria set forth in clause (1) are satisfied and have approved the relevant Affiliate Transaction as evidenced by a resolution of the Board of Directors; and

(3) if such Affiliate Transaction involves an amount in excess of \$20 million, the Board of Directors has also received a written opinion from an Independent Qualified Party to the effect that such Affiliate Transaction is fair, from a financial standpoint, to us and our Restricted Subsidiaries or is not less

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favorable to us and our Restricted Subsidiaries than could reasonably be expected to be obtained at the time in an arm's-length transaction with a Person who was not an Affiliate.

(b) The provisions of the foregoing paragraph (a) will not prohibit:

(1) the sale to an Affiliate of the Company of Capital Stock of the Company that does not constitute Disqualified Stock, and the sale to an Affiliate of the Company of Indebtedness (including Disqualified Stock) of the Company in connection with an offering of such Indebtedness in a market transaction and on terms substantially identical to those of other purchasers in such market transaction;

(2) transactions contemplated by any employment agreement or other compensation plan or arrangement existing on the Issue Date or thereafter entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business;

(3) the payment of reasonable fees to directors of the Company or any of its Restricted Subsidiaries who are not employees of the Company or any Restricted Subsidiary;

(4) indemnities of officers and directors of the Company or any Restricted Subsidiary consistent with such Person's charter, bylaws and applicable statutory provisions;

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(5) the payment of reasonable compensation to officers of the Company or any Restricted Subsidiary as determined in good faith by the Board of Directors;

(6) Restricted Payments that are permitted by the provisions of the Indenture described above under the caption "-- Limitation on Restricted Payments";

(7) any transaction between or among us and a Restricted Subsidiary or joint venture or similar entity that would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary owns an equity interest in or otherwise controls such Restricted Subsidiary, joint venture or similar entity; provided that no more than 10% of the total voting power of the Voting Stock of any such Restricted Subsidiary, joint venture or similar entity is owned by an Affiliate of the Company (other than a Restricted Subsidiary); and

(8) transactions or obligations provided for under the Stockholder Agreement, dated as of November 17, 1999 and amended and restated as of March 17, 2003 by and among us and the stockholders parties thereto, as in effect on the Issue Date.

### LIMITATION ON LIENS

We will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, create, incur, assume or suffer to exist or become effective any Lien securing Indebtedness, except for Permitted Liens, on or with respect to any Property of the Company or such Restricted Subsidiary, whether owned on the Issue Date or acquired after the Issue Date, or any interest therein or any income or profits therefrom, unless the exchange notes or any Subsidiary Guarantee of such Restricted Subsidiary, as applicable, are secured equally and ratably with such Indebtedness.

### MERGER AND CONSOLIDATION

We will not consolidate with or merge with or into, or convey, transfer, lease or otherwise dispose of, in one transaction or a series of transactions, all or substantially all the assets of the Company and its Restricted Subsidiaries, taken as a whole, to, any Person, unless:

(1) (A) the resulting, surviving or transferee Person (the "Successor Company") is a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and (B) the Successor Company (if not the Company) expressly assumes, by an indenture supplemental thereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all of our obligations under the exchange notes and the Indenture;

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(2) immediately after giving pro forma effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Default shall have occurred and be continuing;

(3) immediately after giving pro forma effect to such transaction, the Successor Company would be able to Incur an additional \$1.00 of Indebtedness under paragraph (a) of the covenant described under "-- Limitation on Indebtedness";

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(4) immediately after giving pro forma effect to such transaction, the Successor Company will have Adjusted Consolidated Net Tangible Assets that are not less than the Adjusted Consolidated Net Tangible Assets of the Company immediately prior to such transaction;

(5) in the case of a conveyance, transfer or lease of all or substantially all the assets of the Company and its Restricted Subsidiaries, taken as a whole, such assets shall have been so conveyed, transferred or leased as an entirety or virtually as an entirety to one Person; and

(6) we have complied with certain additional conditions set forth in the Indenture, including the delivery to the Trustee of an officers' certificate and Opinion of Counsel regarding compliance with the terms of the Indenture;

provided, however, that clauses (3) and (4) will not be applicable to any such transaction solely between us and any Restricted Subsidiary.

The Successor Company will be the successor to us and will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture, and the predecessor company, except in the case of a lease, will be released from the obligation to pay the principal of and interest on the exchange notes.

We will not permit any Subsidiary Guarantor to consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to any Person unless:

(1) the resulting, surviving or transferee Person (if not such Subsidiary) is a Person organized and existing under the laws of the jurisdiction under which such Subsidiary was organized or under the laws of the United States of America, or any State thereof or the District of Columbia, and such Person expressly assumes, by executing a Guarantee Agreement, all the obligations of such Subsidiary, if any, under its Subsidiary Guarantee;

(2) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness that becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been issued by such Person at the time of such transaction), no Default shall have occurred and be continuing;

(3) in the case of a conveyance, transfer or lease of all or substantially all the assets of a Subsidiary Guarantor, such assets shall have been so conveyed, transferred or leased as an entirety or virtually as an entirety to one Person; and

(4) we have complied with certain additional conditions contained in the Indenture.

The provisions above will not apply to any one or more transactions that constitute an Asset Disposition if the Company has complied with the applicable provisions of the covenant described under "-- Limitation on Sales of Assets and Subsidiary Stock" above.

### LIMITATION ON LINE OF BUSINESS

We will not engage in any business other than the Oil and Gas Business. However, this restriction will not prevent us from acquiring an entity that is primarily engaged in the Oil and Gas Business, provided that the entity does not

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have either a "Significant Subsidiary," as that term is defined in applicable SEC rules and

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regulations (Rule 1-02(w) of Regulation S-X), that is not in the Oil and Gas Business or an amount of assets or operations not used in the Oil and Gas Business such that, if such assets or operations were held in or conducted through a single subsidiary, would represent a "Significant Subsidiary" under such rules and regulations.

### FUTURE SUBSIDIARY GUARANTORS

We will cause each Restricted Subsidiary that:

(a) incurs Indebtedness or issues Preferred Stock following the Issue Date; or

(b) has Indebtedness or Preferred Stock outstanding on the date on which such Restricted Subsidiary becomes a Restricted Subsidiary,

to execute and deliver to the Trustee a Subsidiary Guarantee at the time such Restricted Subsidiary Incurs such Indebtedness, issues such Preferred Stock or becomes a Restricted Subsidiary; provided, however, that such Restricted Subsidiary will not be required to deliver a supplemental indenture providing for a Subsidiary Guarantee if the aggregate amount of such Indebtedness or Preferred Stock, together with all other Indebtedness and Preferred Stock then outstanding among Restricted Subsidiaries that are not Subsidiary Guarantors, does not exceed \$10 million.

### RESTRICTED AND UNRESTRICTED SUBSIDIARIES

Unless defined or designated as an Unrestricted Subsidiary, any Person that becomes a Subsidiary of the Company or any of its Restricted Subsidiaries will be classified as a Restricted Subsidiary subject to the provisions of the next paragraph. We may designate a Subsidiary, including a newly formed or newly acquired Subsidiary, or any of our Restricted Subsidiaries as an Unrestricted Subsidiary if:

(a) such Subsidiary does not at such time own any Capital Stock or Indebtedness of, or own or hold any Lien on any Property of, the Company or any other Restricted Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated;

(b) such Subsidiary does not at such time have any Indebtedness or other obligations that, if in default, would permit any holder of any Indebtedness or other obligations of the Company or any Restricted Subsidiary to declare a default on such Indebtedness or obligations or cause the payment thereof to be accelerated or payable prior to its Stated Maturity; and

(c) (1) such designation is effective immediately upon such Subsidiary becoming a Subsidiary of the Company or of a Restricted Subsidiary,

(2) the Subsidiary to be so designated has total assets of \$1,000 or less, or

(3) if such Subsidiary has assets greater than \$1,000, then such redesignation as an Unrestricted Subsidiary will be deemed to constitute a Restricted Payment in an amount equal to the Fair Market Value of our direct and indirect ownership interest in such Subsidiary, and such

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Restricted Payment would be permitted to be made at the time of such designation under "-- Limitation on Restricted Payments."

Except as provided in the immediately preceding sentence, no Restricted Subsidiary may be redesignated as an Unrestricted Subsidiary. The designation of an Unrestricted Subsidiary or removal of such designation shall be made by our Board of Directors or a committee thereof under a certified resolution delivered to the Trustee and will be effective as of the date specified in the applicable certified resolution, which will not be prior to the date such certified resolution is delivered to the Trustee.

We will not, and will not permit any Unrestricted Subsidiaries to, take any action or enter into any transaction or series of transactions that would result in a Person becoming a Restricted Subsidiary (whether

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through an acquisition or otherwise) unless, after giving effect to such action, transaction or series of transactions, on a pro forma basis:

(a) we could Incur at least \$1.00 of additional Indebtedness under clause (a) of the first paragraph under "-- Limitation on Indebtedness"; and

(b) no Default or Event of Default would occur or be continuing.

### SEC REPORTS

Notwithstanding that we may not at any time be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, we will file with the SEC (to the extent the SEC will accept such filing) and provide the Trustee and Noteholders with such annual reports and such information, documents and other reports as are specified in Sections 13 and 15(d) of the Exchange Act and applicable to a U.S. corporation subject to such Sections (but without exhibits in the case of Noteholders), such information, documents and other reports to be so filed and provided at the times specified for the filing of such information, documents and reports under such Sections.

In addition, we will furnish to the Holders of the exchange notes and to prospective investors, upon the request of such Holders, any information required to be delivered under Rule 144A(d)(4) under the Securities Act so long as the exchange notes are not freely transferable under the Securities Act.

### DEFAULTS

An Event of Default is defined in the Indenture as:

(1) a default in the payment of interest on the senior notes when due, continued for 30 days;

(2) a default in the payment of principal of any Note when due at its Stated Maturity, upon optional redemption, upon required purchase, upon declaration of acceleration or otherwise;

(3) the failure by us to comply with our obligations under "-- Certain Covenants -- Merger and Consolidation" above;

(4) our failure to comply for 30 days after notice with any of our obligations in the covenants described above under "-- Change of Control" (other than a failure to purchase senior notes) and under "-- Certain Covenants" under "-- Limitation on Indebtedness," "-- Limitation on

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Restricted Payments," "-- Limitation on Restrictions on Distributions from Restricted Subsidiaries," "-- Limitation on Sales of Assets and Subsidiary Stock" (other than a failure to purchase senior notes), "-- Limitation on Affiliate Transactions," "-- Limitation on Liens," "-- Future Subsidiary Guarantors" or "-- SEC Reports";

(5) the failure by the Company or any Subsidiary Guarantor to comply for 60 days after notice with its other agreements contained in the Indenture;

(6) Indebtedness of the Company, any Subsidiary Guarantor or any Significant Subsidiary (other than Production Payments and Reserve Sales and Non-recourse Purchase Money Indebtedness) is not paid within any applicable grace period after final maturity or the maturity of such Indebtedness is accelerated by the holders thereof because of a default (and such acceleration is not rescinded or annulled) and the total amount of such Indebtedness unpaid or accelerated exceeds \$5 million (the "cross-acceleration provision");

(7) certain events of bankruptcy, insolvency or reorganization of the Company, a Subsidiary Guarantor or a Significant Subsidiary (the "bankruptcy provisions");

(8) any judgment or decree for the payment of money in an uninsured or unindemnified amount in excess of \$5 million or its foreign currency equivalent at the time is rendered against the Company, a Subsidiary Guarantor or a Significant Subsidiary, remains outstanding for a period of 60 days following

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such judgment and is not discharged, waived, bonded or stayed within 10 days after notice (the "judgment default provision"); or

(9) any Subsidiary Guarantee ceases to be in full force and effect (other than in accordance with the terms thereof) for five days after notice or a Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee (the "guarantee default provision").

However, a default under clauses (4), (5) and (9) will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding senior notes notify us of the default and we do not cure such default within the time specified after receipt of such notice.

If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the outstanding senior notes may declare the principal of and accrued but unpaid interest on all the exchange notes to be due and payable. Upon such a declaration, such principal and interest will be due and payable immediately. If an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Company occurs and is continuing, the principal of and interest on all the exchange notes will ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders of the exchange notes. Under certain circumstances, the Holders of a majority in principal amount of the outstanding senior notes may rescind any such acceleration with respect to the senior notes and its consequences.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders of the exchange

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notes unless such Holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Holder of an exchange note may pursue any remedy with respect to the Indenture or the exchange notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in principal amount of the outstanding senior notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity; and

(5) the Holders of a majority in principal amount of the outstanding senior notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding exchange notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder of an exchange note or that would involve the Trustee in personal liability.

The Indenture provides that if a Default occurs and is continuing and is known to the Trustee, the Trustee must mail to each Holder of the exchange notes notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of or interest on any exchange note, the Trustee may withhold notice if and so long as a committee of its trust officers determines that withholding notice is not opposed to the interest of the Holders of the exchange notes. In addition, we are required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate stating that in the course of the performance by the signers of their duties as officers of the Company they would normally have knowledge of any Default and whether or not the signers thereof know of any Default that occurred during the previous year. We are also required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of

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any event which would constitute certain Defaults, their status and what action we are taking or propose to take in respect thereof.

### AMENDMENTS AND WAIVERS

Subject to certain exceptions, the Indenture may be amended with the consent of the Holders of a majority in principal amount of the senior notes then outstanding (including consents obtained in connection with a tender offer or exchange for the exchange notes) and any past default or compliance with any provisions may also be waived with the consent of the Holders of a majority in principal amount of the senior notes then outstanding. However, without the consent of each Holder of an outstanding exchange note affected thereby, an amendment or waiver may not, among other things:

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(1) reduce the amount of senior notes whose Holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any exchange note;

(3) reduce the principal of or extend the Stated Maturity of any exchange note;

(4) reduce the amount payable upon the redemption of any exchange note or change the time at which any exchange note may be redeemed as described under "-- Optional Redemption" above;

(5) make any exchange note payable in money other than that stated in the exchange note;

(6) impair the right of any Holder of the exchange notes to receive payment of principal of and interest on such Holder's exchange notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's exchange notes;

(7) make any change in the amendment provisions that require each Holder's consent or in the waiver provisions;

(8) make any change in the ranking or priority of any exchange note that would adversely affect the Noteholders; or

(9) make any change in any Subsidiary Guarantee that would adversely affect the Noteholders.

Without the consent of any Holder of the exchange notes, we, the Subsidiary Guarantors and the Trustee may amend the Indenture to:

(1) cure any ambiguity, omission, defect or inconsistency;

(2) provide for the assumption by a successor corporation of the obligations of the Company or the Subsidiary Guarantors under the Indenture;

(3) provide for uncertificated exchange notes in addition to or in place of certificated exchange notes (provided that the uncertificated exchange notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated exchange notes are described in Section 163(f)(2)(B) of the Code);

(4) add guarantees with respect to the exchange notes (including any Subsidiary Guarantee);

(5) secure the exchange notes;

(6) add to the covenants of the Company or a Subsidiary Guarantor for the benefit of the Holders of the exchange notes or surrender any right or power conferred upon us or any Subsidiary Guarantor;

(7) make any change that does not adversely affect the rights of any Holder of the exchange notes; or

(8) comply with any requirement of the SEC in connection with the qualification of the Indenture under the Trust Indenture Act.



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The consent of the Holders of the exchange notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment under the Indenture becomes effective, we are required to mail to Holders of the exchange notes a notice briefly describing such amendment. However, the failure to give such notice to all Holders of the exchange notes, or any defect therein, will not impair or affect the validity of the amendment.

### TRANSFER

The exchange notes will be issued in registered form and will be transferable only upon the surrender of the exchange notes being transferred for registration of transfer. We may require payment of a sum sufficient to cover any tax, assessment or other governmental charge payable in connection with certain transfers and exchanges.

### DEFEASANCE

At any time, we may terminate all our obligations under the exchange notes and the Indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the exchange notes, to replace mutilated, destroyed, lost or stolen exchange notes and to maintain a registrar and paying agent in respect of the exchange notes.

In addition, at any time we may terminate our obligations under "-- Change of Control" and under the covenants described under "-- Certain Covenants" (other than the covenant described under "-- Merger and Consolidation"), the operation of the cross-acceleration provision, the bankruptcy provisions with respect to Subsidiary Guarantors and Significant Subsidiaries, the judgment default provision and the guarantee default provision described under "-- Defaults" above and the limitations contained in clauses (3) and (4) under the first paragraph of "-- Certain Covenants -- Merger and Consolidation" above ("covenant defeasance").

We may exercise our legal defeasance option notwithstanding our prior exercise of our covenant defeasance option. If we exercise our legal defeasance option, payment of the exchange notes may not be accelerated because of an Event of Default with respect thereto. If we exercise our covenant defeasance option, payment of the exchange notes may not be accelerated because of an Event of Default specified in clause (4), (6), (7) (with respect only to Significant Subsidiaries and Subsidiary Guarantors) or (8) (with respect only to Significant Subsidiaries and Subsidiary Guarantors) or (9) under "-- Defaults" above or because of our failure to comply with clause (3) or (4) under the first paragraph under "-- Certain Covenants -- Merger and Consolidation" above. If we exercise our legal defeasance option or our covenant defeasance option, each Subsidiary Guarantor will be released from all its obligations with respect to its Subsidiary Guarantee.

In order to exercise either defeasance option, we must irrevocably deposit in trust (the "defeasance trust") with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the exchange notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of an Opinion of Counsel to the effect that Holders of the exchange notes will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit and defeasance and will be subject to Federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and, in the case of legal defeasance only, such

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Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable Federal income tax law).

### CONCERNING THE TRUSTEE

Wells Fargo Bank, N.A. will be the Trustee under the Indenture. We have appointed the Trustee as Registrar and Paying Agent with regard to the exchange notes.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of

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any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; provided, however, if it acquires any conflicting interest it must either eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The Holders of a majority in principal amount of the outstanding senior notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that if an Event of Default occurs (and is not cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of exchange notes, unless such Holder has offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense and then only to the extent required by the terms of the Indenture.

### NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES AND STOCKHOLDERS

No director, officer, employee, incorporator or stockholder of the Company or any Subsidiary Guarantor will have any liability for any obligations of the Company or any Subsidiary Guarantor under the exchange notes, any Subsidiary Guarantee or the Indenture or for any claim based on, in respect of, or by reason of such obligations or their creation. Each Holder of the exchange notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the exchange notes. Such waiver and release may not be effective to waive liabilities under the U.S. Federal securities laws, and it is the view of the SEC that such a waiver is against public policy.

### GOVERNING LAW

The Indenture and the exchange notes will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

### CERTAIN DEFINITIONS

"Additional Assets" means:

(1) any property or assets (other than Indebtedness and Capital Stock) in the Oil and Gas Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or

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(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary;

provided, however, that any such Restricted Subsidiary described in clauses (2) or (3) above is engaged in the Oil and Gas Business.

"Adjusted Consolidated Net Tangible Assets" or "ACNTA" means (without duplication), as of the date of determination:

(a) the sum of:

(1) discounted future net revenue from proved crude oil and natural gas reserves of the Company and its Restricted Subsidiaries calculated in accordance with SEC guidelines before any state or federal income taxes, as estimated in a reserve report prepared as of the end of the Company's most recently completed fiscal year, which reserve report is prepared or reviewed by

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independent petroleum engineers, as increased by, as of the date of determination, the discounted future net revenue of

(A) estimated proved crude oil and natural gas reserves of the Company and its Restricted Subsidiaries attributable to acquisitions consummated since the date of such year-end reserve report, and

(B) estimated crude oil and natural gas reserves of the Company and its Restricted Subsidiaries attributable to extensions, discoveries and other additions and upward determinations of estimates of proved crude oil and natural gas reserves (including previously estimated development costs incurred during the period and the accretion of discount since the prior year end) due to exploration, development or exploitation, production or other activities, which reserves were not reflected in such year-end reserve report, that would, in the case of determinations made under clauses (A) and (B), in accordance with standard industry practice, result in such determinations, in each case calculated in accordance with SEC guidelines (utilizing the prices utilized in such year-end reserve report),

and decreased by, as of the date of determination, the discounted future net revenue attributable to

(C) estimated proved crude oil and natural gas reserves of the Company and its Restricted Subsidiaries reflected in such year-end reserve report produced or disposed of since the date of such year-end reserve report and

(D) reductions in the estimated crude oil and natural gas reserves of the Company and its Restricted Subsidiaries reflected in such year-end reserve report since the date of such year-end reserve report attributable to downward determinations of estimates of proved crude oil and natural gas reserves due to exploration, development or exploitation, production or other activities conducted or otherwise occurring since the date of such year-end reserve report that would, in the case of determinations made under clauses (C) and (D), in accordance with standard industry practice, result in such determinations, in each case calculated in accordance with SEC guidelines (utilizing the prices utilized in such year-end reserve

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report);

provided, however, that, in the case of each of the determinations made under clauses (A) through (D), such increases and decreases will be as estimated by the Company's engineers, except that if as a result of such acquisitions, dispositions, discoveries, extensions or revisions, there is a Material Change that is an increase, then such increases and decreases in the discounted future net revenue will be confirmed in writing by an independent petroleum engineer;

(2) the capitalized costs that are attributable to crude oil and natural gas properties of the Company and its Restricted Subsidiaries to which no proved crude oil and natural gas reserves are attributed, based on the Company's books and records as of a date no earlier than the date of the Company's latest annual or quarterly financial statements;

(3) the Net Working Capital on a date no earlier than the date of the Company's latest annual or quarterly financial statements; and

(4) the greater of (I) the net book value on a date no earlier than the date of the Company's latest annual or quarterly financial statements and (II) the appraised value, as estimated by independent appraisers, of other tangible assets of the Company and its Restricted Subsidiaries as of a date no earlier than the date of the Company's latest audited financial statements (provided that the Company will not be required to obtain such an appraisal of such assets if no such appraisal has been performed);

minus

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(b) to the extent not otherwise taken into account in the immediately preceding clause (a), the sum of:

(1) minority interests;

(2) any natural gas balancing liabilities of the Company and its Restricted Subsidiaries reflected in the Company's latest audited financial statements;

(3) the discounted future net revenue, calculated in accordance with SEC guidelines (utilizing the same prices utilized in the Company's year-end reserve report), attributable to reserves subject to participation interests, overriding royalty interests or other interests of third parties, under participation, partnership, vendor financing or other agreements then in effect, or which otherwise are required to be delivered to third parties;

(4) the discounted future net revenue, calculated in accordance with SEC guidelines (utilizing the same prices utilized in the Company's year-end reserve report), attributable to reserves that are required to be delivered to third parties to fully satisfy the obligations of the Company and its Restricted Subsidiaries with respect to Volumetric Production Payments on the schedules specified with respect thereto; and

(5) the discounted future net revenue, calculated in accordance with SEC guidelines, attributable to reserves subject to Dollar-Denominated Production Payments that, based on the estimates of production included in determining the discounted future net revenue specified in the immediately preceding clause (a)(1) (utilizing the same

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prices utilized in the Company's year-end reserve report), would be necessary to satisfy fully the obligations of the Company and its Restricted Subsidiaries with respect to Dollar-Denominated Production Payments on the schedules specified with respect thereto.

If the Company changes its method of accounting from the successful efforts method to the full cost method or a similar method of accounting, "ACNTA" will continue to be calculated as if the Company were still using the successful efforts method of accounting.

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of the provisions described under "-- Certain Covenants -- Limitation on Restricted Payments," "-- Certain Covenants -- Limitation on Affiliate Transactions" and "-- Certain Covenants -- Limitation on Sales of Assets and Subsidiary Stock" only, "Affiliate" will also mean any beneficial owner of Capital Stock representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Capital Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner under the first sentence hereof.

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition"), of:

- (1) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary);
- (2) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary; or
- (3) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary.

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Notwithstanding the foregoing, none of the following will be deemed to be an Asset Disposition:

- (1) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Wholly Owned Subsidiary;
- (2) for purposes of the covenant described under "-- Certain Covenants -- Limitation on Sales of Assets and Subsidiary Stock" only, a disposition that constitutes a Restricted Payment permitted by the covenant described under "-- Certain Covenants -- Limitation on Restricted Payments," a disposition of all or substantially all the assets of the Company in compliance with "-- Certain Covenants -- Merger and Consolidation" or a disposition that constitutes a Change of Control under clause (3) of the definition thereof;

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(3) the sale or transfer (whether or not in the ordinary course of business) of crude oil and natural gas properties or direct or indirect interests in real property; provided, however, that at the time of such sale or transfer such properties do not have associated with them any proved reserves;

(4) the abandonment, farm-out, lease or sublease of developed or undeveloped crude oil and natural gas properties in the ordinary course of business;

(5) the trade or exchange by the Company or any Restricted Subsidiary of any crude oil and natural gas property owned or held by the Company or such Restricted Subsidiary for (a) any crude oil and natural gas property owned or held by another Person or (b) the Capital Stock of another Person that becomes a Restricted Subsidiary as a result of such trade or exchange and all or substantially all of whose assets consist of crude oil and natural gas properties, in either case including any cash or cash equivalents necessary in order to achieve an exchange of equivalent value; provided, however, that the value of the property or Capital Stock received by the Company or any Restricted Subsidiary in such trade or exchange (including any cash or cash equivalents) is at least equal to the fair market value (as determined in good faith by the Board of Directors or an Officer of the Company with responsibility for such transaction) of the property (including any cash or cash equivalents) so traded or exchanged;

(6) the sale or transfer of hydrocarbons or other mineral products or surplus or obsolete equipment in the ordinary course of business;

(7) any sale, lease or other disposition of any individual asset or series of related sales, leases or other dispositions where the cash proceeds and fair market value of non-cash proceeds do not exceed \$750,000; or

(8) Production Payments and Reserve Sales in connection with the acquisition of any crude oil and natural gas property after the Issue Date; provided that any such Production Payment and Reserve Sale is created, incurred, issued or assumed in connection with the financing of, and within 90 days after the acquisition of, such oil and natural gas property.

"Attributable Debt" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate implicit in the Sale/Leaseback Transaction, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction, including any period for which such lease has been extended; provided, however, that if such Sale/Leaseback Transaction results in a Capital Lease Obligation, the amount of Indebtedness represented by such Sale/Leaseback Transaction will be determined in accordance with the definition of "Capital Lease Obligation."

"Average Life" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing

(1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment, by

(2) the sum of all such payments.

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"Board of Directors" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board.

"Business Day" means each day other than a Saturday, a Sunday or a day on which banking institutions are not required to be open in the State of New York or Texas.

"Capital Lease Obligation" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation will be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in, however designated, equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Code" means the Internal Revenue Code of 1986, as amended.

"Consolidated Coverage Ratio" as of any date of determination means the ratio of

(a) the aggregate amount of EBITDA for the period of the most recent four consecutive fiscal quarters ending at least 45 days prior to the date of such determination, to

(b) Consolidated Interest Expense for such four fiscal quarters; provided, however, that:

(1) if we have or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period will be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period and the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period;

(2) if we have or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged on the date of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period will be calculated on a pro forma basis as if such discharge had occurred on the first day of such period and as if the Company or such Restricted Subsidiary had not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;

(3) if since the beginning of such period we or any Restricted Subsidiary has made any Asset Disposition, then EBITDA for such period will be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets that are the subject of such Asset Disposition for such period, or increased by an amount equal to EBITDA

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(if negative) directly attributable thereto for such period and Consolidated Interest Expense for such period will be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent we and our continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(4) if since the beginning of such period we or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Restricted Subsidiary (or any person that becomes a

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Restricted Subsidiary) or an acquisition (including by way of lease) of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, EBITDA and Consolidated Interest Expense for such period will be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; and

(5) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into us or any Restricted Subsidiary since the beginning of such period) has made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment under clause (3) or (4) above if made by us or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period will be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition occurred on the first day of such period.

For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the pro forma calculations will be determined in good faith by a responsible financial or accounting Officer of the Company. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Indebtedness will be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness, but if the remaining term of such Interest Rate Agreement is less than 12 months, then such Interest Rate Agreement will only be taken into account for that portion of the period equal to the remaining term of such agreement).

The Consolidated Interest Expense attributable to interest on any Indebtedness under a revolving credit facility, the outstanding principal balance of which is required to be computed on a pro forma basis in accordance with the foregoing, will be computed based on the average daily balance of such Indebtedness during the applicable period; provided, that such average daily balance will take into account the amount of any repayment of Indebtedness under such revolving credit facility during the applicable period, to the extent such repayment permanently reduced the commitments or amounts available to be borrowed under such facility.



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"Consolidated Interest Expense" means, for any period, the total interest expense of the Company and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP, plus, to the extent not included in such total interest expense, and to the extent incurred by the Company or its Restricted Subsidiaries, without duplication:

- (1) interest expense attributable to Capital Lease Obligations and imputed interest with respect to Attributable Debt;
- (2) amortization of debt discount and debt issuance cost;
- (3) capitalized interest;
- (4) non-cash interest expense;
- (5) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;
- (6) net costs (including amortization of fees and up-front payments) associated with Interest Rate Agreements that, at the time entered into, resulted in the Company and its Restricted Subsidiaries being net payees as to future payouts under such agreements, and Interest Rate Agreements for which the Company or any of its Restricted Subsidiaries has paid a premium;
- (7) dividends paid (excluding dividends paid in shares of Capital Stock that is not Disqualified Stock) in respect of all Preferred Stock held by Persons other than the Company or a Wholly Owned Subsidiary;

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(8) interest accruing on any Indebtedness of any other Person to the extent such Indebtedness is Guaranteed by, or secured by a Lien on Property of, the Company or any Restricted Subsidiary (whether or not such Guarantee or Lien is called upon);

(9) interest incurred in connection with Investments in discontinued operations;

(10) cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Company) in connection with Indebtedness Incurred by such plan or trust;

minus, to the extent included above, write-off of deferred financing costs and interest attributable to Dollar-Denominated Production Payments.

"Consolidated Net Income" means, for any period, the net income of the Company and its Subsidiaries determined on a consolidated basis in accordance with GAAP; provided, however, that there will not be included in such Consolidated Net Income:

(1) any net income of any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that:

(A) subject to the exclusion contained in clause (3) below, the Company's equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend, interest payment or other distribution (subject, in the case of a dividend, interest payment or other distribution paid to a Restricted Subsidiary, to the

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limitations contained in clause (2) below); and

(B) the Company's equity in a net loss of any such Person for such period will not be included in determining such Consolidated Net Income, except to the extent of the aggregate cash actually contributed to such Person by the Company or a Restricted Subsidiary during such period;

(2) any net income of any Restricted Subsidiary if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that:

(A) subject to the exclusion contained in clause (3) below, the equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the amount of cash permitted to be distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause); and

(B) the Company's equity in a net loss of any such Restricted Subsidiary for such period will be included in determining such Consolidated Net Income;

(3) any gain or loss realized upon the sale or other disposition of any assets of the Company or its consolidated Subsidiaries (including any sale or disposition under any sale-and-leaseback arrangement) that is not sold or otherwise disposed of in the ordinary course of business and any gain or loss realized upon the sale or other disposition of any Capital Stock of any Person;

(4) extraordinary gains or losses, together with any related provision for taxes on such gains or losses and all related fees and expenses;

(5) any non-cash compensation expense realized for grants of performance shares, stock options or stock awards to officers, directors and employees of the Company or any of its Restricted Subsidiaries;

(6) any impairment losses on oil and natural gas properties;

(7) the cumulative effect of a change in accounting principles; and

(8) any unrealized non-cash gains or losses or charges in respect of Hedging Obligations.

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Notwithstanding the foregoing, for the purposes of the covenant described under "Certain Covenants -- Limitation on Restricted Payments" only, there will be excluded from Consolidated Net Income any dividends, interest payments, repayments of loans or advances or other transfers of assets from Unrestricted Subsidiaries to the Company or a Restricted Subsidiary to the extent such dividends, interest payments, repayments or transfers increase the amount of Restricted Payments permitted under such covenant under clause (a) (3) (E) thereof.

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of the Company and its Subsidiaries, determined on a consolidated basis in accordance with GAAP, as of the end of the most recent fiscal quarter of the Company ending at least 45 days prior to the taking of any action for the purpose of which the determination is being made, as the sum of:

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(1) the par or stated value of all outstanding Capital Stock of the Company plus

(2) paid-in capital or capital surplus relating to such Capital Stock plus

(3) any retained earnings or earned surplus

less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Stock.

"Credit Agreement" means that certain Third Amended and Restated Credit Agreement, dated November 1, 2002, as amended by the First Amendment thereto effective as of July 28, 2003, by and among us, certain of the Subsidiary Guarantors and Bank One, NA (or any successor thereto or replacement thereof), as administrative agent, letter of credit issuer and a bank, and certain other financial institutions, as banks, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, restated, modified, renewed, refunded, replaced, refinanced or increased in whole or in part from time to time.

"Credit Facilities" means, with respect to the Company or any Restricted Subsidiary, one or more debt facilities (including the Credit Agreement) or commercial paper facilities with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"Currency Agreement" means, in respect of a Person, any foreign exchange contract, currency swap agreement or other similar agreement designed to protect such Person against fluctuations in currency values.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Disqualified Stock" means, with respect to any Person, any Capital Stock that by its terms, or by the terms of any security into which it is convertible or for which it is exchangeable, or upon the happening of any event:

(1) matures or is mandatorily redeemable under a sinking fund obligation or otherwise;

(2) is convertible or exchangeable at the option of the holder thereof for Indebtedness or Disqualified Stock; or

(3) is redeemable or repurchasable, in whole or in part, at the option of the holder thereof;

in each case on or prior to the first anniversary of the Stated Maturity of the exchange notes; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the Stated Maturity of the exchange notes will not constitute Disqualified Stock if:

(x) the "asset sale" or "change of control" provisions applicable to such Capital Stock are not more favorable, as measured by the purchase or redemption price or the breadth of the definition of the event

or events triggering such purchase or redemption obligation to the holders of such Capital Stock than the provisions described under "-- Certain Covenants -- Limitation on Sales of Assets and Subsidiary Stock" and "-- Certain Covenants -- Change of Control"; and

(y) any such requirement only becomes operative after compliance with such corresponding terms applicable to the exchange notes, including the purchase of any exchange notes tendered pursuant thereto.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined under the Indenture; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

"Dollar-Denominated Production Payments" means production payment obligations recorded as liabilities in accordance with GAAP, together with all undertakings and obligations in connection therewith.

"Earnout Agreement" means the Earnout Agreement, dated January 15, 2002, as amended on July 1, 2002, by and among the Company and Hall-Houston Oil Company, with Hall-Houston Oil Company executing on behalf of the Participants (as defined therein).

"EBITDA" means, with respect to any period, the Consolidated Net Income for such period:

(a) plus the sum of, to the extent reflected in the consolidated income statement of the Company and its Restricted Subsidiaries for such period from which Consolidated Net Income is determined and deducted in the determination of such Consolidated Net Income, without duplication:

(1) Consolidated Interest Expense;

(2) income tax expense;

(3) depreciation, depletion and amortization expense (excluding amortization expense attributable to a prepaid operating activity item that was paid in cash in a prior period);

(4) exploration expense; and

(5) all other non-cash charges including non-cash charges taken under FAS 133 (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash charges in any future period or amortization of a prepaid cash expense that was paid in a prior period except such amounts as the Company determines in good faith are nonrecurring);

(b) less, to the extent included in the determination of such Consolidated Net Income and in excess of any costs or expenses attributable thereto and deducted in the determination of such Consolidated Net Income, the sum of:

(1) the amount of deferred revenues that are amortized during such

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period and are attributable to reserves that are subject to Volumetric Production Payments; and

(2) amounts recorded in accordance with GAAP as repayments of principal and interest under Dollar-Denominated Production Payments.

Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depletion, depreciation, amortization and exploration and other non-cash charges of, a Restricted Subsidiary will be added to Consolidated Net Income to compute EBITDA only

(1) to the extent (and in the same proportion) that the net income of such Restricted Subsidiary was included in the determination of Consolidated Net Income, and

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(2) if a corresponding amount would be permitted at the date of determination to be paid as a dividend to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), under the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its stockholders.

"Equity Offering" means:

(1) a primary offering of shares of common stock of the Company pursuant to an underwritten offering registered under the Securities Act; or

(2) a private offering of shares of common stock of the Company so long as, at the time of consummation of the sale pursuant to such offering, the Company's common stock continues to be registered pursuant to Section 12(b) or Section 12(g) under the Exchange Act,

in each case, other than public offerings with respect to such common stock or options, warrants or rights to acquire same, registered on Form S-4 or Form S-8.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Existing Preferred Stock" means our Series D Exchangeable Convertible Preferred Stock, par value \$1.00 per share and stated value of \$100 per share.

"Fair Market Value" means, with respect to any non-cash consideration or property transferred or received by any Person, the fair market value of such consideration or property as determined by the Board of Directors of the Company.

"FAS 133" means Financial Accounting Standards Board Statement No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities."

"GAAP" means generally accepted accounting principles in the United States of America as in effect on the Issue Date, including those set forth in:

(1) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants;

(2) statements and pronouncements of the Financial Accounting Standards Board;

(3) such other statements by such other entity as approved by a

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significant segment of the accounting profession; and

(4) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed under Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC.

"Guarantee" means, without duplication, any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, however, that the term "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" will mean any Person Guaranteeing any obligation.

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"Guarantee Agreement" means a supplemental indenture, in a form satisfactory to the Trustee, by which a Subsidiary Guarantor or any other Person becomes subject to the applicable terms and conditions of the Indenture.

"Hedging Obligations" of any Person means the obligations of such Person under any Oil and Gas Hedging Contract, Interest Rate Agreement or Currency Agreement.

"Holder" or "Noteholder" means the Person in whose name a Note is registered on the Registrar's books.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. The term "Incurrence" when used as a noun will have a correlative meaning. The accretion of principal of a non-interest bearing or other discount security will not be deemed the Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination, without duplication:

(1) the principal of and premium, if any, in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable;

(2) all Capital Lease Obligations of such Person and all Attributable Debt in respect of Sale/ Leaseback Transactions entered into by such Person;

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(3) all obligations of such Person issued or assumed as the deferred purchase price of property, which purchase price is due more than six months after the date of taking delivery of title to such property, including all obligations of such Person for the deferred purchase price of property under any title retention agreement, but excluding trade accounts payable arising in the ordinary course of business;

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (1) through (3) above) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit);

(5) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock, but excluding any accrued dividends;

(6) any Preferred Stock of any Restricted Subsidiary;

(7) all obligations of the type referred to in clauses (1) through (6) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee;

(8) all obligations of the type referred to in clauses (1) through (7) of other Persons secured by any Lien on any Property of such first-mentioned Person, whether or not such obligation is assumed by such first-mentioned Person, the amount of such obligation being deemed to be the lesser of the value of such Property or the amount of the obligation so secured;

(9) to the extent not otherwise included in this definition, Hedging Obligations of such Person; and

(10) any Guarantee by such Person of production or payment with respect to a Production Payment and Reserve Sale.

The amount of Indebtedness of any Person at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, assuming the occurrence on such date of the contingency giving rise to the obligation, of any contingent obligations outstanding at such date.

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None of the following will constitute Indebtedness:

(1) obligations for indemnification or adjustment of purchase price or arising from guarantees securing any such obligations of ours or any of our Subsidiaries incurred or assumed in connection with the disposition of any business, assets or Subsidiary of the Company, other than guarantees or similar credit support by us or any of our Subsidiaries of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition;

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(2) any trade payables or other similar liabilities to trade creditors and other accrued current liabilities incurred in the ordinary course of business as the deferred purchase price of property;

(3) any liability for Federal, state, local or other taxes owed or owing by such Person;

(4) amounts due in the ordinary course of business to other royalty and working interest owners;

(5) obligations arising from guarantees to suppliers, lessors, licensees, contractors, franchisees or customers incurred in the ordinary course of business;

(6) obligations (other than express Guarantees of indebtedness for borrowed money) in respect of Indebtedness of other Persons arising in connection with (A) the sale or discount of accounts receivable, (B) trade acceptances and (C) endorsements of instruments for deposit in the ordinary course of business;

(7) obligations in respect of performance bonds provided by us or any of our Subsidiaries in the ordinary course of business and refinancing thereof;

(8) obligations arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, provided, however, that such obligation is extinguished within two Business Days of its incurrence;

(9) any obligations under workers' compensation laws and similar legislation; and

(10) except as expressly provided in clause (10) above, obligations relating to Production Payments and Reserve Sales.

"Independent Qualified Party" means an investment banking firm, accounting firm or appraisal firm of national standing; provided, however, that such firm is not an Affiliate of the Company.

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement designed to protect us or any Restricted Subsidiary against fluctuations in interest rates.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers or joint interest partners or drilling partnerships sponsored by us or any Restricted Subsidiary in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. Except as otherwise provided for herein, the amount of an Investment will be its fair value at the time the Investment is made and without giving effect to subsequent changes in value.

For purposes of the definition of "Unrestricted Subsidiary," the definition of "Restricted Payment" and the covenant described under "-- Certain Covenants -- Limitation on Restricted Payments":

(1) "Investment" will include the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of



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the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company will be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary equal to an amount (if positive) equal to (x) the Company's "Investment" in such Subsidiary at the time of such redesignation less (y) the portion

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(proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary will be valued at its Fair Market Value at the time of such transfer, in each case as determined in good faith by the Board of Directors.

"Issue Date" means the date on which the exchange notes are originally issued.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind, including any conditional sale or other title retention agreement or lease in the nature thereof.

"Material Change" means an increase or decrease (excluding changes that result solely from changes in prices and changes resulting from the incurrence of previously estimated future development costs) of more than 25% during a fiscal quarter in the discounted future net revenues from proved crude oil and natural gas reserves of the Company and its Restricted Subsidiaries, calculated in accordance with clause (a) (1) of the definition of Adjusted Consolidated Net Tangible Assets; provided, however, that the following will be excluded from the calculation of Material Change:

(1) any acquisitions during the fiscal quarter of oil and gas reserves that have been estimated by independent petroleum engineers and with respect to which a report or reports of such engineers exist; and

(2) any disposition of properties existing at the beginning of such fiscal quarter that have been disposed of in compliance with the covenant described under "-- Certain Covenants -- Limitation on Sales of Assets and Subsidiary Stock."

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Net Available Cash" from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of deferred payment of principal under a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other noncash form), in each case net of:

(1) all legal, title and recording tax expenses, commissions and other fees (including financial and other advisory fees) and expenses incurred, and all Federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness that is secured by any assets subject to such Asset Disposition, in accordance with the terms of

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any Lien upon or other security agreement of any kind with respect to such assets, or that must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds," with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Net Present Value" means, with respect to any proved hydrocarbon reserves, the discounted future net cash flows associated with such reserves, determined in accordance with the rules and regulations (including interpretations thereof) of the SEC in effect on the date of this prospectus.

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"Net Working Capital" means:

(1) all current assets of the Company and its Restricted Subsidiaries; minus

(2) all current liabilities of the Company and its Restricted Subsidiaries, except current liabilities included in Indebtedness;

in each case determined in accordance with GAAP.

"Non-recourse Purchase Money Indebtedness" means Indebtedness (other than Capital Lease Obligations) of the Company or any Subsidiary Guarantor incurred in connection with the acquisition by the Company or such Subsidiary Guarantor in the ordinary course of business of fixed assets used in the Oil and Gas Business (including office buildings and other real property used by the Company or such Subsidiary Guarantor in conducting its operations) with respect to which:

(1) the holders of such Indebtedness agree that they will look solely to the fixed assets so acquired that secure such Indebtedness, and neither the Company nor any Restricted Subsidiary (a) is directly or indirectly liable for such Indebtedness or (b) provides credit support, including any undertaking, Guarantee, agreement or instrument that would constitute Indebtedness (other than the grant of a Lien on such acquired fixed assets); and

(2) no default or event of default with respect to such Indebtedness would cause, or permit (after notice or passage of time or otherwise), any holder of any other Indebtedness of the Company or a Subsidiary Guarantor to declare a default or event of default on such other Indebtedness or cause the payment, repurchase, redemption, defeasance or other acquisition or retirement for value thereof to be accelerated or payable prior to any

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scheduled principal payment, scheduled sinking fund payment or maturity.

"Obligations" means, with respect to any Indebtedness, all obligations for principal, premium, interest, penalties, fees, indemnifications, reimbursements and other amounts payable pursuant to the documentation governing such Indebtedness.

"Oil and Gas Business" means

(1) the acquisition, exploration, exploitation, development, operation or disposition of interests in, or obtaining production from, oil, natural gas or other hydrocarbon properties;

(2) the gathering, marketing, treating, processing (but not refining), storage, selling or transporting of any production from such interests or properties; or

(3) any activity that is ancillary, necessary or appropriate to facilitate, or that is incidental to, the activities described in clauses (1) and (2) of this definition.

"Oil and Gas Hedging Contract" means any oil and gas purchase or hedging agreement, and other agreement or arrangement, in each case, that is designed to provide protection against oil and gas price fluctuations.

"Oil and Gas Liens" means:

(1) Liens on any specific property or any interest therein, construction thereon or improvement thereto to secure all or any part of the costs incurred for surveying, exploration, drilling, extraction, development, operation, production, construction, alteration, repair or improvement of, in, under or on such property and the plugging and abandonment of wells located thereon (it being understood that, in the case of oil and gas producing properties, or any interest therein, costs incurred for "development" will include costs incurred for all facilities relating to such properties or to projects, ventures or other arrangements of which such properties form a part or that relate to such properties or interests);

(2) Liens on an oil or gas producing property to secure obligations incurred or guarantees of obligations incurred in connection with or necessarily incidental to commitments for the purchase or sale of, or the transportation or distribution of, the products derived from such property;

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(3) Liens arising under partnership agreements, oil and gas leases, overriding royalty agreements, net profits agreements, production payment agreements, royalty trust agreements, incentive compensation programs on terms that are reasonably customary in the Oil and Gas Business for geologists, geophysicists and other providers of technical services to the Company or a Restricted Subsidiary, farm-out agreements, farm-in agreements, division orders, contracts for the sale, purchase, exchange, transportation, gathering or processing of oil, gas or other hydrocarbons, unitizations and pooling designations, declarations, orders and agreements, development agreements, operating agreements, production sales contracts, area of mutual interest agreements, gas balancing or deferred production agreements, injection, repressuring and recycling agreements, salt water or other disposal agreements, seismic or geophysical permits or agreements, and other agreements that are customary in the Oil and Gas Business; provided, however, that in all instances such Liens are limited to the

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assets that are the subject of the relevant agreement, program, order or contract;

(4) Liens arising in connection with Production Payments and Reserve Sales; and

(5) Liens on pipelines or pipeline facilities that arise by operation of law.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"Permitted Business Investment" means any investment or expenditure made in the ordinary course of, and of a nature that is or has become customary in, the Oil and Gas Business including investments or expenditures arising through agreements, transactions, interests or arrangements that permit one to share risks or costs, comply with regulatory requirements regarding local ownership or satisfy other objectives customarily achieved through the conduct of Oil and Gas Business jointly with third parties, including:

(1) ownership interests in oil and gas properties, processing facilities, gathering systems, pipelines or ancillary real property interests; and

(2) Investments in the form of or under operating agreements, processing agreements, farm-in agreements, farm-out agreements, development agreements, area of mutual interest agreements, unitization agreements, pooling agreements, joint bidding agreements, service contracts, joint venture agreements, partnership agreements (whether general or limited), subscription agreements, stock purchase agreements and other similar agreements (including for limited liability companies) with third parties, excluding, however, Investments in any corporation, partnership, limited liability company or any other entity that is not a Restricted Subsidiary.

"Permitted Holders" means:

(1) Richard A. Bachmann;

(2) Evercore Capital Partners L.P., Evercore Capital Offshore Partners L.P., Evercore Capital Partners (NQ) L.P. and Evercore Co-Investment Partnership L.P.;

(3) trusts, the sole beneficiaries and trustees of which is or are the individual who would be a Permitted Holder under clause (1) above or his immediate family members; and

(4) corporations, partnerships and other entities (a) of which the individual who would be a Permitted Holder under clause (1) above or his immediate family members is or are the beneficial owners of all Capital Stock and other equity or voting interests and (b) that are controlled by such individual and his immediate family members.

"Permitted Investment" means an Investment by the Company or any Restricted Subsidiary in:

(1) a Restricted Subsidiary or a Person that will, upon the making of such Investment, become a Restricted Subsidiary; provided, however, that the primary business of such Restricted Subsidiary is the Oil and Gas Business;

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(2) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary; provided, however, that such Person's primary business is the Oil and Gas Business;

(3) Temporary Cash Investments;

(4) receivables owing to us or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) loans or advances to employees made in the ordinary course of business;

(7) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to us or any Restricted Subsidiary or in satisfaction of judgments;

(8) any Person to the extent such Investment represents the noncash portion of the consideration received for an Asset Disposition as permitted under the covenant described under "-- Certain Covenants -- Limitation on Sales of Assets and Subsidiary Stock";

(9) Permitted Business Investments;

(10) Investments made pursuant to Hedging Obligations of the Company and the Restricted Subsidiaries;

(11) any Person where such Investment was acquired by the Company or any of its Restricted Subsidiaries (a) in exchange for any other Investment or accounts receivable held by the Company or any such Restricted Subsidiary in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization of the issuer of such other Investment or accounts receivable or (b) as a result of a foreclosure by the Company or any of its Restricted Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default; and

(12) any Person, not otherwise permitted to be made under clause (1) through (11), in an aggregate amount, which when taken together with all other Investments made on or after the Issue Date under this clause, does not exceed \$20 million at any one time outstanding.

"Permitted Liens" means, with respect to any Person:

(1) Liens existing as of the Issue Date;

(2) Liens securing the exchange notes, any Subsidiary Guarantee and other obligations arising under the Indenture;

(3) any Lien existing on any Property of a Person at the time such Person is merged or consolidated with or into the Company or a Restricted

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Subsidiary or becomes a Restricted Subsidiary (and not incurred in anticipation of or in connection with such transaction), provided that such Liens are not extended to other Property of the Company or the Restricted Subsidiaries;

(4) any Lien existing on any Property at the time of the acquisition thereof (and not incurred in anticipation of or in connection with such transaction), provided that such Liens are not extended to other Property of the Company or the Restricted Subsidiaries;

(5) any Lien incurred in the ordinary course of business incidental to the conduct of the business of the Company or the Restricted Subsidiaries or the ownership of their property (including (a) easements, rights of way and similar encumbrances, (b) rights or title of lessors under leases (other than Capital Lease Obligations), (c) rights of collecting banks having rights of setoff, revocation, refund or chargeback with respect to money or instruments of the Company or the Restricted Subsidiaries on

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deposit with or in the possession of such banks, (d) Liens imposed by law, including Liens under workers' compensation or similar legislation and mechanics', carriers', warehousemen's, materialmen's, suppliers' and vendors' Liens, (e) Liens incurred to secure performance of obligations with respect to statutory or regulatory requirements, performance or return-of-money bonds, surety bonds or other obligations of a like nature and incurred in a manner consistent with industry practice and (f) Oil and Gas Liens, in each case which are not incurred in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of property (other than trade accounts payable arising in the ordinary course of business));

(6) Liens for taxes, assessments and governmental charges not yet due or the validity of which are being contested in good faith by appropriate proceedings, promptly instituted and diligently conducted, and for which adequate reserves have been established to the extent required by GAAP as in effect at such time;

(7) Liens incurred to secure appeal bonds and judgment and attachment Liens, in each case in connection with litigation or legal proceedings that are being contested in good faith by appropriate proceedings, so long as reserves have been established to the extent required by GAAP as in effect at such time and so long as such Liens do not encumber assets by an aggregate amount (together with the amount of any unstayed judgments against the Company or any Restricted Subsidiary but excluding any such Liens to the extent securing insured or indemnified judgments or orders) in excess of \$5 million;

(8) Liens securing Hedging Obligations of the Company and its Restricted Subsidiaries;

(9) Liens securing Purchase Money Indebtedness or Capital Lease Obligations Incurred in accordance with the Indenture, provided that such Liens attach only to the property acquired (or, if such property is Capital Stock, to the assets of such person as well as such Capital Stock) with the proceeds of such Purchase Money Indebtedness or the property that is the subject of such Capital Lease Obligations;

(10) Liens securing Non-recourse Purchase Money Indebtedness granted in connection with the acquisition by the Company or any Restricted Subsidiary in the ordinary course of business of fixed assets used in the Oil and Gas Business (including the office buildings and other real

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property used by the Company or such Restricted Subsidiary in conducting its operations), provided that (a) such Liens attach only to the fixed assets acquired with the proceeds of such Non-recourse Purchase Money Indebtedness and (b) such Non-recourse Purchase Money Indebtedness is not in excess of the purchase price of such fixed assets;

(11) Liens resulting from the deposit of funds or evidences of Indebtedness in trust for the purpose of decreasing or legally defeasing Indebtedness of the Company or any Restricted Subsidiary so long as such deposit of funds is permitted by the provisions of the Indenture described under "-- Limitation on Restricted Payments";

(12) Liens resulting from a pledge of Capital Stock of a Person that is not a Restricted Subsidiary to secure obligations of such Person and any refinancings thereof;

(13) Liens securing Obligations under the Credit Agreement;

(14) Liens to secure any permitted extension, renewal, refinancing, refunding or exchange (or successive extensions, renewals, refinancings, refundings or exchanges), in whole or in part, of or for any Indebtedness secured by Liens referred to in clauses (1), (2), (3), (4), (9), (10) and (13) above; provided, however, that (a) such new Lien must be limited to all or part of the same property (including future improvements thereon and accessions thereto) subject to the original Lien and (b) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (I) the outstanding principal amount or, if greater, the committed amount of the Indebtedness secured by such original Lien immediately prior to such extension, renewal, refinancing, refunding or exchange and (II) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement; and

(15) Liens in favor of the Company or a Restricted Subsidiary.

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Notwithstanding anything in this definition to the contrary, the term "Permitted Liens" will not include Liens resulting from the creation, incurrence, issuance or assumption of any Production Payments and Reserve Sales other than:

(1) any such Liens existing as of the Issue Date;

(2) Production Payments and Reserve Sales in connection with the acquisition of any Property after the Issue Date; provided that any such Lien created in connection therewith is created, incurred, issued or assumed in connection with the financing of, and within 90 days after the acquisition of, such Property; and

(3) Production Payments and Reserve Sales other than those described in clauses (1) and (2), to the extent such Production Payments and Reserve Sales constitute Asset Dispositions made pursuant to and in compliance with the provisions described under "-- Limitation on Sales of Assets and Subsidiary Stock";

provided, however, that, in the case of the immediately foregoing clauses (1), (2) and (3), any Lien created in connection with any such Production Payments and Reserve Sales must be limited to the Property that is the subject of such Production Payments and Reserve Sales.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated

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organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock," as applied to the Capital Stock of any Person, means Capital Stock of any class or classes, however designated, that ranks prior, as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up of such Person, to shares of Capital Stock of any other class of such Person.

The term "principal" of a Note means the principal of the Note plus the premium, if any, payable on the Note that is due or overdue or is to become due at the relevant time.

"Production Payments and Reserve Sales" means the grant or transfer by us or a Restricted Subsidiary to any Person of a royalty, overriding royalty, net profits interest or production payment (whether volumetric or dollar denominated) in oil and natural gas properties, reserves or the right to receive all or a portion of the production or the proceeds from the sale of production attributable to such properties where the holder of such interest has recourse solely to such production or proceeds of production, subject to the obligation of the grantor or transferor to operate and maintain, or cause the subject interests to be operated and maintained, in a reasonably prudent manner or other customary standard or subject to the obligation of the grantor or transferor to indemnify for environmental, title or other matters customary in the Oil and Gas Business.

"Property" means, for any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including Capital Stock and other securities issued by any other Person (but excluding Capital Stock or other securities issued by such first mentioned Person).

"Purchase Money Indebtedness" means any Indebtedness Incurred in connection with the acquisition, construction or improvement of property (real or personal) or assets, and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock or other equity interests of any Person owning such property or assets, or otherwise.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "Refinanced" and "Refinancing" will have correlative meanings.

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"Refinancing Indebtedness" means Indebtedness that Refinances any Indebtedness of the Company or any Restricted Subsidiary existing on the Issue Date or Incurred in compliance with the Indenture, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

(1) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

(2) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;

(3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then



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outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

(4) if the Indebtedness being Refinanced is Non-recourse Purchase Money Indebtedness, such Refinancing Indebtedness satisfies clauses (1) and (2) of the definition of "Non-recourse Purchase Money Indebtedness";

provided further, however, that Refinancing Indebtedness will not include (x) Indebtedness of a Subsidiary that Refinances Indebtedness of the Company or (y) Indebtedness of the Company or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

"Restricted Payment" with respect to any Person means:

(1) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (x) dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock), (y) dividends or distributions payable solely to us or a Restricted Subsidiary, and (z) pro rata dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));

(2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company held by any Person or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than a Restricted Subsidiary), including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company that is not Disqualified Stock);

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of such Person (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition); or

(4) the making of any Investment (other than a Permitted Investment) in any Person.

"Restricted Subsidiary" means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Company, Inc., and its successors.

"Sale/Leaseback Transaction" means an arrangement relating to property owned on the Issue Date or thereafter acquired whereby we or a Restricted Subsidiary transfers such property to a Person and we or a Restricted Subsidiary lease it from such Person.

"SEC" means the Securities and Exchange Commission.

"Secured Indebtedness" means any Indebtedness of the Company or of any Subsidiary secured by a Lien.

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"Senior Indebtedness" means with respect to any Person:

(1) Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred; and

(2) all other Obligations of such Person, including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating such Person to the extent post-filing interest is allowed in such proceeding, in respect of Indebtedness described in clause (1) above;

unless, with respect to obligations described in the immediately preceding clause (1) or (2), in the instrument creating or evidencing the same or under which the same is outstanding, it is provided that such Indebtedness or other Obligations are subordinate in right of payment to the exchange notes or the applicable Subsidiary Guarantee; provided, however, that Senior Indebtedness will not include:

(1) any obligation of such Person to any Subsidiary of such Person;

(2) any liability for Federal, state, local or other taxes owed or owing by such Person;

(3) any accounts payable or other liability to trade creditors arising in the ordinary course of business, including guarantees thereof or instruments evidencing such liabilities;

(4) any Indebtedness or other Obligation of such Person, and any accrued and unpaid interest in respect thereof, that is subordinate or junior in any respect to any other Indebtedness or other Obligation of such Person;

(5) Subordinated Obligations;

(6) that portion of any Indebtedness that at the time of Incurrence is Incurred in violation of the Indenture (other than, in the case of the Company or any Subsidiary Guarantor that Guarantees or is an obligor under any Credit Facility, Indebtedness under any Credit Facility that is Incurred on the basis of a representation by the Company or the applicable Subsidiary Guarantor to the applicable lenders that such Person is permitted to Incur such Indebtedness under the Indenture); or

(7) any Disqualified Stock or obligations with respect to any Capital Stock.

"Significant Subsidiary" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

"Stated Maturity" means, with respect to any security or obligation, the date specified in such security or obligation as the fixed date on which the final payment of principal of such security or payment on such obligation is due and payable, including under any mandatory redemption provision (but excluding any provision providing for the repurchase of such security or obligation at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Subordinated Obligation" means any Indebtedness of the Company or any Subsidiary Guarantor, whether outstanding on the Issue Date or thereafter Incurred, that is subordinate or junior in right of payment to, in the case of the Company, the exchange notes or, in the case of a Subsidiary Guarantor, its Subsidiary Guarantee under a written agreement to that effect.

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"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by:

- (1) such Person;
- (2) such Person and one or more Subsidiaries of such Person; or
- (3) one or more Subsidiaries of such Person.

"Subsidiary Guarantor" means each Subsidiary of the Company that executes the Indenture as a guarantor and each other Subsidiary of the Company that thereafter Guarantees the exchange notes under the terms of the Indenture, in each case unless and until such Subsidiary is released from its obligations under its

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Subsidiary Guarantee in accordance with the terms of the Indenture. Initially, the Subsidiary Guarantors will be EPL Pipeline, L.L.C. (Delaware), Nighthawk, L.L.C. (Louisiana), EPL of Louisiana, L.L.C. (Louisiana), Delaware EPL of Texas, LLC (Delaware), and EPL Pioneer Houston, Inc. (Texas).

"Temporary Cash Investments" means any of the following:

- (1) Investments in U.S. Government Obligations maturing within one year of the date of acquisition thereof;
- (2) Investments in (a) time deposit accounts, certificates of deposit and money market deposits maturing within one year of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America or any state thereof or the District of Columbia that is a member of the Federal Reserve System and which bank or trust company has capital, surplus and undivided profits aggregating in excess of \$250 million and whose long-term debt is rated "A" (or such similar equivalent rating) or higher by Moody's or S&P or (b) any money-market fund having assets in excess of \$500 million all of which consist of obligations of the types described in clauses (1), (2), (3), (4) and (5) hereof;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;
- (4) Investments in commercial paper, maturing not more than one year after the date of acquisition, issued by a Person (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to SP and
- (5) Investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's.

"Unrestricted Subsidiary" means:

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(1) any Subsidiary of the Company that at the time of determination will be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors may designate any Subsidiary of the Company, including any newly acquired or newly formed Subsidiary, to be an Unrestricted Subsidiary in the manner and subject to the conditions described under "-- Certain Covenants -- Restricted and Unrestricted Subsidiaries."

"U.S. Government Obligations" means direct obligations, or certificates representing an ownership interest in such obligations, of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the issuer's option.

"Volumetric Production Payments" means production payment obligations recorded as deferred revenue in accordance with GAAP, together with all undertakings and obligations in connection therewith.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled, without regard to the occurrence of any contingency, to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares) is owned by the Company or one or more Wholly Owned Subsidiaries.

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### GLOBAL NOTES AND BOOK-ENTRY SYSTEM

#### THE GLOBAL SECURITIES

The exchange notes will be issued in the form of one or more registered notes in global form, without interest coupons. Such global notes will be deposited on the issue date with DTC and registered in the name of Cede & Co., as nominee of DTC, or will remain in the custody of the Trustee under the Indenture pursuant to the FAST Balance Certificate Agreement between DTC and the Trustee. Beneficial interests in the global notes may not be exchanged for certificated notes except in the circumstances described below. All interests in global notes may be subject to the procedures and requirements of DTC.

Exchanges of beneficial interests in one global security for interests in another global security will be subject to the applicable rules and procedures of DTC and its direct and indirect participants. Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in another global security will, upon transfer, cease to be an interest in that global security and become an interest in the global security to which the beneficial interest is transferred and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in the global security to which the beneficial interest is transferred for as long as it remains an interest in that global security.

#### CERTAIN BOOK-ENTRY PROCEDURES FOR THE GLOBAL NOTES

The descriptions of the operations and procedures of DTC as set forth below

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are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. We do not take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, which eliminates the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a direct or indirect custodial relationship with a participant ("indirect participants"). The rules applicable to DTC and its participants are on file with the Commission.

Upon the issuance of the global note representing the exchange notes, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by the global note to the accounts of the persons who have accounts with DTC. Ownership of beneficial interests in the global note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in the global note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants and indirect participants (with respect to interests of persons other than participants).

So long as DTC or its nominee is the registered owner or holder of the global note, DTC or such nominee, as the case may be, will be considered the sole record owner or holder of the exchange notes represented by the global note for all purposes under the Indenture and the exchange notes. Except as set forth herein, owners of beneficial interests in the global note will not be entitled to have exchange notes represented by the global note registered in their names, will not receive or be entitled to receive physical delivery of exchange notes in definitive certificated form, and will not be considered holders of the exchange notes for any purposes under the Indenture. Accordingly, each person owning a beneficial interest in the global note must rely on the

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procedures of DTC and, if such person is not a participant, on the procedures of the participant through which such person directly or indirectly owns its interest, to exercise any rights of a holder under the Indenture. We understand that under existing industry practices, if we request any action of holders or any owner of a beneficial interest in the global note desires to give any notice or take any action that a holder is entitled to give or take under the indenture, DTC would authorize the participants holding the relevant beneficial interests to give such notice to take such action, and such participants would authorize beneficial owners owning through such participants to give such notice or take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Payments of the principal of, premium, if any, and interest on the global note will be made to DTC or its nominee, as the case may be, as the registered

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owner. Neither we, the trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We expect that DTC or its nominee, upon receipt of any payment of principal of, premium, if any, or interest in respect of the global note will credit participants' accounts with payments in amounts proportionate to their respective beneficial ownership interests in the principal amount of the global note, as shown on the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in the global note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. The participants will be responsible for such payments.

A global note is exchangeable for certificated notes if:

(1) DTC (a) notifies us that it is unwilling or unable to continue as depository for the global notes and DTC fails to appoint a successor depository within 90 days of such notice or (b) at any time has ceased to be a clearing agency registered under the Exchange Act;

(2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of the certificated notes; or

(3) there has occurred and is continuing an Event of Default with respect to the exchange notes.

In addition, beneficial interests in a global note may be exchanged for certificated notes upon prior written notice given to the Trustee by or on behalf of DTC in accordance with the Indenture. In all cases, certificated notes delivered in exchange for any global note or beneficial interests in global notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository in accordance with its customary procedures.

Although DTC has agreed to the procedures described above in order to facilitate transfers of interests in the global note among participants of DTC, it is under no obligation to perform such procedures and such procedures may be discontinued at any time. Neither we nor the Trustee will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

According to DTC, the foregoing information with respect to DTC has been provided by it for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind. The information contained herein concerning DTC and its book-entry system has been obtained from sources that we believe are reliable, although DTC has declined to pass upon the accuracy of the statements contained herein.

### SAME-DAY FUNDS

We will make all payments of principal, premium, if any, and interest on the global notes in immediately available funds to DTC.

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The following is a general discussion of certain United States federal income tax consequences associated with the exchange of old notes for exchange notes and the beneficial ownership and disposition of the exchange notes. This discussion is based on the Code, Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or different interpretations. This discussion only addresses tax considerations for beneficial owners of the senior notes that hold the senior notes as "capital assets," within the meaning of the Code. Moreover, this discussion is for general information only and does not address all of the tax consequences that may be relevant to specific beneficial owners of the senior notes in light of their particular circumstances or to beneficial owners of the senior notes subject to special treatment under U.S. federal income tax laws (such as banks, insurance companies, tax-exempt entities, retirement plans, dealers in securities, brokers, expatriates, partnerships or other pass-through entities, persons who hold their senior notes as part of a straddle, hedge, conversion transaction or other integrated investment, persons whose functional currency is not the U.S. dollar, persons subject to the alternative minimum tax or persons deemed to sell the senior notes under the constructive sale provisions of the Code). This discussion does not address any U.S. state and local or non-U.S. tax considerations relating to the purchase, ownership and disposition of the senior notes.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of a senior note that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation created or organized in or under the laws of the U.S. or of any State or political subdivision thereof or therein, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of the source thereof; or
- a trust with respect to which a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or certain electing trusts that were in existence on August 19, 1996 and were treated as domestic trusts on that date.

The term "Non-U.S. Holder" means a beneficial owner of a senior note that is, for U.S. federal income tax purposes, a nonresident alien or a corporation, trust or estate that is not a U.S. Holder. Prospective purchasers of senior notes that are partnerships or who would hold the senior notes through a partnership or similar pass-through entity should consult their tax advisors regarding the U.S. federal income tax consequences to them of holding senior notes.

### EXCHANGE OF NOTES

The exchange of old notes for exchange notes pursuant to this exchange offer will not constitute a taxable event for U.S. federal income tax purposes. Consequently, no gain or loss will be recognized by a holder of the old notes upon receipt of an exchange note. A holder's adjusted tax basis in the exchange note will be the same as the adjusted tax basis in the old note exchanged therefor. A holder's holding period of the exchange note will include the holding period of the old note exchanged therefor.

### U.S. HOLDERS

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### PAYMENT OF INTEREST

In general, interest payable on a senior note will be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes.

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### MARKET DISCOUNT

Under the market discount rules of the Code, a U.S. Holder who purchases a senior note at a market discount will generally be required to treat any gain recognized on the sale, exchange, retirement or other taxable disposition of the senior note as ordinary income to the extent of the accrued market discount that has not been previously included in income. Market discount is generally defined as the amount by which a U.S. Holder's purchase price for a senior note is less than the senior note's stated redemption price at maturity (generally, the senior note's principal amount) of the senior note on the date of purchase, subject to a statutory de minimis exception. In general, market discount accrues on a ratable basis over the remaining term of the senior note unless a U.S. Holder makes an irrevocable election to accrue market discount on a constant yield to maturity basis.

A U.S. Holder who acquires a senior note at a market discount may be required to defer a portion of any interest expense that otherwise may be deductible on any indebtedness incurred or continued to purchase or carry such senior note until the U.S. Holder disposes of the senior note in a taxable transaction. A U.S. Holder who has elected under applicable Code provision to include market discount in income annually as such discount accrues will not, however, be required to treat any gain recognized as ordinary income or to defer any deductions for interest expense under these rules. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first day of the taxable year to which the election applies and may not be revoked without the consent of the IRS.

Holders should consult their tax advisors as to the portion of any gain that would be taxable as ordinary income under the market discount rules and any other consequences of the market discount rules that may apply to them in particular.

### AMORTIZABLE BOND PREMIUM

A U.S. Holder who purchases a senior note for an amount in excess of its principal amount will be considered to have purchased the senior note at a premium. A U.S. Holder may elect to amortize the premium over the remaining term of the senior note on a constant yield method. The amount amortized in any year will be treated as a reduction of the U.S. Holder's interest income from the senior note. A U.S. Holder who elects to amortize the premium on a senior note must reduce its tax basis in the senior note by the amount of the premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the IRS. Bond premium on a senior note held by a U.S. Holder who does not make such an election will decrease the capital gain or increase the capital loss otherwise recognized on the disposition of the senior note.

### SALE, EXCHANGE, RETIREMENT OR OTHER DISPOSITION OF THE SENIOR NOTES

Upon the sale, exchange, retirement or other disposition of a senior note, a U.S. Holder will generally recognize taxable gain or loss equal to the



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difference between the sum of cash plus the fair market value of all other property received on such disposition (except to the extent such cash or property is attributable to accrued and unpaid interest, which will be taxable as interest income (as described above)) and such U.S. Holder's adjusted tax basis in the senior note. Subject to the market discount rules summarized above, such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if, at the time of the disposition, the U.S. Holder's holding period for the senior note is more than one year. Long-term capital gains recognized by an individual or non-corporate U.S. Holder are generally subject to a reduced U.S. federal income tax rate. Capital losses are subject to limits on deductibility.

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### INFORMATION REPORTING AND BACKUP WITHHOLDING

In general, payments made on the senior notes and proceeds from the sale or other disposition of the senior notes may be subject to backup withholding, currently at a rate of 28% (increased to 31% beginning in 2011). In general, backup withholding will apply to a non-corporate U.S. Holder if such U.S. Holder:

- fails to furnish, under penalties of perjury, its Taxpayer Identification Number, or TIN (which for an individual is the holder's Social Security number);
- furnishes an incorrect TIN;
- is notified by the IRS that it has failed to properly report payments of interest and dividends; or
- under certain circumstances, fails to certify, under penalties of perjury, that it has furnished a correct TIN and is a U.S. person and has not been notified by the IRS that it is subject to backup withholding due to underreporting of interest or dividends, or otherwise fails to comply with applicable requirements of the backup withholding rules.

Any amounts withheld under the backup withholding rules from a payment to a U.S. Holder generally will be allowed as a refund or a credit against such U.S. Holder's U.S. federal income tax liability, provided that the required procedures are followed.

A U.S. Holder will also be subject to information reporting with respect to payments on the senior notes and proceeds from the sale or other disposition of the senior notes, unless such U.S. Holder is a corporation or other exempt recipient and appropriately establishes an exemption.

### NON-U.S. HOLDERS

For purposes of the following discussion, interest on the senior notes, and gain on the sale, exchange, retirement or other disposition of the senior notes, will be considered "U.S. trade or business income" of a Non-U.S. Holder if such income or gain is effectively connected with the conduct of a trade or business in the United States by such Non-U.S. Holder.

### PAYMENT OF INTEREST

Subject to the discussion below concerning backup withholding, a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax in respect of interest paid on the senior notes if the interest qualifies for the "portfolio interest exemption." This will be the case if each of the following

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requirements is satisfied:

- the interest is not U.S. trade or business income;
- the Non-U.S. Holder does not actually or constructively own 10% or more of the voting stock of the issuer;
- the Non-U.S. Holder is not a controlled foreign corporation, within the meaning of the Code, that is actually or constructively related to the issuer; and
- the Non-U.S. Holder provides the withholding agent with the appropriate certification.

The certification requirement generally will be satisfied if the Non-U.S. Holder provides the withholding agent with a statement on IRS Form W-8BEN (or suitable substitute or successor form), together with all appropriate attachments, signed under penalties of perjury, identifying the Non-U.S. Holder and stating, among other things, that the Non-U.S. Holder is not a U.S. person. Prospective Non-U.S. Holders should consult their tax advisors regarding alternative methods for satisfying the certification requirement.

If the portfolio interest exemption is not satisfied with respect to a Non-U.S. Holder, a 30% withholding tax will apply to interest paid on the senior notes to such Non-U.S. Holder, unless another exemption is applicable. For example, an applicable income tax treaty may reduce or eliminate such tax, in which event a Non-U.S. Holder claiming the benefit of such treaty must provide the withholding agent with a properly executed IRS Form W-8BEN (or suitable substitute or successor form). Alternatively, an exemption applies

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if the interest is U.S. trade or business income and the Non-U.S. Holder provides an appropriate statement to that effect on IRS Form W-8ECI (or suitable substitute or successor form). In the latter case, such Non-U.S. Holder generally will be subject to U.S. federal income tax with respect to all income from the senior notes in the same manner as U.S. Holders, as described above, unless an applicable income tax treaty provides otherwise. Additionally, Non-U.S. Holders that are corporations could be subject to a branch profits tax with respect to any such U.S. trade or business income at a rate of 30% (or at a reduced rate under an applicable income tax treaty).

### SALE, EXCHANGE, RETIREMENT OR OTHER DISPOSITION OF THE SENIOR NOTES

Generally, a Non-U.S. Holder will not be subject to U.S. federal income tax on gain realized upon the sale, exchange, retirement or other disposition of a senior note, unless (i) such Non-U.S. Holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met or (ii) the gain is U.S. trade or business income. If the first exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% (or at a reduced rate under an applicable income tax treaty) on the amount by which capital gains allocable to U.S. sources (including gains from the sale, exchange, retirement or other disposition of the senior note) exceed capital losses allocable to U.S. sources. If the second exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax with respect to such gain in the same manner as U.S. Holders, as described above, unless an applicable income tax treaty provides otherwise. Additionally, Non-U.S. Holders that are corporations could be subject to a branch profits tax with respect to gain that is U.S. trade or business income at a rate of 30% (or at a reduced rate under an applicable income tax treaty).

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### INFORMATION REPORTING AND BACKUP WITHHOLDING

Certain Non-U.S. Holders may be subject to information reporting and backup withholding with respect to interest payments on the senior notes. Treasury regulations provide that such information reporting and backup withholding generally will not apply to interest payments on the senior notes to a Non-U.S. Holder if such Non-U.S. Holder certifies that it is not a U.S. person under penalties of perjury or otherwise establishes an exemption.

Additional information reporting and backup withholding requirements with respect to the payment of the proceeds from the disposition of a senior note (including a redemption) by a Non-U.S. Holder are as follows:

- If the proceeds are paid to or through the U.S. office of a broker, they generally will be subject to information reporting and backup withholding unless the Non-U.S. Holder certifies that it is not a U.S. person under penalties of perjury or otherwise establishes an exemption.
- If the proceeds are paid to or through a non-U.S. office of a broker that is not a U.S. person and is not a foreign person with certain specified U.S. connections (a "U.S. related person"), they will not be subject to information reporting or backup withholding.
- If the proceeds are paid to or through a non-U.S. office of a broker that is a U.S. person or a U.S. related person, they generally will be subject to information reporting (but not backup withholding) unless the Non-U.S. Holder certifies that it is not a U.S. person under penalties of perjury or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Holder generally will be allowed as a refund or a credit against such Non-U.S. Holder's U.S. federal income tax liability, provided that the required procedures are followed.

In addition to the foregoing, the amount of interest paid on or with respect to the senior notes held by each Non-U.S. Holder during each calendar year and the amount of tax, if any, withheld from such payments must be reported to such Non-U.S. Holder and the IRS. Copies of the information returns reporting such

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interest and withholding also may be made available by the IRS to the tax authorities in the country in which a Non-U.S. Holder is a resident under the provisions of an applicable income tax treaty.

THE FOREGOING SUMMARY DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER IN LIGHT OF ITS PARTICULAR CIRCUMSTANCES AND TAX SITUATION. A HOLDER SHOULD CONSULT SUCH HOLDER'S TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF THE SENIOR NOTES, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

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### PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a

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prospectus in connection with any resale of those notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for old notes that had been acquired as a result of market-making or other trading activities. We have agreed that, for a period of 180 days after the expiration date of the exchange offer, we will make this prospectus, as it may be amended or supplemented, available to any broker-dealer for use in connection with any such resale.

We will not receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on those notes or a combination of those methods, at market prices prevailing at the time of resale, at prices related to prevailing market prices or at negotiated prices. Any resales may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of the exchange notes. Any broker-dealer that resells exchange notes received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of the exchange notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any resale of exchange notes and any commissions or concessions received by these persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 180 days after the expiration date of the exchange offer, we will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any broker-dealer that requests such documents in the letter of transmittal. We have agreed to pay all expenses incidental to the exchange offer, including certain fees and expenses of one counsel for the holders of senior notes, other than commissions and concessions of any broker or dealer. We also have agreed that we will indemnify holders of the senior notes, including any broker-dealers, against certain liabilities, including liabilities under the Securities Act.

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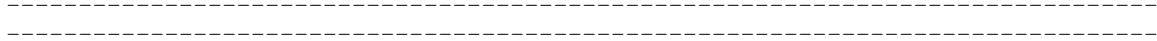
### LEGAL MATTERS

Certain legal matters with respect to the exchange notes offered hereby will be passed upon for us by Cahill Gordon & Reindel LLP, New York, New York.

### EXPERTS

The consolidated financial statements of Energy Partners, Ltd. and subsidiaries as of December 31, 2002 and 2001, and for each of the years in the three-year period ended December 31, 2002, have been incorporated by reference herein in reliance upon the reports of KPMG LLP, independent accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering the December 31, 2001 consolidated financial statements refers to a change in method of accounting for derivative instruments and hedging activities.

The estimated reserve data of Netherland, Sewell & Associates, Inc. and Ryder Scott Company, L.P., independent petroleum engineering consultants, incorporated by reference in this prospectus have been incorporated by reference in reliance on the authority of said firms as experts in petroleum engineering.



(ENERGY PARTNERS, LTD. LOGO)

