SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

COMMISSION FILE NUMBER 001-14039

CALLON PETROLEUM COMPANY
(Exact name of Registrant as specified in its charter)

<TABLE>
<S> <C>

DELAWARE	64-0844345
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 NORTH CANAL STREET NATCHEZ, MISSISSIPPI 39120	(601) 442-1601
(Address of Principal Executive Offices)(Zip Code)	(Registrant's telephone number including area code)

</TABLE>

Securities registered pursuant to Section 12(b) of the Act:

<TABLE>
<CAPTION>

TITLE OF EACH CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
<S>	<C>
Convertible Exchangeable Preferred Stock, Series A, Par Value $.01 Per Share	New York Stock Exchange
Common Stock, Par Value $.01 Per Share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange
11% Senior Subordinated Notes due 2005	New York Stock Exchange

</TABLE>

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes |X| No.| |.

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant was approximately $78.8 million as of June 30, 2003 (based on the last reported sale price of such stock on the New York Stock Exchange on such date of $7.12).

As of March 4, 2004, there were 13,976,411 shares of the Registrant's Common Stock, par value $.01 per share, outstanding.

Document incorporated by reference: Portions of the definitive Proxy Statement of Callon Petroleum Company (to be filed no later than 120 days after December 31, 2003) relating to the Annual Meeting of Stockholders to be held on May 6, 2004, which is incorporated into Part III of this Form 10-K.

PART I.

ITEM 1 AND 2. BUSINESS AND PROPERTIES

OVERVIEW

Callon Petroleum Company has been engaged in the exploration, development, acquisition and production of oil and gas properties since 1950. Our properties are geographically concentrated primarily offshore in the Gulf of Mexico and onshore in Louisiana and Alabama. We were incorporated under the laws of the state of Delaware in 1994 and succeeded to the business of a publicly traded limited partnership, a joint venture with a consortium of European institutional investors and an independent energy company owned by members of current management. As used herein, the "Company," "Callon," "we," "us," and "our" refer to Callon Petroleum Company and its predecessors and subsidiaries unless the context requires otherwise.

In 1989, we began increasing our reserves through the acquisition of producing properties that were geologically complex, had (or were analogous to fields with) an established production history from stacked pay zones and were candidates for exploitation. We focused on reducing operating costs and implementing production enhancements through the application of technologically advanced production and recompletion techniques.

Over the past eight years, we have also placed emphasis on the acquisition of acreage with exploration and development drilling opportunities in the Gulf of Mexico shelf and deepwater areas. At December 31, 2003 we owned working interests in a total of 73 blocks/leases covering 157,000 net acres. We joined with other industry partners, primarily Murphy Exploration and Production, Inc., to explore federal offshore blocks acquired in the Gulf of Mexico. We perform extensive geological and geophysical studies using computer-aided exploration techniques (CAEX), including, where appropriate, the acquisition of 3-D seismic or high-resolution 2-D data to facilitate these efforts. We continue to develop prospects on the shelf through our 3-D seismic partnership using AVO technology. In 1998, we began exploration in the Gulf of Mexico deepwater area (generally 900 to 5,500 feet of water). In the fourth quarter of 2003, our first two deepwater projects, the Medusa and Habanero fields, began production. Please see "Significant Properties" for a more detailed discussion.

We ended the year 2003 with estimated net proved reserves of 217 billion cubic feet of natural gas equivalent ("Bcfe"). This represents a decrease of 8% from 2002 year-end estimated net proved reserves of 236 Bcfe.

The major focus of our future operations is expected to continue to be the exploration for and development of oil and gas properties, primarily in the Gulf of Mexico.

AVAILABILITY OF REPORTS

All of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports as well as other filings we make pursuant to Section 13(a) and 15(d) of the Securities Exchange Act of 1934 are available free of charge on our Internet website. The address of our Internet website is www.callon.com. Our SEC filings are available on our website as soon as they are posted to the EDGAR database on the SEC's website.

BUSINESS STRATEGY

Our goal is to increase shareholder value by increasing our reserves, production, cash flow and earnings. We seek to achieve these goals through the following strategies:

- focus on Gulf of Mexico exploration with a balance between shelf and deepwater areas using the latest available technology;

- aggressively explore our existing prospect inventory;

- replenish our prospect inventory with increasing emphasis on prospect generation using AVO technology;

- achieve moderate increases in current production levels through continued shelf exploration; and

- achieve significant increases in longer-term production levels through development of deepwater discoveries and ongoing deepwater exploration.

EXPLORATION AND DEVELOPMENT ACTIVITIES

Capital expenditures for exploration and development costs related to oil and gas properties totaled approximately $50 million in 2003. We incurred approximately $32 million in the Gulf of Mexico deepwater area primarily for development costs at our Habanero and Medusa discoveries. Interest of approximately $5 million and general and administrative costs allocable directly to exploration and development projects of $8 million were capitalized in 2003. Our Gulf of Mexico shelf area expenditures account for the remainder of the total capital expended.

SEC INQUIRIES REGARDING RESERVE INFORMATION

Beginning in October 2002, we received a series of inquiries from the SEC regarding our Annual Report on Form 10-K for the year ended December 31, 2001 requesting supplemental information concerning operations in the Gulf of Mexico. The comment letters requested information about the procedures used to classify the deepwater reserves as proved and requested that our financial statements be restated to reflect the removal of the reserves attributable to the Boomslang discovery as proved for all prior periods during which such reserves were reported as proved. We have reviewed the SEC comments with our independent petroleum reserve engineers, Huddleston & Co., Inc. of Houston, Texas. Both Huddleston & Co. and we believe that such deepwater reserves are properly classified as proved. We have responded to all the inquiries from the SEC.

Based on our discussions with others in the oil and gas business, we believe that the SEC is reviewing generally the procedures used by reserve engineers to classify oil and gas reserves as proved in the deepwater areas of the Gulf of Mexico. In particular, the SEC appears to indicate that it is not appropriate to classify reserves as proved without conducting a "flow test." It has not been our practice to conduct a flow test on our deepwater properties prior to classifying the reserves as proved. We believe, and have been advised by Huddleston & Co., that our procedures for classifying our deepwater reserves as proved are in accordance with SEC rules and industry practices.

RISK FACTORS

A DECREASE IN OIL AND GAS PRICES MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION. Our success is highly dependent on prices for oil and gas, which are extremely volatile. Any

substantial or extended decline in the price of oil or gas would have a material adverse effect on us. Oil and gas markets are both seasonal and cyclical. The prices of oil and gas depend on factors we cannot control such as weather, economic conditions, and levels of production, actions by OPEC and other countries and government actions. Prices of oil and gas will affect the following aspects of our business:

- our revenues, cash flows and earnings;

- the amount of oil and gas that we are economically able to produce;

- our ability to attract capital to finance our operations and the cost of the capital;

- the amount we are allowed to borrow under our senior secured credit facility;

- the value of our oil and gas properties; and

- the profit or loss we incur in exploring for and developing our reserves.

WE MAY BE REQUIRED TO RETROACTIVELY PAY ROYALTIES TO THE MINERALS MANAGEMENT SERVICE ON ONE OF OUR PROPERTIES WHICH COULD REDUCE REVENUES AND RESERVES. Our Medusa deepwater property is eligible for royalty suspensions pursuant to the Deep Water Royalty Relief Act. However, the federal offshore leases covering the property contain "price threshold" provisions for oil and gas prices. Under this "price threshold" provision, if the average monthly New York Mercantile Exchange (NYMEX) sales price for oil or gas during a fiscal year exceeds the price threshold for oil or gas, respectively, then royalties on the associated production must be paid to the Minerals Management Service (MMS) at the rate stipulated in the lease. The price thresholds are adjusted annually by the implicit price deflator for the GDP. The determination of whether or not royalties are due as a result of the average NYMEX price exceeding the price threshold is made during the first quarter of the succeeding year. Any royalty payments due must be made shortly after this determination is made. If a royalty payment is due for all production during a year as a result of exceeding the price threshold, the lessee is required to make monthly royalty payments during the succeeding fiscal year for the succeeding year's production. If at the end of any year the average NYMEX price is below the price threshold, the lessee can apply for a refund for any associated royalties paid during that year and the lessee will not be required to pay royalties monthly during the succeeding year for the succeeding year's production.

The thresholds and the average NYMEX prices are calculated by the MMS. The average NYMEX price for 2003 was $31.08 per barrel of oil and $5.49 per MMBtu of natural gas. For the year ended December 31, 2003 the thresholds were $32.77 per barrel of oil and $4.10 per MMBtu of natural gas, subject to finalization of the adjustment for the 2003 GDP implicit price deflator. As a result we will pay royalties related to 2003 gas production for Medusa, which commenced production in late November 2003 and will make monthly royalty payments for 2004 gas production during 2004. Our actual liability for 2004 oil royalties, if any, cannot be determined until after the end of 2004.

In the year succeeding the year in which any of our properties became subject to royalties as result of the average NYMEX price exceeding the price threshold, the portion of reserves attributable to potential future royalties would not be included in a year-end reserve report. However, if the average NYMEX prices were below the price thresholds in subsequent years, our reserves would be increased to reflect reserves previously attributed to future royalties. As a result, reported oil and gas reserves could materially increase or decrease, depending on the relation of price thresholds versus the average NYMEX prices. The reduction in our revenues resulting from an obligation to pay these royalties and subsequent reduction of our proved reserves could have a material adverse effect on our results of operations and financial condition. Our reserve report, as of December 31, 2003, excluded gas reserves for Medusa that are subject to MMS royalties as a result of the average 2003 NYMEX price for gas exceeding the price threshold. Oil reserves in this reserve report were not impacted since the 2003 average NYMEX price was below the threshold.

OUR RESERVE INFORMATION REPRESENTS ESTIMATES THAT MAY TURN OUT TO BE INCORRECT IF THE ASSUMPTIONS UPON WHICH THESE ESTIMATES ARE BASED ARE 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 gas reserves is complex. It requires interpretations of available technical data and various 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 shown in this annual report.

In order to prepare these estimates, we must project production rates and the timing of development expenditures. The assumptions regarding the timing and costs to commence production from our deepwater wells used in preparing our reserves are often subject to revisions over time as described under "our deepwater operations have special operational risks that may negatively affect the value of those assets." We must also analyze available geological, geophysical, production and engineering data, the extent, quality and reliability of which can vary. The process also requires us to make economic assumptions, such as oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and gas reserves are inherently imprecise.

Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of reserves shown in this report. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and gas prices and other factors, many of which are beyond our control.

You should not assume that the present value of future net cash flows from our proved reserves referred to in this report is the current market value of our estimated oil and 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.

Information about reserves constitutes forward-looking information. See "Forward-Looking Statements" for information regarding forward-looking information. The discounted present value of our oil and gas reserves is prepared in accordance with guidelines established by the SEC. A purchaser of reserves would use numerous other factors to value our reserves. The discounted present value of reserves, therefore, does not represent the fair market value of those reserves.

On December 31, 2003, approximately 53% of the discounted present value of our estimated net proved reserves were proved undeveloped. Proved undeveloped oil volumes represented 58% of total proved oil reserves. Substantially all of these proved undeveloped reserves were attributable to our deepwater properties. Development of these properties is subject to additional risks as described above.

THE SEC MAY REQUIRE US TO BOOK RESERVES AS PROVED IN A MANNER THAT DIFFERS FROM OUR HISTORICAL PRACTICES AND CURRENT INDUSTRY STANDARDS, AND WHICH MAY RESULT IN A SIGNIFICANT DOWNWARD REVISION OF OUR PROVED RESERVES. As discussed above, beginning in October 2002 we received a series of inquiries from the SEC regarding our Annual Report on Form 10-K for the year ended December 31, 2001 requesting supplemental information concerning our operations in the Gulf of Mexico. The comment

letters requested information about the procedures we used to classify our deepwater reserves as proved and requested that our financials be restated to reflect the removal of the Boomslang reserves as proved for all prior periods during which such reserves were reported as proved. We have reviewed the SEC comments with our independent petroleum reserve engineers, Huddleston & Co., Inc. of Houston, Texas. Both Huddleston & Co. and we believe that such reserves were properly classified as proved. However, if the SEC decides to question our other deepwater properties and these reserves are ultimately required to be reclassified as not proved, our proved reserves will be materially reduced. If the SEC requires us to retroactively classify Boomslang as an unproved property through December 2002, we would be required to restate our financial position, results of operations, and supplemental oil and gas reserve data from 1998 through 2002. A material reduction in our proved reserves could have a material adverse effect on our financial condition and results of operations. We have responded to all the inquiries from the SEC.

UNLESS WE ARE ABLE TO REPLACE RESERVES WHICH WE HAVE PRODUCED, OUR CASH FLOWS AND PRODUCTION WILL DECREASE OVER TIME. Our future success depends upon our ability to find, develop and acquire oil and gas reserves that are economically recoverable. As is generally the case for Gulf properties, our producing properties usually have high initial production rates, followed by a steep decline in production. As a result, we must continually locate and develop or acquire new oil and gas reserves to replace those being depleted by production. We must do this even during periods of low oil and gas prices when it is difficult to raise the capital necessary to finance these activities and during periods of high operating costs when it is expensive to contract for drilling rigs and other equipment and personnel necessary to explore for oil and gas. Without successful exploration or acquisition activities, our reserves, production and revenues will decline rapidly. We cannot assure you that we will be able to find and develop or acquire additional reserves at an acceptable cost.

A SIGNIFICANT PART OF THE VALUE OF OUR PRODUCTION AND RESERVES IS CONCENTRATED IN A SMALL NUMBER OF OFFSHORE PROPERTIES, AND ANY PRODUCTION PROBLEMS OR INACCURACIES IN RESERVE ESTIMATES RELATED TO THOSE PROPERTIES WOULD ADVERSELY IMPACT OUR BUSINESS. During 2003, 64% of our daily production came from two of our properties in the Gulf of Mexico. Moreover, one property accounted for 51% of our production during this period. In addition, at December 31, 2003, most of our proved reserves were located in four fields in the Gulf of Mexico, with approximately 94% of our total net proved reserves attributable to these properties. If mechanical problems, storms or other events curtailed a substantial portion of this production or if the actual reserves associated with any one of these producing properties are less than our estimated reserves, our results of operations and financial condition could be adversely affected.

OUR FOCUS ON EXPLORATION PROJECTS INCREASES THE RISKS INHERENT IN OUR OIL AND GAS ACTIVITIES. Our business strategy focuses on replacing reserves through exploration, where the risks are greater than in acquisitions and development drilling. Although we have been successful in exploration in the past, we cannot assure you that we will continue to increase reserves through exploration or at an acceptable cost. Additionally, we are often uncertain as to the future costs and timing of drilling, completing and producing wells. Our drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

- unexpected drilling conditions;
- pressure or inequalities in formations;
- equipment failures or accidents;
- adverse weather conditions;
- compliance with governmental requirements; and
- shortages or delays in the availability of drilling rigs and the delivery of equipment.

WE DO NOT OPERATE ALL OF OUR PROPERTIES AND HAVE LIMITED INFLUENCE OVER THE OPERATIONS OF SOME OF THESE PROPERTIES, PARTICULARLY OUR DEEPWATER PROPERTIES. Our lack of control could result in the following:

- the operator may initiate exploration or development on a faster or slower pace than we prefer;
- the operator may propose to drill more wells or build more facilities on a project than we have funds for or that we deem appropriate, which may mean that we are unable to participate in the project or share in the revenues generated by the project even though we paid our share of exploration costs; and
- if an operator refuses to initiate a project, we may be unable to pursue the project.

Any of these events could materially reduce the value of our properties.

OUR DEEPWATER OPERATIONS HAVE SPECIAL OPERATIONAL RISKS THAT MAY NEGATIVELY AFFECT THE VALUE OF THOSE ASSETS. Drilling operations in the deepwater area are by their nature more difficult and costly than drilling operations in shallow water. Deepwater drilling operations require the application of more advanced drilling technologies involving a higher risk of technological failure and usually have significantly higher drilling costs than shallow water drilling operations. Deepwater wells are completed using sub-sea completion techniques that require substantial time and the use of advanced remote installation equipment. These operations involve a high risk of mechanical difficulties and equipment failures that could result in significant cost overruns.

In deepwater, the time required to commence production following a discovery is much longer than in shallow water and on-shore. Our deepwater discoveries and prospects will require the construction of expensive production facilities and pipelines prior to the beginning of production. We cannot estimate the costs and timing of the construction of these facilities with certainty, and the accuracy

of our estimates will be affected by a number of factors beyond our control, including the following:

- decisions made by the operators of our deepwater wells;
- the availability of materials necessary to construct the facilities;
- the proximity of our discoveries to pipelines; and
- the price of oil and natural gas.

Delays and cost overruns in the commencement of production will affect the value of our deepwater prospects and the discounted present value of reserves attributable to those prospects.

COMPETITIVE INDUSTRY CONDITIONS MAY NEGATIVELY AFFECT OUR ABILITY TO CONDUCT OPERATIONS. We operate in the highly competitive areas of oil and gas exploration, development and production. We compete for the purchase of leases in the Gulf of Mexico from the U. S. government and from other oil and gas companies. These leases include exploration prospects as well as properties with proved reserves. Factors that affect our ability to compete in the marketplace include:

- our access to the capital necessary to drill wells and acquire properties;
- our ability to acquire and analyze seismic, geological and other information relating to a property;
- our ability to retain the personnel necessary to properly evaluate seismic and other information relating to a property;

- the location of, and our ability to access, platforms, pipelines and other facilities used to produce and transport oil and gas production;
- the standards we establish for the minimum projected return on an investment of our capital; and
- the availability of alternate fuel sources.

Our competitors include major integrated oil companies, substantial independent energy companies, and affiliates of major interstate and intrastate pipelines and national and local gas gatherers, many of which possess greater financial, technological and other resources than we do.

OUR COMPETITORS MAY USE SUPERIOR TECHNOLOGY, WHICH WE MAY BE UNABLE TO AFFORD OR WHICH WOULD REQUIRE COSTLY INVESTMENT BY US IN ORDER TO COMPETE. Our industry is subject to rapid and significant advancements in technology, including the introduction of new products and services using new technologies. As our competitors use or develop new technologies, we may be placed at a competitive disadvantage, and competitive pressures may force us to implement new technologies at a substantial cost. In addition, our competitors may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before we can. We cannot be certain that we will be able to implement technologies on a timely basis or at a cost that is acceptable to us. One or more of the technologies that we currently use or that we may implement in the future may become obsolete, and we may be adversely affected. For example, marine seismic acquisition technology has been characterized by rapid technological advancements in recent years, and further significant technological developments could substantially impair our 3-D seismic data's value.

WE MAY NOT BE ABLE TO REPLACE OUR RESERVES OR GENERATE CASH FLOWS IF WE ARE UNABLE TO RAISE CAPITAL. WE WILL BE REQUIRED TO MAKE SUBSTANTIAL CAPITAL EXPENDITURES TO DEVELOP OUR EXISTING RESERVES, AND TO DISCOVER NEW OIL AND GAS RESERVES. Historically, we have financed these expenditures primarily with cash from operations, proceeds from bank borrowings and proceeds from the sale of debt and equity securities. See "Management's Discussion and Analysis of

Financial Condition and Results of Operations -- Liquidity and Capital Resources" for a discussion of our capital budget. We cannot assure you that we will be able to raise capital in the future. We also make offers to acquire oil and gas properties in the ordinary course of our business. If these offers are accepted, our capital needs may increase substantially.

We expect to continue using our senior secured credit facility to borrow funds to supplement our available cash. The amount we may borrow under our senior secured credit facility may not exceed a borrowing base determined by the lenders under such facility based on their projections of our future production, future production costs, taxes, commodity prices and any other factors deemed relevant by our lenders. We cannot control the assumptions the lenders use to calculate our borrowing base. The lenders may, without our consent, adjust the borrowing base semiannually or in situations where we purchase or sell assets or issue debt securities. If our borrowings under the senior secured credit facility exceed the borrowing base, the lenders may require that we repay the excess. If this were to occur, we might have to sell assets or seek financing from other sources. Sales of assets could further reduce the amount of our borrowing base. We cannot assure you that we would be successful in selling assets or arranging substitute financing. If we were not able to repay borrowings under our senior secured credit facility to reduce the outstanding amount to less than the borrowing base, we would be in default under our senior secured credit facility. For a description of our senior secured credit facility and its principal terms and conditions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations --Liquidity and Capital Resources."

OUR DECISION TO DRILL A PROSPECT IS SUBJECT TO A NUMBER OF FACTORS AND WE MAY DECIDE TO ALTER OUR DRILLING SCHEDULE OR NOT DRILL AT ALL. We describe our current prospects and our plans to explore these

prospects in this annual report. A prospect is a property on which we have identified what our geoscientists believe, based on available seismic and geological information, to be indications of hydrocarbons. Our prospects are in various stages of evaluation, ranging from a prospect which is ready to drill to a prospect which will require substantial additional seismic data processing and interpretation. Whether we ultimately drill a prospect may depend on the following factors:

- receipt of additional seismic data or the reprocessing of existing data;
- material changes in oil or gas prices;
- the costs and availability of drilling rigs;
- the success or failure of wells drilled in similar formations or which would use the same production facilities;
- availability and cost of capital;
- changes in the estimates of the costs to drill or complete wells;
- our ability to attract other industry partners to acquire a portion of the working interest to reduce exposure to costs and drilling risks; and
- decisions of our joint working interest owners.

We will continue to gather data about our prospects and it is possible that additional information may cause us to alter our drilling schedule or determine that a prospect should not be pursued at all. You should understand that our plans regarding our prospects are subject to change.

WEATHER, UNEXPECTED SUBSURFACE CONDITIONS, AND OTHER UNFORESEEN OPERATING HAZARDS MAY ADVERSELY IMPACT OUR ABILITY TO CONDUCT BUSINESS. There are many operating hazards in exploring for and producing oil and gas, including:

- our drilling operations may encounter unexpected formations or pressures, which could cause damage to equipment or personal injury;

- we may experience equipment failures which curtail or stop production; and

- we could experience blowouts or other damages to the productive formations that may require a well to be re-drilled or other corrective action to be taken.

In addition, any of the foregoing may result in environmental damages for which we will be liable. Moreover, a substantial portion of our operations are offshore and are subject to a variety of risks peculiar to the marine environment such as capsizing, collisions, hurricanes and other adverse weather conditions. These conditions can cause substantial damage to facilities and interrupt production. Offshore operations are also subject to more extensive governmental regulation.

We cannot assure you that we will be able to maintain adequate insurance at rates we consider reasonable to cover our possible losses from operating hazards. The occurrence of a significant event not fully insured or indemnified against could materially and adversely affect our financial condition and results of operations.

WE MAY NOT HAVE PRODUCTION TO OFFSET HEDGES; BY HEDGING, WE MAY NOT BENEFIT FROM PRICE INCREASES. Part of our business strategy is to reduce our exposure to the volatility of oil and gas prices by hedging a portion of our production. In a typical hedge transaction, we will have the right to receive from the other parties to the hedge the excess of the fixed price specified in the hedge over a floating price based on a market index, multiplied by the quantity hedged. If the floating price exceeds the fixed price, we are required to pay the other parties this difference multiplied by the quantity hedged. We are required to pay the difference between the floating price and the fixed price when the floating price exceeds the fixed

price regardless of whether we have sufficient production to cover the quantities specified in the hedge. Significant reductions in production at times when the floating price exceeds the fixed price could require us to make payments under the hedge agreements even though such payments are not offset by sales of production. Hedging will also prevent us from receiving the full advantage of increases in oil or gas prices above the fixed amount specified in the hedge. We also enter into price "collars" to reduce the risk of changes in oil and gas prices. Under a collar, no payments are due by either party so long as the market price is above a floor set in the collar and below a ceiling. If the price falls below the floor, the counter-party to the collar pays the difference to us and if the price is above the ceiling, we pay the counter-party the difference. See "Quantitative and Qualitative Disclosures About Market Risks" for a discussion of our hedging practices.

COMPLIANCE WITH ENVIRONMENTAL AND OTHER GOVERNMENT REGULATIONS COULD BE COSTLY AND COULD NEGATIVELY IMPACT PRODUCTION. Our operations are subject to numerous laws and regulations governing the operation and maintenance of our facilities and the discharge of materials into the environment or otherwise relating to environmental protection. For a discussion of the material regulations applicable to us, see "Federal Regulations," "State Regulations," and "Environmental Regulations." These laws and regulations may:

- require that we acquire permits before commencing drilling;

- restrict the substances that can be released into the environment in connection with drilling and production activities;

- limit or prohibit drilling activities on protected areas such as wetlands or wilderness areas; and

- require remedial measures to mitigate pollution from former operations, such as dismantling abandoned production facilities.

Under these laws and regulations, we could be liable for personal injury and clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. We maintain limited insurance coverage for sudden and accidental environmental damages. We do not believe that

insurance coverage for environmental damages that occur over time is available at a reasonable cost. Also, we do not believe that insurance coverage for the full potential liability that could be caused by sudden and accidental environmental damages is available at a reasonable cost. Accordingly, we may be subject to liability or we may be required to cease production from properties in the event of environmental damages.

FACTORS BEYOND OUR CONTROL AFFECT OUR ABILITY TO MARKET PRODUCTION AND OUR FINANCIAL RESULTS. The ability to market oil and gas from our wells depends upon numerous factors beyond our control. These factors include:

- the extent of domestic production and imports of oil and gas;
- the proximity of the gas production to gas pipelines;
- the availability of pipeline capacity;
- the demand for oil and gas by utilities and other end users;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- state and federal regulation of oil and gas marketing; and
- federal regulation of gas sold or transported in interstate commerce.

Because of these factors, we may be unable to market all of the oil or gas we produce. In addition, we may be unable to obtain favorable prices for the oil and gas we produce.

IF OIL AND GAS PRICES DECREASE, WE MAY BE REQUIRED TO TAKE WRITEDOWNS OF THE CARRYING VALUE OF OUR OIL AND GAS PROPERTIES. We may be required to writedown the carrying value of our oil and gas properties when oil and gas prices are low or if we have substantial downward adjustments to our estimated net proved reserves, increases in our estimates of development costs or deterioration in our exploration results. Under the full cost method which we use to account for our oil and gas properties, the net capitalized costs of our oil and gas properties may not exceed the present value, discounted at 10%, of future net cash flows from estimated net proved reserves, using period end oil and gas prices or prices as of the date of our auditor's report, plus the lower of cost or fair market value of our unproved properties. If net capitalized costs of our oil and gas properties exceed this limit, we must charge the amount of the excess to earnings. This type of charge will not affect our cash flows, but will reduce the book value of our stockholders' equity. We review the carrying value of our properties quarterly, based on prices in effect as of the end of each quarter or at the time of reporting our results. Once incurred, a writedown of oil and gas properties is not reversible at a later date, even if prices increase.

FORWARD-LOOKING STATEMENTS

In this report, we have made many forward-looking statements. We cannot assure you that the plans, intentions or expectations upon which our forward-looking statements are based will occur. Our forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed elsewhere in this report. Forward-looking statements include statements regarding:

- our oil and gas reserve quantities, and the discounted present value of these reserves;
- the amount and nature of our capital expenditures;
- drilling of wells;
- the timing and amount of future production and operating costs;
- business strategies and plans of management; and

- prospect development and property acquisitions.

Some of the risks, which could affect our future results and could cause results to differ materially from those expressed in our forward-looking statements include:

- general economic conditions;
- the volatility of oil and natural gas prices;
- the uncertainty of estimates of oil and natural gas reserves;
- the impact of competition;
- the availability and cost of seismic, drilling and other equipment;
- operating hazards inherent in the exploration for and production of oil and natural gas;
- difficulties encountered during the exploration for and production of oil and natural gas;
- difficulties encountered in delivering oil and natural gas to commercial markets;
- changes in customer demand and producers' supply;
- the uncertainty of our ability to attract capital;
- compliance with, or the effect of changes in, the extensive governmental regulations regarding the oil and natural gas business;
- actions of operators of our oil and gas properties; and
- weather conditions.

The information contained in this report, including the information set forth under the heading "Risk Factors," identifies additional factors that could affect our operating results and performance. We urge you to carefully consider these factors and the other cautionary statements in this report. Our forward-looking statements speak only as of the date made, and we have no obligation to update these forward-looking statements.

CORPORATE OFFICES

Our headquarters are located in Natchez, Mississippi, in approximately 51,500 square feet of owned space, with a field office in Houston, Texas. We also maintain owned or leased field offices in the area of the major fields in which we operate properties or have a significant interest. Replacement of any of our leased offices would not result in material expenditures by us as alternative locations to our leased space are anticipated to be readily available.

EMPLOYEES

We had 94 employees as of December 31, 2003, none of whom are currently represented by a union. We believe that we have good relations with our employees. We employ eight petroleum engineers and seven petroleum geoscientists.

FEDERAL REGULATIONS

SALES OF NATURAL GAS. Effective January 1, 1993, the Natural Gas Wellhead Decontrol Act deregulated prices for all "first sales" of natural gas. Thus, all sales of gas by us may be made at market prices, subject to applicable contract provisions.

TRANSPORTATION OF NATURAL GAS. The rates, terms and conditions applicable to the interstate transportation of natural gas by pipelines are regulated by the Federal Energy Regulatory Commission ("FERC") under the Natural Gas Act ("NGA"), as well as under section 311 of the Natural Gas Policy Act ("NGPA"). Since 1985,

the FERC has implemented regulations intended to make natural gas transportation more accessible to gas buyers and sellers on an open-access, non-discriminatory basis.

In February, 2000, the FERC issued Order No. 637, a final rule designed to continue the restructuring of the gas industry initiated by an earlier final rule, Order No. 636, that instituted "open access" transportation. Order No. 637 further revised the FERC's policies governing interstate pipeline transportation rates and penalties and further refined the regulatory framework governing transportation terms and conditions to improve open access transportation. The rule has been implemented on a pipeline-by-pipeline basis in individual compliance proceedings, many of which have been settled or have otherwise been terminated. A few proceedings, however, are still pending final resolution.

In Order No. 644 issued November 13, 2003, the FERC imposed new standards of conduct, inter alia, for "all sellers for resale" marketing gas under blanket market certificates. The standards include a requirement of accurate reporting, if any, of the price of arm's-length deals to price index publishers and a requirement to notify the FERC as to whether the marketer reports transactions to price index publishers. In Order No. 2004, issued on November 25, 2003, the FERC issued standards of conduct covering regulated interstate pipelines and public utilities ("Transmission Providers") to govern the relationships between regulated Transmission Providers and all of their energy affiliates. Among other things, these measures are intended to

increase confidence and transparency in the gas market in the wake of recent events involving anticompetitive behavior and market abuse.

On February 12, 2004, the FERC issued a notice of proposed rulemaking in Docket No. RM04-4 designed to standardize the procedures for determining the creditworthiness of shippers on interstate pipelines and to adopt certain standards published by the North American Energy Standards Board with respect to shipper creditworthiness. The standards are intended to facilitate and increase transparency in the creditworthiness evaluation process.

The FERC is presently reviewing in Docket No. PL04-3 whether it should adopt standards for "interchangeability" of natural gas, that is, whether it should standardize the composition and quality of natural gas transported through the delivery system, including interstate pipelines. Although the standards, if any, are likely to be voluntary, at the present time the approach that the FERC will take and the potential impact on gas supply are not clear.

With respect to the transportation of natural gas on or across the Outer Continental Shelf ("OCS"), the FERC requires, as part of its regulation under the Outer Continental Shelf Lands Act ("OCSLA"), that all pipelines provide open and non-discriminatory access to both owner and non-owner shippers. Although to date the FERC has imposed light-handed regulation on off-shore facilities that meet its traditional test of gathering status, it has the authority to exercise jurisdiction under the OCSLA over gathering facilities, if necessary, to permit non-discriminatory access to service. In an effort to heighten its oversight of the OCS, the FERC recently attempted to promulgate reporting requirements for all OCS "service providers," including gatherers, but the regulations were struck down as ultra vires by a federal district court in October, 2003. In addition, the FERC recently reasserted NGA jurisdiction over certain offshore gathering facilities over which it had previously disclaimed jurisdiction where it determined that the FERC's open access regulatory regime was being frustrated by an interstate pipeline in concert with an affiliated gathering company. For those facilities transporting natural gas across the OCS that are not considered to be gathering facilities, the rates, terms, and conditions applicable to this transportation are regulated by the FERC under the NGA and NGPA, as well as the OCSLA.

SALES AND TRANSPORTATION OF CRUDE OIL. Sales of crude oil and condensate can be made by us at market prices not subject at this time to price controls. The price that we receive from the sale of these products will be affected by the cost of transporting the products to market. The rates, terms, and conditions applicable to the interstate transportation of oil and related products by pipelines are regulated by the FERC under the Interstate Commerce Act. Pursuant to the Energy Policy Act of 1992, which "grandfathered" certain existing rates, the FERC presently regulates oil pipeline rates under a light-handed,

streamlined regulatory regime where rates are adjusted annually using an index ceiling based upon the producer price index. The FERC recently modified the formula for calculating the index such that the index ceilings are now set slightly higher than in their original iteration. As an exception to indexing, the FERC will also, under defined circumstances, permit alternative ratemaking methodologies for interstate oil pipelines such as the use of cost of service rates, settlement rates, and market-based rates. Market-based rates will be permitted to the extent the pipeline can demonstrate that it lacks significant market power in the market in which it proposes to charge market-based rates. The cumulative effect that these rules have had on moving our production to market have not been material.

With respect to the transportation of oil and condensate on or across the OCS, the FERC requires, as part of its regulation under the OCSLA, that all pipelines provide open and non-discriminatory access to both owner and non-owner shippers. Accordingly, the FERC has the authority to exercise jurisdiction under the OCSLA, if necessary, to permit non-discriminatory access to service.

LEGISLATIVE PROPOSALS. In the past, Congress has been very active in the area of natural gas regulation. There are legislative proposals pending in Congress and in various state legislatures which, if enacted, could significantly affect the petroleum industry. At the present time it is difficult to predict what proposals, if any, might actually be enacted by Congress or the various state legislatures and what effect, if any, such proposals might have on our operations.

FEDERAL, STATE OR INDIAN LEASES. In the event we conduct operations on federal, state or Indian oil and gas leases, such operations must comply with numerous regulatory restrictions, including various nondiscrimination statutes, royalty and related valuation requirements, and certain of such operations must be conducted pursuant to on-site security regulations and other appropriate permits issued by the Bureau of Land Management ("BLM") or Minerals Management Service ("MMS") or other appropriate federal or state agencies.

The Company's OCS leases in federal waters are administered by the MMS and require compliance with detailed MMS regulations and orders. The MMS has promulgated regulations implementing restrictions on various production-related activities, including restricting the flaring or venting of natural gas. Under certain circumstances, the MMS may require our operations on federal leases to be suspended or terminated. Any such suspension or termination could materially and adversely affect our financial condition and operations. On March 15, 2000, the MMS issued a final rule effective June 1, 2000 which amends its regulations governing the calculation of royalties and the valuation of crude oil produced from federal leases. Among other matters, this rule amends the valuation procedure for the sale of federal royalty oil by eliminating posted prices as a measure of value and relying instead on arm's length sales prices and spot market prices as market value indicators. Because we sell our production in the spot market and therefore pay royalties on production from federal leases, it is not anticipated that this final rule will have any substantial impact on us.

The Mineral Leasing Act of 1920 ("Mineral Act") prohibits direct or indirect ownership of any interest in federal onshore oil and gas leases by a foreign citizen of a country that denies "similar or like privileges" to citizens of the United States. Such restrictions on citizens of a "non-reciprocal" country include ownership or holding or controlling stock in a corporation that holds a federal onshore oil and gas lease. If this restriction is violated, the corporation's lease can be canceled in a proceeding instituted by the United States Attorney General. Although the regulations of the BLM (which administers the Mineral Act) provide for agency designations of non-reciprocal countries, there are presently no such designations in effect. We own interests in numerous federal onshore oil and gas leases. It is possible that some of our stockholders may be citizens of foreign countries, which at some time in the future might be determined to be non-reciprocal under the Mineral Act.

STATE REGULATIONS

Most states regulate the production and sale of oil and natural gas, including requirements for obtaining drilling permits, the method of developing new fields, the spacing and operation of wells and the prevention of waste of oil and gas resources. The rate of production may be regulated and the maximum daily

production allowable from both oil and gas wells may be established on a market demand or conservation basis or both.

We may enter into agreements relating to the construction or operation of a pipeline system for the transportation of natural gas. To the extent that such gas is produced, transported and consumed wholly within one state, such operations may, in certain instances, be subject to the jurisdiction of such state's administrative authority charged with the responsibility of regulating intrastate pipelines. In such event, the

rates which we could charge for gas, the transportation of gas, and the costs of construction and operation of such pipeline would be impacted by the rules and regulations governing such matters, if any, of such administrative authority. Further, such a pipeline system would be subject to various state and/or federal pipeline safety regulations and requirements, including those of, among others, the Department of Transportation. Such regulations can increase the cost of planning, designing, installing and operating such facilities. The impact of such pipeline safety regulations would not be any more adverse to us than it would be to other similar owners or operators of such pipeline facilities.

ENVIRONMENTAL REGULATIONS

GENERAL. Our activities are subject to federal, state and local laws and regulations governing environmental quality and pollution control. Although no assurances can be made, we believe that, absent the occurrence of an extraordinary event, compliance with existing federal, state and local laws, rules and regulations regulating the release of materials into the environment or otherwise relating to the protection of the environment will not have a material effect upon our capital expenditures, earnings or competitive position with respect to our existing assets and operations. We cannot predict what effect future regulation or legislation, enforcement policies, and claims for damages to property, employees, other persons and the environment resulting from our operations could have on our activities.

Our activities with respect to natural gas facilities, including the operation and construction of pipelines, plants and other facilities for transporting, processing, treating or storing natural gas and other products, are subject to stringent environmental regulation by state and federal authorities including the United States Environmental Protection Agency ("EPA"). Such regulation can increase the cost of planning, designing, installing and operating such facilities. In most instances, the regulatory requirements relate to water and air pollution control measures. Although we believe that compliance with environmental regulations will not have a material adverse effect on us, risks of substantial costs and liabilities are inherent in oil and gas production operations, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as stricter environmental laws and regulations, and claims for damages to property or persons resulting from oil and gas production, would result in substantial costs and liabilities to us.

SOLID AND HAZARDOUS WASTE. We currently own or lease, and in the past owned or leased, properties that have been used for the exploration and production of oil and gas for many years. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other solid wastes may have been disposed or released on or under the properties owned or leased by us or on or under locations where such wastes have been taken for disposal. In addition, many of these properties have been operated by third parties. We have no control over such entities' treatment of hydrocarbons or other solid wastes and the manner in which such substances may have been disposed or released. State and federal laws applicable to oil and gas wastes and properties have gradually become stricter over time. Under new laws, we could be required to remediate property, including groundwater, containing or impacted by previously disposed wastes (including wastes disposed or released by prior owners or operators, or property contamination, including groundwater contamination by prior owners or operators) or to perform remedial plugging operations to prevent future or mitigate existing contamination.

We generate wastes, including hazardous wastes that are subject to the federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. The EPA and various state agencies have limited the disposal options for certain

wastes, including wastes designated as hazardous under the RCRA and similar state statutes ("Hazardous Wastes"). Furthermore, it is possible that certain wastes generated by our oil and gas operations that are (currently exempt from treatment as) Hazardous Wastes may in the future be

designated as Hazardous Wastes under RCRA or other applicable statutes and, therefore, may be subject to more rigorous and costly disposal requirements.

SUPERFUND. The federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "Superfund" law, generally imposes joint and several liability for costs of investigation and remediation and for natural resource damages, without regard to fault or the legality of the original conduct, on certain classes of persons with respect to the release into the environment of substances designated under CERCLA as hazardous substances ("Hazardous Substances"). These classes of persons, or so-called potentially responsible parties ("PRPs"), include the current and certain past owners and operators of a facility where there has been a release or threat of release of a Hazardous Substance and persons who disposed of or arranged for the disposal of Hazardous Substances found at a site. CERCLA also authorizes the EPA and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from the PRPs the costs of such action. Although CERCLA generally exempts "petroleum" from the definition of Hazardous Substance, in the course of its operations, we have generated and will generate wastes that may fall within CERCLA's definition of Hazardous Substance. We may also be the owner or operator of sites on which Hazardous Substances have been released. To our knowledge, neither we nor our predecessors have been designated as a PRP by the EPA under CERCLA. We also do not know of any prior owners or operators of our properties that are named as PRPs related to their ownership or operation of such properties.

CLEAN WATER ACT. The Clean Water Act ("CWA") imposes restrictions and strict controls regarding the discharge of wastes including produced waters and other oil and natural gas wastes, into waters of the United States, a term broadly defined. These controls have become more stringent over the years, and it is probable that additional restrictions will be imposed in the future. Permits must be obtained to discharge pollutants into federal waters. The CWA provides for civil, criminal and administrative penalties for unauthorized discharges of oil and hazardous substances and of other pollutants. It imposes substantial potential liability for the costs of removal or remediation associated with discharges of oil or hazardous substances and other pollutants. State laws governing discharges to water also provide varying civil, criminal and administrative penalties and impose liabilities in the case of a discharge of petroleum or its derivatives, or other hazardous substances, into state waters. In addition, the EPA has promulgated regulations that may require us to obtain permits to discharge storm water runoff, including discharges associated with construction activities. In the event of an unauthorized discharge of wastes, we may be liable for penalties and costs.

OIL POLLUTION ACT. The Oil Pollution Act of 1990 ("OPA"), which amends and augments oil spill provisions of the CWA, imposes certain duties and liabilities on certain "responsible parties" related to the prevention of oil spills and damages resulting from such spills in or threatening United States waters or adjoining shorelines. A liable "responsible party" includes the owner or operator of a facility, vessel or pipeline that is a source of an oil discharge or that poses the substantial threat of discharge, or the lessee or permittee of the area in which a discharging facility is located. The OPA assigns joint and several liability, without regard to fault, to each liable party for oil removal costs and a variety of public and private damages. Although defenses and limitations exist to the liability imposed by OPA, they are limited. In the event of an oil discharge or substantial threat of discharge, we may be liable for costs and damages.

The OPA also imposes ongoing requirements on a responsible party, including proof of financial responsibility to cover at least some costs in a potential spill. Certain amendments to the OPA that were enacted in 1996 require owners and operators of offshore facilities that have a worst case oil spill potential of more than 1,000 barrels to demonstrate financial responsibility in amounts ranging from $10 million in specified state waters and $35 million in federal OCS waters, with higher amounts, up to $150 million based

upon worst case oil-spill discharge volume calculations. We believe that we have established adequate proof of financial responsibility for our offshore facilities.

AIR EMISSIONS. Our operations are subject to local, state and federal regulations for the control of emissions from sources of air pollution. Federal and state laws require new and modified sources of air pollutants to obtain permits prior to commencing construction. Major sources of air pollutants are subject to more stringent, federally imposed requirements including additional permits. Federal and state laws designed to control hazardous (toxic) air pollutants, might require installation of additional controls. Administrative enforcement actions for failure to comply strictly with air pollution regulations or permits are generally resolved by payment of monetary fines and correction of any identified deficiencies. Alternatively, regulatory agencies could bring lawsuits for civil penalties or require us to forego construction, modification or operation of certain air emission sources.

COASTAL COORDINATION. There are various federal and state programs that regulate the conservation and development of coastal resources. The federal Coastal Zone Management Act ("CZMA") was passed in 1972 to preserve and, where possible, restore the natural resources of the Nation's coastal zone. The CZMA provides for federal grants for state management programs that regulate land use, water use and coastal development.

Various states, such as Alabama, Louisiana and Texas, also have coastal management programs, which provide for, among other things, the coordination among local and state authorities to protect coastal resources through regulating land use, water, and coastal development. Coastal management programs also may provide for the review of state and federal agency rules and agency actions for consistency with the goals and policies of the state coastal management plan. This review may impact agency permitting and review activities and add an additional layer of review to certain activities undertaken by us.

OSHA AND OTHER REGULATIONS. We are subject to the requirements of the federal Occupational Safety and Health Act ("OSHA") and comparable state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA and similar state statutes require us to organize and/or disclose information about hazardous materials used or produced in its operations.

Our management believes that we are in substantial compliance with current applicable environmental laws and regulations and that continued compliance with existing requirements would not have a material adverse impact on us.

PROPERTY SUMMARY

We are engaged in the exploration, development, acquisition and production of oil and gas properties and provide oil and gas property management services for other investors. Our properties are concentrated offshore in the Gulf of Mexico and onshore, primarily, in Louisiana and Alabama. We have historically grown our reserves and production by focusing primarily on low to moderate risk exploration and acquisition opportunities in the Gulf of Mexico shelf area. Over the last several years, we have expanded our area of exploration to include the Gulf of Mexico deepwater area. As of December 31, 2003, our estimated net proved reserves totaled 23.7 million barrels of oil ("MBbl") and 74.7 billion cubic feet of natural gas ("Bcf"), with a pre-tax present value, discounted at 10%, of the estimated future net revenues based on constant prices in effect at year-end ("Discounted Cash Flow") of $570.5 million. Gas constitutes approximately 34% of our total estimated proved reserves and approximately 42% of our total estimated proved reserves are proved developed reserves.

Our Medusa (Mississippi Canyon Blocks 538/582) and Habanero (Garden Banks Block 341) discoveries began production in the fourth quarter of 2003. These two deepwater discoveries are expected to increase our projected 2004 production by approximately 85% from 2003 levels. A detail discussion of each of these properties is provided in the "Significant Properties" section of this report.

SIGNIFICANT PROPERTIES

The following table shows discounted cash flows and estimated net proved oil and gas reserves by major field, within the focus area, for our seven largest fields and for all other properties combined at December 31, 2003.

<TABLE>
<CAPTION>

		ESTIMATED NET PROVED RESERVES			PRE-TAX DISCOUNTED
		OIL	GAS	TOTAL	PRESENT VALUE
	OPERATOR	(MBBLS)	(MMCF)	(MMCFE)	($000)
					(A)(B)
<S>	<C>	<C>	<C>	<C>	<C>
GULF OF MEXICO DEEPWATER:					
Mississippi Canyon Blocks 538/582					
"Medusa"	Murphy	10,312	6,173	68,043	$160,297
Garden Banks Block 341					
"Habanero"	Shell	4,687	11,207	39,328	124,876
Garden Banks Blocks 738/782/826/827					
"Entrada"	BP Amoco	7,772	29,126	75,760	185,608
GULF OF MEXICO SHELF:					
Mobile Blocks 863/864/907/908	Callon	--	4,873	4,873	15,641
Mobile Blocks 952/953/955	Callon	--	15,229	15,229	60,487
Ship Shoal Blocks 28/35	Callon	6	701	739	3,115
ONSHORE AND OTHER:					
Big Escambia Creek	Exxon	422	1,188	3,718	6,116
Other	Various	510	6,194	9,253	14,323
TOTAL NET PROVED RESERVES		23,709	74,691	216,943	$570,463

</TABLE>

(a) Represents the present value of future net cash flows before deduction of federal income taxes, discounted at 10%, attributable to estimated net proved reserves as of December 31, 2003, as set forth in the Company's reserve reports prepared by its independent petroleum reserve engineers, Huddleston & Co., Inc. of Houston, Texas.

(b) Includes a reduction for estimated plugging and abandonment costs that is reflected as a liability on our balance sheet at December 31, 2003, in accordance with Statement of Financial Accounting Standards No. 143.

GULF OF MEXICO DEEPWATER

Medusa, Mississippi Canyon Blocks 538/582

Our Medusa deepwater discovery was announced in September 1999, when we drilled the initial test well in 2,235 feet of water to a total depth of 16,241 feet and encountered over 120 feet of pay in two intervals. Subsequent sidetrack drilling from the wellbore was used to determine the extent of the discovery and a second successful well was drilled in the first quarter of 2000 to further delineate the extent of the pay intervals. We own a 15% working interest, Murphy, the operator, owns a 60% working interest and Agip Ventures, formerly British-Borneo Petroleum, Inc., owns the remaining 25% working interest.

In 2001 a drilling program began which included four development wells and one sidetrack. The program included production casing being set on six wells to provide initial production take-points. The program was completed in the first half of 2002. Also in 2001, the operator submitted an Authorization for Expenditure for a floating production system, spar, at Medusa and awarded the contract to J. Ray McDermott, Inc. The spar hull was barged to Mississippi Canyon Block 582 during the first quarter of 2003, uprighted, moored and placed in position to receive the production deck. The topside deck and production facilities were delivered and lifted into place atop the spar hull during the second quarter of 2003. The A-1 well, the first of six, was completed and tied

into the spar and commenced production in late November 2003. The A-2 well commenced production in January 2004 and during February 2004 the field produced approximately 19,000 barrels of oil and 18 million cubic feet of gas per day. Initial production from the A-3 well is expected during March 2004 and will be followed by initial production from the A-6 and A-4 wells in the second quarter of 2004 with production from the A-5 well expected early in the 3rd quarter of 2004. Peak production from the field is expected to reach approximately 40,000 barrels of crude oil and 35 million cubic feet of natural gas per day.

In December 2003, we transferred our undivided 15% working interest in the spar production facilities to Medusa Spar LLC in exchange for cash proceeds of approximately $25 million and a 10% ownership interest in the LLC. A detailed discussion of this transaction is included in Management's Discussion and Analysis of Financial Condition and Results of Operations-"Off-Balance Sheet Arrangements".

Habanero, Garden Banks Block 341

During February 1999 the initial test well on our Habanero deepwater discovery encountered over 200 feet of net pay in two zones. Located in 2,000 feet of water, the well was drilled to a measured depth of 21,158 feet. We own an 11.25% working interest in the well. The well is operated by Shell Deepwater Development Inc., which owns a 55% working interest, with the remaining working interest being owned by Murphy.

A field delineation program began in mid-year 2001, which included three sidetracks of the discovery well. Production casing was set on this well through one of the sidetracks to the Habanero 52 oil and gas sand and the Habanero 55 gas sand. Initial production will be from the Habanero 55 gas sand and future recompletions are scheduled up-hole to the Habanero 52 oil and gas sand. Also, a development well was drilled in the summer of 2003 which provides a take-point for production from the Habanero 52 oil sand.

By means of a sub-sea completion and tie back to an existing production facility in the area operated by Shell, production from the Habanero 52 oil sand commenced in late November 2003. Production from the Habanero 55 gas sand commenced in January, after mechanical adjustments were made down hole. Gross production during February 2003 from the Habanero field was approximately 22,000 barrels of oil and 56 million cubic feet of gas per day.

Entrada, Garden Banks Blocks 738/782/826/827

The Entrada discovery is located in approximately 4,500 feet of water in the Gulf of Mexico. Two wells and seven sidetracks have been drilled to date on Garden Banks 782 on a northwest plunging salt ridge along the southern edge of the Entrada Basin. Multiple stacked amplitudes trapped against a salt or fault interface characterize the Entrada Area. We own a 20% working interest in this discovery with BP Amoco, the operator, holding the remaining working interest.

The owners of an adjacent discovery have announced their plans to construct production facilities to enable them to be a regional off-take point in Southeastern Garden Banks. These plans include handling third party tie-ins. We expect to tie-in Entrada to this regional off-take point with initial production anticipated in 2006. First production from the adjacent discovery is expected in late 2004. Information obtained in a data swap with the adjacent owners is being incorporated into the Entrada development plans. An integrated project team was formed by the working interest owners during 2002 to begin planning the development of the field. The team has been reviewing alternate development plans which could accelerate field development.

GULF OF MEXICO SHELF

Mobile Blocks 863/864/ 907/908

We own an average 67.9% working interest in these blocks and we are the operator. The Mobile 864 unit, in which we have a 66.4% working interest, has three producing wells, unit production facilities and covers portions of these four blocks. During 2003 the unit produced an average of 4.9 MMcf per day net to us.

Mobile Blocks 952/953/955

We own a 100% working interest in these three blocks and we are the operator. In the fourth quarter of 2001, we initiated a production acceleration program for Mobile Blocks 952, 953 and 955, which were being produced through the Mobile Block 864 unit facilities. An acceleration well was successfully drilled in the fourth quarter of 2001 and stand-alone production facilities were installed and production flow lines were rerouted to the new facilities. Production commenced through the new facilities in April 2002. In order to completely produce the proved reserves of the field we drilled a development well on Mobile Block 955 during the first quarter of 2004. The well is flowing without compression and commenced production in March 2004 at a gross rate of approximately 8 MMcf per day. The installation of compression facilities at the well site is expected to be completed by June 2004 and should increase the production rate by an additional 2-3 MMcf per day. Production from the field for 2003 was 19.6 MMcf per day net to us. Production for 2002 was 14.0 MMcf per day net to us.

Ship Shoal Blocks 28/35

We successfully drilled an exploratory well at Ship Shoal Blocks 28 and 35 during the third quarter of 2002. The well was drilled to a measured depth of 15,237 feet (12,295 feet of true vertical depth) and encountered 140 feet of net natural gas pay. The well was completed as a single producer in the deepest of three productive intervals and first production commenced in late April, 2003 and averaged 1.7 MMcfe per day net to us through December 31, 2003. We operate and own a 22% working interest.

ONSHORE AND OTHER

Big Escambia Creek

This gas field in south Alabama produces from the Smackover formation at depths ranging from 15,100 to 15,600 feet and is operated by ExxonMobil. We own an average working interest of 4.9% (5.5% net revenue interest), in six wells and a 2.2% average royalty interest in another five wells. This field produced 0.7 MMcfe per day to our interest in 2003. The field has an estimated reserve life in excess of 10 years given current production rates.

Other

We own various royalty and working interests in numerous onshore areas and the Gulf of Mexico other than the fields discussed above.

OIL AND GAS RESERVES

The following table sets forth certain information about our estimated proved reserves as of the dates set forth below.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2003	2002(a)	2001(a)
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Proved developed:			
Oil (Bbls)	9,919	1,056	885
Gas (Mcf)	31,415	37,631	52,375
Mcfe	90,926	43,966	57,683
Proved undeveloped:			
Oil (Bbls)	13,790	22,988	29,324
Gas (Mcf)	43,276	53,908	69,078
Mcfe	126,017	191,833	245,023
Total proved:			
Oil (Bbls)	23,709	24,043	30,209

Gas (Mcf)	74,691	91,539	121,453
Mcfe	216,943	235,799	302,706
Estimated pre-tax future net cash flows(b)	$ 838,847	$ 970,198	$ 473,896
Pre-tax discounted present value (b)	$ 570,463	$ 623,946	$ 272,053
Standardized measure of discounted future net cash flows(b)	$ 519,026	$ 556,046	$ 254,857

</TABLE>

(a) The estimates include reserve volumes of approximately 1.2 Bcf, $2.9 million of pre-tax discounted present value in 2001, attributable to a volumetric production payment. Standardized measure of discounted future net cash flows does not include any volumes or cash flows associated with the volumetric production payment.

(b) Includes a reduction for estimated plugging and abandonment costs that is reflected as a liability on our balance sheet at December 31, 2003, in accordance with Statement of Financial Accounting Standards No. 143.

Our independent reserve engineers, Huddleston & Co., Inc., prepared the estimates of the proved reserves and the future net cash flows and present value thereof attributable to such proved reserves. Reserves were estimated using oil and gas prices and production and development costs in effect on December 31 of each such year, without escalation, and were otherwise prepared in accordance with Securities and Exchange Commission regulations regarding disclosure of oil and gas reserve information.

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond our control or the control of the reserve engineers. Reserve engineering is a subjective

process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. The accuracy of any reserve or cash flow estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Estimates by different engineers often vary, sometimes significantly. In addition, physical factors, such as the results of drilling, testing and production subsequent to the date of an estimate, as well as economic factors, such as an increase or decrease in product prices that renders production of such reserves more or less economic, may justify revision of such estimates. Accordingly, reserve estimates could be different from the quantities of oil and gas that are ultimately recovered.

We have not filed any reports with other federal agencies which contain an estimate of total proved net oil and gas reserves during our last fiscal year.

PRESENT ACTIVITIES AND PRODUCTIVE WELLS

The following table sets forth the wells we have drilled and completed during the periods indicated. All such wells were drilled in the continental United States primarily in federal and state waters in the Gulf of Mexico.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,					
	2003		2002		2001	
	GROSS	NET	GROSS	NET	GROSS	NET
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Development:						
Oil	2	.23	2	.30	6	.45
Gas	--	--	--	--	4	3.17
Non-productive	--	--	1	.40	--	--

Total	2	.23	3	.70	10	3.62
Exploration:						
Oil	1	.15	--	--	--	--
Gas	--	--	1	.22	3	2.00
Non-productive	1	.20	1	.50	12	5.77
Total	2	.35	2	.72	15	7.77

The following table sets forth our productive wells as of December 31, 2003:

	WELLS	
	GROSS	NET
Oil:		
Working interest	39.00	3.05
Royalty interest	188.00	3.20
Total	227.00	6.25
Gas:		
Working interest	41.00	21.11
Royalty interest	209.00	1.67
Total	250.00	22.78

A well is categorized as an oil well or a natural gas well based upon the ratio of oil to gas reserves on a Mcfe basis. However, some of our wells produce both oil and gas. At December 31, 2003, we had no wells with multiple completions. At December 31, 2003, we had 1 gross (0.03 net) exploratory oil well in progress.

LEASEHOLD ACREAGE

The following table shows our approximate developed and undeveloped (gross and net) leasehold acreage as of December 31, 2003.

	LEASEHOLD ACREAGE			
	DEVELOPED		UNDEVELOPED	
LOCATION	GROSS	NET	GROSS	NET
Louisiana	6,554	4,179	3,770	1,179
Other states	680	362	681	509
Federal waters	101,743	73,483	295,180	77,207
Total	108,977	78,024	299,631	78,895

As of December 31, 2003, we owned various royalty and overriding royalty interests in 1,336 net developed and 6,862 net undeveloped acres. In addition, we owned 4,711 developed and 121,289 undeveloped mineral acres.

MAJOR CUSTOMERS

Our production is sold generally on month-to-month contracts at prevailing prices. The following table identifies customers to whom we sold a significant percentage of our total oil and gas production during each of the 12-month periods ended:

<TABLE>
<CAPTION>

	DECEMBER 31,		
	2003	2002	2001
<S>	<C>	<C>	<C>
Petrocom Energy Group, Ltd.	4%	4%	--
Dynegy	5%	7%	8%
Prior Energy Corporation	20%	--	20%
Reliant Energy Services	28%	70%	49%
Louis Dreyfus Energy Services	27%	--	--

</TABLE>

Because alternative purchasers of oil and gas are readily available, we believe that the loss of any of these purchasers would not result in a material adverse effect on our ability to market future oil and gas production.

TITLE TO PROPERTIES

We believe that the title to our oil and gas properties is good and defensible in accordance with standards generally accepted in the oil and gas industry, subject to such exceptions which, in our opinion, are not so

material as to detract substantially from the use or value of such properties. Our properties are typically subject, in one degree or another, to one or more of the following:

- royalties and other burdens and obligations, express or implied, under oil and gas leases;

- overriding royalties and other burdens created by us or our predecessors in title;

- a variety of contractual obligations (including, in some cases, development obligations) arising under operating agreements, farmout agreements, production sales contracts and other agreements that may affect the properties or their titles;

- back-ins and reversionary interests existing under purchase agreements and leasehold assignments;

- liens that arise in the normal course of operations, such as those for unpaid taxes, statutory liens securing obligations to unpaid suppliers and contractors and contractual liens under operating agreements;

- pooling, unitization and communitization agreements, declarations and orders; and easements, restrictions, rights-of-way and other matters that commonly affect property.

To the extent that such burdens and obligations affect our rights to production revenues, they have been taken into account in calculating our net revenue interests and in estimating the size and value of our reserves. We believe that the burdens and obligations affecting our properties are conventional in the industry for properties of the kind owned by us.

ITEM 3. LEGAL PROCEEDINGS

We are a defendant in various legal proceedings and claims, which arise in the ordinary course of our business. We do not believe the ultimate resolution of any such actions will have a material affect on our financial position or

results of operations.

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

There were no matters submitted to a vote of security holders during the fourth quarter of 2003.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock trades on the New York Stock Exchange under the symbol "CPE". The following table sets forth the high and low sale prices per share as reported for the periods indicated.

<TABLE>
<CAPTION>

QUARTER ENDED	HIGH	LOW
<S>	<C>	<C>
2002:		
First quarter	$ 9.40	$ 3.97
Second quarter	8.39	4.50
Third quarter	5.15	3.20
Fourth quarter	6.25	3.35
2003:		
First quarter	$ 4.35	$ 3.35
Second quarter	8.44	3.66
Third quarter	7.95	5.46
Fourth quarter	11.48	7.31

</TABLE>

As of March 4, 2004, there were approximately 4,514 common stockholders of record.

We have never paid dividends on our common stock and intend to retain our cash flow from operations, net of preferred stock dividends, for the future operation and development of our business. In addition, our primary credit facility and the terms of our outstanding subordinated debt prohibit the payment of cash dividends on our common stock.

In December 2003, we borrowed $185 million pursuant to an amended and restated senior unsecured credit agreement dated December 23, 2003. In connection with our borrowings under the senior unsecured credit agreement, we issued to the lenders under the credit agreement warrants to purchase an aggregate of 2,775,000 shares of our common stock at an exercise price of $10.00 per share. The warrants are exercisable for seven years from the date of issuance. The issuance of the warrants was exempt pursuant to Section 4(2) of the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth, as of the dates and for the periods indicated, selected financial information about us. The financial information for each of the five years in the period ended December 31, 2003 has been derived from our audited Consolidated Financial Statements for such periods. The information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto. The following information is not necessarily indicative of our future results.

CALLON PETROLEUM COMPANY
SELECTED HISTORICAL FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,				
	2003	2002	2001	2000	1999
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Operating revenues:					
Oil and gas sales	$ 73,697	$ 61,171	$ 60,010	$ 56,310	$ 37,140
Operating expenses:					
Lease operating expenses	11,301	11,030	11,252	9,339	7,536
Depreciation, depletion and amortization	28,253	27,096	21,081	17,153	16,727
General and administrative	4,713	4,705	4,635	4,155	4,575
Accretion expense	2,884	--	--	--	--
Loss on mark-to-market commodity derivative contracts	535	708	--	--	--
Total operating expenses	47,686	43,539	36,968	30,647	28,838
Income (loss) from operations	26,011	17,632	23,042	25,663	8,302
Other (income) expenses:					
Interest expense	30,614	26,140	12,805	8,420	6,175
Other income	(444)	(1,004)	(1,742)	(1,767)	(1,853)
Loss on early extinguishment of debt	5,573	--	--	--	
Gain on sale of pipeline	--	(2,454)	--	--	--
Gain on sale of Enron derivatives	--	(2,479)	--	--	--
Writedown of Enron derivatives	--	--	9,186	--	--
Total other (income) expenses	35,743	20,203	20,249	6,653	4,322
Net income (loss) before income taxes	(9,732)	(2,571)	2,793	19,010	3,980
Income tax expense (benefit)	8,432	(900)	977	6,463	1,353
Net income (loss) before Medusa Spar LLC and cumulative effect of change in accounting principle	(18,164)	(1,671)	1,816	12,547	2,627
Loss on Medusa Spar LLC, net of tax	(8)	--	--	--	--
Net income (loss) before cumulative effect of change in in accounting principle	(18,172)	(1,671)	1,816	12,547	2,627
Cumulative effect of change in accounting principle, net of tax	181	--	--	--	--
Net income (loss)	(17,991)	(1,671)	1,816	12,547	2,627
Preferred stock dividends	1,277	1,277	1,277	2,403	2,497
Net income (loss) available to common shares	$ (19,268)	$ (2,948)	$ 539	$ 10,144	$ 130

</TABLE>

CALLON PETROLEUM COMPANY
SELECTED HISTORICAL FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,				
	2003	2002	2001	2000	1999
<S>	<C>	<C>	<C>	<C>	<C>
Net income (loss) available to common shares	$(19,268)	$ (2,948)	$ 539	$ 10,144	$ 130
Net income (loss) per common share:					
Basic:					
Net income (loss) available to common before cumulative					

effect of change in accounting principle	$ (1.42)	$ (.22)	$ .04	$ .82	$ .01
Cumulative effect of change in accounting principle, net of tax	.01	--	--	--	--
Net income (loss) available to common	$ (1.41)	$ (.22)	$ .04	$ .82	$ .01
Diluted:					
Net income (loss) available to common before cumulative effect of change in accounting principle	$ (1.42)	$ (.22)	$ .04	$ .80	$ .01
Cumulative effect of change in accounting principle, net of tax	.01	--	--	--	--
Net income (loss) available to common	$ (1.41)	$ (.22)	$ .04	$ .80	$ .01
Shares used in computing net income (loss) per common share:					
Basic	13,662	13,387	13,273	12,420	8,976
Diluted	13,662	13,387	13,366	12,745	9,075
BALANCE SHEET DATA (END OF PERIOD):					
Oil and gas properties, net	$390,163	$377,661	$343,158	$258,613	$194,365
Total assets	$496,032	$410,613	$372,095	$301,569	$259,877
Long-term debt, less current portion	$214,885	$248,269	$161,733	$134,000	$100,250
Stockholders' equity	$133,261	$140,960	$147,224	$136,328	$124,380

</TABLE>

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We use the full-cost method of accounting. Under this method of accounting, our net capitalized costs to acquire, explore and develop oil and gas properties may not exceed the standardized measure of our proved reserves. If these capitalized costs exceed a ceiling amount, the excess is charged to expense.

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

The following discussion is intended to assist in an understanding of our financial condition and results of operations. Our Consolidated Financial Statements and Notes thereto contain detailed information that should be referred to in conjunction with the following discussion. See Item 8. "Financial Statements and Supplementary Data."

GENERAL

We have been engaged in the exploration, development, acquisition and production of oil and gas properties since 1950. Our revenues, profitability and future growth and the carrying value of our oil and gas properties are substantially dependent on prevailing prices of oil and gas and our ability to find, develop and acquire additional oil and gas reserves that are economically recoverable. Our ability to maintain or increase our borrowing capacity and to obtain additional capital on attractive terms is also influenced by oil and gas prices.

Significant events of our financial and operating results for the year ended December 31, 2003 included:

- borrowing $185 million for a term of seven-years at an interest rate of 9.75% pursuant to a senior unsecured credit agreement;

- the contribution of our 15% working interest in the Medusa spar production facilities into a limited liability company in return for approximately $25 million of cash and a 10% interest in the limited liability company which will earn a throughput fee for production processed in the Medusa area; and

- the commencement of production from two of our deepwater discoveries, Medusa and Habanero, in late November 2003 which is expected to increase production for 2004 by approximately 80% over 2003 levels.

- a charge of $11.5 million to income tax expense as the result of establishing a valuation allowance against our deferred tax asset required by SFAS 109 "Accounting for Income Taxes". This charge was taken due to the negative evidence resulting from the cumulative losses incurred for the three year period ending December 31, 2003. Relevant accounting guidance suggests that positive future expectations about income are diminished by such losses. If the Company achieves profitable operations in 2004, the Company expects it will reverse a portion of the valuation allowance in an amount at least sufficient to eliminate any tax provision in that period. See Note 3 to the Company's Consolidated Financial Statements for a more detailed discussion.

These financial transactions allowed us to redeem $62.9 million of senior subordinated notes which were maturing in 2004, redeem $85.0 million of 12% loans maturing in March 2005 and reduce the outstanding balance under our senior secured credit facility. As a result, we expect that planned 2004 capital expenditures of approximately $65 million will be funded with cash flows from operations and draws under our senior secured credit facility, if necessary. The current borrowing base of $45 million under the senior secured credit facility, which had $30.0 million outstanding against it on December 31, 2003, is currently under review and may be increased since a majority of our reserves for Medusa and Habanero are now classified as proved developed reserves. This credit facility matures on June 30, 2004 and we

anticipate extending the due date or replacing it with a facility with similar or more favorable terms. For a more detailed discussion of outstanding debt see Note 5 to our Consolidated Financial Statements.

Our estimated net proved oil and gas reserves decreased at December 31, 2003 to 217 billion cubic feet of natural gas equivalent (Bcfe). This represents a decrease of 8% from previous year-end 2002 estimated proved reserves of 236 Bcfe.

We incurred a major downward revision to proved reserves in 2002 at our Boomslang discovery. The initial exploratory well drilled at this location in 1998 encountered 185 feet of pay. The well was drilled with mechanical problems and was subsequently determined not to be a viable well for completion and production of the estimated proved reserves encountered in this initial well. A second well, drilled in the fourth quarter of 2002, to serve as a production take point, was drilled in a down dip direction from the first well targeting what was anticipated to be a better sand development in the three separate reservoirs found in the first well, but still up dip of the lowest known hydrocarbons in the first well. Reservoir sand quality changed dramatically, reducing the estimated reservoir volumes found and booked as estimated proved reserves by the first well to an extent that the partners determined that the risk of development was not economic. Callon had a 40% working interest. The Company's proved reserves in the prior year included 7.2 million barrels of oil and 13 billion cubic feet of natural gas attributable to Boomslang.

Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond our control. These factors include weather conditions in the United States, the condition of the United States economy, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of crude oil and natural gas, the price of foreign imports and the availability of alternate fuel sources. Any substantial and extended decline in the price of crude oil or natural gas would have an adverse effect on our carrying value of our proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. We use derivative financial instruments (see Note 6 and Item 7A. "Quantitative and Qualitative Disclosures About Market Risks") for price protection purposes on a limited amount of our future production and do not use them for trading purposes. On a Mcfe basis, natural gas represents 45% of the budgeted 2004 production and 34% of proved reserves at year-end 2003.

Inflation has not had a material impact on us and is not expected to have a material impact on us in the future.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

RECENT ACCOUNTING PRONOUNCEMENTS. In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities. The Statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires us to report changes in the fair value of our derivative financial instruments that qualify as cash flow hedges in other comprehensive income, a component of stockholders' equity, until realized. We adopted SFAS 133 effective January 1, 2001.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS 143") effective for fiscal years beginning after June 15, 2002. SFAS 143 essentially requires entities to record the fair value of a liability for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We adopted the

statement on January 1, 2003 resulting in a cumulative effect of accounting change of $181,000, net of tax. See Note 8 to our Consolidated Financial Statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation-Transition and Disclosure -an amendment of SFAS No. 123." SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on the reported results. SFAS 148 is effective for the year ended December 31, 2002 and for interim financial statements commencing in 2003. The adoption of this pronouncement by us did not have an impact on our financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin (ARB) 51" ("FIN 46"). FIN 46 addresses consolidation by business enterprises of variable interest entities ("VIEs"). The primary objective of FIN 46 is to provide guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as VIEs. The provisions of FIN 46 are effective immediately for these variable interest entities created after January 31, 2003. On December 24, 2003, the FASB issued a revision to FIN 46 which among other things deferred the effective date for certain variable interests created prior to January 31, 2003. Application is required for interests in special-purpose entities in the periods ending after December 15, 2003 and application is required for all other types of variable interest entities in the periods ending after March 31, 2004. We adopted FIN 46, as revised, as of December 31, 2003, which had no impact on the financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," which requires the use of the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which discontinues the practice of amortizing goodwill and indefinite lived intangible assets and initiates an annual review of impairment. The new standard also requires that all intangible assets be aggregated and presented as a separate line item in the balance sheet. The adoption of SFAS No. 141 and 142 had no impact on the Company's financial position or results of operations. A reporting issue has arisen regarding the application of certain provisions of SFAS No. 141 and 142 to companies in the oil and gas industry. The issue is whether SFAS No. 141 requires registrants to classify the costs of mineral rights associated with extracting oil and gas as intangible assets in the balance sheet, apart from other capitalized oil and gas property costs, and provide specific footnote disclosures. Historically, the

Company has included the costs of mineral rights associated with extracting oil and gas as a component of oil and gas properties. These costs include those to acquire contract based drilling and mineral use rights such as delay rentals, lease bonuses, commissions and brokerage fees, and other leasehold costs.

The Emerging Issues Task Force ("EITF") has added the treatment of oil and gas mineral rights to an upcoming agenda, which may result in a change in the classification of these amounts, as described above. The Company will continue to classify its oil and gas leasehold costs as tangible oil and gas properties until further guidance is provided. The Company's cash flows and results of operations would not be affected since such intangible assets would continue to be depleted and assessed for impairment in accordance with full cost accounting rules, as allowed by SFAS No. 142. Further, the Company believes

that the amounts that would be classified as intangible assets as of December 31, 2003 and 2002, would be immaterial.

PROPERTY AND EQUIPMENT. We follow the full-cost method of accounting for oil and gas properties whereby all costs incurred in connection with the acquisition, exploration and development of oil and gas reserves, including certain overhead costs, are capitalized into the "full-cost pool." The amounts we capitalize into the full-cost pool are depleted (charged against earnings) using the unit-of-production method. The full-cost method of accounting for our proved oil and gas properties requires that we make estimates based on assumptions as to future events which could change. These estimates are described below.

Depreciation, Depletion and Amortization (DD&A) of Oil and Gas Properties. We calculate depletion by using the capitalized costs in our full-cost pool plus future development and abandonment costs (combined, the depletable base) and our estimated net proved reserve quantities. Capitalized costs added to the full-cost pool and other costs added to the depletable base include the following:

- the cost of drilling and equipping productive wells, dry hole costs, acquisition costs of properties with proved reserves, delay rentals and other costs related to exploration and development of our oil and gas properties;

- our payroll and general and administrative costs and costs related to fringe benefits paid to employees directly engaged in the acquisition, exploration and/or development of oil and gas properties as well as other directly identifiable general and administrative costs associated with such activities. Such capitalized costs do not include any costs related to our production of oil and gas or our general corporate overhead;

- costs associated with properties that do not have proved reserves attributed to them are excluded from the full cost pool. These unevaluated property costs are added to the full cost pool at such time as wells are completed on the properties, the properties are sold or we determine these costs have been impaired. Our determination that a property has or has not been impaired (which is discussed below) requires that we make assumptions about future events;

- our estimates of future costs to develop proved properties are added to the full cost pool for purposes of the DD&A computation. We use assumptions based on the latest geologic, engineering, regulatory and cost data available to us to estimate these amounts. However, the estimates we make are subjective and may change over time. Our estimates of future development costs are periodically updated as additional information becomes available; and

- prior to the adoption of SFAS 143, estimated costs to dismantle, abandon and restore a proved property were added to the full cost pool for the purposes of DD&A. Subsequent to the adoption of SFAS 143, effective January 1, 2003, these costs are included in the full cost pool. Such cost estimates are periodically updated as additional information becomes available. As discussed above under Accounting Pronouncements, specifically SFAS 143, beginning January

1, 2003, we changed the method for which we account for such costs.

Capitalized costs included in the full-cost pool are depleted and charged against earnings using the unit of production method. Under this method, we estimate our quantity of proved reserves at the beginning of each accounting period. For each barrel of oil equivalent produced during the period, we record a depletion charge equal to the amount included in the depletable base (net of accumulated depreciation, depletion and amortization) divided by our estimated net proved reserve quantities.

Because we use estimates and assumptions to calculate proved reserves (as discussed below) and the amounts included in the full-cost pool, our depletion calculations will change if the estimates and assumptions are not realized. Such changes may be material.

Ceiling Test. Under the full-cost accounting rules, capitalized costs included in the full-cost pool, net of accumulated depreciation, depletion and amortization (DD&A), cost of unevaluated properties and deferred income taxes, may not exceed the present value of our estimated future net cash flows from proved oil and gas reserves, discounted at 10 percent, plus the lower of cost or fair value of unproved properties included in the costs being amortized, net of related tax effects. These rules generally require that, in estimating future net cash flow, we assume that future oil and gas production will be sold at the unescalated market price for oil and gas received at the end of each fiscal quarter and that future costs to produce oil and gas will remain constant at the prices in effect at the end of the fiscal quarter. We are required to write-down and charge to earnings the amount, if any, by which these costs exceed the discounted future net cash flows, unless prices recover sufficiently before the date of our financial statements. Given the volatility of oil and gas prices, it is likely that our estimates of discounted future net cash flows from proved oil and gas reserves will change in the near term. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that writedowns of oil and gas properties could occur in the future.

Estimating Reserves and Present Values. Our estimates of quantities of proved oil and gas reserves and the discounted present value of such reserves at the end of each quarter are based on numerous assumptions which are likely to change over time. These assumptions include:

- the prices at which we can sell our oil and gas production in the future. Oil and gas prices are volatile, but we are generally required to assume that they will not change from the prices in effect at the end of the quarter. In general, higher oil and gas prices will increase quantities of proved reserves and the present value of such reserves, while lower prices will decrease these amounts. Because our properties have relatively short productive lives, changes in prices will affect the present value more than quantities of oil and gas reserves; and

- the costs to develop and produce our reserves and the costs to dismantle our production facilities when reserves are depleted. These costs are likely to change over time, but we are required to assume that costs in effect at the end of the quarter will not change. Increases in costs will reduce oil and gas quantities and present values, while decreases in costs will increase such amounts. Because our properties have relatively short productive lives, changes in costs will affect the present value more than quantities of oil and gas reserves.

- the potential liability to pay royalties to the Mineral Management Service on some of the Company's properties which qualify for royalty relief under the Deep Water Royalty Relief Act could reduce proved reserves. See Note 7 of our Consolidated Financial Statements for a more detailed discussion of this potential liability.

In addition, the process of estimating proved oil and gas reserves requires that our independent and internal reserve engineers exercise judgment based on available geological, geophysical and technical information. We have described the risks associated with reserve estimation and the volatility of oil and gas prices, under "Risk Factors" .

Unproved Properties. Costs associated with properties that do not have proved reserves, including capitalized interest, are excluded from the full-cost pool. These unproved properties are included in the line item "Unevaluated properties excluded from amortization." Unproved property costs are transferred to the full-cost pool when wells are completed on the properties or the properties are sold. In addition, we are required to determine whether our unproved properties are impaired and, if so, add the costs of such properties to the full-cost pool. We determine whether an unproved property should be impaired by periodically reviewing our exploration program on a property by property basis. This determination may require the exercise of substantial judgment by our management.

DERIVATIVES. We use derivative financial instruments for price protection purposes on a limited amount of our future production and do not use them for trading purposes. Such derivatives were accounted for in years prior to 2001 as hedges and have been recognized as an adjustment to oil and gas sales in the period in which they are related. We currently use the accounting treatment for derivatives specified under SFAS 133.

INCOME TAXES. We follow the asset and liability method of accounting for deferred income taxes prescribed by Statement of Financial Accounting Standards No. 109 ("SFAS 109") "Accounting for Income Taxes". The statement provides for the recognition of a deferred tax asset for deductible temporary timing differences, capital and operating loss carryforwards, statutory depletion carryforward and tax credit carryforwards, net of a "valuation allowance". The valuation allowance is provided for that portion of the asset, for which it is deemed more likely than not, that it will not be realized.

SFAS 109 provides for the weighing of positive and negative evidence in determining whether it is more likely than not that a deferred tax asset is recoverable. We have incurred losses in 2002 and 2003 and have losses on an aggregate basis for the three-year period ended December 31, 2003. However, as discussed in Note 5, in December 2003 we refinanced nearly all our highest cost debt, incurring an early extinguishment loss of $5.6 million, but achieving significant interest savings in the future. In addition, as discussed in Note 5, the first two of our deepwater projects began production in November 2003, which is expected to result in a significant increase in 2004 production as compared to 2003. Nevertheless, relevant accounting guidance suggests that a recent history of cumulative losses constitutes significant negative evidence, and that future expectations about income are overshadowed by such recent losses. As a result, we established a valuation allowance of $11.5 million as of December 31, 2003. If we achieve profitable operations in 2004, we expect to reverse a portion of the valuation allowance in an amount at least sufficient to eliminate any tax provision in that period. See Note 3 of our Consolidated Financial Statements for further disclosure.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of capital are cash flows from operations, borrowings from financial institutions and the sale of debt and equity securities. Net cash and cash equivalents increased during 2003 to $8.7 million, up $2.9 million. Cash provided from operating activities during 2003 totaled $34.6 million, up from $12.2 million in 2002. Cash provided by operating activities during 2004 is expected to increase significantly due to the Medusa and Habanero deepwater projects commencing production in late November 2003. Dividends paid on preferred stock were $1.3 million. Most of our outstanding debt was restructured during December 2003. The restructuring of our debt is discussed in the following paragraphs.

In December 2003 we borrowed $185 million pursuant to a senior unsecured credit facility with a stated interest rate of 9.75%. The net proceeds from the loans of $181.3 million were used to redeem $22.9 million of 10.125% senior subordinated notes due July 31, 2004, $40 million of 10.25% senior subordinated notes due September 15, 2004, $85 million of our 12% loans due March 31, 2005 plus a 1% call premium of $850,000 and to reduce the balance outstanding under our senior secured revolving credit facility. A charge of $5.3 million was incurred in 2003 as a result of the early extinguishment of debt for the 12% loans due March 31, 2005 and a charge of approximately $1.4 million will be incurred in 2004 for the early extinguishment of the $22.9 million 10.125%

senior subordinated notes due July 31, 2004 and the $40 million 10.25% senior subordinated notes due September 15, 2004. We exercised covenant defeasance under the indentures for the 10.125% and 10.25% notes on December 8, 2003 and distributed a required 30-

day redemption notice. The funds necessary to redeem the notes were placed in trust and the trustee paid the holders of the notes on January 8, 2004. The funds in trust were classified on our December 31, 2003 balance sheet as restricted cash. In conjunction with the new senior unsecured notes, we issued detachable warrants to purchase 2.775 million of our common stock at an exercise price of $10 per share. This senior unsecured debt matures December 8, 2010. See Note 5 of our Consolidated Financial Statements for a more detailed description of these securities.

In December 2003, we announced the formation of a limited liability company, Medusa Spar LLC, which now owns a 75% undivided ownership interest in the deepwater spar production facilities on our Medusa Field in the Gulf of Mexico. We contributed a 15% undivided ownership interest in the production facility to the LLC in return for approximately $25 million in cash and a 10% ownership interest in the LLC. Our cash proceeds were used to reduce the balance outstanding under our senior secured credit facility. The LLC will earn a tariff based upon production volume throughput from the Medusa area. We are obligated to process our share of production from the Medusa field and any future discoveries in the area through the spar production facilities. The LLC used the cash proceeds from $83.7 of non-recourse financing and a cash contribution by one of the LLC owners to acquire its 75% interest in the spar. The balance of the LLC is owned by Oceaneering International, Inc. (NYSE:OII) and Murphy Oil Corporation (NYSE:MUR). We are accounting for our 10% ownership interest in the LLC under the equity method.

Our remaining maturities for unsecured debt, excluding the $185 million in 9.75% loans due 2010, consists of $10 million of the 12% loans with a due date of March 31, 2005 and $33 million of 11% senior subordinated notes with a due date of December 15, 2005. These 2005 maturities will be retired by our primary sources of capital which are cash flows from operations, borrowings from financial institutions and the sale of debt and equity securities. See Note 5 of our Consolidated Financial Statements for a more detailed description of these securities

Borrowings under our senior secured credit facility are secured by mortgages covering substantially all of our producing oil and gas properties. This facility had a $45 million borrowing base on December 31, 2003 with $30 million outstanding against it. As of February 29, 2004, $20 million in loans were outstanding under the facility. The borrowing base is currently being reviewed by the lenders and could be increased due to our proved producing reserves increasing as a result of the Medusa and Habanero fields commencing production late in the fourth quarter of 2003. The facility expires on June 30, 2004 and we are currently reviewing options to extend the maturity date or to replace the facility with one that is similar or with more favorable terms. See Note 5 of our Consolidated Financial Statements for a more detailed description of the credit facility.

Outstanding debt on December 31, 2003 was $308.1 million, and after retirement of the 2004 notes using restricted cash on January 8, 2004, debt was $245.2 million, compared to $249.6 million on December 31, 2002. The senior secured credit facility, our two senior unsecured credit facilities and the indenture for our senior subordinated debt contain various covenants including restrictions on additional indebtedness and payment of cash dividends as well as maintenance of certain financial ratios. We were in compliance with these covenants at December 31, 2003.

Capital expenditure plans for 2004 include:

- the completion of the development projects for Medusa and Habanero;
- the drilling of a satellite prospect in the Medusa field;
- the drilling and completion of a proved undeveloped location in the Mobile Blocks 952/953/955 field;

- the acquisition of seismic and leases; and

- discretionary capital projects for the exploratory drilling of deep shelf prospects we developed through our 3-D seismic partnership using AVO technology.

We anticipate that cash flow generated during 2004 and current availability under our senior secured credit facility, if necessary, will provide the $65 million, which includes capitalized interest and general and administrative expenses, of capital necessary to fund these planned capital expenditures and the current portion of our asset retirement obligation in the amount of $8.6 million.

The following table describes our outstanding contractual obligations (in thousands) as of December 31, 2003:

<TABLE>
<CAPTION>

CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN ONE YEAR	ONE-THREE YEARS	FOUR-FIVE YEARS	AFTER-FIVE YEARS
<S>	<C>	<C>	<C>	<C>	
Senior Secured Revolving Credit Facility	$30,000	$30,000(b)	$ --	$ --	$ --
10.125% Senior Subordinated Notes	22,915	22,915(a)	--	--	--
10.25% Senior Subordinated Notes	40,000	40,000(a)	--	--	--
12% Senior Loans	10,000	--	10,000	--	--
9.75% Senior Unsecured Credit Facility	185,000	--	--	--	185,000
11% Senior Subordinated Notes	33,000	--	33,000	--	--
Capital lease (future minimum payments)	4,421	1,890	1,261	577	693
Throughput Commitments:					
Medusa Spar	23,128	5,628	8,660	5,532	3,308
Medusa Oil Pipeline	1,129	269	460	186	214

</TABLE>

(a) These notes were retired with restricted cash on January 8, 2004.

(b) This facility matures June 30, 2004 and is expected to be extended or replaced with a new facility.

RESULTS OF OPERATIONS

The following table sets forth certain operating information with respect to our oil and gas operations for each of the three years in the period ended December 31, 2003.

<TABLE>
<CAPTION>

	DECEMBER 31,		
	2003(A)	2002(A)(B)	2001(A)(B)
<S>	<C>	<C>	<C>
Production:			
Oil (MBbls)	268	226	273
Gas (MMcf)	12,315	14,215	13,566
Total production (MMcfe)	13,923	15,571	15,206
Average daily production (MMcfe)	38.1	42.7	41.7
Average sales price:			
Oil (per Bbl)	$ 28.72	$ 23.11	$ 22.95
Gas (per Mcf)	$ 5.36	$ 3.94	$ 3.96
Total (per Mcfe)	$ 5.29	$ 3.93	$ 3.95
Oil and Gas revenues:			
Gas revenue	$66,001	$55,949	$53,729
Oil revenue	7,696	5,222	6,281
</TABLE>

Total	$73,697	$61,171	$60,010
Oil and gas production costs:			
Lease operating expenses	$11,301	$11,030	$11,252
Additional per Mcfe data:			
Sale price	$ 5.29	$ 3.93	$ 3.95
Lease operating expenses	.81	.71	.73
Operating margin	$ 4.48	$ 3.22	$ 3.22
Depletion	$ 2.03	$ 1.73	$ 1.37
Accretion	$ .21	$ --	$ --
General and administrative (net of management fees)	$ .34	$ .30	$ .30

</TABLE>

(a) Average sales price includes hedging gains and losses.

(b) Production volumes include 1,200 MMcf for the year 2002 and 2,300 MMcf for 2001, at an average price of $2.08 per Mcf associated with a volumetric production payment.

OFF-BALANCE SHEET ARRANGEMENTS

In December 2003, we announced the formation of a limited liability company, Medusa Spar LLC, which now owns a 75% undivided ownership interest in the deepwater spar production facilities on our Medusa Field in the Gulf of Mexico. We contributed a 15% undivided ownership interest in the production facility to Medusa Spar LLC in return for approximately $25 million in cash and a 10% ownership interest in the LLC. The LLC will earn a tariff based upon production volume throughput from the Medusa area. We are obligated to process our share of production from the Medusa field and any future discoveries in the area through the spar production facilities. This arrangement allows us to defer the cost of the Spar production facility over the life of the Medusa field. Our cash proceeds were used to reduce the balance outstanding under our senior secured credit facility. The LLC used the cash proceeds from $83.7 of non-recourse financing and a cash contribution by one of the LLC owners to acquire its 75% interest in the spar. The balance of Medusa Spar LLC is owned by Oceaneering International, Inc. (NYSE:OII) and Murphy Oil Corporation (NYSE:MUR). We are accounting for our 10% ownership interest in the LLC under the equity method.

SEC INQUIRIES REGARDING RESERVE INFORMATION

Beginning in October 2002 we received a series of inquiries from the SEC regarding our Annual Report on Form 10-K for the year ended December 31, 2001 requesting supplemental information concerning our operations in the Gulf of Mexico. The comment letters requested information about the procedures we used to classify our deepwater reserves as proved and requested that our financials be restated to reflect the removal of the Boomslang reserves as proved for all prior periods during which such reserves were reported as proved. We have reviewed the SEC comments with our independent petroleum reserve engineers, Huddleston & Co., Inc., of Houston, Texas. Both Huddleston & Co. and we believe that such deepwater reserves are properly classified as proved. The Company has responded to all of the SEC inquiries.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

OIL AND GAS REVENUES

Total oil and gas revenues increased 20% from $61.2 million in 2002 to $73.7 in 2003 while total production for 2003 decreased by 11% versus 2002. Realized oil and gas prices were substantially higher when compared to the same period in 2002 and accounted for the increase in revenue. Gas revenues for 2002 included $9.2 million of non-cash revenue related to the Enron derivatives discussed in Note 6 to the Consolidated Financial Statements.

Gas production during 2003 totaled 12.3 Bcf and generated $66.0 million in

revenues compared to 14.2 Bcf and $55.9 million in revenues during the same period in 2002. Average gas prices for 2003 were $5.36 per Mcf compared to $3.94 per Mcf during the same period last year. The decrease in production was primarily due to the depletion of the lowest productive zone of the East Cameron Block 294 field. The well at East Cameron Block 294 was returned to production after a recompletion to a behind pipe zone in the third quarter of 2003. Also, the sale of the North and Northwest Dauphin Island fields in the fourth quarter of 2002 and the normal and expected declines in production from other properties contributed to the variance.

Oil production during 2003 totaled 268,000 barrels and generated $7.7 million in revenues compared to 226,000 barrels and $5.2 million in revenues for the same period in 2002. Average oil prices received in

2003 were $28.72 per barrel compared to $23.11 per barrel in 2002. The increase in production was due to the initial production from our deepwater discoveries, Medusa and Habanero, which began producing late in the fourth quarter of 2003. This was offset slightly by downtime for maintenance to the facility and equipment at the Big Escambia Creek Field operated by ExxonMobil Corporation and normal and expected declines in production from older properties.

LEASE OPERATING EXPENSES

Lease operating expenses for 2003 increased by 2% to $11.3 million compared to $11.0 million for the same period in 2002. The increase was primarily due to the increase in lease operating expenses for the Mobile Block 864 area resulting from the implementation of the accelerated production program in the second quarter of 2002 and lease operating expenses related to our deepwater discoveries, Medusa and Habanero, which began producing late in the fourth quarter of 2003. The increase was slightly offset as a result of the sale of North and Northwest Dauphin Island fields in the fourth quarter of 2002 which reduced lease operating expenses for 2003.

DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation, depletion and amortization for 2003 and 2002 were $28.3 million and $27.1 million, respectively. The 4% increase was due primarily to the downward reserve revisions for our Boomslang field at Ewing Bank Block 994 at the end of 2002. This decrease in estimated proved reserves increased the depletable cost per unit of production.

ACCRETION EXPENSE

Accretion expense of $2.9 million represents accretion for our asset retirement obligations for 2003.

GENERAL AND ADMINISTRATIVE

General and administrative expenses for 2003, net of amounts capitalized, were $4.7 million and flat with the amount incurred in 2002.

INTEREST EXPENSE

Interest expense increased by 17% in 2003 to $30.6 million compared to $26.1 million in 2002. This was a result of higher debt levels.

LOSS ON EARLY EXTINGUISHMENT OF DEBT

A loss of $5.6 million was incurred in December of 2003 for the write-off of deferred financing costs and bond discounts associated with the early extinguishment of $85 million of the 12% loans due in 2005 plus a 1% pre-payment premium.

INCOME TAXES

The income tax expense of $8.4 million in 2003 was primarily due to a charge of $11.5 million to establish a valuation allowance against our deferred tax asset required by SFAS 109 "Accounting for Income Taxes". This charge was taken due to the negative evidence resulting from the cumulative losses incurred for the three year period ending December 31, 2003. Relevant accounting guidance

suggests that positive future expectations about income are diminished by such losses. If the Company achieves

profitable operations in 2004, the Company expects it will reverse a portion of the valuation allowance in an amount at least sufficient to eliminate any tax provision in that period. See Note 3 to the Company's Consolidated Financial Statements for a more detailed discussion.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

OIL AND GAS REVENUES

Oil and gas revenues for 2002 were $61.2 million, a 2% increase from the 2001 amount of $60.0 million. Oil and gas production of 15,571 MMcfe during 2002 increased as well from the 2001 amount of 15,206 MMcfe.

Oil production decreased from 273,000 barrels in 2001 to 226,000 barrels in 2002 but the average sales price increased from $22.95 in 2001 to $23.11 in 2002. As a result, oil revenues dropped from $6.3 million in 2001 to $5.2 million in 2002. The production decrease was primarily due to older properties' normal and expected decline in production.

Gas revenues for 2002 were $55.9 million based on sales of 14.2 Bcf at an average sales price of $3.94 per Mcf. For 2001, gas revenues were $53.7 million based on production of 13.6 Bcf sold at an average sales price of $3.96 per Mcf. Our gas production in 2002 increased when compared to last year due primarily to the acceleration program at Mobile Blocks 952/953/955 area initiated in the fourth quarter of 2001.

LEASE OPERATING EXPENSES

Lease operating expenses remained relatively stable at $11.0 million ($.71 per Mcfe) in 2002 compared to $11.3 million ($.73 per Mcfe) in 2001.

DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation, depletion and amortization increased by 28% due in large part to the downward reserve revisions at Boomslang. This decrease in estimated proved reserves, over which depletable costs are amortized, increased the per unit depletion rate, while production remained relatively constant between years.

Total charges increased from $21.1 million or $1.39 per Mcfe in 2001, to $27.1 million, or $1.74 per Mcfe in 2002.

GENERAL AND ADMINISTRATIVE

General and administrative expenses for 2002 were $4.7 million, or $.30 per Mcfe, compared to $4.6 million, or $.30 per Mcfe, in 2001.

INTEREST EXPENSE

Interest expense for 2002 was $26.1 million increasing from $12.8 million in 2001. This is a result of an increase in our long-term debt as well as higher interest rates associated with additional debt incurred in 2002.

INCOME TAXES

Our 2002 results included a deferred income tax benefit of $900,000. We evaluated the deferred income tax asset in light of our reserve quantity estimates, our long-term outlook for oil and gas prices and our expected level of future revenues and expenses. We believe it is more likely than not, based upon this evaluation, that we will realize the recorded deferred income tax asset. However, there is no assurance that such asset will ultimately be realized.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company's revenues are derived from the sale of its crude oil and natural gas production. In recent months, the prices for oil and gas have increased; however, they remain extremely volatile and sometimes experience large fluctuations as a result of relatively small changes in supplies, weather conditions, economic conditions and government actions. The Company enters into derivative financial instruments to hedge oil and gas price risks for the production volumes to which the hedge relates. The derivatives reduce the Company's exposure on the hedged volumes to decreases in commodity prices and limit the benefit the Company might otherwise have received from any increases in commodity prices on the hedged volumes.

The Company also enters into price "collars" to reduce the risk of changes in oil and gas prices. Under these arrangements, no payments are due by either party so long as the market price is above the floor price set in the collar and below the ceiling. If the price falls below the floor, the counter-party to the collar pays the difference to the Company and if the price is above the ceiling, the counter-party receives the difference from the Company. The Company enters into these various agreements to reduce the effects of volatile oil and gas prices and does not enter into hedge transactions for speculative purposes. See Note 6 to the Consolidated Financial Statements for a description of the Company's hedged position at December 31, 2003. There have been no significant changes in market risks faced by the Company since the end of 2003.

Based on projected annual sales volumes for 2004 (excluding forecast production increases over 2003), a 10% decline in the prices we receive for our crude oil and natural gas production would have an approximate $13.7 million impact on our revenues.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Statements of Stockholders' Equity for Each of the Three Years in the Period Ended December 31, 2003	48
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 2003	49
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REPORT OF INDEPENDENT AUDITORS

The Stockholders and Board of Directors
Callon Petroleum Company

We have audited the accompanying consolidated balance sheets of Callon Petroleum Company as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Callon Petroleum Company as of December 31, 2001 and for the year then ended, were audited by other auditors who have ceased operations and whose report dated March 29, 2002, expressed an unqualified opinion on those

statements and included an explanatory paragraph that disclosed the change in the Company's method of accounting for derivative instruments and hedging activities discussed in Note 2 to those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Callon Petroleum Company as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations".

ERNST & YOUNG LLP

New Orleans, Louisiana
March 3, 2004

The following report is a copy of the audit report previously issued by Arthur Andersen LLP in connection with Callon Petroleum Company's annual report on Form 10-K for the year ended December 31, 2001. This audit report has not been reissued by Arthur Andersen LLP in connection with this filing on form 10-K for the year ended December 31, 2003. The consolidated balance sheet as of December 31, 2000 and the consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2000, mentioned in the report, are not required in the Company's annual report for 2003 and are therefore not presented among the financial statements in this annual report.

REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors of Callon Petroleum Company:

We have audited the accompanying consolidated balance sheets of Callon Petroleum Company (a Delaware corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Callon Petroleum Company and subsidiaries, as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements effective January 1, 2001, the Company adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities."

ARTHUR ANDERSEN LLP

New Orleans, Louisiana
MARCH 29, 2002

CALLON PETROLEUM COMPANY
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

	DECEMBER 31,	
	2003	2002
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,700	$ 5,807
Restricted cash	63,345	--
Accounts receivable	10,117	10,875
Other current assets	3,606	570
Total current assets	85,768	17,252
Oil and gas properties, full-cost accounting method:		
Evaluated properties	802,912	762,918
Less accumulated depreciation, depletion and amortization	(447,000)	(426,254)
	355,912	336,664
Unevaluated properties excluded from amortization	34,251	40,997
Total oil and gas properties	390,163	377,661
Pipeline and other facilities, net	--	853
Other property and equipment, net	1,547	1,890
Deferred tax asset	--	8,767
Long-term gas balancing receivable	1,101	761
Restricted investments	7,420	--
Investment in Medusa Spar LLC	8,471	--
Other assets, net	1,562	3,429
Total assets	$ 496,032	$ 410,613
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 16,020	$ 12,498
Undistributed oil and gas revenues	897	1,109
Accrued net profits interest payable	1,886	1,707
Asset retirement obligations, current portion	8,571	--
Current maturities of long-term debt	93,223	1,320
Total current liabilities	120,597	16,634
Long-term debt-excluding current maturities	214,885	248,269
Accounts payable and accrued liabilities to be refinanced	--	3,861
Asset retirement obligations	25,120	--
Accrued retirement benefits	189	204
Other long-term liabilities	1,980	685

Total liabilities	362,771	269,653
Stockholders' equity:		
Preferred Stock, $.01 par value; 2,500,000 shares authorized; 600,861 shares of Convertible Exchangeable Preferred Stock, Series A issued and outstanding at December 31, 2003 with a liquidation preference of $15,021,525	6	6
Common Stock, $.01 par value; 20,000,000 shares authorized; 13,935,311 shares and 13,900,466 shares outstanding at December 31, 2003 and 2002, respectively	139	139
Capital in excess of par value	169,036	158,370
Unearned restricted stock compensation	(372)	(826)
Accumulated other comprehensive income (loss)	(20)	(469)
Retained earnings (deficit)	(35,528)	(16,260)
Total stockholders' equity	133,261	140,960
Total liabilities and stockholders' equity	$ 496,032	$ 410,613

</TABLE>

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

CALLON PETROLEUM COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	2003	2002	2001
<S>	<C>	<C>	<C>
Operating revenues:			
Oil and gas sales	$ 73,697	$ 61,171	$ 60,010
Operating expenses:			
Lease operating expenses	11,301	11,030	11,252
Depreciation, depletion and amortization	28,253	27,096	21,081
General and administrative	4,713	4,705	4,635
Accretion expense	2,884	--	--
Loss on mark-to-market commodity derivative contracts	535	708	--
Total operating expenses	47,686	43,539	36,968
Income from operations	26,011	17,632	23,042
Other (income) expenses:			
Interest expense	30,614	26,140	12,805
Other income	(444)	(1,004)	(1,742)
Loss on early extinguishment of debt	5,573	--	--
Gain on sale of pipeline	--	(2,454)	--
Gain on sale of Enron derivatives	--	(2,479)	--
Writedown of Enron derivatives	--	--	9,186
Total other (income) expenses	35,743	20,203	20,249
Income (loss) before income taxes	(9,732)	(2,571)	2,793
Income tax expense (benefit)	8,432	(900)	977
Net income (loss) before Medusa Spar LLC and cumulative effect of change in accounting principle	(18,164)	(1,671)	1,816
Loss from Medusa Spar LLC, net of tax	(8)	--	--

Income (loss) before cumulative effect of change in accounting principle	(18,172)	(1,671)	1,816
Cumulative effect of change in accounting principle, net of tax	181	--	--
Net income (loss)	(17,991)	(1,671)	1,816
Preferred stock dividends	1,277	1,277	1,277
Net income (loss) available to common shares	$(19,268)	$ (2,948)	$ 539
Net income (loss) per common share:			
Basic			
Net income (loss) available to common before cumulative effect of change in accounting principle	$ (1.42)	$ (0.22)	$ .04
Cumulative effect of change in accounting principle, net of tax	0.01	--	--
Net income (loss) available to common	$ (1.41)	$ (0.22)	$ .04
Diluted			
Net income (loss) available to common before cumulative effect of change in accounting principle	$ (1.42)	$ (0.22)	$ .04
Cumulative effect of change in accounting principle, net of tax	0.01	--	--
Net income (loss) available to common	$ (1.41)	$ (0.22)	$ .04
Shares used in computing net income (loss):			
Basic	13,662	13,387	13,273
Diluted	13,662	13,387	13,366

</TABLE>

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

CALLON PETROLEUM COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

<TABLE>
<CAPTION>

	Preferred Stock	Common Stock	Unearned Restricted Stock Compensation	Capital in Excess of Par Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Stock-holders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 2000	$ 6	$133	$ --	$ 150,040	$ --	$ (13,851)	$136,328
Comprehensive income:							
Net income	--	--	--	--	--	1,816	
Other comprehensive income	--	--	--	--	5,971	--	
Total comprehensive income							7,787
Preferred stock dividend	--	--	--	--	--	(1,277)	(1,277)
Shares issued pursuant to employee benefit and option plan	--	1	--	942	--	--	943
Employee stock purchase plan	--	--	--	357	--	--	357
Tax benefits related to stock compensation plans	--	--	--	18	--	--	18
Warrants	--	--	--	3,068	--	--	3,068
Balances, December 31, 2001	6	134	--	154,425	5,971	(13,312)	147,224
Comprehensive income:							

Net loss	--	--	--	--	--	(1,671)	
Other comprehensive loss	--	--	--	--	(6,440)	--	
Total comprehensive loss							(8,111)
Preferred stock dividends	--	--	--	--	--	(1,277)	(1,277)
Shares issued pursuant to employee benefit and option plan	--	1	--	770	--	--	771
Employee stock purchase plan	--	--	--	79	--	--	79
Tax benefits related to stock compensation plans	--	--	--	(29)	--	--	(29)
Restricted stock	--	3	(826)	1,849	--	--	1,026
Warrants	--	1	--	1,276	--	--	1,277
Balances, December 31, 2002	6	139	(826)	158,370	(469)	(16,260)	140,960
Comprehensive income:							
Net loss	--	--	--	--	--	(17,991)	
Other comprehensive income	--	--	--	--	449	--	
Total comprehensive loss							(17,542)
Preferred stock dividends	--	--	--	--	--	(1,277)	(1,277)
Shares issued pursuant to employee benefit and option plan	--	1	--	427	--	--	428
Employee stock purchase plan	--	--	--	127	--	--	127
Restricted stock	--	(1)	454	(516)	--	--	(63)
Warrants	--	--	--	10,628	--	--	10,628
Balances, December 31, 2003	$ 6	$139	$(372)	$ 169,036	$ (20)	$ (35,528)	$133,261

</TABLE>

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

CALLON PETROLEUM COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(IN THOUSANDS)

<TABLE>
<CAPTION>

	2003	2002	2001
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	$ (17,991)	$ (1,671)	$ 1,816
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation, depletion and amortization	29,264	27,774	21,709
Accretion expense	2,884	--	--
Amortization of deferred costs	6,568	5,521	2,485
Non-cash loss on early extinguishment of debt	4,423		
Amortization of deferred production payment revenue	--	(2,406)	(4,830)
Cumulative effect of change in accounting principle	(181)	--	--
Non-cash derivative income	--	(9,186)	--
Non-cash mark-to-market commodity derivative contracts	487	708	--
Non-cash charge related to compensation plans	858	1,267	942
Deferred income tax expense (benefit)	8,432	(900)	977
Gain on sale of pipeline	--	(2,454)	--
Writedown of Enron derivatives	--	--	9,186
Changes in current assets and liabilities:			
Accounts receivable, trade	(1,438)	(4,967)	3,336
Advance to operators	(1,501)	(98)	1,131
Other current assets	(1,166)	(6)	(2)
Current liabilities	5,185	3,198	(8,782)
Investment in derivative contracts	--	(1,687)	--
Increase in accounts payable and accrued liabilities to be refinanced	--	--	9,558

Change in gas balancing receivable	(340)	(288)	170
Change in gas balancing payable	(491)	(390)	355
Change in other long-term liabilities	(15)	67	(1,749)
Change in other assets, net	(349)	(2,315)	(1,071)
Cash provided (used) by operating activities	34,629	12,167	35,231
Cash flows from investing activities:			
Capital expenditures	(50,705)	(66,023)	(113,833)
Sale of Medusa Spar to Medusa Spar, LLC	24,908	--	--
Proceeds from sale of pipeline and other facilities	1,500	6,784	--
Cash proceeds from sale of mineral interests	982	4,492	1,195
Cash provided (used) by operating activities	(23,315)	(54,747)	(112,638)
Cash flows from financing activities:			
Change in accounts payable and accrued liability to be refinanced	(3,861)	(5,697)	--
Increase in debt	198,000	109,900	155,000
Payment on debt	(133,000)	(58,085)	(84,900)
Restricted cash	(63,345)	--	--
Debt issuance costs	(3,745)	(2,291)	(2,374)
Equity issued related to employee stock plans	127	79	357
Capital lease	(1,320)	(1,129)	5,612
Cash dividends on preferred stock	(1,277)	(1,277)	(1,277)
Cash provided (used) by financing activities	(8,421)	41,500	72,418
Net increase (decrease) in cash and cash equivalents	2,893	(1,080)	(4,989)
Cash and cash equivalents:			
Balance, beginning of period	5,807	6,887	11,876
Balance, end of period	$ 8,700	$ 5,807	$ 6,887

</TABLE>

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

CALLON PETROLEUM COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

GENERAL

Callon Petroleum Company ("the Company" or "Callon") was organized under the laws of the state of Delaware in March 1994 to serve as the surviving entity in the consolidation and combination of several related entities (referred to herein collectively as the "Constituent Entities"). The combination of the businesses and properties of the Constituent Entities with the Company was completed on September 16, 1994 ("Consolidation").

As a result of the Consolidation, all of the businesses and properties of the Constituent Entities are owned (directly or indirectly) by the Company. Certain registration rights were granted to the stockholders of certain of the Constituent Entities. See Note 7.

The Company and its predecessors have been engaged in the acquisition, development and exploration of crude oil and natural gas since 1950. The Company's properties are geographically concentrated in Louisiana, Alabama, Texas and offshore Gulf of Mexico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND REPORTING

The Consolidated Financial Statements include the accounts of the Company, and its subsidiary, Callon Petroleum Operating Company ("CPOC"). CPOC also has subsidiaries, namely Callon Offshore Production, Inc. and Mississippi Marketing, Inc. All intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to presentation in the current year.

USE OF ESTIMATES

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

ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities. The Statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company adopted SFAS 133 effective January 1, 2001. The cumulative effect of the accounting change, net of tax, recorded as other comprehensive loss was $3.8 million.

SFAS 133 requires the Company to report changes in the fair value of its derivative financial instruments that qualify as cash flow hedges in other comprehensive income, a component of stockholders' equity, until realized. See Note 6 for a discussion of the Company's derivative financial instruments.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS 143") effective for fiscal years beginning after June 15, 2002. SFAS 143 essentially requires entities to record the fair value of a liability for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Callon adopted the statement on January 1, 2003 resulting in a cumulative effect of accounting change of $181,000, net of tax. See Note 8.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation-Transition and Disclosure -an amendment of SFAS No. 123." SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on the reported results. SFAS 148 was effective for the year ended December 31, 2002 and for interim financial statements commencing in 2003. The adoption of this pronouncement by the Company did not have an impact on its financial condition or results of operations. See Stock-Based Compensation for related disclosures.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin (ARB) 51" ("FIN 46"). FIN 46 addresses consolidation by business enterprises of variable interest entities ("VIEs"). The primary objective of FIN 46 is to provide guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as VIEs. The provisions of FIN 46 are effective immediately for these variable interest entities created after January 31, 2003. On December 24, 2003, the FASB issued a revision to FIN 46 which among other things deferred the effective date for certain variable interests created prior to January 31, 2003. Application is required for interests in special-purpose entities in the periods ending after December 15, 2003 and application is required for all other types of variable interest entities in the periods ending after March 31, 2004. The Company adopted FIN 46, as revised, as of December 31, 2003, which had no impact on the financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," which requires the use of the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which discontinues the practice of amortizing goodwill and indefinite lived intangible assets and initiates an annual review of impairment. The new standard also requires that all intangible assets be aggregated and presented as a separate line item in the balance sheet. The adoption of SFAS No. 141 and 142 had no impact on the Company's financial position or results of operations. A reporting issue has arisen regarding the application of certain provisions of SFAS No. 141 and 142 to companies in the oil and gas industry. The issue is whether SFAS No. 141 requires registrants to classify the costs of mineral rights associated with extracting oil and gas as intangible assets in the balance sheet, apart from other capitalized oil and gas property costs, and provide specific footnote disclosures. Historically, the Company has included the costs of mineral rights associated with extracting oil and gas as

a component of oil and gas properties. These costs include those to acquire contract based drilling and mineral use rights such as delay rentals, lease bonuses, commissions and brokerage fees, and other leasehold costs.

The Emerging Issues Task Force ("EITF") has added the treatment of oil and gas mineral rights to an upcoming agenda, which may result in a change in the classification of these amounts, as described above. The Company will continue to classify its oil and gas leasehold costs as tangible oil and gas properties until further guidance is provided. The Company's cash flows and results of operations would not be affected since such intangible assets would continue to be depleted and assessed for impairment in accordance with full cost accounting rules, as allowed by SFAS No. 142. Further, the Company believes that the amounts that would be classified as intangible assets as of December 31, 2003 and 2002 would be immaterial.

The Company follows the asset and liability method of accounting for deferred income taxes prescribed by Statement of Financial Accounting Standards No. 109 ("SFAS 109") "Accounting for Income Taxes". The statement provides for the recognition of a deferred tax asset for deductible temporary timing differences, capital and operating loss carryforwards, statutory depletion carryforward and tax credit carryforwards, net of a "valuation allowance". The valuation allowance is provided for that portion of the asset, for which it is deemed more likely than not, that it will not be realized. See Note 3.

PROPERTY AND EQUIPMENT

The Company follows the full cost method of accounting for oil and gas properties whereby all costs incurred in connection with the acquisition, exploration and development of oil and gas reserves, including certain overhead costs, are capitalized. Such amounts include the cost of drilling and equipping productive wells, dry hole costs, lease acquisition costs, delay rentals, interest capitalized on unevaluated leases and other costs related to exploration and development activities. Payroll and general and administrative costs capitalized include salaries and related fringe benefits paid to employees directly engaged in the acquisition, exploration and/or development of oil and gas properties as well as other directly identifiable general and administrative costs associated with such activities. Such capitalized costs ($13.2 million in 2003, $9.6 million in 2002 and $10.0 million in 2001) do not include any costs related to production or general corporate overhead. Costs associated with unevaluated properties, including capitalized interest on such costs, are excluded from amortization. Unevaluated property costs are transferred to evaluated property costs at such time as wells are completed on the properties, the properties are sold or management determines that these costs have been impaired.

Costs of properties, including future development and net future site restoration, dismantlement and abandonment costs, which have proved reserves and those which have been determined to be worthless, are depleted using the unit-of-production method based on proved reserves. If the total capitalized costs of oil and gas properties, net of accumulated amortization and deferred

taxes relating to oil and gas properties, exceed the sum of (1) the estimated future net revenues from proved reserves at current prices and discounted at 10% and (2) the lower of cost or market of unevaluated properties (the full cost ceiling amount), net of tax effects, then such excess is charged to expense during the period in which the excess occurs. See Note 9.

Upon the acquisition or discovery of oil and gas properties, management estimates the future net costs to be incurred to dismantle, abandon and restore the property using available geological, engineering and regulatory data. Such cost estimates are periodically updated for changes in conditions and requirements. Such estimated amounts are considered as part of the full cost pool subject to amortization upon acquisition

or discovery. Until January 1, 2003, such costs were capitalized as oil and gas properties as the actual restoration, dismantlement and abandonment activities took place. As discussed above under Accounting Pronouncements, beginning January 1, 2003, the Company changed the method for which we account for such costs upon adoption of SFAS 143 and these costs are included in the full cost pool. For purposes of the full cost ceiling test, the Company nets the Asset Retirement Obligation liability against the net capitalized costs of oil and gas properties and includes cash outflows associated with asset retirement obligations in the calculation of the full cost ceiling amount.

Depreciation of other property and equipment is provided using the straight-line method over estimated lives of three to 20 years. Depreciation of pipeline and other facilities is provided using the straight-line method over estimated lives of 15 to 27 years.

SALE OF PRODUCTION PAYMENT INTEREST

In June 1999, the Company acquired a working interest in the Mobile Block 864 Area where the Company already owned an interest. Concurrent with this acquisition, the seller received a volumetric production payment, valued at approximately $14.8 million, from production attributable to a portion of the Company's interest in the area over a 39-month period. The Company recorded a liability associated with the sale of this production payment interest because a substantial obligation for future performance existed. Under the terms of the sale, the Company was obligated to deliver the production volumes free and clear of royalties, lease operating expenses, production taxes and all capital costs. The production payment was amortized, beginning in June 1999, to oil and gas sales on the units-of-production method as associated hydrocarbons were delivered, and expired in July 2002.

NATURAL GAS IMBALANCES

The Company follows the entitlement method of accounting for its proportionate share of gas production on a well-by-well basis, recording a receivable to the extent that a well is in an "undertake" position and conversely recording a liability to the extent that a well is in an "overtake" position.

DERIVATIVES

The Company uses derivative financial instruments for price protection purposes on a limited amount of its future production and does not use them for trading purposes. Such derivatives are accounted for under SFAS 133 (See Note 6).

ACCOUNTS RECEIVABLE

Accounts receivable consists primarily of accrued oil and gas production receivables. The balance in the reserve for doubtful accounts included in accounts receivable was $103,000 and $143,000 at December 31, 2003 and 2002, respectively. Net charge offs were $40,000 in 2003 and net recoveries were $75,000 in 2002. There were no provisions to expense in the three-year period ended December 31, 2003.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES TO BE REFINANCED

These amounts included in the Consolidated Balance Sheet represent capital expenditures in accounts payable and accrued liabilities that were refinanced with the availability under the Company's senior secured credit facility subsequent to December 31, 2002. Amounts in 2003 were classified as short term

because of the maturity of the Credit Facility on June 30, 2004.

STOCK-BASED COMPENSATION

The Company's pro forma net income (loss) and net income (loss) per share of common stock for the 12-month periods ended December 31, 2003, 2002 and 2001 had compensation costs been recorded using the fair value method in accordance with SFAS 123, as amended by SFAS 148 are presented below pursuant to the disclosure requirements of SFAS 148 (in thousands except per share data):

<TABLE>
<CAPTION>

	2003	2002	2001
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
<S>	<C>	<C>	<C>
Net income (loss) available to common shares, as reported	$(19,268)	$(2,948)	$ 539
Stock-based compensation expense included in net income as reported, net of tax	17	270	397
Deduct: Total stock-based compensation expense under fair value based method, net of tax	(202)	(907)	(1,775)
Pro forma net income (loss) available to common shares	$(19,453)	$(3,585)	$ (839)
Basic earnings (loss) per share: As Reported	(1.41)	(.22)	.04
Pro Forma	(1.42)	(.27)	(.06)
Diluted earnings (loss) per share: As Reported	(1.41)	(.22)	.04
Pro Forma	(1.42)	(.27)	(.06)

</TABLE>

See Note 11 for descriptions and additional disclosures related to the plans.

MAJOR CUSTOMERS

The Company's production is sold generally on month-to-month contracts at prevailing prices. The following table identifies customers to whom it sold a significant percentage of its total oil and gas production during each of the 12-month periods ended:

<TABLE>
<CAPTION>

	DECEMBER 31,		
	2003	2002	2001
<S>	<C>	<C>	<C>
Petrocom Energy Group, Ltd.	4%	4%	--
Dynegy	5%	7%	8%
Prior Energy Corporation	20%	--	20%
Reliant Energy Services	28%	70%	49%
Louis Dreyfus Energy Services	27%	--	--

</TABLE>

Because alternative purchasers of oil and gas are readily available, the Company believes that the loss of any of these purchasers would not result in a material adverse effect on its ability to market future oil and gas production.

STATEMENTS OF CASH FLOWS

For purposes of the Consolidated Financial Statements, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Company paid no federal income taxes for the three years ended December 31, 2003. During the years ended December 31, 2003, 2002 and 2001, the Company made cash payments for interest of $27,913,000, $25,507,000 and $16,441,000, respectively.

PER SHARE AMOUNTS

Basic income or loss per common share was computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the year. Diluted income or loss per common share was determined on a weighted average basis using common shares issued and outstanding adjusted for the effect of stock options considered common stock equivalents computed using the treasury stock method and the effect of the convertible preferred stock (if dilutive). The conversion of the preferred stock was not included in any annual calculation due to its antidilutive effect on diluted income or loss per common share. In addition, below are the shares relating to stock options, warrants and restricted stock that were not included in diluted shares for the twelve-month periods ended December 31, 2003 and 2002 due to the fact that the Company had a loss for these periods. The Company had net income for the period ended December 31, 2001 and therefore had no such shares for this period.

<TABLE>
<CAPTION>

	TWELVE MONTHS ENDED DECEMBER 31,	
	(IN THOUSANDS)	
	2003	2002
<S>	<C>	<C>
Stock options	63	13
Warrants	424	372
Restricted Stock	248	122

</TABLE>

A reconciliation of the basic and diluted per share computation is as follows (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	2003	2002	2001
<S>	<C>	<C>	<C>
(a) Net income (loss) available to common shares	$(19,268)	$(2,948)	$ 539
Preferred dividends assuming conversion of preferred stock (if dilutive)	--	--	--
(b) Income (loss) available to common shares assuming conversion of preferred stock (if dilutive)	$(19,268)	$(2,948)	$ 539
(c) Weighted average shares outstanding	13,662	13,387	13,273
Dilutive impact of stock options	--	--	27
Dilutive impact of restricted stock	--	--	--
Dilutive impact of warrants	--	--	66
Convertible preferred stock (if dilutive)	--	--	--
(d) Total diluted shares	13,662	13,387	13,366
Stock options and warrants excluded due to the exercise price being greater than the stock price	2,297	2,250	1,438
Basic income (loss) per share (a/c)	$ (1.41)	$ (.22)	$ .04
Diluted income (loss) per share (b/d)	$ (1.41)	$ (.22)	$ .04

</TABLE>

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of cash, cash equivalents, accounts receivable, accounts payable, the capital lease and the senior secured credit facility approximates book value at December 31, 2003 and 2002. Fair value of long-term debt (specifically, the 10.125%, the 10.25%, the 11% Senior Subordinated Notes and the 12% loans) have

an estimated fair value of 100% of face value at December 31, 2003.

3. INCOME TAXES

The Company has recorded a deferred tax asset at December 31, 2003 and 2002 and a valuation allowance at December 31, 2003 as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	2003	2002
	(IN THOUSANDS)	
<S>	<C>	<C>
Federal net operating loss carryforwards	$ 61,805	$ 42,464
Statutory depletion carryforward	4,255	4,251
Temporary differences:		
Oil and gas properties	(66,725)	(39,159)
Pipeline and other facilities	--	(299)
Non-oil and gas property	(16)	(30)
Other	1,620	1,540
SFAS 143-Asset Retirement Obligations	10,563	--
Total tax asset	11,502	8,767
Valuation allowance	(11,502)	--
Net tax asset	$ --	$ 8,767

</TABLE>

SFAS 109 provides for the weighing of positive and negative evidence in determining whether it is more likely than not that a deferred tax asset is recoverable. The Company has incurred losses in 2002 and 2003 and has losses on an aggregate basis for the three-year period ended December 31, 2003. However, as discussed in Note 5, in December 2003 the Company refinanced nearly all its highest cost debt, incurring an early extinguishment loss of $5.6 million, but achieving significant interest savings in the future. In addition, as discussed in Note 5, the first two of the Company's deepwater projects began production in November 2003, which is expected to result in a significant increase in 2004 production as compared to 2003. Nevertheless, relevant accounting guidance suggests that a recent history of cumulative losses constitutes significant negative evidence, and that future expectations about income are overshadowed by such recent losses. As a result, the Company established a valuation allowance of $11.5 million as of December 31, 2003. If the Company achieves profitable operations in 2004, the Company expects it will reverse a portion of the valuation allowance in an amount at least sufficient to eliminate any tax provision in that period.

Below is a reconciliation of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2003	2002	2000
<S>	<C>	<C>	<C>
Income tax expense (benefit) computed at the statutory federal income tax rate	(35%)	(35%)	35%
Change in valuation allowance	118%	--	--
Write off of NOL's	4%	--	--
Effective income tax rate	87%	(35%)	35%

</TABLE>

The Company has significant state net operating loss carryforwards that are not included in the deferred tax asset above, as the Company does not anticipate generating taxable state income in the states in which these loss carryforwards apply. The Company has very limited state taxable income as primarily all of its revenue is generated in federal waters not subject to state income taxes.

4. OTHER COMPREHENSIVE INCOME

A recap of the Company's 2003, 2002 and 2001 comprehensive income (net of tax) is shown below (in thousands):

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
<S>	<C>	<C>	<C>
Other comprehensive income (loss):			
Cumulative effect of change in accounting principle	$ --	$ --	$ (3,764)
Change in derivatives fair value	449	(469)	9,735
Amortization of Enron derivatives	--	(5,971)	--
Total other comprehensive income (loss)	$ 449	$ (6,440)	$ 5,971

</TABLE>

5. LONG-TERM DEBT

Long-term debt consisted of the following at:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	2003	2002
	(IN THOUSANDS)	
<S>	<C>	<C>
Senior Secured Credit Facility	$ 30,000*	$ 65,000
Senior Subordinated Notes (due 2004) - these notes were retired with restricted cash on 01/08/2004:		
10.125% notes net of discount	21,772*	20,086
10.250% notes	40,000*	40,000
12% Senior Loans (due 2005) net of discount	9,490	87,020
11% Senior Subordinated Notes (due 2005)	33,000	33,000
9.75% Senior Loans (due 2010) net of discount	170,684	--
Capital Lease	3,162	4,483
Total Long-term Debt	308,108*	249,589
Less current portion	93,223*	1,320
Long-term portion	$214,885	$248,269

</TABLE>

* $62.9 million of 2004 senior subordinated notes are in this current portion and were retired on January 8, 2004. Total Long-term Debt after retirement of the 2004 notes was $245.2 million. The senior secured credit facility comprises $30 million of the current portion. It is expected that the maturity date of the facility will be renegotiated and extended or the facility will be replaced.

SENIOR SECURED CREDIT FACILITY. The Company negotiated its senior secured credit facility effective October 31, 2000 with Wachovia Bank, National Association, formerly First Union National Bank. Borrowings under the senior secured credit facility are secured by mortgages covering substantially all of the Company's

producing oil and gas properties. On June 30, 2002 the Company amended the senior secured credit facility to increase availability under the revolving borrowing base from $50 million to $75 million under a dual tranche loan. The Tranche A revolver bears interest at 0.25% to 0.75% above a defined base rate depending on utilization of the borrowing base or, at the option of the Company, LIBOR plus 2% to 2.5% based on utilization of the borrowing base and has a maximum aggregate credit amount of $45 million until Tranche B is retired. The range of interest rates on the Tranche A revolver was 3.12% to 5.00% for the 12 months ended December 31, 2003. The Tranche B part of the facility bears an interest rate of 15% and has an aggregate maximum credit amount of $30 million. The weighted average interest rate for the senior secured credit facility debt outstanding at December 31, 2003 and 2002 was 15% and 9%, respectively. Under the senior secured credit facility, a commitment fee of 0.25% or 0.375% per annum, depending on the amount of the unused portion of the borrowing base, is payable quarterly.

There were no borrowings outstanding on Tranche A and there was $30 million outstanding against Tranche B at December 31, 2003. On December 21, 2003, the Company exercised its right to call the Tranche B loan with a 30-day notice and on January 21, 2004, the Company drew $27 million under Tranche A and redeemed the Tranche B principal plus a 1% call premium. Repayment of Tranche B cancelled any future credit amounts available under Tranche B. Currently, the facility provides for a $45.0 million borrowing base under Tranche A which is adjusted periodically on the basis of the discounted present value of future net cash flows attributable to our proved producing oil and gas reserves

and other factors deemed relevant by the lenders. The borrowing base for Tranche A is currently being reviewed by the lenders and could be increased due to the Company's proved producing reserves increasing as a result of the Medusa and Habanero fields commencing production in the fourth quarter of 2003. This facility expires on June 30, 2004 and the Company is currently reviewing options to extend the maturity date or to replace the facility with one that is similar or with more favorable terms. Borrowings under the credit facility are classified as current at December 31, 2003.

SENIOR SUBORDINATED NOTES (DUE 2004). Covenant defeasance was exercised under the indentures for the 10.125% and 10.25% notes on December 8, 2003 and a required 30-day redemption notice was distributed to holders. The funds necessary to redeem the notes were placed in trust, from the net proceeds of the new 9.75% loans and the trustee paid the holders of the notes on January 8, 2004. The terms of the covenant defeasance that were exercised did not meet the requirements for legal defeasance under SFAS 140, "Accounting for Transfers and Servicing of Financial Instruments and Extinguishment of Debt", and therefore these notes are considered outstanding at December 31, 2003. The funds in trust were classified on the Company's December 31, 2003 consolidated balance sheet as restricted cash.

On September 15, 2002, $36 million of the Company's 10.125% Senior Subordinated Notes ("Notes") that were issued on July 31, 1997, were due. The holders of $22.9 million of the Notes consented to an extension of such Notes until July 31, 2004. The Company granted 274,980 warrants (with a fair market value of approximately $1.3 million) to purchase Common Stock of the Company and paid consent fees in the amount of $2.3 million to the holders of the Notes that granted the extensions. These amounts were treated as an additional discount on the debt. The warrants have a term of five years and an exercise price of $0.01. The holders of the Notes had exercised approximately 116,000 warrants as of December 31, 2003. The holders of the Notes that did not consent to the extension were paid on the maturity date in September 2002. Interest on the Notes was payable quarterly, on March 15, June 15, September 15, and December 15 of each year.

The Company accounted for the extension of the $22.9 million in Notes described above as an extinguishment of the Notes and the issuance of new securities were recorded at a fair value of $19.3 million. The net loss on extinguishment was not significant. Costs deferred with the extensions were being amortized through July 2004. As a result of the redemption of the Notes on January 8, 2004, the unamortized balance of the discount and the deferred costs of $1.1 million will be expensed during the first quarter of 2004 as a loss on early extinguishment of debt.

On July 15, 1999, the Company completed the sale of $40 million of Senior Subordinated Notes due 2004 at 10.25%. These notes were not entitled to any mandatory sinking fund payments and were subject to redemption at the Company's option at par plus unpaid interest at any time after March 15, 2001. Interest was paid quarterly. The notes were redeemed on January 8, 2004. These notes are classified as current at December 31, 2003.

12% SENIOR UNSECURED CREDIT FACILITY (DUE 2005). In July 2001, the Company entered into a $95 million senior unsecured credit facility with a private lender. The Company borrowed $45 million upon closing of the loan and borrowed the remaining $50 million in December 2001. The loans bear interest at the rate of 12% per year. Under the terms of the agreement, Callon also issued warrants to purchase, at a nominal exercise price, 265,210 shares of its Common Stock (fair value of $3.1 million) and conveyed an overriding royalty interest equal to 2% of the Company's net interest in four existing deepwater discoveries (fair value of $5.9 million). These amounts were treated as an additional discount on the debt. The warrants and the overriding royalty interest were earned by the lender based on the ratio of the

amount of the loan proceeds advanced to the total loan facility amount. The loans will mature March 31, 2005 and have an effective interest rate of approximately 16%.

The Company recorded these borrowings at a value of $84 million net of discount. Deferred costs associated with the loans are being amortized through March 2005. Upon redemption of $85 million of the loans on December 30, 2003 the pro rata portion of the unamortized balance of the discount and the associated deferred costs in the amount of $4.4 million and a 1% call premium of $850,000 were expensed during the fourth quarter of 2003 as a loss on early extinguishment of debt.

11% SENIOR SUBORDINATED NOTES (DUE 2005). On October 26, 2000 the Company completed the sale of $33 million of 11% Senior Subordinated Notes due December 15, 2005. The Company netted $31.5 million from the offering after deducting the underwriters' discount and offering expenses.

9.75% SENIOR LOANS (DUE 2010). In December 2003 the Company borrowed $185 million pursuant to a senior unsecured credit facility. The loans under the credit facility have a stated interest rate of 9.75% and a seven-year maturity. The net proceeds of $181.3 million were used to redeem $22.9 million of 10.125% senior subordinated notes due July 31, 2004, $40 million of 10.25% senior subordinated notes due September 15, 2004 and $85 million of our 12% loan due March 31, 2005 issued pursuant to a senior unsecured credit agreement dated July 29, 2001 plus a 1% pre-payment premium of $850,000, and to reduce the balance outstanding under the Company's senior secured credit facility. In conjunction with the new senior unsecured notes, the Company issued detachable warrants to purchase 2.775 million of our common stock at an exercise price of $10 per share. The warrants were valued at $10.6 million and were treated as an additional discount on the debt. This senior unsecured debt matures December 8, 2010 and has an effective interest rate of 11.4%. The Company recorded the issuance of these new securities at a fair value of $171 million. Deferred costs of $14 million associated with the notes will be amortized over the life of the notes.

REMAINING MATURITIES FOR UNSECURED DEBT. Our remaining maturities for unsecured debt consist of the $185 million in 9.75% loans due 2010, $10 million of the 12% loans with a due date of March 31, 2005 and $33 million of 11% senior subordinated notes with a due date of December 15, 2005. These 2005 maturities will be retired by our primary sources of capital which are cash flows from operations, borrowings from financial institutions and the sale of debt and equity securities.

CAPITAL LEASE. In December 2001, the Company entered into a 10-year gas processing agreement associated with a production facility on Callon's Mobile Block 952 field with Hanover Compression Limited Partnership, which is being accounted for as a capital lease. Total minimum obligations are $8.4 million with interest representing approximately $2.8 million and the present value minimum obligations were $5.6 million ($1.2 million current).

RESTRICTIVE COVENANTS. The senior secured credit facility, the senior

subordinated debt and the senior unsecured credit facilities contain various covenants including restrictions on additional indebtedness and payment of cash dividends as well as maintenance of certain financial ratios. The Company was in compliance with these covenants at December 31, 2003.

FUTURE MINIMUM LEASE PAYMENTS AND DEBT MATURITIES (IN THOUSANDS) ARE AS FOLLOWS:

<TABLE>
<CAPTION>

YEAR	CAPITAL LEASE PAYMENTS	DEBT
<S>	<C>	<C>
2004	$1,890	$ 92,915*
2005	822	43,000
2006	439	--
2007	348	--
2008	228	--
Thereafter	694	185,000

</TABLE>

* These maturities consist of $62.9 million of senior subordinated notes which were retired on January 8, 2004 and $30 million under the senior secured credit facility which matures June 30, 2004 and which the Company expects will be renegotiated and extended or replaced with a new facility.

6. DERIVATIVES

The Company periodically uses derivative financial instruments to manage oil and gas price risk. Settlements of gains and losses on commodity price contracts are generally based upon the difference between the contract price or prices specified in the derivative instrument and a NYMEX price or other cash or futures index price.

In 2003 and 2002, the Company purchased and sold various put options and call options and elected not to designate these derivative financial instruments as hedges and accordingly, the changes in fair value of these contracts were recorded through earnings. A loss of approximately $666,000 and $708,000 was recognized for the twelve month periods ended December 31, 2003 and 2002, respectively. The fair value of the open contracts at December 31, 2003 was a current liability of $134,640. At December 31, 2002 the fair value was a current asset of $352,500.

During 2002, the Company entered into costless natural gas collar contracts in effect for February 2003 through October 2003. These agreements were for volumes of 275,000 Mcf per month with an average ceiling price of $4.79 and a floor price of $3.52. These contracts were accounted for as cash flow hedges under SFAS 133. The fair value of these collar contracts at December 31, 2002 was recorded on the balance sheet as a liability of $721,350. The Company recognized a reduction of $2,932,000 in oil and gas sales related to the settlements of such collars for the 12 months ended December 31, 2003.

During 2003, the Company entered into additional costless natural gas collar contracts in effect for May 2003 through October 2003. These agreements were for volumes of 200,000 Mcf per month with a ceiling price of $5.80 and a floor price of $5.00. The Company elected not to designate these derivative financial instruments as hedges and accordingly, the changes in fair value of these contracts were recorded through earnings. For the twelve month period ended December 31, 2003, the Company recognized a gain of approximately $131,600.

In 2001, the Company entered into derivative contracts for 2002 production with Enron North America Corp. ("Enron"). In the fourth quarter of 2001, the Company charged to expense (non-cash) $9.2 million representing the fair market value of these derivatives as of September 30, 2001. As the contracts matured, the Company recorded non-cash revenue each month. For the twelve month period ended December 31, 2002, the Company recorded approximately $9.2 million, as non-cash oil and gas revenues.

Also, in the second quarter of 2002, the Company completed the sale of its claims against Enron for $2.5 million and reported a pre-tax gain of that amount.

In the fourth quarter of 2003, Callon entered into two natural gas collar contracts which are listed below:

Collars

Product	Volumes per Month	Quantity Type	Floor Price	Ceiling Price	Period
Natural Gas	100,000	MMBtu	$ 5.25	$7.25	12/03-03/04
Natural Gas	100,000	MMBtu	$ 5.00	$7.20	01/04-03/04

These contracts are accounted for as cash flow hedges under SFAS 133. The Company recognized an increase of $52,500 in oil and gas sales related to the settlements of such collars in the twelve month period ended December 31, 2003. The fair value of these collar contracts at December 31, 2003 was recorded on the balance sheet as a liability in the amount of $30,400.

In the first quarter of 2004, Callon entered into various derivative contracts which are listed in the table below:

Swaps

Product	Volumes per Month	Quantity Type	Average	Period
Oil	30,000	Bbls	$ 31.29	02/04-01/05
Oil	15,000	Bbls	$ 30.00	04/04-03/05
Oil	15,000	Bbls	$ 30.00	07/04-12/04

Collars

Product	Volumes per Month	Quantity Type	Average Floor Price	Average Ceiling Price	Period
Oil	45,000	Bbls	$ 29.33	$ 32.17	02/04-01/05
Oil	15,000	Bbls	$ 30.00	$ 32.50	02/04-10/04
Natural Gas	500,000	MMBtu	$ 5.00	$ 6.08	04/04-11/04
Natural Gas	100,000	MMBtu	$ 5.00	$ 5.60	06/04-11/04
Natural Gas	300,000	MMBtu	$ 5.00	$ 6.91	12/04-03/05

These contracts will be accounted for as cash flow hedges under SFAS 133.

7. COMMITMENTS AND CONTINGENCIES

As described in Note 10, abandonment trusts (the "Trusts") have been established for future abandonment obligations of those oil and gas properties of the Company burdened by a net profits interest. The management of the Company believes the Trusts will be sufficient to offset those future abandonment liabilities; however, the Company is responsible for any abandonment expenses in excess of the Trusts' balances. As of December 31, 2003, total estimated site restoration, dismantlement and abandonment costs were approximately $7.4 million, net of expected salvage value. Substantially all such costs are expected to be funded through the Trusts' funds, all of which will be accessible to the Company when abandonment work begins. In addition, as a working interest

owner and/or operator of oil and gas properties, the Company is responsible for the cost of abandonment of such properties. See Notes 2 and 8.

From time to time, the Company, as part of the Consolidation and other capital transactions, entered into registration rights agreements whereby certain parties to the transactions are entitled to require the Company to register common stock of the Company owned by them with the Securities and Exchange Commission for sale to the public in firm commitment public offerings and generally to include shares owned by them, at no cost, in registration statements filed by the Company. Costs of the offering will not include broker's discounts and commissions, which will be paid by the respective sellers of the common stock.

The Company is involved in various claims and lawsuits incidental to its business. In the opinion of management, the ultimate liability thereunder, if any, will not have a material adverse effect on the financial position or results of operations of the Company.

The Company may be required to retroactively pay royalties to the Minerals Management Service on one of the Company's properties which could reduce revenues and reserves. The Company's Medusa deepwater property is eligible for royalty suspensions pursuant to the Deep Water Royalty Relief Act. However, the federal offshore leases covering this property contains "price threshold" provisions for oil and gas prices. Under this "price threshold" provision, if the average monthly New York Mercantile Exchange (NYMEX) sales price for oil or gas during a fiscal year exceeds the price threshold for oil or gas, respectively, then royalties on the associated production must be paid to the Minerals Management Service (MMS) at the rate stipulated in the lease. The price thresholds are adjusted annually by the implicit price deflator for the GDP. The determination of whether or not royalties are due as a result of the average NYMEX price exceeding the price threshold is made during the first quarter of the succeeding year. Any royalty payments due must be made shortly after this determination is made. If a royalty payment is due for all production during a year as a result of exceeding the price threshold, the lessee is required to make monthly royalty payments during the succeeding fiscal year for the succeeding year's production. If at the end of any year the average NYMEX price is below the price threshold, the lessee can apply for a refund for any associated royalties paid during that year and the lessee will not be required to pay royalties monthly during the succeeding year for the succeeding year's production.

The thresholds and the average NYMEX prices are calculated by the MMS. The average NYMEX price for 2003 was $31.08 per barrel of oil and $5.49 per MMBtu of natural gas. For the year ended December 31, 2003 the thresholds were $32.77 per barrel of oil and $4.10 per MMBtu of natural gas, subject to finalization of the adjustment for the 2003 GDP implicit price deflator. As a result the Company will pay royalties related to 2003 gas production for Medusa, which commenced production in late November 2003 and will make monthly royalty payments for 2004 gas production during 2004. The actual liability for 2004 oil royalties, if any, cannot be determined until after the end of 2004.

In the year succeeding the year in which any of the Company's properties became subject to royalties as the result of the average NYMEX price exceeding the price threshold, the portion of reserves attributable to potential future royalties would not be included in a year-end reserve report. However, if the average NYMEX prices were below the price thresholds in subsequent years, our reserves would be increased to reflect reserves previously attributed to future royalties. As a result, reported oil and gas reserves could materially increase or decrease, depending on the relation of price thresholds versus the average NYMEX prices. The reduction in revenues resulting from an obligation to pay these royalties and subsequent reduction of proved reserves could have a material adverse effect on the Company's results of operations and financial condition. The Company's reserve report as of December 31, 2003 excluded gas reserves for Medusa that are subject to MMS royalties as a result of the average 2003 NYMEX price for gas exceeding the price threshold. Oil reserves in this reserve report were not impacted since the 2003 average NYMEX price was below the threshold.

The Company's activities are subject to federal, state and local laws and regulations governing environmental quality and pollution control. Although no assurances can be made, the Company believes that, absent the occurrence of an extraordinary event, compliance with existing federal, state and local laws, rules and regulating the release of materials in the environment or otherwise relating to the protection of the environment will not have a material effect upon the capital expenditures, earnings or the competitive position of the Company with respect to its existing assets and operations. The Company cannot predict what effect additional regulation or legislation, enforcement polices thereunder, and claims for damages to property, employees, other persons and the environment resulting from the Company's operations could have on its activities.

8. ASSET RETIREMENT OBLIGATIONS

As discussed in Note 2, the Company adopted SFAS 143 on January 1, 2003. The impact of adopting the statement resulted in a gain of $181,000, net of tax, which is reported as a cumulative effect of change in accounting principle.

Approximately $30.3 million was recorded as the present value of asset retirement obligations on January 1, 2003 with the adoption of SFAS 143 related to the Company's oil and gas properties. Interest is accreted on this amount and reported as accretion expense in the Consolidated Statements of Operations.

Assets, primarily short-term U.S. Government securities, of approximately $7.4 million at December 31, 2003, are recorded as restricted investments. These assets are held in abandonment trusts dedicated to pay future abandonment costs of oil and gas properties in which the Company has sold a net profits interest. If there is any excess of trust assets over abandonment costs, the excess will be distributed to the net profits interest owners.

The following table summarizes the activity for the Company's asset retirement obligation:

<TABLE>
<CAPTION>

	TWELVE MONTHS ENDED DECEMBER 31, 2003
<S>	<C>
Asset retirement obligation at beginning of period	$ --
Liability recognized in transition	30,251
Accretion expense	2,884
Net profits interest accretion	371
Liabilities incurred	3,649
Liabilities settled	(2,847)
Revisions to estimate	(617)
Asset retirement obligation at end of period	33,691
Less: current retirement obligation	(8,571)
Long-term retirement obligation	$25,120

</TABLE>

Pro forma net income and earnings per share are not presented for the 12 months ended December 31, 2002 or 2001 because the pro forma application of SFAS 143 to the prior periods would not result in pro forma net income and earnings per share materially different from the actual amounts reported for the periods in the accompanying Consolidated Statements of Operations.

9. OIL AND GAS PROPERTIES

The following table discloses certain financial data relating to the Company's oil and gas activities, all of which are located in the United States.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,

	2003	2002	2001
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Capitalized costs incurred:			
Evaluated Properties-			
Beginning of period balance	$ 762,918	$ 704,937	$ 589,549
Property acquisition costs	1,154	1,471	1,713
Exploration costs	21,390	17,851	85,782
Development costs	33,972	43,151	34,980
SFAS 143-Asset Retirement Obligation	18,002	--	--
Medusa Spar transaction	(33,542)	--	--
Sale of mineral interests	(982)	(4,492)	(7,087)
End of period balance	$ 802,912	$ 762,918	$ 704,937
Unevaluated Properties (excluded from amortization) -			
Beginning of period balance	$ 40,997	$ 37,560	$ 47,653
Additions	5,228	5,802	8,760
Capitalized interest	4,862	5,289	4,879
Transfers to evaluated	(16,836)	(7,654)	(23,732)
End of period balance	$ 34,251	$ 40,997	$ 37,560
Accumulated depreciation, depletion and amortization-			
Beginning of period balance	$ 426,254	$ 399,339	$ 378,589
Provision charged to expense	28,195	26,915	20,750
Cumulative effect of change in accounting principle	(7,449)	--	--
End of period balance	$ 447,000	$ 426,254	$ 399,339

</TABLE>

Unevaluated property costs, primarily lease acquisition costs incurred at federal lease sales, unevaluated drilling costs, capitalized interest and general and administrative costs being excluded from the amortizable evaluated property base, consisted of $8.6 million incurred in 2003, $7.1 million incurred in 2002 and $18.5 million incurred in 2001 and prior. These costs are directly related to the acquisition and evaluation of unproved properties and major development projects. The excluded costs and related reserves are included in the amortization base as the properties are evaluated and proved reserves are established or impairment is determined. The Company expects that the majority of these costs will be evaluated over the next three to five-year period.

Depletion per unit-of-production (thousand cubic feet of gas equivalent) amounted to $2.03, $1.73 and $1.37 for the years ended December 31, 2003, 2002, and 2001, respectively.

Under the full-cost accounting rules of the SEC, the Company reviews the carrying value of its proved oil and gas properties each quarter. Under these rules, capitalized costs of proved oil and gas properties net of accumulated depreciation, depletion and amortization (DD&A) and deferred income taxes, may not exceed the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10

percent, plus the lower of cost or fair value of unproved properties included in the costs being amortized, net of related tax effects. These rules generally require pricing future oil and gas production at the unescalated market price for oil and gas at the end of each fiscal quarter and require a write-down if the "ceiling" is exceeded, unless prices recover sufficiently before the date of the auditor's report. Given the volatility of oil and gas prices, it is reasonably possible that the Company's estimate of discounted future net cash flows from proved oil and gas reserves could change in the near term. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that writedowns of oil and gas properties could occur in the future.

See Note 13 for information regarding the SEC inquiries concerning the Company's proved reserves.

10. NET PROFITS INTEREST

From 1989 through 1994, the Constituent Entities entered into separate agreements to purchase certain oil and gas properties with gross contract acquisition prices of $170,000,000 ($150,000,000 net as of closing dates) and in simultaneous transactions, entered into agreements to sell overriding royalty interests ("ORRI") in the acquired properties. These ORRI are in the form of net profits interests ("NPI") equal to a significant percentage of the excess of gross proceeds over production costs, as defined, from the acquired oil and gas properties. A net deficit incurred in any month can be carried forward to subsequent months until such deficit is fully recovered. The Company has the right to abandon the purchased oil and gas properties if it deems the properties to be uneconomical.

The Company has, pursuant to the purchase agreements, created abandonment trusts (see Note 7) whereby funds are provided out of gross production proceeds from the properties for the estimated amount of future abandonment obligations related to the working interests owned by the Company. The Trusts are administered by unrelated third party trustees for the benefit of the Company's working interest in each property. The Trust agreements limit disbursement of funds to the satisfaction of abandonment obligations. Any funds remaining in the Trusts after all restoration, dismantlement and abandonment obligations have been met will be distributed to the owners of the properties in the same ratio as contributions to the Trusts. Estimated future revenues and costs associated with the NPI and the Trusts are also excluded from the oil and gas reserve disclosures at Note 13. As of December 31, 2003 and 2002, the Trusts' assets (all cash and investments) totaled $7,420,000 and $6,896,000 respectively, all of which will be available to the Company to pay its portion, as working interest owner, of the restoration, dismantlement and abandonment costs discussed at Note 7. SFAS 143, discussed in Note 2 and 8, does not allow the Abandonment Trusts' assets to be used to offset the associated abandonment liability. The Company did not record any income or loss associated with the Trust asset or abandonment liability as a result of adoption of SFAS 143.

At the time of acquisition of properties by the Company, the property owners estimated the future costs to be incurred for site restoration, dismantlement and abandonment, net of salvage value. A portion of the amounts necessary to pay such estimated costs was deposited in the Trusts upon acquisition of the properties, and the remainder is deposited from time to time out of the proceeds from production. The determination of the amount deposited upon the acquisition of the properties and the amount to be deposited as proceeds from production was based on numerous factors, including the estimated reserves of the properties.

As operator, the Company receives all of the revenues and incurs all of the production costs for the purchased oil and gas properties but retains only that portion applicable to its net ownership share. As a result, the payables and receivables associated with operating the properties included in the Company's Consolidated Balance Sheets include both the Company's and all other outside owners' shares. However,

revenues and production costs associated with the acquired properties reflected in the accompanying Consolidated Statements of Operations represent only the Company's share, after reduction for the NPI.

11. EMPLOYEE BENEFIT PLANS

The Company has adopted a series of incentive compensation plans designed to align the interest of the executives and employees with those of its stockholders. The following is a brief description of each plan:

The Savings and Protection Plan provides employees with the option to defer receipt of a portion of their compensation and the Company may, at its discretion, match a portion of the employee's deferral with cash and Company Common Stock. The Company may also elect, at its discretion, to contribute a non-matching amount in cash and Company Common Stock to employees. The amounts held under the Savings and Protection Plan are

invested in various funds maintained by a third party in accordance with the directions of each employee. An employee is fully vested, including Company discretionary contributions, immediately upon participation in the Savings and Protection Plan. The total amounts contributed by the Company, including the value of the common stock contributed, were $562,000, $611,000 and $595,000 in the years 2003, 2002 and 2001, respectively.

The 1994 Stock Incentive Plan (the "1994 Plan"), approved by the shareholders in 1994, provides for 600,000 shares of Common Stock to be reserved for issuance pursuant to such plan. Under the 1994 Plan, the Company may grant both stock options qualifying under Section 422 of the Internal Revenue Code and options that are not qualified as incentive stock options, as well as performance shares. These options have an expiration date of 10 years from the date of grant.

On August 23, 1996, the Board of Directors of the Company approved and adopted the Callon Petroleum Company 1996 Stock Incentive Plan (the "1996 Plan"). The 1996 Plan was approved by the shareholders in 1997 and provides for the same types of awards as the 1994 Plan and is limited to a maximum of 1,200,000 shares (as amended from the original 900,000 shares) of common stock that may be subject to outstanding awards. Unvested options are subject to forfeiture upon certain termination of employment events and expire 10 years from the date of grant.

The Company granted 533,000 stock options to employees on March 23, 2000 and 120,000 stock options to directors on July 25, 2000 at $10.50 per share. The March 23, 2000 grant was subject to shareholder approval of an amendment to the 1996 Stock Incentive Plan. The amendment, which was approved on May 9, 2000 at the Annual Meeting of Shareholders, increased the number of shares reserved for issuance under the 1996 plan to 2,200,000 shares. The excess of the market price over the exercise price on the approval date of the amendment is amortized over the three-year vesting period of the options. Compensation costs of $27,000, $416,000 and $611,000 were recognized in 2003, 2002 and 2001, respectively, related to these options.

On February 14, 2002, the Board of Directors of the Company approved and adopted the 2002 Stock Incentive Plan (the "2002 Plan"). Pursuant to the 2002 Plan, 350,000 shares of common stock shall be reserved for issuance upon the exercise of options or for grants of stock options, stock appreciation rights or units, bonus stock, or performance shares or units. This Plan qualified as a "broadly based" plan under the provisions of the New York Stock

Exchange's rules and regulations and therefore did not require shareholder approval. Because the 2002 Plan is a broadly based plan, the aggregate number of shares underlying awards granted to officers and directors cannot exceed 50% of the total number of shares underlying the awards granted to all employees during any three-year period.

In 2002, the Company awarded 300,000 shares of restricted stock from the 1996 and the 2002 Plan and 70,500 from treasury shares to be issued as vested. The issuance of the restricted stock using treasury shares did not require shareholder approval pursuant to the New York Stock Exchange's rules and regulations, and therefore shareholder approval was not sought. These shares will generally vest to the recipients over a three-year period (one-third in each year) beginning in November 2002. The deferred compensation portion of this grant will be amortized to expense over the vesting period. The non-cash amortization expense in, 2003 and 2002 was $454,000 and $496,000, respectively.

In 1997, the Board of Directors authorized the implementation of the Callon Petroleum Company 1997 Employee Stock Purchase Plan (the "1997 Purchase Plan"), which was approved by the Company's shareholders at the 1997 Annual Meeting. The Plan provides eligible employees of the Company with the opportunity to acquire a proprietary interest in the Company through participation in a payroll deduction-based employee stock purchase plan. An aggregate of 250,000 shares of common stock have been reserved for issuance over the 10-year term of the 1997 Purchase Plan. The purchase price per share at which common stock will be purchased on the

participant's behalf on each purchase date within an offering period is equal to 85 percent of the fair market value per share of common stock.

A summary of the status of the Company's stock option plans for the three most recent years and changes during the years then ended is presented in the table and narrative below:

<TABLE>
<CAPTION>

	2003		2002		2001	
	SHARES	WTD AVG EX PRICE	SHARES	WTD AVG EX PRICE	SHARES	WTD AVG EX PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding, beginning of year	2,520,417	$ 9.90	2,332,667	$ 10.84	2,304,167	$ 10.83
Granted (at market)	30,000	5.12	310,000	4.45	30,000	11.61
Exercised	(500)	4.10	--	--	(1,500)	9.00
Forfeited	(99,050)	9.74	(122,250)	14.10	--	--
Expired	--	--	--	--	--	--
Outstanding, end of year	2,450,867	$ 9.84	2,520,417	$ 9.90	2,332,667	$ 10.84
Exercisable, end of year	2,262,067	$ 10.31	2,224,334	$ 10.57	2,057,977	$ 10.80
Weighted average fair value of options granted (at market)		$ 2.97		$ 2.44		$ 5.80

</TABLE>

The following table sets forth additional information regarding options outstanding at December 31, 2003. Contractual life and exercise prices represent weighted averages for options outstanding and options exercisable.

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number Outstanding	Contractual Life (years)	Exercise Price	Number Exercisable	Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$ 3.70 to $ 6.41	315,200	8.6	$ 4.47	126,400	$ 4.74
$ 9.00 to $ 12.28	2,070,667	3.9	$ 10.53	2,070,667	$ 10.53
$ 13.56 to $ 15.31	65,000	4.3	$ 14.16	65,000	$ 14.16

</TABLE>

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options granted during the years presented are as follows:

<TABLE>
<CAPTION>

	2003	2002	2001
<S>	<C>	<C>	<C>
Risk free interest rate	4.0%	3.7%	4.5%
Expected life (years)	5.0	5.0	5.0
Expected volatility	65.3%	61.0%	43.9%
Expected dividends	--	--	--

</TABLE>

12. EQUITY TRANSACTIONS

In November 1995, the Company sold 1,315,500 shares of $2.125 Convertible Exchangeable Preferred Stock, Series A (the "Preferred Stock") for net proceeds of $30.9 million. Annual dividends are $2.125 per share and are cumulative. The net proceeds of the $.01 par value stock after underwriters discount and expense was $30,899,000. Each share has a liquidation preference of $25.00, plus accrued and unpaid dividends. Dividends on the Preferred Stock are cumulative from the

date of issuance and are payable quarterly, commencing January 15, 1996. The Preferred Stock is convertible at any time, at the option of the holders thereof, unless previously redeemed, into shares of Common Stock of the Company at an initial conversion price of $11 per share of Common Stock, subject to adjustments under certain conditions.

The Preferred Stock is redeemable at any time on or after December 31, 1998, in whole or in part at the option of the Company at a redemption price of $26.488 per share beginning at December 31, 1998 and at premiums declining to the $25.00 liquidation preference by the year 2005 and thereafter, plus accrued and unpaid dividends. The Preferred Stock is also exchangeable, in whole, but not in part, at the option of the Company on or after January 15, 1998 for the Company's 8.5% Convertible Subordinated Debentures due 2010 (the "Debentures") at a rate of $25.00 principal amount of Debentures for each share of Preferred Stock. The Debentures will be convertible into Common Stock of the Company on the same terms as the Preferred Stock and will pay interest semi-annually.

In a December 1998 private transaction, a preferred stockholder elected to convert 59,689 shares of Preferred Stock into 136,867 shares of the Company's Common Stock. In 1999 certain other preferred stockholders, through private transactions, agreed to convert 210,350 shares of Preferred Stock into 502,637 shares of the Company's Common Stock under similar terms. Likewise in 2000, 444,600 shares of Preferred Stock were

converted into 1,036,098 shares of the Company's Common Stock. Any non-cash premium negotiated in excess of the conversion rate was recorded as additional preferred stock dividends and excluded from the Consolidated Statements of Cash Flows.

The Company adopted a stockholder rights plan on March 30, 2000, designed to assure that the Company's stockholders receive fair and equal treatment in the event of any proposed takeover of the Company and to guard against partial tender offers, squeeze-outs, open market accumulations, and other abusive tactics to gain control without paying all stockholders a fair price. The rights plan was not adopted in response to any specific takeover proposal. Under the rights plan, the Company declared a dividend of one right ("Right") on each share of the Company's Common Stock. Each Right will entitle the holder to purchase one one-thousandth of a share of a Series B Preferred Stock, par value $0.01 per share, at an exercise price of $90 per one one-thousandth of a share.

The Rights are not currently exercisable and will become exercisable only in the event a person or group acquires, or engages in a tender or exchange offer to acquire, beneficial ownership of 15 percent or more (one existing stockholder was granted an exception for up to 21 percent) of the Company's Common Stock. After the Rights become exercisable, each Right will also entitle its holder to purchase a number of common shares of the Company having a market value of twice the exercise price. The dividend distribution was made to stockholders of record at the close of business on April 10, 2000. The Rights will expire on March 30, 2010.

13. SUPPLEMENTAL OIL AND GAS RESERVE DATA (UNAUDITED)

The Company's proved oil and gas reserves at December 31, 2003, 2002 and 2001 have been estimated by independent petroleum consultants in accordance with guidelines established by the Securities and Exchange Commission ("SEC"). Accordingly, the following reserve estimates are based upon existing economic and operating conditions. These estimates have been adjusted (per SEC guidelines) to exclude the volumetric production payment described in Note 2.

There are numerous uncertainties inherent in establishing quantities of proved reserves. The following reserve data represents estimates only and should not be construed as being exact. In addition, the standard measure of discounted future net cash flows should not be construed as the current market value of the Company's oil and gas properties or the cost that would be incurred to obtain equivalent reserves. Reference the discussion in Note 7 regarding the Deep Water Royalty Relief Act and the potential loss of reserves.

Beginning in October 2002, the Company received a series of inquiries from the SEC regarding its Annual Report on Form 10-K for the year ended December 31, 2001 requesting supplemental information concerning its operations in the Gulf

of Mexico. The comment letters requested information about the procedures the Company used to classify its deepwater reserves as proved and requested that the Company's financials be restated to reflect the removal of the Boomslang reserves as proved for all prior periods during which such reserves were reported as proved. The Company has reviewed the SEC comments with its independent petroleum reserve engineers, Huddleston & Co., Inc. of Houston, Texas. Both Huddleston & Co. and Callon believe that such deepwater reserves are properly classified as proved. If the SEC requires the Company to retroactively classify Boomslang as an unproved property through December, 2002, the Company would be required to restate its financial position, results of operations, and supplemental oil and gas reserve data from 1999 through 2003. The Company has responded to all of the SEC inquiries.

ESTIMATED RESERVES

Changes in the estimated net quantities of crude oil and natural gas reserves, all of which are located onshore and offshore in the continental United States, are as follows:

RESERVE QUANTITIES

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
<S>	<C>	<C>	<C>
Proved developed and undeveloped reserves:			
Crude Oil (MBbls):			
Beginning of period	24,043	30,209	33,382
Revisions to previous estimates	(1)	(8,699) (a)	(2,290)
Purchase of reserves in place	--	--	--
Sales of reserves in place	(65)	--	(624)
Extensions and discoveries	--	2,759 (a)	14
Production	(268)	(226)	(273)
End of period	23,709	24,043	30,209
Natural Gas (MMcf):			
Beginning of period	91,539	120,299	129,922
Revisions to previous estimates	(6,407)	(19,284) (a)	(4,578)
Purchase of reserves in place	--	--	--
Sales of reserves in place	(49)	--	(1,296)
Extensions and discoveries	1,923	3,584 (a)	7,483
Production	(12,315)	(13,060)	(11,232)
End of period	74,691	91,539	120,299
Proved developed reserves:			
Crude Oil (MBbls):			
Beginning of period	1,056	885	2,192
End of period	9,919	1,056	885
Natural Gas (MMcf):			
Beginning of period	37,631	51,221	63,982
End of period	31,415	37,631	51,221

</TABLE>

(a) For the year ended December 31, 2002, revisions to previous estimates and extensions and discoveries were adjusted from the amounts reported in the Company's Annual Report on Form 10-K dated March 27, 2003 to reflect the subsequent changes in properties that were part of property acquisitions or exploratory drilling programs and should have been classified as extensions

instead of revisions.

STANDARDIZED MEASURE

The following tables present the Company's standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves and were computed using reserve valuations based on regulations prescribed by the SEC. These regulations provide that the oil, condensate and gas price structure utilized to project future net cash flows reflects current prices (approximately $5.99 per Mcf for natural gas and $30.50 per Bbl for oil for the 2003 disclosures, $4.80 per Mcf and $34.22 per Bbl for 2002 disclosures, and $2.58 per Mcf and $20.10 per Bbl for 2001 disclosures) at each date presented and have not been escalated. Future production, development and net abandonment costs are based on current costs without escalation. The resulting net future cash flows have been discounted to their present values based on a 10% annual discount factor.

STANDARDIZED MEASURE

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Future cash inflows	$ 1,170,118	$ 1,261,571	$ 883,145
Future costs -			
Production	(219,421)	(165,559)	(220,857)
Development and net abandonment	(111,850)	(125,813)	(191,369)
Future net inflows before income taxes	838,847	970,199	470,919
Future income taxes	(89,567)	(119,020)	(30,315)
Future net cash flows	749,280	851,179	440,604
10% discount factor	(230,254)	(295,133)	(185,747)
Standardized measure of discounted future net cash flows	$ 519,026	$ 556,046	$ 254,857

</TABLE>

CHANGES IN STANDARDIZED MEASURE

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Standardized measure - beginning of period	$ 556,046	$ 254,857	$ 671,197
Sales and transfers, net of production costs	(62,396)	(38,375)	(45,672)
Net change in sales and transfer prices, net of production costs	(41,011)	401,837	(604,391)
Exchange and sale of in place reserves	(1,226)	--	(5,850)
Purchases, extensions, discoveries, and improved recovery, net of future production and development costs incurred	25,632	8,456	9,358
Revisions of quantity estimates	(18,018)	(103,452)	(23,314)
Accretion of discount	62,394	26,915	90,978
Net change in income taxes	16,460	(53,608)	224,290
Changes in production rates, timing and other	(18,855)	59,416	(61,739)
Standardized measure - end of period	$ 519,026	$ 556,046	$ 254,857

</TABLE>

14. SUMMARIZED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

<TABLE>
<CAPTION>

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
2003				
Total revenues	$ 21,351	$ 18,482	$ 15,152	$ 19,156
Total costs and expenses	19,503	19,477	18,270	26,623
Income tax expense (benefit)	647	(348)	(1,092)	9,225
Income (loss) before cumulative effect of change in accounting principle	1,201	(647)	(2,026)	(16,700)
Net income (loss)	1,382	(647)	(2,026)	(16,700)
Net income (loss) per common share-basic:				
Net income (loss) available to common before cumulative effect of change in accounting principle	$ 0.07	($0.07)	($0.17)	($1.24)
Cumulative effect of change in accounting principle, net of tax	0.01	0.00	0.00	0.00
Net income (loss) per share	$ 0.08	($0.07)	($0.17)	($1.24)
Net income (loss) per common share-diluted:				
Net income (loss) available to common before cumulative effect of change in accounting principle	$ 0.07	($0.07)	($0.17)	($1.24)
Cumulative effect of change in accounting principle, net of tax	0.01	0.00	0.00	0.00
Net income (loss) per share	$ 0.08	($0.07)	(0.17)	(1.24)
2002				
Total revenues	$ 11,624	$ 20,489	$ 15,786	$ 19,209
Total costs and expenses	15,399	16,888	17,786	19,606
Income tax expense (benefit)	(1,321)	1,260	(700)	(139)
Net income (loss)	(2,454)	2,341	(1,300)	(258)
Net income (loss) per share-basic	(0.21)	0.15	(0.12)	(0.04)
Net income (loss) per share-diluted	(0.21)	0.15	(0.12)	(0.04)

</TABLE>

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

There have been no disagreements with the independent auditors on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures.

ITEM 9A. CONTROLS AND PROCEDURES

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

There were no changes to our internal control over financial reporting during

our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

For information concerning Item 10, see the definitive proxy statement of Callon Petroleum Company relating to the Annual Meeting of Stockholders on May 6, 2004 which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

For information concerning Item 11, see the definitive proxy statement of Callon Petroleum Company relating to the Annual Meeting of Stockholders on May 6, 2004 which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

For information concerning the security ownership of certain beneficial owners and management, see the definitive proxy statement of Callon Petroleum Company relating to the Annual Meeting of Stockholders on May 6, 2004 which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2003 regarding the number of shares of Common Stock that may be issued under the Company's equity compensation plans.

<TABLE>
<CAPTION>

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
	(A)	(B)	(C)
<S>	<C>	<C>	<C>
Equity compensation plans approved by security holders(1)	2,264,667	$10.30	197,140
Equity compensation plans not approved by security holders (2)	186,200	$ 4.33	75,317
Total	2,450,867	$ 9.84	272,457

</TABLE>

(1) Represents the Callon Petroleum Company 1994 and the 1996 Stock Incentive Plans which were approved by the shareholders in prior years. Remaining shares available for future

issuance listed in column (c) does not include 56,000 shares of restricted stock awarded in 2002 which have not yet vested.

(2) Represents the Callon Petroleum Company 2002 Stock Incentive Plan adopted by the Company on February 14, 2002. The plan qualified as a "broadly based" plan under the provisions of the New York Stock

Exchange rules and regulations and therefore did not require shareholder approval. Remaining shares available for future issuance listed in column (c) does not include 34,484 shares of restricted stock awarded in 2002 which have not yet vested.

See Note 10 to the Consolidated Financial Statements for a description of the material provisions of each equity compensation plan under which our equity securities are authorized for issuance that was adopted without the approval of shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For information concerning Item 13, see the definitive proxy statement of Callon Petroleum Company relating to the Annual Meeting of Stockholders on May 6, 2004 which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

For information concerning Item 14, see the definitive proxy statement of Callon Petroleum Company relating to the Annual Meeting of Stockholders on May 6, 2004 which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

PART IV.

ITEM15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. The following is an index to the financial statements and financial statement schedules that are filed as part of this Form 10-K on pages 37 through 63.

Report of Independent Auditors

Consolidated Balance Sheets as of the Years Ended December 31, 2003 and 2002

Consolidated Statements of Operations for the Three Years in the Period Ended December 31, 2003

Consolidated Statements of Stockholders' Equity for the Three Years in the Period Ended December 31, 2003

Consolidated Statements of Cash Flows for the Three Years in the Period Ended December 31, 2003

Notes to Consolidated Financial Statements

(a) 2. Schedules other than those listed above are omitted because they are not required, not applicable or the required information is included in the financial statements or notes thereto.

(a) 3. Exhibits:

2. Plan of acquisition, reorganization, arrangement, liquidation or succession*

3. Articles of Incorporation and Bylaws

3.1 Certificate of Incorporation of the Company, as amended

3.2 Bylaws of the Company (incorporated by reference from Exhibit 3.2 of the Company's Registration Statement on Form S-4, filed August 4, 1994, Reg. No. 33-82408)

3.3 Certificate of Amendment to Certificate of Incorporation of the Company

4. Instruments defining the rights of security holders, including indentures

4.1 Specimen Common Stock Certificate (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-4, filed August 4, 1994, Reg. No. 33-82408)

4.2 Specimen Preferred Stock Certificate (incorporated by reference from Exhibit 4.2 of the Company's Registration Statement on Form S-1, filed November 13, 1995, Reg. No. 33-96700)

4.3 Designation for Convertible, Exchangeable Preferred Stock, Series A as corrected (included as part of Exhibit 3.1)

4.4 Indenture for Convertible Debentures (incorporated by reference from Exhibit 4.4 of the Company's Registration Statement on Form S-1, filed November 13, 1995, Reg. No. 33-96700)

4.5 Indenture for the Company's 10.125% Senior Subordinated Notes due 2002 dated as of July 31, 1997 (incorporated by reference from Exhibit 4.1 of the Company's Registration Statement on Form S-4, filed September 25, 1997, Reg. No. 333-36395)

4.6 Form of Note Indenture for the Company's 10.25% Senior Subordinated Notes due 2004 (incorporated by reference from Exhibit 4.10 of the Company's Registration Statement on Form S-2, filed June 14, 1999, Reg. No. 333-80579)

4.7 Rights Agreement between Callon Petroleum Company and American Stock Transfer & Trust Company, Rights Agent, dated March 30, 2000 (incorporated by reference from Exhibit 99.1 of the Company's Registration Statement on Form 8-A, filed April 6, 2000, File No. 001-14039)

4.8 Subordinated Indenture for the Company dated October 26, 2000 (incorporated by reference from Exhibit 4.1 of the Company's Current Report on Form 8-K dated October 24, 2000, File No. 001-14039)

4.9 Supplemental Indenture for the Company's 11% Senior Subordinated Notes due 2005 (incorporated by reference from Exhibit 4.2 of the Company's Current Report on Form 8-K dated October 24, 2000, File No. 001-14039)

4.10 Warrant dated as of June 29, 2001 entitling Duke Capital Partners, LLC to purchase common stock from the Company. (incorporated by reference to Exhibit 4.11 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001, File No. 001-14039)

4.11 First Supplemental Indenture, dated June 26, 2002, to Indenture between Callon Petroleum Company and American Stock Transfer & Trust Company dated July 31, 1997. (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated June 26, 2002, File No. 001-14039)

4.12 Form of Warrant entitling certain holders of the Company's 10.125% Senior Subordinated Notes due 2002 to purchase common stock from the Company (incorporated by reference to Exhibit 4.13 of the Company's Form 10-Q for the period ended June 30, 2002, File No. 001- 14039)

4.13 Second Supplemental Indenture, dated September 16, 2002, to Indenture between Callon Petroleum Company and American Stock Transfer & Trust Company dated July 31, 1997. (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated September 16, 2002, File No. 001-14039)

4.14 Form of Warrants dated December 8, 2003 and December 29, 2003 entitling lenders under the Company's $185 million amended and restated senior unsecured credit agreement dated December 23, 2003 to purchase common stock from the Company

9. Voting trust agreement

None.

10. Material contracts

10.1 Registration Rights Agreement dated September 16, 1994 between the Company and NOCO Enterprises, L. P. (incorporated by reference from Exhibit 10.2 of the Company's Registration Statement on Form 8-B filed October 3, 1994)

10.2 Counterpart to Registration Rights Agreement by and between the Company, Ganger Rolf ASA and Bonheur ASA. (incorporated by reference from Exhibit 10.2 of the Company's Report on Form 10-K for the fiscal year ended December 31, 2000, File No. 001-14039)

10.3 Registration Rights Agreement dated September 16, 1994 between the Company and Callon Stockholders (incorporated by reference from Exhibit 10.3 of the Company's Registration Statement on Form 8-B filed October 3, 1994)

10.4 Callon Petroleum Company 1994 Stock Incentive Plan (incorporated by reference from Exhibit 10.5 of the Company's Registration Statement on Form 8-B filed October 3, 1994)

10.5 Consulting Agreement between the Company and John S. Callon dated June 19, 1996 (incorporated by reference from Exhibit 10.10 of the Company's Registration Statement on Form S-1, filed November 5, 1996, Reg. No. 333-15501)

10.6 Callon Petroleum Company Amended 1996 Stock Incentive Plan (incorporated by reference from Exhibit 4.4 of the Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-8, filed February 5, 1999, Reg. No. 333-29537)

10.7 Purchase and Sale Agreement between Callon Petroleum Operating Company and Murphy Exploration Company, dated May 26, 1999 (incorporated by reference from Exhibit 10.11 on Form S-2, filed June 14, 1999, Reg. No. 333-80579)

10.8 Callon Petroleum Company 1996 Stock Incentive Plan as amended on May 9, 2000 (incorporated by reference from Appendix I of the Company's Definitive Proxy Statement of Schedule 14A filed March 28, 2000)

10.9 Credit Agreement dated as of October 30, 2000 between the Company and First Union National Bank, as administrative agent for the lenders (incorporated by reference from Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2000, File No. 001-14039)

10.10 Credit Agreement dated as of June 29, 2001 between the Company and Duke Capital Partners, LLC, as Administrative Agent (incorporated by reference to Exhibit 10.01 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001, File No. 001-14039)

10.11 Second Amendment to Credit Agreement by and among the Company and First Union National Bank, as Administrative Agent, effective as of June 29, 2001 (incorporated by reference to Exhibit 10.01 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001, File No. 001-14039)

10.12 Conveyance of Overriding Royalty Interest from the Company to Duke Capital Partners, LLC, dated June 29, 2001 (incorporated by reference to Exhibit 10.03 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001, File No. 001-14039)

10.13 Callon Petroleum Company 2002 Stock Incentive Plan (incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-14039)

10.14 Change of Control Severance Compensation Agreement by and between Callon Petroleum and John S. Weatherly dated January 1, 2002 (incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-14039)

10.15 Change of Control Severance Compensation Agreement by and between Callon Petroleum Company and Fred L. Callon, dated January 1, 2002 (incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-14039)

10.16 Change of Control Severance Compensation Agreement by and between Callon Petroleum Company and Dennis W. Christian, dated January 1, 2002 (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-14039)

10.17 First Amended and Restated Credit Agreement dated as of June 30, 2002, among Callon Petroleum Company, each of the lenders that is a signatory thereto, Wachovia Bank National Association, as administrative agent, and Union Bank of California, N.A., as documentation agent (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the period ended June 30, 2002, File No. 001-14039)

10.18 Amended and Restated Credit Agreement Dated as of December 23, 2003, among Callon Petroleum Company, each of the lenders that is signatory thereto or which becomes a signatory thereto; and Wells Fargo Bank, National Association, a National Banking Association, as administrative agent

10.19 Medusa Spar Agreement dated as of August 8, 2003, among Callon Petroleum Operating Company, Murphy Exploration & Production Company-USA and Oceaneering International, Inc.

10.20 Credit Agreement dated as of December 18, 2003 among Medusa Spar LLC, The Bank of Nova Scotia, as Administrative Agent, Bank One, N.A., Sun Trust Bank, as Syndication Agents and other Lenders Party.

10.21 The Retirement Package and Release Agreement made, entered into and effective March 9, 2004 between Callon Petroleum Company and Dennis W. Christian.

10.22 The Retirement Package and Release Agreement made, entered into and effective March 9, 2004 between Callon Petroleum Company and Kathy G. Tilley.

11. Statement re computation of per share earnings*

12. Statements re computation of ratios*

13. Annual Report to security holders, Form 10-Q or quarterly reports*

14. Code of Ethics

14.1 Code of Ethics for Chief Executives Officer and Senior

Financial Officers

16. Letter re change in certifying accountant*

18. Letter re change in accounting principles*

21. Subsidiaries of the Company

21.1 Subsidiaries of the Company (incorporated by reference from Exhibit 21.1 of the Company's Registration Statement on Form 8-B filed October 3, 1994)

22. Published report regarding matters submitted to vote of security holders*

23. Consents of experts and counsel

23.1 Consent of Ernst & Young LLP

24. Power of attorney*

31. Rule 13a-14(a) Certifications

31.1 Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a)

31.2 Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)

32. Section 1350 Certifications

32.1 Certification of Chief Executive Officer pursuant to Rule 13(a)-14(b)

32.2 Certification of Chief Financial Officer pursuant to Rule 13(a)-14(b)

99. Additional Exhibits*

- ----------
*Inapplicable to this filing.

(b) Reports on Form 8-K.

Current Report on Form 8-K dated November 11, 2003, reporting Item 12. Results of Operations and Financial Condition

Current Report on Form 8-K dated December 1, 2003, reporting Item 9. Regulation FD Disclosure

Current Report on Form 8-K dated December 8, 2003, reporting Item 9. Regulation FD Disclosure

Current Report on Form 8-K dated January 23, 2004 reporting Item 5. Other Events

SIGNATURES

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

CALLON PETROLEUM COMPANY

Date: March 15, 2004 /s/ Fred L. Callon

Fred L. Callon (principal executive

officer, director)

Date: March 15, 2004 /s/ John S. Weatherly

John S. Weatherly (principal financial officer)

Date: March 15, 2004 /s/ Rodger W. Smith

Rodger W. Smith (principal accounting officer)

Date: March 15, 2004 /s/ John S. Callon

John S. Callon (director)

Date: March 15, 2004 /s/ Leif Dons

Leif Dons (director)

Date: March 15, 2004 /s/ Robert A. Stanger

Robert A. Stanger (director)

Date: March 15, 2004 /s/ John C. Wallace

John C. Wallace (director)

Date: March 15, 2004 /s/ B. F. Weatherly

B. F. Weatherly (director)

Date: March 15, 2004 /s/ Richard O. Wilson

Richard O. Wilson (director)

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

CALLON PETROLEUM COMPANY

Date: March 15, 2004 By: /s/ John S. Weatherly

John S. Weatherly, Senior Vice President and Chief Financial Officer

INDEX TO EXHIBITS

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4.6 Form of Note Indenture for the Company's 10.25% Senior Subordinated Notes due 2004 (incorporated by reference from Exhibit 4.10 of the Company's Registration Statement on Form S-2, filed June 14, 1999, Reg. No. 333-80579)

4.7 Rights Agreement between Callon Petroleum Company and American Stock Transfer & Trust Company, Rights Agent, dated March 30, 2000 (incorporated by reference from Exhibit 99.1 of the Company's Registration Statement on Form 8-A, filed April 6, 2000, File No. 001-14039)

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10.8 Callon Petroleum Company 1996 Stock Incentive Plan as amended on May 9, 2000 (incorporated by reference from Appendix I of the Company's Definitive Proxy Statement of Schedule 14A filed March 28, 2000)

10.9 Credit Agreement dated as of October 30, 2000 between the Company and First Union National Bank, as administrative agent for the lenders (incorporated by reference from Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2000, File No. 001-14039)

10.10 Credit Agreement dated as of June 29, 2001 between the Company and Duke Capital Partners, LLC, as Administrative Agent (incorporated by reference to Exhibit 10.01 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001, File No. 001-14039)

10.11 Second Amendment to Credit Agreement by and among the Company and First Union National Bank, as Administrative Agent, effective as of June 29, 2001 (incorporated by reference to Exhibit 10.01 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001, File No. 001-14039)

10.12 Conveyance of Overriding Royalty Interest from the Company to Duke Capital Partners, LLC, dated June 29, 2001 (incorporated by reference to Exhibit 10.03 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001, File No. 001-14039)

10.13 Callon Petroleum Company 2002 Stock Incentive Plan

(incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-14039)

10.14 Change of Control Severance Compensation Agreement by and between Callon Petroleum and John S. Weatherly dated January 1, 2002 (incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-14039)

10.15 Change of Control Severance Compensation Agreement by and between Callon Petroleum Company and Fred L. Callon, dated January 1, 2002 (incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-14039)

10.16 Change of Control Severance Compensation Agreement by and between Callon Petroleum Company and Dennis W. Christian, dated January 1, 2002 (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-14039)

10.17 First Amended and Restated Credit Agreement dated as of June 30, 2002, among Callon Petroleum Company, each of the lenders that is a signatory thereto, Wachovia Bank National Association, as administrative agent, and Union Bank of California, N.A., as documentation agent (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the period ended June 30, 2002, File No. 001-14039)

10.18 Amended and Restated Credit Agreement Dated as of December 23, 2003, among Callon Petroleum Company, each of the lenders that is signatory thereto or which becomes a signatory thereto; and Wells Fargo Bank, National Association, a National Banking Association, as administrative agent

10.19 Medusa Spar Agreement dated as of August 8, 2003, among Callon Petroleum Operating Company, Murphy Exploration & Production Company-USA and Oceaneering International, Inc.

10.20 Credit Agreement dated as of December 18, 2003 among Medusa Spar LLC, The Bank of Nova Scotia, as Administrative Agent, Bank One, N.A., Sun Trust Bank, as Syndication Agents and other Lenders Party.

10.21 The Retirement Package and Release Agreement made, entered into and effective March 9, 2004 between Callon Petroleum Company and Dennis W. Christian.

10.22 The Retirement Package and Release Agreement made, entered into and effective March 9, 2004 between Callon Petroleum Company and Kathy G. Tilley.

11. Statement re computation of per share earnings*

12. Statements re computation of ratios*

13. Annual Report to security holders, Form 10-Q or quarterly reports*

14. Code of Ethics

14.1 Code of Ethics for Chief Executives Officer and Senior Financial Officers

16. Letter re change in certifying accountant*

18. Letter re change in accounting principles*

21. Subsidiaries of the Company

21.1 Subsidiaries of the Company (incorporated by reference from Exhibit 21.1 of the Company's Registration Statement on Form 8-B filed October 3, 1994)

22. Published report regarding matters submitted to vote of security holders*

23. Consents of experts and counsel

23.1 Consent of Ernst & Young LLP

24. Power of attorney*

31. Rule 13a-14(a) Certifications

31.1 Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a)

31.2 Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)

32. Section 1350 Certifications

32.1 Certification of Chief Executive Officer pursuant to Rule 13(a)-14(b)

32.2 Certification of Chief Financial Officer pursuant to Rule 13(a)-14(b)

99. Additional Exhibits*

- ----------

*Inapplicable to this filing.

EXHIBIT 3.1

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 10:00 AM 03/29/1994
344051804 - 2390003

CERTIFICATE OF INCORPORATION
OF
CALLON PETROLEUM HOLDING COMPANY

ARTICLE ONE

The name of the Corporation is Callon Petroleum Holding Company.

ARTICLE TWO

The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, and the name of its registered agent at such address is The Corporation Trust Company.

ARTICLE THREE

The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware ("Act"),

ARTICLE FOUR

The Corporation shall have authority to issue two classes of stock, and the total number authorized shall be one (1) share of Common Stock of the par value of one cent ($.01) each, and one (1) share of Preferred Stock of the par value of one cent ($.01) each. A description of the different classes of stock of the Corporation and a statement of the designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, in respect of each class of such stock are as follows:

1. ISSUANCE IN CLASS OR SERIES. The Common Stock or Preferred Stock may be issued from time to time in one or more series, or either or both of the Common and Preferred Stock may be divided into additional classes and such classes into one or more series. The terms of a class or series, including all rights and preferences, shall be as specified in the resolution or resolutions adopted by the Board of Directors designating such class or series which resolution or resolutions the Board of Directors is hereby expressly authorized to adopt. Such resolution or resolutions with respect to a class or series shall specify all or such of the rights or preferences of such class or series as the Board of Directors shall determine, including, without limitation, any or all of the following, if applicable: (a) the number of shares to constitute such class or series and the distinctive designation thereof; (b) the dividend or manner for determining the dividend payable with respect to the shares of such class or series and the date or dates from which dividends shall accrue, whether such dividends shall be cumulative, and, if cumulative, the date or dates from which dividends shall accumulate and whether the shares in such class or series shall be entitled to preference or priority over any other class or series of stock of the Corporation with respect to payment of dividends; (c) the terms and conditions, including price or a manner for determining the price, of redemption, if any, of the shares of such class or series; (d) the terms and conditions of a retirement or sinking fund, if any, for the purchase or redemption of the shares of such class or series; (e) the amount which the shares of such class or series shall be entitled to receive, if any, in the event of any liquidation, dissolution or winding up of the Corporation and whether such shares shall be entitled to a preference

or priority over shares of another class or series with respect to amounts received in connection with any liquidation, dissolution or winding up of the Corporation; (f) whether the shares of such class or

series shall be convertible into, or exchangeable for, shares of stock of any other class or classes, or any other series of the same or any other class or classes of stock, of the Corporation and the terms and conditions of any such conversion or exchange; (g) the voting rights, if any, of shares of stock of such class or series in addition to those granted herein, if any; (h) the status as to reissuance or sale of shares of such class or series redeemed, purchased or otherwise reacquired or surrendered to the Corporation on conversion; (i) the conditions and restrictions, if any, on the payment of dividends or on the making of other distributions on, or the purchase, redemption or other acquisition by the Corporation or any subsidiary, of any other class or series of stock of the Corporation ranking junior to such shares as to dividends or upon liquidation; (j) the conditions, if any, on the creation of indebtedness of the Corporation, or any subsidiary, and (k) such other preferences, rights, restrictions and qualifications as the Board of Directors may determine.

All shares of the Common Stock shall rank equally and all shares of the Preferred Stock shall rank equally, and be identical within their classes in all respects regardless of series, except as to terms which may be specified by the Board of Directors pursuant to the above provisions. All shares of any one series of a class of Common Stock or Preferred Stock shall be of equal rank and identical in all respects, except that shares of any one series issued at different times may differ as to the dates which dividends thereon shall accrue and be cumulative.

2. OTHER PROVISIONS. Shares of Common Stock or Preferred Stock of any class or series may be issued with such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, option or special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issuance of such stock adopted by the Board of Directors. Any of the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of any such class or series of stock may be made dependent upon facts ascertainable outside the resolution or resolutions of the Board of Directors providing for the issue of such stock by the Board of Directors, provided the manner in which such facts shall operate upon the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of such class or series is clearly set forth in the resolution or resolutions providing for the issue of such stock adopted by the Board of Directors.

3. COMMON STOCK. Except as otherwise provided in any resolution or resolutions adopted by the Board of Directors providing for the issuance of a class or series of Preferred Stock or Common Stock, the Common Stock shall (a) have the exclusive voting power of the corporation; (b) entitle the holders thereof to one vote per share at all meetings of the stockholders of the Corporation; (c) entitle the holders to share ratably, without preference over any other shares of the Corporation, in all assets of the Corporation in the event of any dissolution, liquidation or winding up of the Corporation; and (d) entitle the record holders thereof on such record dates as are determined, from time to time, by the Board of Directors to receive such dividends, if any, if, as and when declared by the Board of Directors.

ARTICLE FIVE

The Corporation is to have perpetual existence.

ARTICLE SIX

1. NUMBER, ELECTION AND TERM OF DIRECTORS. The business and affairs of the Corporation shall be managed by a Board of Directors, which, subject to the rights of holders of shares of any class of series of Preferred Stock of the Corporation then outstanding to elect additional directors under specified circumstances, shall consist of not less than three nor more than twenty-one persons. The exact number of directors within the minimum and maximum limitations

specified in the preceding sentence shall be fixed from time to time by either (i) the Board of Directors pursuant to a resolution adopted by a majority of the entire Board of Directors or (ii) the affirmative vote of the holders of 80% or more of the voting power of all of the shares of the Corporation entitled to vote generally in the election of directors voting together as a single class. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director. The directors shall be divided into three classes as nearly equal in number as possible, with the term of office of the first class to expire at the 1995 annual meeting of stockholders, the term of office of the second class to expire at the 1996 annual meeting of stockholders, and the term of office of the third class to expire at the 1997 annual meeting of stockholders, and with the members of each class to hold office until their successors shall have been elected and qualified At each annual meeting of stockholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election.

2. STOCKHOLDER NOMINATION OF DIRECTOR CANDIDATES. Advance notice of stockholder nominations for the election of directors shall be submitted to the Board of Directors at least 120 days in advance of the scheduled date for the next annual meeting of stockholders.

3. NEWLY CREATED DIRECTORSHIPS AND VACANCIES. Subject to the rights of the holders of any series of any Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors and any vacancies in the Board of Directors resulting from the death, resignation, retirement, disqualification, removal from office or other cause may be filled by a majority vote of the directors then in office even though less than a quorum, or by a sole remaining director.

4. REMOVAL. Subject to the rights of the holders of any series of any Preferred Stock then outstanding, any director or the entire Board of Directors, may be removed from office at any annual or special meeting called for such purpose, and then only for cause and only by the affirmative vote of the holders of 80% or more of the voting power of all of the shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class. As used herein, cause shall mean only the following: conviction of a felony or proof, beyond the existence of a reasonable doubt, that a director has committed grossly negligent or wilful misconduct resulting in a material detriment to the Corporation or committed a material breach of his fiduciary duty to the Corporation resulting in a material detriment to the Corporation.

5. AMENDMENT, REPEAT, ETC. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of 80% or more of the voting power of all of the shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend or adopt any provision inconsistent with or repeal this Article Six, or to alter, amend, adopt any provision inconsistent with or repeal comparable sections of the Bylaws of the Corporation.

ARTICLE SEVEN

Subject to the rights of the holders of any series of Preferred Shares then outstanding, Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders unless all of the stockholders entitled to vote thereon consent thereto in writing. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of 80% or more of the voting power of all the shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to call a special meeting of

stockholders or to alter, amend or adopt any provision inconsistent with or repeal this Article Seven, or to alter, amend or adopt any provision inconsistent with comparable sections of the Bylaws.

ARTICLE EIGHT

The Corporation shall have the power to indemnify its present or former directors, officers, employees and agents or any person who served or is serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise to the fun extent permitted by the General Corporation Law of Delaware. Such indemnification shall not be deemed exclusive of any other rights to which such person may be entitled, under any Bylaws, agreements, vote of stockholders or disinterested directors, or otherwise.

ARTICLE NINE

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages or breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (if) for acts or omissions not in good faith or which involved intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Act, or, (iv) for any transaction from which the director derived an improper personal benefit.

ARTICLE TEN

In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized to make, alter or repeal the Bylaws of the corporation.

ARTICLE ELEVEN

The name and address of the incorporator is as follows:

George G. Young III
Butler & Binion
1700 First Interstate Bank Plaza
Houston, Texas 77002

In Witness Whereof, this certificate of incorporation was executed by the above named individual on this 28th day of March, 1994.

/s/ George G. Young III

George G. Young III

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 04:30 PM 08/04/1994
944145890 - 2390003

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

Callon Petroleum Holding Company, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"),

DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of the Corporation, by the unanimous written consent of its members, filed with the minutes of the Board, adopted a resolution proposing and declaring advisable the following amendment to the Certificate of Incorporation of the Corporation:

RESOLVED, that the Certificate of Incorporation of the

Corporation be amended by chanting Section 1. of the Article thereof numbered "SIX" so that, as amended, Section 1. of said Article shall be and read as follow:

"ARTICLE SIX

1. NUMBER, ELECTION AND TERM OF DIRECTORS. The business and affairs of the Corporation shall be managed by a Board of Directors, which, subject to the rights of holders of shares of any class or series of Preferred Stock of the Corporation then outstanding to elect additional directors under specified circumstances, shall consist of no more than twenty-one person. The number of initial directors shall be two. Thereafter, the exact number of director within the maximum limitations as specified above shall be fixed from time to time by either (i) the Board of Directors pursuant to a resolution adopted by a majority of the entire Board of Directors or (ii) the affirmative vote of the holders of 80% or more of the voting power of all of the shares of the Corporation entitled to vote generally in the election of directors voting together as a single class. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director. The directors shall be divided into three classes as nearly equal in number as possible, with the term of office of the first class to expire at the first annual meeting of stockholders following their election, the term of office of the second class to expire at the second annual meeting of stockholders following their election, and the term of office of the third class to expire at the third annual meeting of stockholders following their election, and with the members of each class to hold office until their successors shall have been elected and qualified. At each annual meeting of stockholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. Notwithstanding the foregoing, the above provisions regarding classification of directors shall be applicable only in the event that the Board of Directors is composed of three or more directors. Election of directors need not be by written ballot, except as otherwise provided in the Bylaws."

SECOND: That in lieu of a meeting and vote of stockholders, the sole stockholder of the Corporation has given its written consent to the amendment in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware.

THIRD: That the amendment was duly adopted in accordance with the applicable provisions in Sections 242 and 228 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed by Fred L. Callon, its President, and attested by H. Michael Tatum, Jr., its Secretary, this 2nd day of August, 1994.

CALLON PETROLEUM HOLDING COMPANY

By /s/ Fred L. Callon

Fred L. Callon, President

ATTEST

/s/ H. Michael Tatum Jr.
- ---
H. Michael Tatum Jr., Secretary

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 04:30 PM 09/16/1994
944174625 - 2390003

CERTIFICATE OF MERGER

OF

CALLON CONSOLIDATED PARTNERS, L.P.
(a Delaware limited partnership)

with and into

CALLON PETROLEUM HOLDING COMPANY
(a Delaware corporation)

Callon Consolidated Partners, L.P., a Delaware limited partnership, for the purpose of merging with Callon Petroleum Holding Company, a Delaware corporation, hereby certifies as follows:

1. The name and jurisdiction of formation or organization of each of the constituent entities are:

Name	Jurisdiction
Callon Petroleum Holding Company	Delaware
Callon Consolidated Partners, L.P.	Delaware

2. An agreement and plan of consolidation has been approved, adopted, certified, executed and acknowledged by each of the constituent entities in accordance with section 263 of the Delaware General Corporation Law.

3. The name of the surviving corporation is Callon Petroleum Holding Company, which shall herewith be changed to Callon Petroleum Company.

4. The amendments or changes in the Certificate of Incorporation of the surviving corporation are as follows:

(i) Article One is amended and replaced in its entirety with the following Article One:

"ARTICLE ONE

The name of the Corporation is Callon Petroleum Company."

(ii) The first sentence of Article Four is amended and replaced in its entirety with the following sentence:

"The Corporation shall have authority to issue two classes of stock, and the total number authorized shall be 20,000,000 shares of Common Stock of the par value of one cent ($.01) each, and 2,500,000 shares of Preferred Stock of the par value of one cent ($.01) each."

5. The executed agreement and plan of consolidation is on file at the principal place of business of the surviving corporation, the address of which is:

Callon Petroleum Holding Company
200 North Canal Street
Natchez, Mississippi 39120

6. A copy of the agreement and plan of consolidation will be furnished by Callon Petroleum Holding Company, on request and without cost, to any partner or stockholder of a constituent entity.

IN WITNESS WHEREOF, this Certificate of Merger has been duly executed as of the 16th day of September 1994, and is being filed by Callon Petroleum Holding Company, the surviving corporation.

CALLON PETROLEUM HOLDING COMPANY

By: /s/ FRED L. CALLON

FRED L. CALLON, President

Attest:

/s/ H. Michael Tatum, Jr.
- ---
H. Michael Tatum, Jr., Secretary

AMENDMENT
TO
CERTIFICATE OF INCORPORATION
OF
CALLON PETROLEUM COMPANY

The undersigned, Robert A. Mayfield, Corporate Secretary of Callon Petroleum Company, a corporation organized and existing under the laws of the State of Delaware (the "CORPORATION"), does hereby certify as follows:

FIRST: The name of the Corporation is Callon Petroleum Company

SECOND: This Amendment (the "AMENDMENT") to the Certificate of Incorporation of the Corporation (the "CERTIFICATE") was duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law. The Board of Directors has duly adopted resolutions setting forth and declaring advisable this Amendment and the holders of a majority of the outstanding stock of the Corporation entitled to vote at the special meeting of the stockholders called for the purpose of voting on the Amendment have voted in favor of this Amendment.

THIRD: The Certificate is hereby amended by amending and restating the first sentence of Article Four to be and read as follows:

"The Corporation shall have authority to issue two classes of stock, and the total number authorized shall be 30,000,000 shares of Common Stock, par value $.01 per share, and 2,500,000 shares of Preferred Stock, par value $.01 per share."

IN WITNESS WHEREOF, the undersigned has executed this Amendment on behalf of the Corporation and has attested such execution and does verify and affirm, under penalty of perjury, that this Amendment is the act and deed of the Corporation and that the facts stated herein are true as of this 23rd day of January, 2004.

CALLON PETROLEUM COMPANY

By: /s/ Robert A. Mayfield

Robert A. Mayfield, Corporate Secretary

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 04:30 PM 11/22/1995
950272690 - 2390003

CERTIFICATE OF DESIGNATIONS

CALLON PETROLEUM COMPANY

$2.125 CONVERTIBLE EXCHANGEABLE
PREFERRED STOCK, SERIES A

Callon Petroleum Company, a corporation organized and existing under and by virtue of The General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY:

That the following resolutions, establishing and designating a series of shares and fixing and determining the designations, preferences, limitations and relative rights thereof, were duly adopted by the Board of Directors of the Corporation or an authorized committee thereof on November 21, 1995.

RESOLVED, that pursuant to Article Four of the Certificate of Incorporation of the Corporation, as amended, which authorizes the issuance of 22,500,000 shares of capital stock ("Stock"), consisting of 2,500,000 shares of Preferred Stock of the par value of $.01 per share, none of which is currently outstanding, and 20,000,000 shares of Common Stock of the par value of $.01 per share (the "Common Stock"), the Corporation hereby provides for the issuance of a series of Preferred Stock, designated as $2.125 Convertible Exchangeable Preferred Stock, Series A, and hereby fixes the designations, preferences, limitations and relative rights of the shares of the $2.125 Convertible Exchangeable Preferred Stock, Series A, in addition to those set forth in such Article Four, which shall be as follows:

SECTION 1. DESIGNATION; NUMBER OF SHARES. The shares of the series authorized by this resolution shall be designated as "$2.125 Convertible Exchangeable Preferred Stock, Series A" (the "Convertible Preferred Stock"). The number of shares initially constituting such series shall be limited to one million three hundred eighty thousand (1,380,000). Such number of shares may be decreased, at any time and from time to time, by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Convertible Preferred Stock to a number less than the number of shares then outstanding. The liquidation value of the Convertible Preferred Stock shall be $25.00 per share.

SECTION 2. DIVIDENDS.

(a) AMOUNT. The holders of Convertible Preferred Stock shall be entitled to receive, when and if declared by the Board of Directors, out of funds legally available for the payment of dividends, cash dividends at the rate of $2.125 per share per annum, and no more, payable in equal quarterly payments on January 15, April 15, July 15, and October 15 in each year, commencing January 15, 1996, except that if such date is not a business day then such dividend shall be payable on the next succeeding business day (the "Dividend Payment Date" or "Dividend Payment Dates") (as used herein, the term "business day" shall mean any day except a Saturday, Sunday or day on which banking institutions are authorized or required by law to close in New York City or in the City of Natchez, Mississippi). Such dividends shall be cumulative (whether or not declared) and shall accrue, without interest, from the first day in which such dividend may be payable as provided herein, except that with respect to the first quarterly dividend, such dividend shall accrue from the date of issuance of such shares of Convertible Preferred Stock. Dividends shall be payable to holders of record as they appear on the share transfer records of the Corporation on such record dates as may be fixed by the Board of Directors, not more than 60 days nor less than 10 days preceding such Dividend Payment Date. Dividends in arrears may be declared and paid at any time, without reference to any regular Dividend Payment Date, to holders of record on such date, not more than 60 days preceding the payment date thereof, as may be fixed by the Board of Directors of the Corporation. The amount of dividends payable on shares of Convertible Preferred Stock for each full quarterly dividend period shall be computed by dividing by four the annual rate per share set forth in this subsection (a). Dividends payable on the Convertible Preferred Stock for the initial dividend period and for any period less than a full quarterly period shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) PRIORITY. If dividends upon any shares of Convertible Preferred Stock, or any other outstanding class or series of stock of the Corporation ranking on a parity with the Convertible Preferred Stock as to dividends, are in arrears, all dividends or other distributions declared upon each class or series of such stock (other than dividends paid in stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution or winding up) may only be declared pro rata so that in all cases the amount of dividends or other distributions declared per share on the Convertible Preferred Stock and such class or series bear to each other the same ratio that the accrued and unpaid dividends per share on the shares of the Convertible Preferred Stock and such class or series bear to each

other. Except as set forth above, if dividends upon any shares of Convertible Preferred Stock, or any other outstanding stock of the Corporation ranking on a parity with the Convertible Preferred Stock a$ to dividends, are in arrears: (i) no dividends (in cash, stock or other property) may be paid, declared or set aside for payment or any other distribution made on any stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends (other than dividends or distributions in stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution or winding up) and upon liquidation, dissolution or winding up; and (ii) DO stock of the Corporation ranking junior to or on a parity with the Convertible Preferred Stock as to dividends and upon liquidation, dissolution and winding up may be redeemed, purchased or otherwise acquired pursuant to a sinking fund or otherwise, except by conversion of such stock into, or exchange of such stock for, stock of the Corporation ranking junior to the Convertible Preferred Stock as to dividends and upon liquidation, dissolution or winding up.

(c) NO INTEREST. No interest, sum of money in lieu of interest, or other property or securities shall be payable in respect of any dividend payment or payments which are accrued but unpaid. Dividends paid on shares of Convertible Preferred Stock in an amount less than the total amount of such dividends at the time accumulated and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

SECTION 3. CONVERSION PRIVILEGE.

(a) RIGHT OF CONVERSION. Each share of Convertible Preferred Stock shall be convertible at the option of the holder thereof at any time prior to the close of business on the fifth business day prior to the date fixed for redemption of such share as herein provided, into fully paid and nonassessable shares of Common Stock, at a rate per full share of Convertible Preferred Stock determined by dividing $25.00 by the conversion price per share of Common Stock in effect on the date such share is surrendered for conversion, or into such additional or other securities, cash or property and at such other rates as required in accordance with the provisions of this Section 3. For purposes of this resolution, the "conversion price" per share of Common Stock shall initially be $11.00 and shall be adjusted from time to time in accordance with the provisions of this Section 3. Each share of Convertible Preferred Stock may be converted in whole or in part.

(b) CONVERSION PROCEDURES. Any holder of shares of Convertible Preferred Stock desiring to convert such shares into Common Stock shall surrender the certificate or certificates evidencing such shares of Convertible Preferred Stock at the office of the transfer agent for the Convertible Preferred Stock, which certificate or certificates, if the Corporation shall so require, shall be duly endorsed to the Corporation or in blank, or accompanied by proper instruments of transfer to the Corporation or in blank, accompanied by irrevocable written notice to the Corporation that the holder elects to convert such shares of Convertible Preferred Stock and specifying the name or names (with address or addresses) in which a certificate or certificates evidencing shares of Common Stock are to be issued.

Except as otherwise described in this paragraph, no payments or adjustments in respect of dividends on shares of Convertible Preferred Stock surrendered for conversion, whether paid or unpaid and whether or not in arrears, or on account of any dividend on the Common Stock issued upon conversion shall be made by the Corporation upon the conversion of any shares of Convertible Preferred Stock. The holder of record of shares of Convertible Preferred Stock on a dividend record date who surrenders such shares for conversion during the period between such dividend record date and the corresponding dividend payment date will be entitled to receive the dividend on such dividend payment date notwithstanding the conversion of such shares; provided, however, that unless such shares, prior to such surrender, had been called for redemption on a redemption date

during the period between such dividend record date and the date after such dividend payment date, such shares must be accompanied, upon surrender for

conversion, by payment from the holder to the Corporation of an amount equal to the dividend payable on such shares on that dividend payment date.

The Corporation shall, as soon as practicable after such surrender of certificates evidencing shares of Convertible Preferred Stock accompanied by the written notice and compliance with any other conditions herein contained, deliver at such office of such transfer agent to the person for whose account such shares of Convertible Preferred Stock were so surrendered, or to the nominee or nominees of such person, certificates evidencing the number of full shares of Common Stock to which such person shall be entitled as aforesaid, together with a cash adjustment in respect of any fraction of a share of Common Stock as hereinafter provided. Such conversion shall be deemed to have been made as of the date of such surrender of the shares of Convertible Preferred Stock to be converted, and the person or persons entitled to receive the Common Stock deliverable upon conversion of such Convertible Preferred Stock shall be treated for all purposes as the record bolder or holders of such Common Stock on such date.

(c) ADJUSTMENT OF CONVERSION PRICE. The conversion price at which a share of Convertible Preferred Stock is convertible into Common Stock shall be subject to adjustment from time to time as follows:

(i) In case the Corporation shall pay or make a dividend or other distribution on its Common Stock exclusively in Common Stock or shall pay or make a dividend or other distribution on any other class or series of capital stock of the Corporation which dividend or distribution includes Common Stock, the conversion price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such conversion price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares and the total number of shares constituting or included in such dividend or other distribution, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this paragraph (i), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation. The Corporation shall not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Corporation.

(ii) In case the Corporation shall pay or make a dividend or other distribution on its Common Stock consisting exclusively of, or shall otherwise issue

to all holders of its Common Stock, rights or warrants entitling the holders thereof to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share (determined as provided in paragraph (vi) of this Section 3(c)) of the Common Stock on the date fixed for the determination of stockholders entitled to receive such rights or warrants, the conversion price in effect at the opening of business on the day following the date fixed for such determination shall be reduced by multiplying such conversion price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such current market price and the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription or purchase, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. In case any rights or warrants referred to in this paragraph (ii) in respect of which an adjustment shall have been made shall expire unexercised, the conversion price shall be readjusted at the time of such expiration to the conversion price that would have been in effect if no adjustment

had been made on account of the distribution or issuance of such expired rights or warrants.

(iii) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the conversion price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, the conversion price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(iv) Subject to the last sentence of this paragraph (iv), in case the Corporation shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness, shares of any class or series of capital stock, cash or assets (including securities, but excluding any rights or warrants referred to in paragraph (ii) of this Section 3(c), any dividend or distribution paid exclusively in cash and any dividend or distribution referred to in paragraph (i) of this Section 3(c)), the conversion price in effect on the day following the date fixed for the payment of such distribution (the date fixed for payment being referred to as the "Reference Date") shall be reduced by

multiplying such conversion price by a fraction of which the numerator shall be the current market price per share (determined as provided in paragraph (vi) of this Section 3(c)) of the Common Stock on the Reference Date less the fair market value (as determined in good faith by the Board of Directors, whose determination shall be conclusive and described in a resolution of the Board of Directors) on the Reference Date of the portion of the evidences of indebtedness, shares of capital stock, cash and assets so distributed applicable to one share of Common Stock, and the denominator shall be such current market price per share of the Common Stock, such reduction to become effective immediately prior to the opening of business on the day following the Reference Date. If the Board of Directors determines the fair market value of any distribution for purposes of this paragraph (iv) by reference to the actual or when issued trading market for any securities comprising such distribution, it must in doing so consider the prices in such market over the same period used in computing the current market price per share of Common Stock pursuant to paragraph (vi) of this Section 3(c). For purposes of this paragraph (iv), any dividend or distribution that includes shares of Common Stock or rights or warrants to subscribe for or purchase shares of Common Stock shall be deemed to be (A) a dividend or distribution of the evidences of indebtedness, cash, assets or shares of capital stock other than such shares of Common Stock or rights or warrants (making any conversion price reduction required by this paragraph (iv)) immediately followed by (B) a dividend or distribution of such shares of Common Stock or such rights or warrants (making any further conversion price reduction required by paragraph (i) or (ii) of this Section 3(c)), except (1) the Reference Date of such dividend or distribution as defined in this paragraph (iv) shall be substituted as "the date fixed for the determination of stockholders entitled to receive such dividend or other distribution," "the date fixed for the determination of stockholders entitled to receive such rights or warrants" and "the date fixed for such determination" within the meaning of paragraphs (i) and (ii) of this Section 3(c) and (2) any shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of paragraph (i) of this Section 3(c).

(v) In case the Corporation shall pay or make a dividend or other distribution on its Common Stock exclusively in cash (excluding (A) cash that is part of a distribution referred to in paragraph (iv) above and (B) in the case of any quarterly cash dividend

on the Common Stock, the portion thereof that does not exceed the per share amount of the next preceding quarterly cash dividend on the Common Stock (as adjusted to appropriately reflect any of the events referred to in paragraphs (i), (ii), (iii) and (iv) of this Section 3(c)), or all of such quarterly cash dividend if the amount thereof per share of Common Stock multiplied by four does not exceed 15% of the current market price per share (determined as

provided in paragraph (vi) of this Section 3(c)) of the Common Stock on the trading day next preceding the date of declaration of such dividend, the conversion price in effect immediately prior to the opening of business on the day following the date fixed for the payment for such distribution shall be reduced by multiplying such conversion price by a fraction of which the numerator shall be the current market price per share (determined as provided in paragraph (vi) of this Section 3(c)) of the Common Stock on the date fixed for the payment of such distribution less the amount of cash so distributed and not excluded as provided above applicable to one share of Common Stock, and the denominator of which shall be such current market price per share of the Common Stock, such reduction to become effective immediately prior to the opening of business on the day following the date fixed for the payment of such distribution.

(vi) For the purpose of any computation under paragraph (ii), (iii), (iv) or (v) of this Section 3(c), the current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for the five consecutive trading days ending with and including the date in question; provided, however, that (A) if the "ex" date (as hereinafter defined) for any event (other than the issuance or distribution requiring such computation) that requires an adjustment to the conversion price pursuant to paragraph (i), (ii), (iii), (iv) or (v) above ("Other Event") occurs after the fifth trading day prior to the date in question and prior to the "ex" date for the issuance or distribution requiring such computation (the "Current Event"), the closing price for each trading day prior to the "ex" date for such Other Event shall be adjusted by multiplying such closing price by the same fraction by which the conversion price is so required to be adjusted as a result of such Other Event, (B) if the "ex" date for any Other Event occurs after the "ex" date for the Current Event and on or prior to the date in question, the closing price for each trading day on and after the "ex" date for such Other Event shall be adjusted by multiplying such closing price by the reciprocal of the fraction by which the conversion price is so required to be adjusted as a result of such Other Event, (C) if the "ex" date for any Other Event occurs on the "ex" date for the Current Event, one of those events shall be deemed for purposes of clauses (A) and (B) of this proviso to have an "ex" date occurring prior to the "ex" date for the other event, and (D) if the "ex" date for the Current Event is on or prior to the date in question, after taking into account any adjustment required pursuant to clause (B) of this proviso, the closing price for each trading day on or after such "ex" date shall be adjusted by adding thereto the amount of any cash and the fair market value on the date in question (as determined in good faith by the Board of Directors in a manner consistent with any determination of such value for purposes of paragraph (iv) or (v) of this Section 3(c), whose determination shall be conclusive and described in a resolution of the Board of Directors) of the portion of the rights, warrants,

evidences of indebtedness, shares of capital stock or assets being distributed applicable to one share of Common Stock. For purposes of this paragraph, the term "ex" date, (1) when used with respect to any issuance 01 distribution, means the first date on which the Common Stock trades regular way on the relevant exchange or in the relevant market from which the closing price was obtained without the right to receive such issuance or distribution and (2) when used with respect to any subdivision or combination of shares of Common Stock, means the first date on which the Common Stock trades regular way on such exchange or in such market after the time at which such subdivision or

combination becomes effective.

(vii) No adjustment in the conversion price shall be required unless such adjustment would require an increase or decrease of at least 1% in the conversion price; provided, however, that any adjustments which by reason of this paragraph (vii) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(viii) Whenever the conversion price is adjusted as herein provided:

(A) the Corporation shall compute the adjusted conversion price and shall prepare a certificate signed by a Vice President or the Treasurer of the Corporation setting forth the adjusted conversion price and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed with the transfer agent for the Convertible Preferred Stock; and

(B) as soon as practicable after the adjustment, the Corporation shall mail to all record holders of Convertible Preferred Stock at their last addresses as they shall appear in stock transfer books of the Corporation a notice stating that the conversion price has been adjusted and setting forth the adjusted conversion price.

(ix) The Corporation from time to time may reduce the conversion price by any amount for any period of time if the period is at least twenty days, the reduction is irrevocable during the period and the Board of Directors shall have made a determination that such reduction would be in the best interest of the Corporation, which determination shall be conclusive. Whenever the conversion price is reduced pursuant to the preceding sentence, the Corporation shall mail to the record holders of Convertible Preferred Stock a notice of the reduction at least fifteen days prior to the date the reduced conversion price takes effect, and such notice shall state the reduced conversion price and the period it will be in effect

(d) NO FRACTIONAL SHARES. No fractional shares of Common Stock shall be issued upon conversion of the Convertible Preferred Stock. If more than one certificate evidencing shares of Convertible Preferred Stock shall be surrendered for conversion at such time by the holder, the number of full shares issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Convertible Preferred Stock so surrendered. Instead of any fractional share of Common Stock that would otherwise be issuable to a holder upon conversion of any shares of Convertible Preferred Stock, the Corporation shall pay a cash adjustment in respect of such fractional share in an amount equal to the same fraction of the closing price of the Common Stock on the day of conversion or, if the day of conversion is not a trading day, on the next preceding trading day.

(e) RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE OF ASSETS. In the event that the Corporation shall be a party to any transaction pursuant to which the Common Stock is converted into the right to receive other securities, cash or other property (including without limitation any recapitalization or reclassification of the Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination of the Common Stock), any consolidation of the Corporation with, or merger of the Corporation into, any other person, any merger or another person into the Corporation (other than a merger which does not result in a reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock), any sale or transfer of all or substantially all of the assets of the Corporation or any share exchange), then lawful provisions shall be made as part of the terms of such transaction whereby the holder of each share of Convertible Preferred Stock then outstanding shall have the right thereafter to convert such share only into the kind and amount of securities, cash and other property receivable upon such transaction by a holder of the number of shares of Common Stock into which such share might have been converted immediately prior to such transaction provided, however, that if the

holders of Common Stock were entitled by the terms of the transaction to make an election to receive securities, cash or property, or any combination of the foregoing, lawful provision shall be made as part of the terms of such transaction whereby the holder of each share of Convertible Preferred Stock then outstanding shall have the right thereafter to convert such share only into the kind and amount of securities, cash or other property receivable upon such trans action by a holder of the number of shares of Common Stock who made one of the elections provided for in such transaction (as determined by the Board of Directors, whose determination shall be conclusive) into which such share might have been converted immediately prior to such transaction. The Corporation or the person formed by such consolidation or resulting from such merger or which acquires such shares or which acquires the Corporation's shares, as the case may be, shall make provisions in its certificate or articles of incorporation or other governing document to establish such right Such certificate or articles of incorporation or other governing document shall provide for adjustments which, for events subsequent to the effective date of such certificate or articles

of incorporation or other governing document, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 3. The above provisions shall similarly apply to successive transactions of the foregoing type.

(f) RESERVATION OF SHARES; ETC. The Corporation shall at all tunes reserve and keep available, free from preemptive rights out of its authorized and unissued Common Stock, solely for the purpose of effecting the conversion of the Convertible Preferred Stock, such number of shares of its Common Stock as shall from time to time be sufficient to effect the conversion of all shares of Convertible Preferred Stock from time to time outstanding. The Corporation shall from time to time, in accordance with the laws of the State of Delaware, in good faith and as expeditiously as possible endeavor to cause the authorized number of shares of Common Stock to be increased if at any time the number of shares of authorized and unissued Common Stock shall not be sufficient to permit the conversion of all the then outstanding shares of Convertible Preferred Stock.

If any shares of Common Stock required to be reserved for the purposes of conversion of the Convertible Preferred Stock hereunder require registration with or approval of any governmental authority under any Federal or State law before such shares may be issued upon conversion, the Corporation will in good faith and as expeditiously as possible endeavor to cause such shares to be duly registered or approved as the case may be. If the Common Stock is listed on any national securities exchange, the Corporation will, if permitted by the rules of such exchange, list and keep listed on such exchange, upon official notice of issuance, all shares of Common Stock issuable upon conversion of the Convertible Preferred Stock, for so long as the Common Stock continues to be so listed.

(g) PRIOR NOTICE OF CERTAIN EVENTS. In case:

(i) the Corporation shall (A) declare any dividend (or any other distribution) on its Common Stock, other than (1) a dividend payable in shares of Common Stock or (2) a dividend payable in cash out of its retained earnings other than any special or nonrecurring or other extraordinary dividend or (B) declare or authorize a redemption or repurchase of in excess of 10% of the then outstanding shares of Common Stock; or

(ii) the Corporation shall authorize the granting to all holders of Common Stock of rights or warrants to subscribe for or purchase any shares of stock of any class or series or of any other rights or warrants; or

(iii) of any reclassification of Common Stock (other than a subdivision or combination of the outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or of any consolidation or merger to which the Corporation is party and for which approval

of any stockholders of the Corporation shall be required, or of the

sale or transfer of all or substantially all of the assets of the Corporation or of any share exchange whereby the Corporation is converted into other securities, cash or other property; or

(iv) of the voluntary or involuntary dissolution, liquidation or winding up of the Corporation;

then the Corporation shall cause to be filed with the transfer agent for the Convertible Preferred Stock, and shall cause to be mailed to all holders of record of the Convertible Preferred Stock at their last addresses as they shall appear upon the stock transfer books of the Corporation, at least 15 days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record (if any) is to be taken for the purpose of such dividend, distribution, redemption, repurchase, or grant of rights or warrants or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, redemption, repurchase, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer, share exchange, dissolution, liquidation or winding up is expected to become effective and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, share exchange, dissolution, liquidation or winding up (but no failure to mail such notice or any defect therein or in the mailing thereof shall affect the validity of the corporate action required to be specified in such notice).

(h) CERTAIN ADDITIONAL RIGHTS. In case the Corporation shall, by dividend or otherwise, declare or make a distribution on its Common Stock referred to in Section 3(c)(iv) or 3(c)(v) (including, without limitation, dividends or distribution referred to in the last sentence of Section 3(c)(iv)), the holder of each share of Convertible Preferred Stock upon the conversion thereof subsequent to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution and prior to the effectiveness of the conversion price adjustment in respect of such distribution, shall also be entitled to receive for each share of Common Stock into which such share of Convertible Preferred Stock is converted, the portion of the shares of Common Stock, rights, warrants, evidences of indebtedness, shares of capital stock, cash and assets as distributed applicable to one share of Common Stock; provided, however, that at the election of the Corporation (whose election shall be evidenced by a resolution of the Board of Directors) with respect to all holders so converting, the Corporation may, in lieu of distributing to such holder any portion of such distribution not consisting of cash or securities of the Corporation, pay such holder an amount in cash equal to the fair market value thereof (as determined in good

faith by the Board of Directors, which determination shall be conclusive). If any conversion of a share of Convertible Preferred Stock described in the immediately preceding sentence occurs prior to the payment date for a distribution to holders of Common Stock which the holder of the share of Convertible Preferred Stock so converted is entitled to receive in accordance with the immediately preceding sentence, the Corporation may elect (such election to be evidenced by a resolution of the Board of Directors) to distribute to such holder a due bill for the shares of Common Stock, rights, warrants, evidences of indebtedness, shares of capital stock, cash or assets to which such holder is so entitled, provided that such due bill (a) meets any applicable requirements of the principal national securities exchange or other market on which the Common Stock is then traded and (b) requires payment or delivery of such shares of Common Stock, rights, warrants, evidences of indebtedness, shares of capital Stock, cash or assets no later than the date of payment or delivery thereof to holders of shares of Common Stock receiving such distribution.

SECTION 4. SPECIAL CONVERSION RIGHTS.

(a) CHANGE OF CONTROL. Upon the occurrence of a Change of Control (as defined in Section 4(e)) with respect to the Corporation, each holder of Convertible Preferred Stock shall have the right, at the holder's option, for a

period of 30 days after the mailing of a notice by the Corporation that a Change of Control has occurred, to convert all, but not less than all, of such holder's Convertible Preferred Stock into Common Stock of the Corporation at an adjusted conversion price per share equal to the Market Value (as defined in Section 4(e)) of the Common Stock. The Corporation may, at its option, in lieu of providing Common Stock upon any such special conversion, provide the holder with cash equal to the Market Value of the Common Stock multiplied by the number of shares of Common Stock into which such Convertible Preferred Stock would have been convertible immediately prior to such Change of Control. The special conversion right arising upon a Change of Control shall only be applicable with respect to the first Change of Control that occurs after the first date of issuance of any Convertible Preferred Stock. Convertible Preferred Stock which becomes convertible pursuant to a special conversion right shall, unless so converted, remain convertible pursuant to Section 3 at the conversion price in effect immediately before the effective date of the Change of Control, subject to subsequent adjustment as provided in Section 3(c).

(b) FUNDAMENTAL CHANGE. Upon the occurrence of a Fundamental Change (as defined in Section 4(e)) with respect to the Corporation, each holder of Convertible Preferred Stock shall have a special conversion right, at the holder's option, for a period of 30 days after the mailing of a notice by the Corporation that a Fundamental Change has occurred, to convert all, but not less than all, of such holder's Convertible Preferred Stock into the kind and amount of cash, securities, property or other assets receivable upon such Fundamental Change by a holder of the number of shares of Common Stock into which such Convertible Preferred Stock would have been convertible immediately prior to such

Fundamental Change at an adjusted conversion price equal to the Market Value of the Common Stock. The Corporation or a successor corporation, as the case may be, may, at its option and in lieu of providing the consideration as required above upon such conversion, provide the bolder with cash equal to the Market Value of the Common Stock multiplied by the number of shares of Common Stock into which such Convertible Preferred Stock would have been convertible immediately prior to such Fundamental Change. Convertible Preferred Stock which becomes convertible pursuant to a special conversion right shall, unless converted, remain convertible pursuant to Section 3 into the kind and amount of cash, securities, property or other assets that the holders of the Convertible Preferred Stock would have owned immediately after the Fundamental Change if the holders had converted the Convertible Preferred Stock immediately before the effective date of the Fundamental Change, subject to subsequent adjustment under the provisions contemplated by Section 3(c), if applicable.

(c) NOTICE. Upon the occurrence of a Change of Control or a Fundamental Change with respect to the Corporation, within 30 days after such occurrence, the Corporation shall mail to each bolder of Convertible Preferred Stock a notice of such occurrence (the "Special Conversion Notice") setting forth the following:

(i) the event constituting the Change of Control or Fundamental Change;

(ii) the date upon which the applicable special conversion right will terminate;

(iii) the Market Value of the Common Stock;

(iv) the conversion price then in effect under Section 3 and the continuing conversion rights, if any, under Section 3;

(v) the name and address of the paying agent and conversion agent;

(vi) that holders who want to convert Convertible Preferred Stock must satisfy the requirements of Section 4(d) and must exercise such conversion right within the 30-day period after the mailing of such notice by the Corporation;

(vii) that exercise of such conversion right shall be irrevocable and no dividends on the Convertible Preferred Stock (or

portions thereof) tendered for conversion shall accrue from and after the conversion date; and

(viii) that the Corporation (or a successor corporation, if applicable) may, at its option, elect to pay cash (specifying the amount thereof per share) for all Convertible Preferred Stock tendered for conversion.

(d) EXERCISE PROCEDURES. A bolder of Convertible Preferred Stock must exercise the special conversion right within the 30-day period after the mailing of the Special Conversion Notice or such special conversion right shall expire. Such right must be exercised in accordance with Section 3(b) to the extent the procedures in Section 3(b) are consistent with the special provisions of this Section 4. Exercise of such conversion right shall be irrevocable and no dividends on the Convertible Preferred Stock tendered for conversion shall be payable in respect of the period from the list dividend payment date preceding the conversion date through the conversion date. The conversion date with respect to the exercise of a special conversion right arising upon a Change of Control or Fundamental Change shall be the 30th day after the mailing of the Special Conversion Notice.

(e) DEFINITIONS. The following definitions shall apply to terms used in this Section 4:

(i) A "Change of Control" with respect to the Corporation shall be deemed to have occurred at such time as any person (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act)), including a group (within the meaning of Rule 13d-5 under the Exchange Act), together with any of its Affiliates or Associates, files or becomes obligated to file a report (or any amendment or supplement thereto) on Schedule 13D or 14D-1 pursuant to the Exchange Act, disclosing that such person has become the beneficial owner of either (A) 50% or more of the shares of Common Stock of the Corporation then outstanding or (B) securities representing 50% or more of the combined voting power of the Voting Stock (as defined below) of the Corporation then outstanding; provided a Change of Control shall not be deemed to have occurred (i) with respect to any transaction that constitutes a Fundamental Change, (ii) as a result of a person becoming or being deemed the beneficial owner of Common Stock because such person or an affiliate of such person is or becomes a party to the Stockholders' Agreement among the Callon Family and NOCO Enterprises, L.P., dated September 16,1994 as amended from time to time (the "Stockholders' Agreement"), or (iii) as a result of a person currently a party to the Stockholders' Agreement or an affiliate of such person acquiring beneficial ownership of Common Stock. As used herein, a person shall be deemed to have "beneficial ownership" with respect to, and shall be deemed to "beneficially own," any securities of the Corporation in accordance with Section 13 of the Exchange Act and the rules and regulations (including Rule 13d-3, Rule 13d-5 and any successor rules) promulgated by the Securities and Exchange Commission thereunder;

provided that a person shall be deemed to have beneficial ownership of all securities that any such person has a right to acquire whether such right is exercisable immediately or only after the passage of time and without regard to the 60-day limitation referred to in Rule 13d-3 and, provided further, that a beneficial owner of Convertible Preferred Stock shall not be deemed to beneficially own the Common Stock into which such Convertible Preferred Stock is convertible solely by reason of ownership of the Convertible Preferred Stock. An "Affiliate" of a specified person is a person that directly or indirectly controls, or is controlled by or is under common control with, the person specified. AN "Associate" of a person means (i) any corporation or organization, other than the Corporation or any subsidiary of the Corporation, of which the person is an officer or partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities; (ii) any trust or estate in which the person has a substantial beneficial interest or as to which the person serves as

trustee or in a similar fiduciary capacity; and (iii) any relative or spouse of the person or any relative of the spouse, who has the same home as the person or who is a director or officer of the person or any of its parents or subsidiaries.

(ii) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and as in effect on the date hereof.

(iii) A "Fundamental Change" with respect to the Corporation means (A) the occurrence of any transaction or event in connection with which all or substantially all of the Common Stock of the Corporation shall be exchanged for, converted into, acquired for or constitute solely the right to receive cash, securities, property or other assets (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) or (B) the conveyance, sale, lease, assignment, transfer or other disposal of all or substantially all for the Corporation's property, business or assets; provided, however, that a Fundamental Change shall not be deemed to have occurred with respect to either of the following transactions or events: (1) any transaction or event in which more than 50% (by value as determined in good faith by the Board of Directors) of the consideration received by holders of Common Stock consists of Marketable Stock (as defined below); or (2) any consolidation or merger of the Corporation in which the holders of Common Stock of the Corporation immediately prior to such transaction own, directly or indirectly, (x) 50% or more of the common stock of the surviving corporation (or of the ultimate parent of such surviving corporation) outstanding at the time immediately after such consolidation or merger and (y) securities representing 50% or more of the combined voting power of the surviving corporation's Voting Stock (or for the Voting Stock of the ultimate parent of such surviving corporation) outstanding at such time. The phrase "all or substantially

all" as used in this definition in reference to the Common Stock shall mean 66% or more of the aggregate outstanding Common Stock.

(iv) "Voting Stock" means, with respect to any person, capital stock of such person having general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such person (irrespective of whether or not at the time capital stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

(v) The "Market Value" of the Common Stock or any other Marketable Stock shall be the average of the last reported sales prices of the Common Stock or such other Marketable Stock, as the case may be, for the five business days ending on the last business day preceding the date of the Change of Control or Fundamental Change; provided, however, that if the Marketable Stock is not traded on any national securities exchange or similar quotation system as described in the definition of "Marketable Stock" during such period, then the Market Value of such Marketable Stock shall be the average of the last reported sales' prices per share of such Marketable Stock during the first five business days commencing with the first day after the date on which such Marketable Stock was first distributed to the general public and traded on the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market or any similar system of automated dissemination of quotations of securities prices in the United States.

(vi) "Marketable Stock" shall mean Common Stock or common stock of any corporation that is the successor (or of the ultimate parent of such successor) to all or substantially all of the business or assets of the Corporation as a result of a Fundamental Change, which is (or will, upon distribution thereof, be) listed or quoted on the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market or any similar system of automated dissemination of quotations of securities prices in the United States.

SECTION 5. GENERAL CLASS AND SERIES VOTING RIGHTS. Except as provided in this Section 5 and in Section 6 hereof or as specifically required by the laws of the State of Delaware or by the provisions of the Certificate of Incorporation of the Corporation, as amended, the Convertible Preferred Stock

shall have no voting rights. The shares of Convertible Preferred Stock shall have the following voting rights:

(a) So long as any shares of Convertible Preferred Stock remain outstanding, the vote or consent of the holders of at least two-thirds of the shares of Convertible Preferred Stock outstanding at the time (voting separately as a class) given in person or by

proxy, either in writing or at any special or annual meeting called for the purpose, shall be necessary to permit, effect or validate any one or more of the following:

(i) The authorization, creation or issuance, or any increase in the authorized or issued amount, of any class or series of stock (including any class or series of preferred stock) ranking prior (as that term is hereinafter defined in this Section 5) to the Convertible Preferred Stock; or

(ii) The amendment, alteration or repeal, whether by merger, consolidation or otherwise, of any of the provisions of the Certificate of Incorporation or of these resolutions which would alter, change or repeal the powers, preferences, or special rights of the shares of the Convertible Preferred Stock so as to affect them adversely.

(b) The foregoing voting provisions shall not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Convertible Preferred Stock shall have been redeemed or sufficient funds and/or shares of Common Stock shall have been deposited in trust to effect such redemption.

(c) For purposes of this resolution, any class or series of stock of the Corporation shall be deemed to rank:

(i) prior to the Convertible Preferred Stock as to dividends or as to distribution of assets upon liquidation, dissolution or winding up, if the holders of such class or series shall be entitled to the receipt of dividends or amounts distributable upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of Convertible Preferred Stock;

(ii) on a parity with the Convertible Preferred Stock as to dividends or as to distribution of assets upon liquidation, dissolution or winding up, whether or not the dividend rates, dividend payment dates, or redemption or liquidation prices per share thereof shall be different from those of the Convertible Preferred Stock, if the holders of such class or series of stock and the Convertible Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in proportion to their respective dividend rates or liquidation prices, without preference or priority one over the other; and

(iii) junior to the Convertible Preferred Stock as to dividends or as to distribution of assets upon liquidation, dissolution or winding up, if such class or series shall be Common Stock or if the holders of the Convertible Preferred

Stock shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of shares of such class or series.

(d) The holders of Convertible Preferred Stock shall also be entitled to vote on certain amendments or supplements to the Indenture establishing the 8.5% Convertible Subordinated Debentures due 2010, of the Corporation, for which the Convertible Preferred Stock may be exchanged as

described in Section 9 hereof and as provided in Article Nine of such Indenture.

SECTION 6. DEFAULT VOTING RIGHTS.

(a) ELECTION OF DIRECTORS. Whenever, at any time or times, dividends payable on the shares of Convertible Preferred Stock shall be in arrears in an amount equal to at least six quarterly dividends (whether or not consecutive), the holders of the outstanding shares of Convertible Preferred Stock shall have the exclusive right (voting separately as a class) to elect two directors of the Corporation.

(b) VOTE PER SHARE. At elections for such directors, each holder of Convertible Preferred Stock shall be entitled to one vote for each share of Convertible Preferred Stock held. Upon the vesting of such right with the holders of Convertible Preferred Stock, the maximum authorized number of members of the Board of Directors shall automatically be increased by two, which shall be of the class or classes selected by the Corporation's Board of Directors which has the least number of director positions then currently filled, and the two vacancies so created shall be filled by vote of the holders of the outstanding shares of Convertible Preferred Stock as hereinafter set forth. The right of the holders of Convertible Preferred Stock, voting separately as a class to elect members of the Board of Directors of the Corporation shall continue until such time as all dividends accrued and unpaid on the Convertible Preferred Stock shall have been paid or declared and funds set aside to provide for payment in full, at which time such right shall terminate, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned.

(c) MEETINGS. Whenever the voting right described in subsection (a) above shall have vested in the holders of the Convertible Preferred Stock, the right may be exercised initially either at a special meeting of the holders of the Convertible Preferred Stock called as hereinafter provided, or at any annual meeting of stockholders held for the purpose of electing directors, and thereafter at each successive annual meeting.

(d) CALL OF MEETING. At any time when the voting right described in subsection (a) above shall have vested in the holders of the Convertible Preferred Stock, and if the right shall not already have been initially exercised, a proper officer of the Corporation

shall, upon the written request of the holders of record of 10% in number of the shares of the Convertible Preferred Stock then outstanding, addressed to the Secretary of the Corporation, call a special meeting of the holders of the Convertible Preferred Stock for the purpose of electing directors. Such meeting shall be held at the earliest practicable date upon the notice required for annual meetings of stockholders at the place for holding of annual meetings of stockholders of the Corporation, or, if none, at a place designated by the Secretary of the Corporation. If the meeting shall not be called by the proper officers of the Corporation within 30 days after the personal service of such written request upon the Secretary of the Corporation, or within 30 days after mailing it within the United States of America, by registered mail, addressed to the Secretary of the Corporation at its principal office (such mailing to be evidenced by the registry receipt issued by the postal authorities), then the holders of record of 10% in number of the shares of the Convertible Preferred Stock then outstanding may designate in writing one of their members to call such meeting at the expense of the Corporation, and such meeting may be called by such person so designated upon the notice required for annual meetings of stockholders and shall be held at the same place as is elsewhere provided for in this subsection (d). Any holder of the Convertible Preferred Stock shall have access to the share transfer books of the Corporation as permitted under the Delaware General Corporation Law for the purpose of causing a meeting of the stockholders to be called pursuant to the provisions of this subsection (d). Notwithstanding the provisions of this subsection (d), however, no such special meeting shall be held during a period within 60 days immediately preceding the date fixed for the next annual meeting of stockholders.

(e) QUORUM. At any meeting held for the purpose of electing directors at which the holders of the Convertible Preferred Stock shall have the right to elect directors as provided herein, the presence in person or by proxy of the holders of 50% of the then outstanding shares of the Convertible

Preferred Stock shall be required and be sufficient to constitute a quorum of the holders of the Convertible Preferred Stock for the election of directors. At any such meeting or adjournment thereof (i) the absence of a quorum of the holders of the Convertible Preferred Stock shall not prevent the election of directors other than those to be elected by the holders of the Convertible Preferred Stock and the absence of a quorum or quorums of the holders of other classes or series of capital stock entitled to elect such other directors shall not prevent the election of directors to be elected by the holders of the Convertible Preferred Stock and (ii) in the absence of a quorum of the holders of the Convertible Preferred Stock, a majority of the holders present in person or by proxy of the Convertible Preferred Stock shall have the power to adjourn the meeting, or appropriate portion thereof for the election of directors which the holders of the Convertible Preferred Stock are entitled to elect, from time to time, without notice other than announcement at the meeting, until a quorum shall be present. The Chairman of the Board or the President of the Corporation shall preside at any such meeting.

(f) TERM. Each director elected by the holders of shares of Convertible Preferred Stock shall continue to serve as a director until such time as all dividends accrued and unpaid on the Convertible Preferred shall have been paid or declared and funds set aside to provide for payments in full, at which time the term of office of all persons elected as directors by the holders of shares of Convertible Preferred Stock shall forthwith terminate and the number of members of the Board of Directors of the Corporation shall be reduced accordingly. Whenever the term of office of the directors elected by the holders of Convertible Preferred Stock voting as a class shall end and the special voting powers vested in the holders of Convertible Preferred Stock as provided in this Section 6 shall have expired, the number of directors shall be such number as may be provided for in the By-Laws irrespective of any increase made pursuant to the provisions of this Section 6.

SECTION 7. OPTIONAL REDEMPTION.

(a) REDEMPTION PRICE. The Corporation may at its option, at any time during the twelve-month periods beginning on or after December 31, 1998, in the years indicated below, redeem all, or any numbers less than all, of the outstanding shares of Convertible Preferred Stock, provided that the Convertible Preferred Stock may not be redeemed, in whole or in part, prior to December 31, 1998. All redemption of shares of Convertible Preferred Stock shall be effected at the applicable redemption prices set forth below:

<TABLE>
<CAPTION>

If Redemption Date During the Twelve-Month Period Beginning	Redemption Price Per Share
<S>	<C>
1998	$ 26.488
1999	26.275
2000	26.063
2001	25.850
2002	25.638
2003	25.425
2004	25.213
2005 and thereafter	25.000

</TABLE>

plus, in each case, an amount equal to all dividends (whether or not declared) accrued and unpaid on such share of Convertible Preferred Stock to the date fixed for redemption (the price from time to time to redeem the Convertible Preferred Stock excluding any dividends (whether or not declared) accrued and unpaid, is referred to herein as the "Redemption Price").

(b) ACCRUED DIVIDENDS. The Corporation may not purchase, redeem or otherwise acquire for value any shares of Convertible Preferred Stock or shares of any other series of preferred stock then outstanding ranking on a parity with or junior to the Convertible Preferred Stock unless all accrued dividends on all

shares of Convertible Preferred Stock then outstanding shall have been paid or declared and a sum sufficient for the payment thereof set apart. No sinking find shall be established for the Convertible Preferred Stock.

(c) NOTICE OF REDEMPTION. Notice of any proposed redemption of shares of Convertible Preferred Stock shall be mailed to each record holder of the shares of Convertible Preferred Stock to be redeemed at least 30 but not more than 60 days prior to the date fixed for such redemption (herein referred to as the "Redemption Date"). Each such notice shall set forth the following:

(i) the Redemption Date;

(ii) the Redemption Price per share;

(iii) the place for payment and for delivering the stock certificate(s) and transfer instrument(s) in order to receive the Redemption Price;

(iv) the shares of Convertible Preferred Stock to be redeemed;

(v) the then effective Conversion Price;

(vi) the price of the Common Stock on the last trading day prior to the date of the notice: and

(vii) that the right of holders of shares of Convertible Preferred Stock being redeemed to exercise their conversion right shall terminate as to such shares at the close of business on fifth business day prior to the date fixed for redemption (provided that no default by the Corporation in the payment of the applicable Redemption Price (including any accrued and unpaid dividends) shall have occurred and be continuing).

Any notice mailed in such manner shall be conclusively deemed to have been duly given regardless of whether such notice is in fact received. If less than all the outstanding shares of Convertible Preferred Stock are to be redeemed, the Corporation will select those to be redeemed ratably or by lot in a manner determined by the Board of Directors. In order to facilitate the redemption of the Convertible Preferred Stock, the Board of Directors may fix a record date for determination of holders of Convertible Preferred Stock to be redeemed, which shall not be more than 30 days prior to the Redemption Date with respect thereto.

The holder of any shares of Convertible Preferred Stock redeemed pursuant to this Section 7 upon any exercise of the Corporation's redemption right shall not be entitled to receive payment of the Redemption Price for such shares until such bolder shall cause to be delivered to the place specified in the notice given with respect to such redemption (i) the certificate(s) representing such share of Convertible Preferred Stock and (ii) transfer instrument(s) sufficient to transfer such shares of Convertible Preferred Stock to the Corporation free of any adverse interest. No interest shall accrue on the Redemption Price of any share of Convertible Preferred Stock after the Redemption Date.

At the close of business on the Redemption Date for any share of Convertible Preferred Stock, such share shall (provided the Redemption Price (including any accrued and unpaid dividends to the Redemption Date) of such shares has been paid or properly provided for) be deemed to cease to be outstanding and all rights of any person other than the Corporation in such share shall be extinguished on the Redemption Date for such share (including all rights to receive future dividends with respect to such share) except for the right to receive the Redemption Price (including any accrued and unpaid dividends to the Redemption Date), without interest for such share in accordance with the provisions of this Section 7, subject to applicable escheat laws.

In the event that any shares of Convertible Preferred Stock shall be converted into Common Stock prior to the Redemption Date pursuant to Section 3 or 4, then (i) the Corporation shall not have the right to redeem such shares and (ii) any funds, securities or other property which shall have been deposited for the payment of the Redemption Price for such shares shall be returned to the

Corporation immediately after such conversion (subject to declared dividends payable to holders of shares of Convertible Preferred Stock on the record date for such dividends being so payable, to the extent set forth in Section 3 hereof, regardless of whether such shares are converted subsequent to such record date and prior to the related Dividend Payment Date) and any shares of Common Stock reserved for issuance upon redemption of such converted shares need no longer be so reserved.

Notwithstanding the foregoing provisions of this Section 7, and subject to the provisions of Section 2 hereof, if a dividend upon any shares of Convertible Preferred Stock is past due, (i) no share of the Convertible Preferred Stock may be redeemed, except by

means of a redemption pursuant to which all outstanding shares of the Convertible Preferred Stock are simultaneously redeemed and all accrued dividends paid and (ii) the Corporation shall not purchase or otherwise acquire any shares of the Convertible Preferred Stock, except pursuant to a purchase or exchange offer made on the same terms to all holders of the Convertible Preferred Stock.

SECTION 8. RANK; LIQUIDATION. Upon any voluntary or involuntary dissolution, liquidation or winding up of the Corporation (for the purposes of this Section 8, a "Liquidation"), the holders of Convertible Preferred Stock shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, an amount equal to $25.00 per share of Convertible Preferred Stock then held by such stockholder plus all dividends (whether or not declared or due) accrued and unpaid on such share on the date fixed for the distribution of assets of the Corporation to the holders of Convertible Preferred Stock. The shares of Convertible Preferred Stock shall rank prior to the shares of Common Stock and any other class or series of stock of the Corporation ranking junior to the Convertible Preferred Stock, so that the holders of the Convertible Preferred Stock shall receive the full amount to which they shall be entitled before any distribution of assets shall be made to the holders of the Common Stock or the holders of any other stock that ranks junior to the Convertible Preferred Stock in respect of distributions upon the Liquidation of the Corporation.

If upon any Liquidation of the Corporation, the assets available for distribution to the holders of Convertible Preferred Stock and any other stock of the Corporation ranking on a parity with the Convertible Preferred Stock upon Liquidation which shall then be outstanding (hereinafter in this paragraph called the "Total Amount Available") shall be insufficient to pay the holders of all outstanding shares of Convertible Preferred Stock and all other such parity stock the full amounts (including all dividends accrued and unpaid) to which they shall be entitled by reason of such Liquidation of the Corporation, then there shall be paid to the holders of the Convertible Preferred Stock in connection with such Liquidation of the Corporation, an amount equal to the product derived by multiplying the Total Amount Available times a fraction, the numerator of which shall be the full amount to which the holders of the Convertible Preferred Stock shall be entitled under the terms of the preceding paragraph by reason of such Liquidation of the Corporation and the denominator of which shall be the total amount which would have been distributed by reason of such Liquidation of the Corporation with respect to the Convertible Preferred Stock and all other stock ranking on a parity with the Convertible Preferred Stock upon Liquidation then outstanding had the Corporation possessed sufficient assets to pay the maximum amount which the holders of all such stock would be entitled to receive in connection with such Liquidation of the Corporation.

The voluntary sale, conveyance, lease, exchange or transfer of all or substantially all of the property or assets of the Corporation, or the merger or consolidation of the

Corporation into or with any other corporation, or the merger of any other corporation into the Corporation, or any purchase or redemption of some or all of the shares of any class or series of stock of the Corporation, shall not be deemed to be a Liquidation of the Corporation of the purposes of this Section 8 (unless in connection therewith the Liquidation of the Corporation is

specifically approved).

The holder of any shares of Convertible Preferred Stock shall not be entitled to receive any payment owed for such shares under this Section 8 until such holder shall cause to be delivered to the Corporation (i) the certificate(s) representing such shares of Convertible Preferred Stock and (ii) transfer instrument(s) satisfactory to the Corporation and sufficient to transfer such shares of Convertible Preferred Stock to the Corporation free of any adverse interest. No interest shall accrue on any payment upon Liquidation after the due date thereof.

After payment of the full amount of the liquidating distribution to which they are entitled, the holders of shares of the Convertible Preferred Stock will not be entitled to any further participation in any distribution of assets by the Corporation.

SECTION 9. EXCHANGE.

(a) EXCHANGE FOR DEBENTURES. The shares of Convertible Preferred Stock may be exchanged, in whole but not in part, at the option of the Corporation, for its 8.5% Convertible Subordinated Debentures due 2010 (the "Debentures") on any Dividend Payment Date commencing on January 15,1998. The Debentures are to be issued under an Indenture (the "Indenture") between the Corporation and Bank One, Columbus, N.A., as trustee (together with any successor trustee, the "Trustee"), substantially in the form filed as an exhibit to the Corporation's Registration Statement on Form S-1 (Registration No. 33-96700) as filed with the Securities and Exchange Commission, completed as set forth therein and with such changes as may be required by law or usage. Holders of the outstanding shares of Convertible Preferred Stock will be entitled to receive $25.00 principal amount of the Debentures in exchange for each share of Convertible Preferred Stock held by them at the time of exchange, provided that such exchange may not occur unless all accrued and unpaid dividends on the Convertible Preferred Stock through the Dividend Payment Date established as the exchange date have been paid or set aside for payment. Any such exchange shall be effected in the same manner and, upon the same notice, as a redemption of the Convertible Preferred Stock pursuant to Section 7, as aforesaid. Upon any such exchange, the shares of Convertible Preferred Stock shall (provided such exchange is duly and properly effected) be deemed to cease to be outstanding as of the close of business on the date established for such exchange, and all rights of any holder thereof shall be extinguished except the right to receive Debentures in exchange therefore and the right to receive accrued and unpaid dividends on such shares of Convertible Preferred Stock to the date established for such exchange. As in the case of a redemption of shares of

Convertible Preferred Stock pursuant to Section 7, holders of shares of Convertible Preferred Stock must surrender such shares a order to receive the Debentures for which such shares have been exchanged, but upon such surrender such holders will be entitled to receive all interest accrued and unpaid on such Debentures from the date of exchange at the time and in the manner that such interest would be paid in the ordinary course pursuant to the Indenture pursuant to which such Debentures shall be issued. Dividends due on the shares of Convertible Preferred Stock on the Dividend Payment Date on which the exchange is effected will be mailed to holders in the regular course.

(b) DELIVERY OF DOCUMENTS. No exchange of the Convertible Preferred Stock for Debentures may be effected unless prior to such exchange the Corporation causes to be delivered to the Trustee the documents specified in Section 303 the Indenture.

SECTION 10. PAYMENTS. The Corporation may provide funds for any payment of the Redemption Price for any shares of Convertible Preferred Stock or any amount distributable with respect to any Convertible Preferred Stock under Sections 7 and 8 hereof by depositing such funds with a bank or trust company selected by the Corporation having a net worth of at least $50,000,000, in trust for the benefit of the holders of such shares of Convertible Preferred Stock under arrangements providing irrevocably for payment upon satisfaction of any conditions to such payments by the holders of such shares of Convertible Preferred Stock which shall reasonably be required by the Corporation. The Corporation shall be entitled to make any deposit of funds contemplated by this Section 10 under arrangements designed to permit such funds to generate interest

or other income for the Corporation, and the Corporation shall be entitled to receive all interest and other income earned by any funds while they shall be deposited as contemplated by this Section 10, provided that the Corporation shall maintain on deposit funds sufficient to satisfy all payments which the deposit arrangement shall require to be paid by the Corporation.

Any payment which may be owed for the payment of the Redemption Price for any shares of Convertible Preferred Stock pursuant to Section 7 or the payment of any amount distributable with respect to any shares of Convertible Preferred Stock under Section 8 shall be deemed to have been "paid or properly provided for" upon the earlier to occur of: (i) the date upon which such funds sufficient to make such payment shall be deposited in a manner contemplated by the preceding paragraph or (ii) the date upon which a check payable to the person entitled to receive such payment shall be delivered to such person or mailed to such person at either the address of such person then appearing on the books of the Corporation or such other address as the Corporation shall deem reasonable. The Corporation may deposit Debentures or shares of Common Stock to be exchanged for shares of Convertible Preferred Stock in the manner contemplated by the preceding paragraph, but, with respect to Debentures, the interest accruing on such Debentures shall accrue to the former holders of the Convertible Preferred Stock entitled thereto.

Subject to applicable escheat laws, if the conditions precedent to the disbursement of any funds deposited by the Corporation pursuant to this Section 10 shall not have been satisfied within six months after the establishment of the trust for such funds, then (i) such funds shall be returned to the Corporation upon its request; (ii) after such return, such funds shall be free of any trust which shall have been impressed upon them; (iii) the person entitled to this payment for which such funds shall have been originally intended shall have the right to look only to the Corporation for such payment, subject to applicable escheat laws; and (iv) the trustee which shall have held such funds shall be relieved of any responsibility for such funds upon the return of such funds to the Corporation.

SECTION 11. STATUS OF REACQUIRED SHARES. Shares of Convertible Preferred Stock issued and reacquired by the Corporation (including, without limitation, shares of Convertible Preferred Stock which have been redeemed pursuant to the terms of Section 7 hereof; shares of Convertible Preferred Stock which have been converted into shares of Common Stock and shares of Convertible Preferred Stock which have been exchanged for Debentures) shall have the status of authorized and unissued shares of preferred stock, undesignated as to series, subject to later issuance.

SECTION 12. PREEMPTIVE RIGHTS. The Convertible Preferred Stock is not entitled to any preemptive or subscription rights in respect of any securities of the Corporation.

SECTION 13. MISCELLANEOUS.

(a) TRANSFER TAXES. The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance and delivery of shares of Convertible Preferred Stock or shares of Common Stock or other securities issued on account of Convertible Preferred Stock pursuant hereto or certificates or instruments evidencing such shares or securities. The Corporation shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Convertible Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Convertible Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person with respect to any such shares or securities other than a payment to the registered holder thereof; and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

(b) FAILURE TO DESIGNATE STOCKHOLDER OR PAYEE. In the event that a holder of shares of Convertible Preferred Stock shall not by written notice designate the name in

which shares of Common Stock to be issued upon conversion or redemption of such shares, or Debentures to be issued upon exchange of such shares, should be registered or to whom payment upon redemption of shares of Convertible Preferred Stock should be made or the address to which the certificates or instruments evidencing such shares, Debentures or such payment should be sent, the Corporation shall be entitled to register such shares or Debentures and make such payment in the name of the holder of such Convertible Preferred Stock as shown on the records of the Corporation and to send the certificates or instruments evidencing such shares or such payment to the address of such holder shown on the records of the Corporation.

(c) REGISTRAR AND TRANSFER AGENT. The Corporation may appoint, and from time to time discharge and change, a transfer agent for the Convertible Preferred Stock.

(d) SEVERABILITY. Whenever possible, each provision hereof shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision hereof is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating or otherwise adversely affecting the remaining provisions hereof. If a court of competent jurisdiction should determine that a provision hereof would be valid or enforceable if a period of time were extended or shortened or a particular percentage were increased or decreased, then such court may make such change as shall be necessary to render the provision in question effective and valid under applicable law.

IN WITNESS WHEREOF, this Statement of Designation establishing a series of shares has been made under the hand of the undersigned, the President of the Corporation, this 22nd day of November, 1995.

CALLON PETROLEUM COMPANY

By /s/ Fred L. Callon

Fred L. Callon, President

Attest

By /s/ H. Michael Tatum, Jr.

H. Michael Tatum, Jr.
Secretary

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 04:30 PM 11/27/1995
950274310 - 2390003

CERTIFICATE OF CORRECTION

CALLON PETROLEUM COMPANY

Callon Petroleum Company, a corporation organized and existing under and by virtue of The General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY:

1. That the Corporation filed a Certificate of Designations (the "Original Certificate") with the Delaware Secretary of State on November 22, 1995, setting forth the resolutions, establishing and designating a series of shares and fixing and determining the designations, preferences, limitations and relative rights thereof, for the Corporation's $2.125 Convertible Exchangeable Preferred Stock, Series A (the "Convertible Preferred Stock"); and

2. That the Original Certificate contained certain inaccuracies in Section 3 (a), Section 3(c)(vi), Section 6(f), the third paragraph of Section

8 and the third paragraph of Section 10 that the Corporation desires to correct with this Certificate of Correction pursuant to Section 103(f) of The General Corporation Law of the State of Delaware; and

3. That, as corrected, Section 3(a) of the Original Certificate shall be and read as follows:

(a) RIGHT OF CONVERSION. Each share of Convertible Preferred Stock shall be convertible at the option of the holder thereof at any time prior to the close of business on the day prior to the date fixed for redemption of such share as herein provided, into fully paid and nonassessable shares of Common Stock, at a rate per full share of Convertible Preferred Stock determined by dividing $25.00 by the conversion price per share of Common Stock in effect on the date such share is surrendered for conversion, or into such additional or other securities, cash or property and at such other rates as required in accordance with the provisions of this Section 3. For purposes of this resolution, the "conversion price" per share of Common Stock shall initially be $11.00 and shall be adjusted from tine to time in accordance with the provisions of this Section 3. Each share of Convertible Preferred Stock may be converted in whole or in part.

4. That, as corrected, Section 3(c)(vi) of the Original Certificate shall be and read as follows:

(vi) For the purpose of any computation under paragraph (ii), (iii), (iv) or (v) of this Section 3(c), the current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for the five consecutive trading days ending with and including the date in question; provided, however, that (A) if the "ex" date (as hereinafter

defined) for any event (other than the issuance or distribution requiring such computation) that requires an adjustment to the conversion price pursuant to paragraph (i), (ii), (iii), (iv) or (v) above ("Other Event") occurs after the third trading day prior to the date in question and prior to the "ex" date for the issuance or distribution requiring such computation (the "Current Event"), the closing price for each trading day prior to the "ex" date for such Other Event shall be adjusted by multiplying such closing price by the same fraction by which the conversion price is so required to be adjusted as a result of such Other Event, (B) if the "ex" date for any Other Event occurs after the "ex" date for the Current Event and on or prior to the date in question, the closing price for each trading day on and after the "ex" date for such Other Event shall be adjusted by multiplying such closing price by the reciprocal of the fraction by which the conversion price is so required to be adjusted as a result of such Other Event, (C) if the "ex" date for any Other Event occurs on the "ex" date for the Current Event, one of those events shall be deemed for purposes of clauses (A) and (B) of this proviso to have an "ex" date occurring prior to the "ex" date for the other event, and (D) if the "ex" date for the Current Event is on or prior to the date in question, after taking into account any adjustment required pursuant to clause (B) of this proviso, the closing price for each trading day on or after such "ex" date shall be adjusted by adding thereto the amount of any cash and the fair market value on the date in question (as determined in good faith by the Board of Directors in a manner consistent with any determination of such value for purposes of paragraph (iv) or (v) of this Section 3(c), whose determination shall be conclusive and described in a resolution of the Board of Directors) of the portion of the rights, warrants, evidences of indebtedness, shares of capital stock or assets being distributed applicable to one share of Common Stock. For purposes of this paragraph, the term "ex" date, (1) when used with respect to any issuance or distribution, means the first date on which the Common Stock trades regular way on the relevant exchange or in the relevant market from which the closing price was obtained without the right to receive such issuance or distribution and (2) when used with respect to any subdivision or combination of shares of Common Stock, means the first date on which the Common Stock trades regular way on such exchange or in such market after the time at which such subdivision or combination becomes effective.

5. That, as corrected, Section 6(f) of the Original Certificate shall be and read as follows:

(f) TERM. Each director elected by the holders of shares of Convertible Preferred Stock shall continue to serve as a director until such time as (i) his successor shall have been duly elected and shall qualify or (ii)

all dividends accrued and unpaid on the Convertible Preferred Stock shall have been paid or declared and funds set aside to provide for payment in full, at which time the term of office of all persons elected as directors by the holders of shares of Convertible Preferred Stock shall forthwith terminate and the number of members of the Board of Directors of the Corporation shall be reduced accordingly. Whenever the term of office of the directors elected by the holders of Convertible Preferred Stock voting as a class shall end and the special voting powers vested in the holders of Convertible Preferred Stock as provided in this Section 6 shall have expired, the number of directors shall be such number as may be provided for in the By-Laws irrespective of any increase made pursuant to the provisions of this Section 6.

6. That, as corrected, the third paragraph of Section 8 of the Original Certificate shall be and read as follows:

The voluntary sale, conveyance, lease, exchange or transfer of all or substantially all of the property or assets of the Corporation, or the merger or consolidation of the Corporation into or with any other corporation, or the merger of any other corporation into the Corporation, or any purchase or redemption of some or all of the shares of any class or series of stock of the Corporation, shall not be deemed to be a Liquidation of the Corporation for purposes of this Section 8 (unless in connection therewith the Liquidation of the Corporation is specifically approved).

7. That, as corrected, the third paragraph of Section 10 of the Original Certificate shall be and read as follows:

Subject to applicable escheat laws, if the conditions precedent to the disbursement of any funds deposited by the Corporation pursuant to this Section 10 shall not have been satisfied within six months after the later of (a) the redemption payment date and (b) the establishment of the trust for such funds, then (i) such funds shall be returned to the Corporation upon its request; (ii) after such return, such funds shall be free of any trust which shall have been impressed upon them; (iii) the person entitled to this payment for which such funds shall have been originally intended shall have the right to look only to the Corporation for such payment, subject to applicable escheat laws; and (iv) the trustee which shall have held such funds shall be relieved of any responsibility for such funds upon the return of such funds to the Corporation.

IN WITNESS WHEREOF, this Statement of Correction has been made under the hand of the undersigned, the President of the Corporation, this 27th day of November, 1995.

CALLON PETROLEUM COMPANY

By /s/ Fred L. Callon

Fred L. Callon, President

Attest

By /s/ H. Michael Tatum, Jr.

H. Michael Tatum, Jr.
Secretary

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 01:00 PM 04/07/2000
001178331 - 2390003

CERTIFICATE OF
DESIGNATION, PREFERENCES AND RIGHTS OF
SERIES B PREFERRED STOCK

OF

CALLON PETROLEUM COMPANY

Pursuant to Section 151 of the General Corporation Law of the State of Delaware

We, Fred L. Callon, President, and Robert A. Mayfield, Secretary, of Callon Petroleum Company (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware (UK "GCL"), in accordance with the provisions of Section 103 of the GCL, DO HEREBY CERTIFY;

That pursuant to the authority conferred upon the Board of Directors (the "Board") by the Certificate of Incorporation of the Corporation, as amended, the said Board on March 30, 2000, adopted the following resolutions creating a series of one hundred thousand shares of Preferred Stock, par value $0.01 per share, designated as Series B Preferred Stock:

RESOLVED, that, pursuant to the authority vested in the Board In accordance with the provisions of its Certificate of Incorporation, as amended, the Board does hereby create, authorize and provide for the issuance upon the exercise of the Corporation's Preferred Stock Purchase Rights, of a series of Preferred Stock of the Corporation, and does hereby fix and state that the designations, amounts, powers, preferences and relative and other special rights and the qualifications, limitations or restrictions thereof are as follows:

SERIES B PREFERRED STOCK

SECTION 1. DESIGNATION AND AMOUNT. The shares of such series shall be designated as Series B Preferred Stock and the number of shares constituting such series shall be 100,000.

SECTION 2. DIVIDENDS AND DISTRIBUTIONS.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series B Preferred Stock with respect to dividends, the holders of shares of Series B Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for that purpose, quarterly dividends payable to cash on the 1st day of July, October, January, April, in each year commencing July 1, 2000 (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series B Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $0.01 or (b) subject to the provision for adjustment hereinafter set forth, one thousand (1,000) times the aggregate per share amount of all cash dividends, and one thousand (1,000) times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of the common stock of the Corporation, par value $0.01 per share ("the Common Stock"), or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise),

declared on the Common Stock, since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series B Preferred Stock. In the event the Corporation shall at any time after March 30, 2000 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock,

or (iii) combine the outstanding Common Stock into a smaller number of shares, than in each such case the amount to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series B Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $0.01 per share on the Series B Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series B Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series B Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series B Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series B Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series B Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than thirty (30) days prior to the date fixed for the payment thereof.

SECTION 3. VOTING RIGHTS. The holders of shares of Series B Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, share of Series B Preferred Stock shall entitle the holder thereof to one thousand (1,000) votes on all matters submitted to a vote of the stockholder of the Corporation. In the event the Corporation Shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding

immediately after such event and the denominator of which is the number of sham of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series B Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation. Except as otherwise provided herein or by law, the holders of the shares of Series B Preferred Stock shall not be entitled to vote as a separate class on any matters submitted to a vote of the stockholders.

(C) (i) If at any time dividends on any Series B Preferred Stock shall be in arrears in an amount equal to six (6) quarterly dividends thereon, the holders of the Series B Preferred Stock, voting at a separate series from all other series of Preferred Stock and classes of capital stock, shall be entitled to elect two members of the Board of Directors in addition to any directors elected by any other series, class or classes of securities, and the authorized number of directors will automatically be

increased by two. Promptly thereafter, the Board of Directors of this Corporation shall, as soon as may be practicable, call a special meeting of holders of Series B Preferred Stock for the purpose of electing such members of the Board of Directors. Said special meeting shall in any event be held within 45 days of the occurrence of such arrearage.

(ii) During any period when the holders of Series B Preferred Stock, voting as a separate series, shall be entitled and shall have exercised their right to elect two directors, then and during such time as such right continues (a) the then authorized number of directors shall be increased by two, and the holders of Series B Preferred Stock, voting as a separate series, shall be entitled to elect the additional directors so provided for, and (b) each such additional director shall not be a member of any existing class of the Board of Directors, but shall serve until the next annual meeting of stockholders for the election directors, or until his successor shall be elected and shall qualify, or until his right to hold such office terminates pursuant to the provisions of this Section 3(C).

(iii) A director elected pursuant to the terms hereof may be removed with or without cause by the holders of Series B Preferred Stock entitled to vote in an election of such Director.

(iv) If during any interval between annual meetings of stockholders for the election of directors and while the holders of Series B Preferred Stock shall be entitled to elect two directors, there is no such director in office by reason of resignation, death or removal, then, promptly thereafter, the Board of Directors shall call a special meeting of the holders of Series B Preferred Stock for the purpose of filling such vacancy and such vacancy shall be filled at such special meeting. Such special meeting shall in any event be held within 90 days of the occurrence of such vacancy, unless an annual meeting of stockholders is scheduled during such 90-day period.

(v) At such time as the arrearage is My cured, and all dividends accumulated and unpaid on any shares of Series B Preferred Stock outstanding are paid, and, in addition thereto, at least one regular dividend has been paid subsequent to curing such arrearage, the term of office of any directors elected pursuant to this Section 3(C), or his successor, shall automatically terminates, and the authorized number of directors shall automatically decrease by two, the rights of the holders of the shares of the Series B Preferred Stock to vote as provided in

this Section 3(C) shall cease, subject to renewal from time to time upon the same terms and conditions, and the holders of shares of the Series B Preferred Stock shall have only the limited voting rights elsewhere herein set forth.

(D) Except as set forth herein, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

SECTION 4. CERTAIN RESTRICTIONS.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series B Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series B Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of (stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to, the Series B Preferred Stock:

(ii) declare or pay dividends on, or make any other distributions on, any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock, except dividends paid ratably on the Series B Preferred Stock and all such junior stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for

consideration shares of any stock ranking on a parity (either is to dividends or upon liquidation, dissolution or winding up) with the Series B Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series B Preferred Stock; or

(iv) purchase not otherwise acquire for consideration any shares of Series B Preferred Stock, or any shares of stock ranking on a parity with the Series B Preferred Stock, except in accordance with purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

SECTION 5. REACQUIRED SHARES. Any shares of Series B Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

SECTION 6. LIQUIDATION, DISSOLUTION OR WINDING UP.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranting junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock unless, prior thereto, the holders of shares of Series B Preferred Stock shall have received $180 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series B Liquidation Preference"), plus the Series B Pro Rata Liquidation Preference, as defined below. The "Series B Pro Rata Liquidation Preference" means the ratable and proportionate share of to assets to be distributed to the holders of Series B Preferred Stock after subtracting (i) the amount of the Series B Liquidation Preference to be distributed to the holders of shares of Series B Preferred Stock as provided in the previous sentence and (ii) the amount of the Common Adjustment to be distributed to the holders of shares of Common Stock, as provided in the next sentence, in the ratio of the Adjustment Number (as defined below) to one (1) with respect to all outstanding shares of Preferred Stock and Common Stock, on a per share basis, respectively. Following the payment of the full amount of me Series B Liquidation Preference and the Series B Pro Rata Liquidation Preference, the holders of shares of Common Stock shall receive an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series B Liquidation Preference by (ii) one thousand (1,000) (as appropriately adjusted as set forth in paragraph (C) of this Section to reflect such events as stock spirits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii) immediately above being referred to as the "Adjustment Number"). Following the payment of the full amount of the Series B Liquidation Preference, the Series B Pro Rata Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series B Preferred Stock and Common Stock, respectively, holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series B Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Series B Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In me event, however, that there are not sufficient assets available to permit payment in

full of fee Common Adjustment, than such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the

numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

SECTION 7. CONSOLIDATION, MERGER, ETC. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock an exchanged for or changed into other stock, securities, cash or any other property, then in any such case the shares of Series B Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to one thousand (1,000) times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (ii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series B Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

SECTIONS 8. REDEMPTION. The outstanding shares of Series B Preferred Stock may be redeemed at the option of the Board of Directors as a whole, but not in part, at any time, or from to time to time, at a cash price per share equal to one hundred five percent (105%) of (i) the product of the Adjustment Number times the Average Market Value (as such term hereinafter defined) of the Common Stock, plus (ii) all dividends which on the redemption date have accrued on the shares to be redeemed and have not been paid, or declared and a sum sufficient for the payment thereof set apart, without interest The "Average Market Value" is the average of the closing sale prices of the Common Stock during the thirty (30) day period immediately preceding the date before the redemption date on the Composite Tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the average of the closing sale prices with respect to a share of Common Stock during such thirty (30) day period, as quoted on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value of the Common Stock as determined by the Board of Directors in good faith.

SECTION 9. RANKING. The Series B Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment at dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

SECTION 10. AMENDMENT. Except as otherwise provided in the Certificate of Incorporation, as amended, or by law, the Certificate of Incorporation of the Corporation, as amended, shall not be further amended in any manner which would materially after or change the powers, preferences or special rights of the Series B Pretend Stock so as to affect them

diversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series B Preferred Stock, voting separately as a class.

SECTION 11. FRACTIONAL SHARES. At the Corporation's sole discretion, Series B Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series B Preferred Stock.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate and do affirm the foregoing as true as of March 30, 2000.

/s/ Fred L. Callon

Fred L. Callon, President

Attest:

/s/ Robert A. Mayfield
- ---
Robert A. Mayfield, Secretary

EXHIBIT 3.3

AMENDMENT
TO
CERTIFICATE OF INCORPORATION
OF
CALLON PETROLEUM COMPANY

The undersigned, Robert A. Mayfield, Corporate Secretary of Callon Petroleum Company, a corporation organized and existing under the laws of the State of Delaware (the "CORPORATION"), does hereby certify as follows:

FIRST: The name of the Corporation is Callon Petroleum Company

SECOND: This Amendment (the "AMENDMENT") to the Certificate of Incorporation of the Corporation (the "CERTIFICATE") was duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law. The Board of Directors has duly adopted resolutions setting forth and declaring advisable this Amendment and the holders of a majority of the outstanding stock of the Corporation entitled to vote at the special meeting of the stockholders called for the purpose of voting on the Amendment have voted in favor of this Amendment.

THIRD: The Certificate is hereby amended by amending and restating the first sentence of Article Four to be and read as follows:

> "The Corporation shall have authority to issue two classes of stock, and the total number authorized shall be 30,000,000 shares of Common Stock, par value $.01 per share, and 2,500,000 shares of Preferred Stock, par value $.01 per share."

IN WITNESS WHEREOF, the undersigned has executed this Amendment on behalf of the Corporation and has attested such execution and does verify and affirm, under penalty of perjury, that this Amendment is the act and deed of the Corporation and that the facts stated herein are true as of this 23rd day of January, 2004.

CALLON PETROLEUM COMPANY

By: /s/ Robert A. Mayfield

Robert A. Mayfield, Corporate Secretary

Exhibit 4.14

WARRANT
TO PURCHASE SHARES OF COMMON STOCK
OF
CALLON PETROLEUM COMPANY

THE WARRANTS REPRESENTED BY THIS CERTIFICATE AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT"), NOR HAS IT BEEN APPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITY OF ANY STATE. NEITHER THESE WARRANTS NOR ANY INTEREST THEREIN MAY BE OFFERED FOR SALE, SOLD, MORTGAGED, PLEDGED, TRANSFERRED, HYPOTHECATED OR OTHERWISE DISPOSED OF WITHOUT REGISTRATION UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

No. FRK[ ] Warrant to Purchase [ ] Shares
December [ ] 2003 of Common Stock, $0.01 Per Share

WARRANT TO PURCHASE COMMON STOCK
of
CALLON PETROLEUM COMPANY,
a Delaware corporation
Void after the date set forth in the first paragraph hereof

This certifies that, for value received, [ ], a [ ], or registered assigns ("Holder") is entitled, subject to the terms set forth below, to purchase from Callon Petroleum Company, a Delaware corporation (the "Company"), [ ] shares of Common Stock, $0.01 par value, of the Company (such class of stock being referred to herein as "Common Stock"), as constituted on December [ ], 2003 (the "Issue Date"), upon compliance with the exercise provisions set forth in Section 1 hereof, at the price of $10.00 per share (the "Exercise Price"). This Warrant must be exercised, if at all, prior to the earlier to occur of (i) 3:00 p.m., Eastern Standard Time on December [ ], 2010 or (ii) the termination of the Warrant pursuant to Section 2. The shares of Common Stock issued or issuable upon exercise of this Warrant are sometimes referred to as the "Warrant Shares." The term "Warrants" as used herein shall include this Warrant and any warrants delivered in substitution or exchange therefor as provided herein.

1. Exercise of Warrant.

1.1 This Warrant may be exercised at any time or from time to time, on any business day, for all or part of (in multiples of at least 1,000 shares) the full number of Warrant Shares during the period of time described above, by (i) delivery of a written notice, in the form of the subscription notice attached hereto or a reasonable facsimile thereof (the "Exercise Notice"), to the Company, of Holder's election to exercise all or a portion of this Warrant, which notice shall specify the number of Warrant Shares to be purchased, (ii) (A) payment to the Company of an amount equal to the Exercise Price multiplied by the number of Warrant Shares as to which this Warrant is being exercised (the "Aggregate Exercise Price") in cash or delivery of a certified check or bank draft payable to the order of the Company or wire transfer of immediately available funds or (B) notification to the Company that this Warrant is being exercised pursuant to a Cashless Exercise (as defined in Section 1.2 of this Warrant), and (iii) the surrender of this Warrant to a common carrier for overnight delivery to the Company on the date the Exercise Notice is delivered to the Company (or evidence of lost Warrant, in accordance with Section 7). No other form of consideration shall be acceptable for the exercise of this Warrant. A Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of delivery of the Exercise Notice, this Warrant and Aggregate Exercise Price referred to in clause (ii)(A) above or notification to the Company of a Cashless Exercise referred to in Section 1.2 of this Warrant, and the person entitled to receive the shares of Common Stock issuable upon such exercise shall be treated for all purposes as the record holder of such shares as of the close of business on such date. As soon as practicable on or after such date, and in any event within 10 days thereof, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of shares of Common Stock issuable upon such exercise. Upon any partial exercise, the Company will issue and deliver to Holder a new Warrant with respect to the Warrant

Shares not previously purchased. No fractional shares of Common Stock shall be issued upon exercise of a Warrant. In lieu of any fractional share to which Holder would be entitled upon exercise, the Company shall pay cash equal to the product of such fraction multiplied by the then current fair market value of one share of Common Stock, as determined in good faith by the Company.

1.2 Notwithstanding anything contained herein to the contrary, Holder may, at its election exercised in its sole discretion, exercise this Warrant as to all or a portion of the Warrant Shares and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Aggregate Exercise Price, elect instead to receive upon such exercise the "Net Number" of shares of Common Stock determined according to the following formula (a "Cashless Exercise"):

<TABLE>
<S> <C>

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

</TABLE>

For purposes of the foregoing formula:

A= the total number of shares with respect to which this Warrant is then being exercised.

B= the closing sale price of the Common Stock on the trading day immediately preceding the date of the Exercise Notice.

C= the Exercise Price then in effect for the applicable Warrant Shares at the time of such exercise.

2. Mandatory Termination. At any time after the third anniversary of the Issue Date, if the closing sale price per share of the Common Stock has exceeded one hundred sixty percent (160%) of the Exercise Price then in effect for any twenty (20) trading days within a period of thirty (30) consecutive trading days (the "Determination Period"), then the Company may, at its option, terminate the Warrants. By following procedure set forth below, the Company may exercise this right of termination only if, within ten (10) days following the Determination Period, the Company shall mail or cause to be mailed a notice of such termination (the "Termination Notice") to Holder. Such mailing shall be by first class. Each such notice of termination shall identify the Warrant, the Termination Date, as defined below, that the Warrants may not be exercised after 3:00 p.m., Eastern Standard Time on the Termination Date and the current Exercise Price.

If all the conditions described in the preceding paragraph have been met, any Warrant not exercised before 3:00 p.m., Eastern Standard Time on the sixtieth (60th) day after the mailing of Termination Notice (such sixtieth day, the "Termination Date") shall automatically be deemed exercised in accordance with Section 1.2 as of the Termination Date and the Company will deliver the Warrant Shares to Holder upon receipt of a completed Exercise Notice along with the original copy of the Warrant for cancellation (or evidence of lost Warrant, in accordance with Section 7).

3. Payment of Taxes. All shares of Common Stock issued upon the exercise of a Warrant shall be duly authorized, validly issued and outstanding, fully paid and non-assessable. Holder shall pay all taxes and other governmental charges that may be imposed in respect of the issue or delivery thereof and any tax or other charge imposed in connection with any transfer involved in the issue of any certificate for shares of Common Stock in any name other than that of the registered Holder of the Warrant surrendered in connection with the purchase of such shares, and in such case the Company shall not be required to issue or deliver any stock certificate until such tax or other charge has been paid or it has been established to the Company's satisfaction that no tax or other charge is due.

4. Transfer and Exchange. Subject to the restrictions set forth in Section 10.1(d), this Warrant and all rights hereunder are transferable, in whole or in part,

but only in increments of not less than 5,000 shares. This Warrant is transferable on the books of the Company maintained for such purpose at its principal office by Holder in person or by duly authorized attorney, upon surrender of this Warrant properly endorsed and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, when endorsed in blank, shall be deemed negotiable and that when this Warrant shall have been so endorsed, the Holder hereof may be treated by the Company and all other persons dealing with this Warrant as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented hereby or to the transfer hereof on the books of the Company, any notice to the contrary notwithstanding; but until such transfer on such books, the Company may treat the registered Holder hereof as the owner for all purposes.

5. Certain Adjustments.

5.1 Adjustment for Reorganization, Consolidation, Merger. In case of any reclassification of the Common Stock, or other securities issuable upon exercise of this Warrant, or in case of any reorganization of the Company (or, in each case, any other corporation, the stock or other securities of which are at the time receivable on the exercise of this Warrant) after the Issue Date, or in case, after such date, the Company (or any such other corporation) shall consolidate with or merge into another corporation, then and in each such case Holder, upon the exercise hereof as provided in Section 1 at any time after the consummation of such reorganization, consolidation, merger or conveyance, shall be entitled to receive, in lieu of the stock receivable upon the exercise of this Warrant prior to such consummation, the stock or other securities or property to which such Holder would have been entitled upon such consummation if such Holder had exercised this Warrant immediately prior thereto.

5.2 Adjustments for Dividends in Common Stock. If the Company at any time or from time to time after the Issue Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend payable in additional shares of Common Stock, then and in each such event the Exercise Price then in effect shall be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Exercise Price then in effect by a fraction (1) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and (2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend; provided, however, that if such record date is fixed and such dividend is not fully paid on the date fixed therefor, the Exercise Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Exercise Price shall be adjusted pursuant to this Section 5.2 as of the time of actual payment of such dividends.

5.3 Stock Split and Reverse Stock Split. If the Company at any time or from time to time after the Issue Date effects a subdivision of the outstanding Common Stock, the Exercise Price then in effect immediately before that subdivision shall be proportionately decreased and the number of shares of Common Stock theretofore receivable upon the exercise of this Warrant shall be proportionately increased. If the Company at any time or from time to time after the Issue Date combines the outstanding shares of Common Stock into a smaller number of shares, the Exercise Price then in effect immediately before that combination shall be proportionately increased and the number of shares of Common Stock theretofore receivable upon the exercise of this Warrant shall be proportionately decreased. Each adjustment under this Section 5.3 shall become effective at the close of business on the date the subdivision or combination becomes effective.

5.4 Adjustments for Cash Dividends. If the Company at any time or from time to time after the Issue Date makes, or fixes a record date for the

determination of holders of Common Stock entitled to receive, a dividend payable in cash, then and in each such event the Exercise Price then in effect shall be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by reducing the Exercise Price then in effect by the amount of such cash dividend per share of Common Stock; provided, however, that if such record date is fixed and such dividend is not fully paid on the date fixed therefor, the Exercise Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Exercise Price shall be adjusted pursuant to this Section 5.4 as of the time of actual payment of such dividends.

6. Registration of Warrant Shares.

6.1 Registration.

(a) Any time after September 30, 2004, the Holder or any holder of other warrants the same series as the Warrant ("Other Holders" and collectively with the Holder, "Holders"), with or without the joinder of other Holders, may submit a written request (a "Registration Request") to the Company at any time seeking the registration of not less than 300,000 Warrant Shares (or, in the case of Other Holders, warrant shares issuable upon exercise of warrants held by such Other Holders (collectively with the Warrant Shares, the "Holders' Shares")) with the Securities and Exchange Commission (the "SEC"); provided that (x) the Holders, in the aggregate, may only submit three (3) Registration Requests pursuant to this Section 6.1, and (y) only one Registration Request may be made by Holders of less than 500,000 Holders' Shares pursuant to this Section 6.1. The Company will promptly give written notice of such a Registration Request by the Holder or Other Holders to all registered Holders. Each of the Holders may elect to include its Holders' Shares any registration under the Securities Act of 1933, as amended (the "Securities Act") to be effected pursuant to a Registration Request by providing the Company with written notice within ten (10) days of the

Company's notice of receipt of a Registration Request ("Piggy-Back Notice"). The Company will use its best efforts to effect the registration under the Securities Act of the Holders' Shares which the Company has been so requested to be registered pursuant to the Registration Request and the Piggy-Back Notices. Within thirty (30) days of receipt of a Registration Request, the Company shall prepare and file a registration statement on Form S-3 under the Securities Act, covering the Holders' Shares specified in the Registration Request and the Piggy-Back Notices and shall use its best efforts to cause such registration statement to become effective as expeditiously as possible and to remain effective until the earliest to occur of (i) the date the Holders' Shares covered thereby have been sold or (ii) the date by which all Holders' Shares covered thereby may be sold under Rule 144 without restriction as to volume.

(b) Following the effectiveness of a registration statement filed pursuant to this section, the Company may, at any time, suspend the effectiveness of such registration for up to forty-five (45) days, as appropriate (a "Suspension Period"), by giving notice to Holders, if the Company shall have determined that the Company may be required to disclose any material corporate development which disclosure may have a material adverse effect on the Company. Notwithstanding the foregoing, no more than two Suspension Periods may occur during any twelve-month period. The Company shall use its best efforts to limit the duration and number of any Suspension Periods. Holder agrees that, upon receipt of any notice from the Company of a Suspension Period, Holder shall forthwith discontinue disposition of Warrant Shares covered by such registration statement or prospectus until Holder (i) is advised in writing by the Company that the use of the applicable prospectus may be resumed, (ii) has received copies of a supplemental or amended prospectus, if applicable, and (iii) has received copies of any additional or supplemental filings which are incorporated or deemed to be incorporated by reference into such prospectus.

6.2 Registration Procedures. When the Company effects the registration of the Warrant Shares under the Securities Act pursuant to Section 6.1(a) hereof, the Company will, at its expense, as expeditiously as possible:

(a) In accordance with the Securities Act and the rules and regulations of the SEC, prepare and file in accordance with Section 6.1(a), with the SEC a registration statement with respect to the Holders' Shares and

use its best efforts to cause such registration statement to become and remain effective for the period described herein, and prepare and file with the SEC such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective for such period and such registration statement and prospectus accurate and complete for such period;

(b) Furnish to Holder such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other

documents as Holder may reasonably request in order to facilitate the public offering of the Warrant Shares;

(c) Use its best efforts to register or qualify the Holders' Shares covered by such registration statement under such state securities or blue sky laws of such jurisdictions as Holder may reasonably request within twenty (20) days following the original filing of such registration statement, except that the Company shall not for any purpose be required to execute a general consent to service of process or to qualify to do business as a foreign corporation in any jurisdiction where it is not so qualified;

(d) Notify Holder, promptly after it shall receive notice thereof, of the date and time when such registration statement and each post-effective amendment thereto has become effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(e) Notify Holder promptly of any request by the SEC for the amending or supplementing of such registration statement or prospectus or for additional information;

(f) Prepare and file with the SEC, promptly upon the request of Holder, any amendments or supplements to such registration statement or prospectus which, in the opinion of counsel for Holder, is required under the Securities Act or the rules and regulations thereunder in connection with the distribution of the Warrant Shares by Holder;

(g) Prepare and promptly file with the SEC, and promptly notify Holder of the filing of, such amendments or supplements to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the Securities Act, any event has occurred as the result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; and

(h) Advise Holder, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued.

6.3 Expenses. With respect to any registration effected pursuant to Section 6.1 hereof, all fees, costs and expenses of and incidental to such registration and the public offering in connection therewith shall be borne by the Company; provided, however, that, Holder shall bear its share of any underwriting

discounts or commissions, if any, related to a sale of Warrant Shares under the registration statement.

6.4 Indemnification.

(a) The Company will indemnify and hold harmless Holder

pursuant to the provisions of Section 6 hereof and any underwriter (as defined in the Securities Act) for Holder, and any person who controls Holder or such underwriter within the meaning of the Securities Act, and any officer, director, employee, agent, partner, member or affiliate of Holder (for purposes of this Section 6.4(a), the "Indemnified Parties"), from and against, and will reimburse Holder and each such Indemnified Party with respect to, any and all claims, actions, demands, losses, damages, liabilities, costs and expenses to which Holder or any such Indemnified Party may become subject under the Securities Act or otherwise, insofar as such claims, actions, demands, losses, damages, liabilities, costs or expenses arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any breach of any representation, warranty, agreement or covenant of the Company contained herein; provided, however, that the Company will not be liable in any such case to the extent that any such claim, action, demand, loss, damage, liability, cost or expense is caused by an untrue statement or alleged untrue statement or omission or alleged omission based on information regarding any Holders furnished by Holders or such Indemnified Party in writing specifically for use in the preparation thereof. The indemnification contained in this paragraph shall not inure to the benefit of any Holder (or to the benefit of any person controlling such Holder) on account of any claim, action, demand, loss, damage, liability, cost or expense caused by any untrue statement or alleged untrue statement or omission or alleged omission made in any preliminary prospectus provided in each case the Company has performed its obligations under Sections 6.2(a) and (b) if either (A) (i) such Holder failed to send or deliver a copy of the prospectus with or prior to the delivery of written confirmation of the sale by such Holder to the person asserting the claim from which such losses, claims, damages or liabilities arise and (ii) the prospectus would have corrected such untrue statement or alleged untrue statement or such omission or alleged omission, or (B) (x) such untrue statement or alleged untrue statement, omission or alleged omission is corrected in an amendment or supplement to the prospectus and (y) having previously been furnished by or on behalf of the Company with copies of the prospectus as so amended or supplemented, such Holder thereafter fails to deliver such prospectus as so amended or supplemented, with or prior to the delivery of written confirmation of the sale of Warrant Shares to the person asserting the claim from which such claim, action, demand, loss, damage, liability, cost or expense arise

(b) Holder will indemnify and hold harmless the Company, and any Person who controls the Company within the meaning of the Securities Act, from and against, and will reimburse the Company and such controlling Persons with respect to, any and all losses, damages, liabilities, costs or expenses to which the Company or such controlling Person may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or are caused by the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was so made solely in reliance upon written information furnished by Holder specifically for use in the preparation thereof; provided, however, that the liability of Holder pursuant to this subsection (b) shall be limited to an amount not to exceed the net proceeds received by Holder pursuant to the registration statement which gives rise to such obligation to indemnify.

(c) Promptly after receipt by a party indemnified pursuant to the provisions of paragraph (a) or (b) of this Section 6.4 of notice of the commencement of any action involving the subject matter of the foregoing indemnity provisions, such indemnified party will, if a claim thereof is to be made against the indemnifying party pursuant to the provisions of paragraph (a) or (b), notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 6.4 and shall not relieve the indemnifying party from liability under

this Section 6.4 unless such indemnifying party is prejudiced by such omission. In case such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party shall have the right to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party pursuant to the provisions of such paragraph (a) or (b) for any legal or other expense subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall be liable to an indemnified party for any settlement of any action or claim without the consent of the indemnifying party. No indemnifying party will consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

(d) If the indemnification provided for in subsection (a) or (b) of this Section 6.4 is held by a court of competent jurisdiction to be unavailable to a party to be indemnified with respect to any claims, actions, demands, losses, damages, liabilities, costs or expenses referred to therein, then each indemnifying party under any such subsection, in lieu of indemnifying such indemnified party thereunder, hereby agrees to contribute to the amount paid or payable by such indemnified party as a result of such claims, actions, demands, losses, damages, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions which resulted in such claims, actions, demands, losses, damages, liabilities, costs or expenses, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount Holder shall be obligated to contribute pursuant to this subsection (d) shall be limited to an amount not to exceed the net proceeds received by Holder pursuant to the registration statement which gives rise to such obligation to contribute. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution hereunder from any person who was not guilty of such fraudulent misrepresentation.

6.5 Reporting Requirements Under the Exchange Act. The Company shall timely file such information, documents and reports as the SEC may require or prescribe under Section 13 of the Securities Exchange Act of 1934. The Company acknowledges and agrees that the purposes of the requirements contained in this Section 6.5 are to enable Holder to comply with the current public information requirement contained in paragraph (c) of Rule 144 should Holder ever wish to dispose of any of the Warrant Shares without registration under the Securities Act in reliance upon Rule 144 (or any other similar exemptive provision).

6.6 Stockholder Information. The Company may require Holder to furnish the Company such information with respect to Holder and the distribution of its Warrant Shares as the Company may from time to time reasonably request in writing as shall be required by law or by the SEC in connection therewith.

7. Loss or Mutilation. Upon receipt by the Company of evidence satisfactory to it (in the exercise of reasonable discretion) of the ownership of and the loss, theft, destruction or mutilation of any Warrant and (in the case of loss, theft or destruction) of indemnity satisfactory to it (in the exercise of reasonable discretion), and (in the case of mutilation) upon surrender and cancellation thereof, the Company will execute and deliver in lieu thereof a new Warrant of like tenor.

8. Reservation of Common Stock. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the exercise of the Warrant, such number of its shares of Common Stock as shall from time to time be sufficient to effect exercise of the Warrant; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect such exercise, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

9. Notices of Record Date. In the event of (i) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any merger or consolidation of the Company with or into any other corporation (other than a merger of a wholly owned subsidiary into the Company), or any transfer of all or substantially all of the assets of the Company to any other person or any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall provide to the Holder, at least ten (10) days prior to the record date specified therein, a notice specifying (1) the date on which any such record is to be taken for the purpose of such dividend or distribution and a description of such dividend or distribution, (2) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and (3) the date, if any, that is to be fixed, as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up.

10. Investment Representation and Restriction on Transfer.

10.1 Securities Law Requirements.

(a) By its acceptance of this Warrant, Holder hereby represents and warrants to the Company that this Warrant and the Warrant Shares will be acquired for investment for its own account, not as a nominee or agent, and not with a view to the sale or distribution of any part thereof, and that it has no present intention of selling, granting participations in or otherwise distributing the same. By acceptance of this Warrant, Holder further represents and warrants that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to any person, with respect to this Warrant or the Warrant Shares.

(b) By its acceptance of this Warrant, Holder understands that this Warrant is not, and the Warrant Shares will not be, registered under the Securities Act, on the basis that the issuance of this Warrant and the Warrant Shares

are exempt from registration under the Act pursuant to Section 4(2) thereof, and that the Company's reliance on such exemption is predicated on Holder's representations and warranties set forth herein.

(c) By its acceptance of this Warrant, Holder understands that the Warrant and the Warrant Shares may not be sold, transferred, or otherwise disposed of without registration under the Act, or an exemption therefrom, and that in the absence of an effective registration statement covering the Warrant and the Warrant Shares or an available exemption from registration under the Act, the Warrant and the Warrant Shares must be held indefinitely. In particular, Holder is aware that the Warrant and the Warrant Shares may not be sold pursuant to Rule 144 promulgated under the Act unless all of the conditions of Rule 144 are satisfied. Among the conditions for use of Rule 144 are the availability of current information about the Company to the public, prescribed holding periods which will commence only upon Holder's payment for the securities being sold, manner of sale restrictions, volume limitations and certain other restrictions. By its acceptance of this Warrant, Holder represents and warrants that, in the absence of an effective registration statement covering the Warrant or the Warrant Shares, it will sell, transfer or otherwise dispose of the Warrant and the Warrant Shares only in a manner

consistent with its representations and warranties set forth herein and then only in accordance with the provisions of Section 10.1(d).

(d) By its acceptance of this Warrant, Holder agrees that in no event will it transfer or dispose of any of the Warrants or the Warrant Shares other than pursuant to an effective registration statement under the Act, unless and until (i) Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the disposition, and (ii) if requested by the Company, at the expense of the Holder or transferee, it shall have furnished to the Company an opinion of counsel, reasonably satisfactory to the Company, to the effect that (A) such transfer may be made without registration under the Act and (B) such transfer or disposition will not cause the termination or the non-applicability of any exemption to the registration and prospectus delivery requirements of the Act or to the qualification or registration requirements of the securities laws of any other jurisdiction on which the Company relied in issuing the Warrant or the Warrant Shares.

(e) Holder represents and warrants that it is a "qualified institutional buyer" as defined in Rule 144A promulgated under the Securities Act.

10.2 Legends; Stop Transfer.

(a) All certificates evidencing the Warrant Shares shall bear a legend in substantially the following form:

> The securities represented by this certificate have not been registered under the Securities Act of 1933 or under any

> state securities laws. These securities have been acquired for investment and not with a view to distribution and may not be offered for sale, sold, pledged or otherwise transferred in the absence of an effective registration statement for such securities under the Securities Act of 1933 and applicable state securities laws or an opinion of counsel reasonably satisfactory in form and content to the issuer that such registration is not required under such Act.

(b) The certificates evidencing the Warrant Shares shall also bear any legend required by any applicable state securities law.

(c) In addition, the Company shall make, or cause its transfer agent to make, a notation regarding the transfer restrictions of the Warrant and the Warrant Shares in its stock books, and the Warrant and the Warrant Shares shall be transferred on the books of the Company only if transferred or sold pursuant to an effective registration statement under the Securities Act covering the same or pursuant to and in compliance with the provisions of Section 4 and Section 10.1(d).

11. Notices. All notices and other communications from the Company to the Holder of this Warrant shall be mailed by hand delivery, by telecopier, by courier guaranteeing overnight delivery or by first-class mail, return receipt requested, and shall be deemed given (i) when made, if made by hand delivery, (ii) upon confirmation, if made by telecopier, (iii) one (1) Business Day after being deposited with such courier, if made by overnight courier or (iv) on the date indicated on the notice of receipt, if made by first-class mail.

12. Change; Waiver. Neither this Warrant nor any term hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

13. Headings. The headings in this Warrant are for purposes of convenience in reference only, and shall not be deemed to constitute a part hereof.

14. Governing Law. This Warrant shall be construed and enforced in accordance with and governed by the internal laws, and not the law of conflicts,

of the State of New York; provided however, that to the extent that an issue of determination is one of corporation law, then Delaware General Corporation Law shall govern.

[SIGNATURE PAGE FOLLOWS]

This Warrant was executed as of the date first written above.

CALLON PETROLEUM COMPANY,
a Delaware corporation

By:

John S. Weatherly
Senior Vice President and Chief Financial Officer

SUBSCRIPTION NOTICE
(To be executed only upon exercise of Warrant)

The undersigned, registered owner of this Warrant, irrevocably exercises this Warrant and purchases _____ of the number of shares of Common Stock, $0.01 par value ("Warrant Shares"), of Callon Petroleum Company, a Delaware corporation (the "Company"), purchasable with the attached Warrant (the "Warrant"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Form of Exercise Price: Holder intends that payment of the Exercise Price shall be made as:

_____ "Cash Exercise" with respect to _____ Warrant Shares;
and/or

_____ "Cashless Exercise" with respect to _____ Warrant Shares
(to the extent permitted by the terms of the Warrant)

2. Payment of Exercise Price: In the event that Holder has elected a Cash Exercise with respect to some or all of the Warrant Shares to be issued pursuant hereto, Holder shall pay the sum of $_____ to the Company in accordance with the terms of the Warrant.

DATED: _____

_____
(Signature of Holder)

_____
(Street Address)

_____
(City) (State) (Zip)

FORM OF ASSIGNMENT

FOR VALUE RECEIVED the undersigned, registered owner of this Warrant, hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under the within Warrant, with respect to the number of shares of Common Stock, $0.01 par value, set forth below:

Name of Assignee	Address	No. of Shares
- ----------	-------	----------

and does hereby irrevocably constitute and appoint _____ _____ Attorney to make such transfer on the books of Callon Petroleum Company, a Delaware corporation, maintained for the purpose, with full power of substitution in the premises.

DATED: _____

____
(Signature)

____
(Witness)

==========

EXHIBIT 10.18

AMENDED AND RESTATED SENIOR UNSECURED
CREDIT AGREEMENT

AMONG

CALLON PETROLEUM COMPANY,
AS BORROWER,

WELLS FARGO BANK, NATIONAL ASSOCIATION
AS ADMINISTRATIVE AGENT,

AND

THE LENDERS SIGNATORY HERETO

==========

CONVERTIBLE TERM LOAN

==========

DATED AS OF DECEMBER 8, 2003

AMENDED AND RESTATED AS OF DECEMBER 23, 2003

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THIS CREDIT AGREEMENT, dated as of December 8, 2003, and amended and restated as of December 23, 2003, is made by and among CALLON PETROLEUM COMPANY, a Delaware corporation (the "BORROWER"); each of the lenders that is a signatory hereto or which becomes a signatory hereto pursuant to Section 2.02 or as provided in SECTION 12.06 (individually, together with its successors and assigns, a "LENDER" and, collectively, the "LENDERS"); each of the new lenders that is a signatory hereto or which becomes a signatory hereto as provided in SECTION 12.06 (individually, together with its successors and assigns, a "NEW LENDER" and, collectively, the "NEW LENDERS"); and Wells Fargo Bank, National Association, a national banking association, as administrative agent for the Lenders (in such capacity, together with its successors in such capacity, the "ADMINISTRATIVE AGENT").

RECITALS

A. The Lenders have made certain loans subject to the terms and conditions of the Credit Agreement between Borrower and the Lenders dated December 8, 2003 in the amount of $100,000,000 (the "CREDIT AGREEMENT").

B. The Borrower and the Lenders desire to amend and restate the Credit Agreement and increase the amount of the loans to $185,000,000 by adding New Lenders.

C. In consideration of the mutual covenants and agreements herein contained and of the loans and commitments hereinafter referred to, the parties

hereto agree that the Credit Agreement is hereby amended and restated as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING MATTERS

SECTION 1.01 TERMS DEFINED ABOVE. As used in this Agreement, the terms "ADMINISTRATIVE AGENT," "BORROWER," "CREDIT Agreement," "LENDER," "LENDERS," "NEW LENDER" and "NEW LENDERS" shall have the meanings indicated above and, unless the context otherwise requires, the terms Lender and Lenders shall include the terms New Lender and New Lenders, respectively.

SECTION 1.02 CERTAIN DEFINED TERMS. As used herein, the following terms shall have the following meanings (all terms defined in this ARTICLE I or in other provisions of this Agreement in the singular to have equivalent meanings when used in the plural and vice versa):

"ADDITIONAL LENDER" shall have the meaning assigned to such term in SECTION 2.02(a).

"ADDITIONAL LENDER CERTIFICATE" shall have the meaning assigned to such term in SECTION 2.02(b).

"ADDITIONAL LOANS" shall have the meaning assigned to such term in SECTION 2.01(a).

"ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS" shall mean (without duplication), as of the date of determination, the remainder of:

(a) the sum of:

(1) discounted future net revenue from proved oil and gas reserves of Borrower and its Restricted Subsidiaries calculated in accordance with SEC guidelines but (x) using average prices received by Borrower and its Restricted Subsidiaries during the preceding year (or, for purposes of any calculation made pursuant to SECTION 9.01(b), NYMEX Strip Price on the date of such calculation) and (y) before any state, federal or foreign income taxes, as estimated by Borrower in a reserve report prepared as of the end of Borrower's most recently completed fiscal year for which audited financial statements are available, and any other Oil and Gas Property in which Borrower or any Restricted Subsidiary maintains an interest in oil and gas reserves, as increased by, as of the date of determination, the estimated discounted future net revenues from:

(A) estimated proved oil and gas reserves of Borrower, its Restricted Subsidiaries and Borrower's and its Restricted Subsidiaries' share of Oil and Gas Properties acquired since such year end (including, for purposes of any calculation made pursuant to SECTION 9.01(b) any Oil and Gas Properties to be acquired in connection with such incurrence of Debt), which reserves were not reflected in such year end reserve report, and

(B) estimated oil and gas reserves of Borrower, its Restricted Subsidiaries and Borrower's and its Restricted Subsidiaries' share of Oil and Gas Properties attributable to extensions, discoveries and other additions and upward revisions of estimates of proved oil and gas reserves since such year end due to exploration, development, exploitation or production activities, 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 estimated discounted future net revenues from:

(C) estimated proved oil and gas reserves of Borrower, its Restricted Subsidiaries and Borrower's and its Restricted Subsidiaries' share of Oil and Gas Properties produced or disposed of since such year end, and

(D) estimated oil and gas reserves of Borrower, its Restricted Subsidiaries and Borrower's and its Restricted Subsidiaries' share of Oil and Gas Properties attributable to downward revisions of estimates of proved oil and gas reserves since such year end due to changes in geological conditions or other factors which would, in accordance with standard industry practice, cause such revisions, in each

case calculated on a pre-tax basis and substantially in accordance with SEC guidelines (utilizing the prices utilized in such year end reserve report), in each case as estimated by Borrower's petroleum engineers or any independent petroleum engineers engaged by Borrower for that purpose;

(2) the capitalized costs that are attributable to Oil and Gas Properties of Borrower, its Restricted Subsidiaries and Borrower's and its Restricted Subsidiaries' share of Oil and Gas Properties to which no proved oil and gas reserves are attributable, based on Borrower's books and records as of a date no earlier than the date of Borrower's latest available annual or quarterly financial statements;

(3) the consolidated net working capital of Borrower and its Restricted Subsidiaries on a date no earlier than the date of Borrower's latest annual or quarterly financial statements; and

(4) the greater of:

(A) the net book value of other tangible assets of Borrower and its Restricted Subsidiaries, as of a date no earlier than the date of Borrower's latest annual or quarterly financial statements, and

(B) the appraised value, as estimated by independent appraisers (reasonably acceptable to the Administrative Agent), of other tangible assets of Borrower and its Restricted Subsidiaries, as of a date no earlier than the date of Borrower's latest audited financial statements; minus

(b) the sum of:

(1) minority interests;

(2) to the extent included in (a)(1) above, any net gas balancing liabilities of Borrower and its Restricted Subsidiaries reflected in Borrower's latest audited financial statements;

(3) to the extent included in (a)(1) above, the discounted future net revenues, calculated in accordance with SEC guidelines (utilizing the prices utilized in Borrower's most recent year end reserve report), attributable to reserves which are required to be delivered to third parties to fully satisfy the obligations of Borrower and its Restricted Subsidiaries with respect to Volumetric Production Payments (determined, if applicable, using the schedules specified with respect thereto); and

(4) the discounted future net revenues, calculated in accordance with SEC guidelines, attributable to reserves subject to Dollar-Denominated Production Payments which, based on the estimates of production

and price assumptions included in determining the discounted future net revenues specified in (a)(1) above, would be necessary to fully satisfy the payment obligations of Borrower and its Restricted Subsidiaries with respect to Dollar-Denominated Production Payments

(determined, if applicable, using the schedules specified with respect thereto).

"AFFILIATE" of any Person shall mean (i) any Person directly or indirectly controlled by, controlling or under common control with such first Person, (ii) any director or officer of such first Person or of any Person referred to in clause (i) above and (iii) if any Person in clause (i) above is an individual, any member of the immediate family (including parents, spouse and children) of such individual and any trust whose principal beneficiary is such individual or one or more members of such immediate family and any Person who is controlled by any such member or trust. For purposes of this definition, any Person which owns directly or indirectly 15% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or 15% or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to "control" (including, with its correlative meanings, "controlled by" and "under common control with") such corporation or other Person.

"AGREEMENT" shall mean this Amended and Restated Credit Agreement, as the same may from time to time be amended or supplemented.

"AMENDMENT AND RESTATEMENT DATE" shall mean December 23, 2003.

"ASSET DISPOSITION" shall mean any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of shares of capital stock of a Subsidiary (other than directors' qualifying shares) or other Property (each referred to for the purposes of this definition as a "disposition") by Borrower or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction.

Notwithstanding the preceding, the following items shall not be deemed to be Asset Dispositions:

(a) a disposition by a Restricted Subsidiary to Borrower or by Borrower or a Restricted Subsidiary to a Wholly-Owned Subsidiary;

(b) the sale of Cash Equivalents in the ordinary course of business;

(c) a disposition of Hydrocarbons in the ordinary course of business;

(d) a disposition or abandonment of obsolete or worn out equipment or equipment that is no longer useful in the conduct of the business of Borrower and its Restricted Subsidiaries and that is disposed of in each case in the ordinary course of business;

(e) transactions permitted under SECTION 9.07;

(f) an issuance of capital stock by a Restricted Subsidiary of Borrower to Borrower or to a Wholly-Owned Subsidiary;

(g) for purposes of this definition only, the making of a Permitted Investment or a disposition subject to SECTION 9.03;

(h) dispositions of assets of Borrower designated by Borrower as not constituting an Asset Disposition with an aggregate fair market value since the Closing Date of less than $5,000,000;

(i) dispositions in connection with Liens permitted under SECTION 9.02;

(j) the licensing or sublicensing of intellectual property or other general intangibles and licenses, leases or subleases of other property in the ordinary course of business which do not materially interfere with the business of Borrower and its Restricted Subsidiaries;

(k) foreclosure on assets;

(l) sale, transfer or abandonment (whether or not in the ordinary course of business) of Oil and Gas Properties or direct or indirect interests in Property; provided that at the time of such sale or transfer such Properties do not have associated with them any material proved reserves;

(m) the abandonment, farm-out, lease or sublease of developed or undeveloped Oil and Gas Properties in the ordinary course of business;

(n) the trade or exchange by Borrower or any Restricted Subsidiary of any Oil and Gas Properties owned or held by Borrower or such Restricted Subsidiary for Oil and Gas Properties owned or held by another Person, including any cash or Cash Equivalents necessary in order to achieve an exchange of equivalent value; provided that any such cash or Cash Equivalents received by Borrower or such Restricted Subsidiary will be subject to the provisions described in SECTION 9.11, which the board of directors of Borrower determines in good faith by resolution to be of approximately equivalent value.

"ASSET DISPOSITION OFFER" shall have the meaning assigned such term in SECTION 9.11(b).

"ASSET DISPOSITION OFFER AMOUNT" shall have the meaning assigned such term in SECTION 9.11(b).

"ASSET DISPOSITION OFFER PERIOD" shall have the meaning assigned such term in SECTION 9.11(b).

"ASSET DISPOSITION PURCHASE DATE" shall have the meaning assigned such term in SECTION 9.11(b).

"ASSIGNMENT" shall have the meaning assigned such term in SECTION 12.06(b).

"BORROWER INTELLECTUAL PROPERTY" shall have the meaning assigned such term in SECTION 7.24.

"BUSINESS DAY" shall mean any day other than a day on which commercial banks are authorized or required to close in Minnesota, Texas or New York.

"CASH EQUIVALENTS" shall mean:

(a) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality of the United States of America (provided that the full faith and credit of the United States of America is pledged in support thereof), having maturities of not more than one year from the date of acquisition; (b) marketable general obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition and, at the time of acquisition of the United States of America (provided that the full faith and credit of the United States of America is pledged in support thereof), having a credit rating of "A" or better from either Standard & Poor's Ratings Services or Moody's Investors Service, Inc.;

(c) certificates of deposit, time deposits, eurodollar time deposits, overnight bank deposits or bankers' acceptances having maturities of not more than one year from the date of acquisition thereof issued by any commercial bank the long-term debt of which is rated at the time of acquisition thereof at least "A" or the equivalent thereof by Standard & Poor's Ratings Services, or "A" or the equivalent thereof by Moody's Investors Service, Inc., and having combined capital and surplus in excess of $500,000,000;

(d) repurchase obligations with a term of not more than seven (7) days for underlying securities of the types described in clauses (a), (b) and (c) above entered into with any bank meeting the qualifications

specified in clause (c) above;

(e) commercial paper rated at the time of acquisition thereof at least "A-2" or the equivalent thereof by Standard & Poor's Ratings Services or "P-2" or the equivalent thereof by Moody's Investors Service, Inc., or carrying an equivalent rating by a nationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of investments, and in any case maturing within one year after the date of acquisition thereof; and

(f) interests in any investment company or money market fund which invests solely in instruments of the type specified in clauses (a) through (e) above.

"CHANGE IN CONTROL" shall mean (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities

Exchange Act of 1934 and the rules of the SEC thereunder as in effect on the date hereof) of shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of Borrower; or (b) occupation of a majority of the seats on the board of directors of Borrower by Persons who were neither (i) nominated by the board of directors of Borrower nor (ii) appointed by directors so nominated.

"CLOSING DATE" shall mean December 8, 2003.

"CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time and any successor statute.

"COMMITMENT" shall mean, for any Lender party to the Credit Agreement, its obligation to have made the Loan on the Closing Date under the Credit Agreement and, for any new Lender, its obligation to make the Loan on the Amendment and Restatement Date, or on a later date pursuant to SECTION 2.02 in the amount set forth opposite such Lender's name on Annex I.

"CONSOLIDATED NET INCOME" shall mean with respect to Borrower and its Restricted Subsidiaries, for any period, the aggregate of the net income (or loss) of Borrower and its Restricted Subsidiaries after allowances for taxes for such period, determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded from the calculation of net income (to the extent otherwise included in the calculation) the following: (i) the net income of any Person in which Borrower or any Restricted Subsidiary has an interest (which interest does not cause the net income of such other Person to be consolidated with the net income of Borrower and its Restricted Subsidiaries in accordance with GAAP), except to the extent of the amount of dividends or distributions actually paid in such period by such other Person to Borrower or to a Restricted Subsidiary, as the case may be; (ii) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions or transfers or loans by that Restricted Subsidiary is not at the time permitted by operation of the terms of its charter or any agreement, instrument or Governmental Requirement applicable to such Restricted Subsidiary, or is otherwise restricted or prohibited in each case determined in accordance with GAAP; (iii) any extraordinary gains or losses, including gains or losses attributable to Property sales not in the ordinary course of business; (iv) the cumulative effect of a change in accounting principles; and (v) any gains or losses attributable to write-ups or write downs of assets.

"CONSOLIDATED SUBSIDIARIES" shall mean each Subsidiary of Borrower (whether now existing or hereafter created or acquired) the financial statements of which shall be (or should have been) consolidated with the financial statements of Borrower in accordance with GAAP.

"DEBT" shall mean, for any Person the sum of the following (without duplication): (i) all obligations of such Person for borrowed money or evidenced by bonds, debentures, notes or other similar instruments (including principal, interest, fees and charges); (ii) all obligations of such Person (whether contingent or otherwise) in respect of bankers' acceptances, letters of credit, surety or other bonds and similar instruments; (iii) all obligations of such

Person to pay the deferred purchase price of Property (except trade payables), which payment is due more than

six months after the date of placing such Property in service; (iv) all obligations under leases which shall have been, or should have been, in accordance with GAAP, recorded as capital leases in respect of which such Person is liable (whether contingent or otherwise); (v) all obligations under operating leases which require such Person to make payments over the term of such lease based on the purchase price or appraised value of the Property subject to such lease plus a marginal interest rate, and used primarily as a financing vehicle for, or to monetize, such Property; (vi) all Debt (as described in the other clauses of this definition) and other obligations of others secured by a Lien on any Property of such Person, whether or not such Debt is assumed by such Person; (vii) all Debt (as described in the other clauses of this definition) and other obligations of others guaranteed by such Person or in which such Person otherwise assures a creditor against loss of the debtor or obligations of others; (viii) all obligations or undertakings of such Person to maintain or cause to be maintained the financial position or covenants of others or to purchase the Debt or Property of others; (ix) obligations to deliver goods or services including Hydrocarbons in consideration of advance payments; (x) obligations to pay for goods or services whether or not such goods or services are actually received or utilized by such Person; (xi) any capital stock of such Person in which such Person has a mandatory obligation to redeem such stock prior to the maturity of the Loans; (xii) any Debt of a Special Entity for which such Person is liable either by agreement or because of a Governmental Requirement; (xiii) the undischarged balance of any production payment created by such Person or for the creation of which such Person directly or indirectly received payment; and (xiv) all obligations of such Person under Hedging Agreements; provided that Debt shall not include (i) any debt arising in connection with the Permitted Medusa Transaction, or (ii) any asset retirement obligations arising under Financial Accounting Standards Board Statement No. 143, Accounting for Asset Retirement Obligations.

"DEBT COVERAGE RATIO" shall mean as of any date of determination, with respect to Borrower and its Restricted Subsidiaries, the ratio of (x) the aggregate amount of Debt to (y) EBITDA for such four calendar quarters; provided, however, that:

(a) for purposes of clause (x) of the introductory paragraph of this definition, Debt shall only include the obligations listed in clauses (i) through (v), (vii), and (ix) through (xi) of the definition of Debt in this SECTION 1.02;

(b) if Borrower or any Restricted Subsidiary:

(1) has incurred any Debt since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Debt Coverage Ratio is an incurrence of Debt, EBITDA and Interest Expense for such period will be calculated after giving effect on a pro forma basis to such Debt as if such Debt has been incurred on the first day of such period (except that in making such computation, the amount of Debt under any revolving credit facility existing on the date of such calculation will be computed based on the average daily balance of such Debt during such period; provided that, for purposes of SECTION 9.01(a), the average daily balance deemed outstanding during such period under a revolving credit facility being repaid in whole or in part with the proceeds of such Debt shall be the lesser of (i) the actual average daily balance of such revolving indebtedness outstanding during such period and (ii) the amount of such revolving indebtedness outstanding

immediately before the application of the proceeds of such Debt to repay such revolving indebtedness) and the discharge of any other Debt repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Debt as if such discharge had occurred on the first day of such period; or

(2) has repaid, repurchased, defeased or otherwise discharged any Debt since the beginning of the period that is no longer outstanding on such date of determination or if the transaction giving rise to the need to calculate the Debt Coverage Ratio involves a discharge of Debt, EBITDA and Interest Expense for such period will be calculated after giving effect on a pro forma basis to such discharge of such Debt, including with the proceeds of such new Debt, as if such discharge had occurred on the first day of such period;

(c) if since the beginning of such period Borrower or any Restricted Subsidiary will h3ave sold or otherwise disposed of any material Property or other asset or if the transaction giving rise to the need to calculate the Debt Coverage Ratio is such a sale or disposition:

(1) the EBITDA for such period will be reduced by an amount equal to the EBITDA (if positive) directly attributable to the assets which are the subject of such sale or disposition for such period or increased by an amount equal to the EBITDA (if negative) directly attributable thereto for such period; and

(2) Interest Expense for such period will be reduced by an amount equal to the Interest Expense directly attributable to any Debt of Borrower or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to Borrower and its continuing Restricted Subsidiaries in connection with such sale or disposition for such period (or, if the capital stock of any Restricted Subsidiary is sold, the Interest Expense for such period directly attributable to the Debt of such Restricted Subsidiary to the extent Borrower and its continuing Restricted Subsidiaries are no longer liable for such Debt after such sale);

(d) if since the beginning of such period Borrower or any Restricted Subsidiary (by merger or otherwise) will have made an investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary or is merged with or into Borrower) or an acquisition of material Properties or other assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, EBITDA and Interest Expense for such period will be calculated after giving pro forma effect thereto (including the incurrence of any Debt) as if such investment or acquisition occurred on the first day of such period; and

(e) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into Borrower or any Restricted Subsidiary since the beginning of such period) will have sold or otherwise disposed of any material property or other asset or any investment or acquisition of assets that would

have required an adjustment pursuant to clause (b) or (c) above if made by Borrower or a Restricted Subsidiary during such period, EBITDA and Interest Expense for such period will be calculated after giving pro forma effect thereto as if such asset disposition or investment or acquisition of assets occurred on the first day of such period.

For purposes of this definition, whenever pro forma effect is to be given to any calculation under this definition, the pro forma calculations will be determined in good faith by a responsible financial or accounting officer of Borrower (including pro forma expense and cost reductions calculated in good faith by Borrower). If any Debt bears a floating rate of interest and is being given pro forma effect, the interest expense on such Debt will be calculated as if the rate in effect on the date of determination has been the applicable rate for the entire period (taking into account any interest rate agreement applicable to such Debt if such interest rate agreement has a remaining term in excess of 12 months).

For the purposes of this definition an imputed interest rate for any outstanding or proposed production payment, project financing and other non-recourse debt will be included in the calculation of Interest Expense and the corresponding EBITDA, if any and to the extent lowered, will be grossed up,

in a corresponding manner.

"DEFAULT" shall mean an Event of Default or an event which with notice or lapse of time or both would become an Event of Default.

"DEFERRED COMPENSATION PLAN" shall mean the Borrower Deferred Compensation Plan dated as of December 1, 1996 and the letter to employees dated December 13, 1996 relating thereto.

"DISQUALIFIED STOCK" shall mean, with respect to any Person, any capital stock of such Person which 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:

(a) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;

(b) is convertible or exchangeable for Debt or Disqualified Stock (excluding capital stock which is convertible or exchangeable solely at the option of Borrower or a Restricted Subsidiary); or

(c) is redeemable at the option of the holder thereof, in whole or in part,

in each case on or prior to the date that is ninety-one (91) days after the date (i) on which the Notes mature; provided that only the portion of capital stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock; provided, further, that any capital stock that would constitute Disqualified Stock solely because the holders thereof have the right to require Borrower to repurchase such capital stock upon the occurrence of a change of control or asset disposition (each defined in a substantially identical manner to the corresponding definitions herein) shall not constitute Disqualified Stock if the terms of such capital stock (and all such securities into which it is convertible or for which it is ratable or exchangeable) provide that Borrower may not repurchase or redeem any such capital stock (and

all such securities into which it is convertible or for which it is ratable or exchangeable) pursuant to such provision prior to compliance by Borrower with the provisions hereof described under SECTIONS 2.04(b), 9.03 and 9.11.

"DOLLAR-DENOMINATED PRODUCTION PAYMENTS" shall mean production payment obligations recorded as liabilities in accordance with GAAP, together with all undertakings and obligations in connection therewith.

"DOLLARS" and "$" shall mean lawful money of the United States of America.

"DUKE CREDIT FACILITY" shall mean that certain credit facility pursuant to the Credit Agreement dated June 29, 2001, by and among the Borrower, Duke Capital Partners, LLC, as Administrative Agent, and the lenders signatory thereto, as amended from time to time.

"EBITDA" shall mean, for the period of the most recent four consecutive calendar quarters ending prior to the date of determination for which financial statements are available, the sum of Consolidated Net Income for such period plus the following expenses or charges to the extent deducted from Consolidated Net Income in such period: Interest Expense, taxes, depreciation, depletion, amortization and non-cash compensation expense; for the purposes of this definition (when used in the calculation of the Interest Coverage Ratio and the Debt Coverage Ratio) EBITDA, if any and to the extent lowered, relating to any production payment, project financing and other non-recourse debt and in which an imputed interest rate has been calculated and used in the definition of Interest Expense, will be grossed up by a corresponding amount.

"ENVIRONMENTAL LAWS" shall mean any and all Governmental Requirements pertaining to health or the environment in effect in any and all jurisdictions in which Borrower or any Subsidiary is conducting or at any time has conducted business, or where any Property of Borrower or any Subsidiary is

located, including without limitation, the Oil Pollution Act of 1990 ("OPA"), the Clean Air Act, as amended, the Comprehensive Environmental, Response, Compensation, and Liability Act of 1980 ("CERCLA"), as amended, the Federal Water Pollution Control Act, as amended, the Occupational Safety and Health Act of 1970, as amended, the Resource Conservation and Recovery Act of 1976 ("RCRA"), as amended, the Safe Drinking Water Act, as amended, the Toxic Substances Control Act, as amended, the Superfund Amendments and Reauthorization Act of 1986, as amended, the Hazardous Materials Transportation Act, as amended, and other environmental conservation or protection laws. The term "oil" shall have the meaning specified in OPA, the terms "hazardous substance" and "release" (or "threatened release") have the meanings specified in CERCLA, and the terms "solid waste" and "disposal" (or "disposed") have the meanings specified in RCRA; provided, however, that (i) in the event either OPA, CERCLA or RCRA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment and (ii) to the extent the laws of the state in which any Property of Borrower or any Subsidiary is located establish a meaning for "oil," "hazardous substance," "release," "solid waste" or "disposal" which is broader than that specified in either OPA, CERCLA or RCRA, such broader meaning shall apply.

"EQUIPMENT FINANCING SUBSIDIARY" shall mean a Subsidiary of Borrower formed for the sole purpose of owning equipment purchased in a Permitted Equipment Financing and related assets and that has no substantial operations and conducts no substantial activities other than those related to the ownership of such equipment.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and any successor statute.

"ERISA AFFILIATE" shall mean each trade or business (whether or not incorporated) which together with Borrower or any Subsidiary would be deemed to be a "single employer" within the meaning of section 4001(b)(1) of ERISA or subsections (b), (c), (m) or (o) of section 414 of the Code.

"ERISA EVENT" shall mean (i) a "reportable event" described in Section 4043 of ERISA and the regulations issued thereunder, (ii) the withdrawal of Borrower, any Subsidiary or any ERISA Affiliate from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA, (iii) the filing of a notice of intent to terminate a Plan or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, (iv) the institution of proceedings to terminate a Plan by the PBGC or (v) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"EVENT OF DEFAULT" shall have the meaning assigned such term in SECTION 10.01.

"EXCESS PROCEEDS" shall have the meaning assigned such term in SECTION 9.11(b).

"EXCHANGED PROPERTIES" shall mean Properties used or useful in the oil and gas business and received by Borrower or a Consolidated Subsidiary in exchange for other Properties owned by it, whether directly or indirectly through the acquisition of the capital stock of a Person holding such Properties so that such Person becomes a Wholly-Owned and Consolidated Subsidiary of Borrower, in trade or as a portion of the total consideration for such other Properties.

"EXISTING SUBORDINATED DEBT" shall mean the 2005 Senior Subordinated Notes.

"FINAL MATURITY DATE" shall mean December 8, 2010.

"FINANCIAL STATEMENTS" shall have the meaning assigned such term in SECTION 7.02.

"FORM W-8BEN CERTIFICATION" shall have the meaning assigned such term in SECTION 4.05(D)(1).

"FORM W-8ECI CERTIFICATION" shall have the meaning assigned such

term in SECTION 4.05(D)(1).

"FUNDING" shall mean the funding of the Loan upon satisfaction of the conditions set forth in SECTION 6.01.

"GAAP" shall mean generally accepted accounting principles in the United States of America (i) as in effect on the date hereof with regard to SECTIONS 9.01 and 9.03 (ii) otherwise as in effect from time to time.

"GOVERNMENTAL AUTHORITY" shall mean the country, the state, county, city and political subdivisions in which any Person or such Person's Property is located or which exercises valid jurisdiction over any such Person or such Person's Property, and any court, agency, department, commission, board, bureau or instrumentality of any of them including monetary authorities which exercises valid jurisdiction over any such Person or such Person's Property. Unless otherwise specified, all references to Governmental Authority herein shall mean a Governmental Authority having jurisdiction over, where applicable, Borrower, its Subsidiaries or any of their Property or the Administrative Agent or any Lender.

"GOVERNMENTAL REQUIREMENT" shall mean any law, statute, code, ordinance, order, determination, rule, regulation, judgment, decree, injunction, franchise, permit, certificate, license, authorization or other directive or requirement (whether or not having the force of law), including, without limitation, Environmental Laws, energy regulations and occupational, safety and health standards or controls, of any Governmental Authority.

"HEDGING AGREEMENTS" shall mean any commodity, interest rate or currency swap, cap, floor, collar, forward agreement or other exchange or protection agreements or any option with respect to any such transaction.

"HIGHEST LAWFUL RATE" shall mean, with respect to each Lender, the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received on the Notes under laws applicable to such Lender which are currently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

"HYDROCARBON INTERESTS" shall mean all rights, titles, interests and estates now or hereafter acquired in and to oil and gas leases, oil, gas and mineral leases, or other liquid or gaseous hydrocarbon leases, mineral fee interests, overriding royalty and royalty interests, net profit interests and production payment interests, including any reserved or residual interests of whatever nature.

"HYDROCARBONS" shall mean oil, gas, casinghead gas, drip gasoline, natural gasoline, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and all products refined or separated therefrom.

"INDEMNIFIED PARTIES" shall have the meaning assigned such term in SECTION 12.03(a)(2).

"INDEMNITY MATTERS" shall mean any and all actions, suits, proceedings (including any investigations, litigation or inquiries), claims, demands and causes of action made or threatened against a Person and, in connection therewith, all losses, liabilities, damages (including, without limitation, consequential damages) or reasonable costs and expenses of any

kind or nature whatsoever incurred by such Person whether caused by the sole or concurrent negligence of such Person seeking indemnification.

"INDENTURE" shall have the meaning assigned such term in SECTION 5.01(a).

"INDENTURE NOTES" shall have the meaning assigned such term in SECTION 5.01(a).

"INTEREST COVERAGE RATIO" shall mean as of any date of determination, with respect to Borrower and its Restricted Subsidiaries, the ratio of (x) the aggregate amount of EBITDA to (y) Interest Expense for such four calendar quarters; provided, however, that:

(a) if Borrower or any Restricted Subsidiary:

(1) has incurred any Debt since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Interest Coverage Ratio is an incurrence of Debt, EBITDA and Interest Expense for such period will be calculated after giving effect on a pro forma basis to such Debt as if such Debt has been incurred on the first day of such period (except that in making such computation, the amount of Debt under any revolving credit facility existing on the date of such calculation will be computed based on the average daily balance of such Debt during such period; provided that, for purposes of SECTION 9.01, the average daily balance deemed outstanding during such period under a revolving credit facility being repaid in whole or in part with the proceeds of such Debt shall be the lesser of (i) the actual average daily balance of such revolving indebtedness outstanding during such period and (ii) the amount of such revolving indebtedness outstanding immediately before the application of the proceeds of such Debt to repay such revolving indebtedness) and the discharge of any other Debt repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Debt as if such discharge had occurred on the first day of such period; or

(2) has repaid, repurchased, defeased or otherwise discharged any Debt since the beginning of the period that is no longer outstanding on such date of determination or if the transaction giving rise to the need to calculate the Interest Coverage Ratio involves a discharge of Debt (in each case other than Debt incurred under any revolving credit facility unless such Debt has been permanently repaid and the related commitment terminated; provided, that for purposes of SECTION 9.01, this parenthetical clause shall not apply), EBITDA and Interest Expense for such period will be calculated after giving effect on a pro forma basis to such discharge of such Debt, including with the proceeds of such new Debt, as if such discharge had occurred on the first day of such period;

(b) if since the beginning of such period Borrower or any Restricted Subsidiary will have sold or otherwise disposed of any material Property or other asset or if the transaction giving rise to the need to calculate the Interest Coverage Ratio is such a sale or disposition:

(1) the EBITDA for such period will be reduced by an amount equal to the EBITDA (if positive) directly attributable to the assets which are the subject of such sale or disposition for such period or increased by an amount equal to the EBITDA (if negative) directly attributable thereto for such period; and

(2) Interest Expense for such period will be reduced by an amount equal to the Interest Expense directly attributable to any Debt of Borrower or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to Borrower and its continuing Restricted Subsidiaries in connection with such sale or disposition for such period (or, if the capital stock of any Restricted Subsidiary is sold, the Interest Expense for such period directly attributable to the Debt of such Restricted Subsidiary to the extent Borrower and its continuing Restricted Subsidiaries are no longer liable for such Debt after such sale);

(c) if since the beginning of such period Borrower or any Restricted Subsidiary (by merger or otherwise) will have made an investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary or is merged with or into Borrower) or an

acquisition of material Properties or other assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, EBITDA and Interest Expense for such period will be calculated after giving pro forma effect thereto (including the incurrence of any Debt) as if such investment or acquisition occurred on the first day of such period; and

(d) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into Borrower or any Restricted Subsidiary since the beginning of such period) will have sold or otherwise disposed of any material property or other asset or any investment or acquisition of assets that would have required an adjustment pursuant to clause (b) or (c) above if made by Borrower or a Restricted Subsidiary during such period, EBITDA and Interest Expense for such period will be calculated after giving pro forma effect thereto as if such asset disposition or investment or acquisition of assets occurred on the first day of such period.

For purposes of this definition, whenever pro forma effect is to be given to any calculation under this definition, the pro forma calculations will be determined in good faith by a responsible financial or accounting officer of Borrower (including pro forma expense and cost reductions calculated in good faith by Borrower). If any Debt bears a floating rate of interest and is being given pro forma effect, the interest expense on such Debt will be calculated as if the rate in effect on the date of determination has been the applicable rate for the entire period (taking into account any interest rate agreement applicable to such Debt if such interest rate agreement has a remaining term in excess of 12 months).

For the purposes of this definition an imputed interest rate for any outstanding or proposed production payment, project financing and other non-recourse debt will be included in the calculation of Interest Expense and the corresponding EBITDA, if any and to the extent lowered, will be grossed up, in a corresponding manner.

"INTEREST EXPENSE" shall mean, for the period of the most recent four consecutive calendar quarters ending prior to the date of determination for which financial statements are available, the total cash interest expense of Borrower and its Restricted Subsidiaries determined in accordance with GAAP, plus, to the extent not included in such interest expense (without duplication):

(a) interest expense attributable to capitalized lease obligations and the interest portion of rent expense associated with Debt in respect of the relevant lease giving rise thereto, determined as if such lease were a capitalized lease in accordance with GAAP and the interest component of any deferred payment obligations to the extent not accrued in a prior period;

(b) imputed interest expense attributable to any production payment, project financing by vendors and other non-recourse debt, but not including any amounts arising out of the Permitted Medusa Transaction;

(c) interest actually paid by Borrower or any Restricted Subsidiary under any guarantee of Debt or other obligation of any other person;

(d) net costs associated with Hedging Agreements for the purpose of ameliorating interest rate fluctuation risk or any kind of interest rate agreement (excluding amortization of fees);

(e) the consolidated cash interest expense of Borrower and its Restricted Subsidiaries that was capitalized during such period; and

(f) the 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 Borrower or its Restricted Subsidiaries) in connection with Debt incurred by such plan or trust; provided, however, that there will be excluded therefrom any such interest expense of any Unrestricted Subsidiary to the extent the related Debt is not guaranteed or paid by Borrower or any Restricted

Subsidiary.

For purposes of the foregoing, total Interest Expense will be determined after giving effect to any net payments made or received by Borrower and its Restricted Subsidiaries with respect to interest rate agreements; provided, however, that Interest Expense shall not include (a) to the extent included in total Interest Expense, amortization or write-off of deferred financial costs or discount accretion of such Person or (b) accretion of interest charges on future plugging and abandonment obligations, future retirement benefits and other obligations that do not constitute Debt.

"INVESTMENT" shall mean, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any direct or indirect advance, loan (other than advances to customers in the ordinary course of business) or other extension of credit (including by way of guarantee or similar arrangement, but excluding any Debt or extension of credit represented by a bank deposit other than a time deposit) 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, Debt or other

similar instruments issued by, such Person and all other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP; provided that none of the following will be deemed to be an Investment:

(a) Hedging Agreements entered into in the ordinary course of business and in compliance herewith;

(b) endorsements of negotiable instruments and documents in the ordinary course of business; and

(c) an acquisition of assets, capital stock or other securities by Borrower or a Subsidiary for consideration to the extent such consideration consists exclusively of common equity securities of Borrower.

For purposes of this definition:

(i) "INVESTMENT" shall mean the portion (proportionate to Borrower's equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary of Borrower at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, Borrower will be deemed to continue to have a permanent "INVESTMENT" in an Unrestricted Subsidiary in an amount (if positive) equal to (a) Borrower's "INVESTMENT" in such Subsidiary at the time of such redesignation less (b) the portion (proportionate to Borrower's equity interest in such Subsidiary) of the fair market value of the net assets (as conclusively determined by the Board of Directors of Borrower in good faith) of such Subsidiary at the time that such Subsidiary is so redesignated a Restricted Subsidiary; and

(ii) 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 of Borrower.

"LIEN" shall mean any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and whether such obligation or claim is fixed or contingent, and including but not limited to (i) the lien or security interest arising from a mortgage, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes or (ii) production payments and the like payable out of Oil and Gas Properties. The term "Lien" shall also mean reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting Property. For the purposes of this Agreement, Borrower or any Subsidiary shall

be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement, or leases under a financing lease or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person in a transaction intended to create a financing.

"LOAN INCREASE CERTIFICATE" shall have the meaning assigned to such term in SECTION 2.02(b)(4).

"LOAN DOCUMENTS" shall mean this Agreement, the Notes, any Assignment and any other agreements or documents executed in connection herewith.

"LOAN" shall mean the loans as provided for by SECTION 2.01, and unless the context otherwise requires, the term "Loans" shall include the Additional Loans.

"MAJORITY LENDERS" shall mean Lenders holding at least 75% of the outstanding aggregate principal amount of the Loan.

"MATERIAL ADVERSE EFFECT" shall mean any material and adverse effect on (i) the assets, liabilities, financial condition, business, operations or affairs of Borrower and its Subsidiaries taken as a whole, or (ii) the ability of Borrower and its Subsidiaries taken as a whole to carry out their business or meet their obligations under the Loan Documents on a timely basis.

"MATERIAL AGREEMENT" shall have the meaning assigned such term in SECTION 7.21.

"MULTIEMPLOYER PLAN" shall mean a Plan defined as such in Section 3(37) or 4001(a)(3) of ERISA.

"NET AVAILABLE CASH" from an Asset Disposition shall mean cash payments received (including any cash payments received by way of deferred payment of principal pursuant to 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 Debt or other obligations relating to the Properties that are the subject of such Asset Disposition or received in any other noncash form) therefrom, in each case net of:

(a) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability under GAAP (after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Disposition;

(b) all payments made on any Debt which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which 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;

(c) 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

(d) the deduction of appropriate amounts to be provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by Borrower or any Consolidated Subsidiary after such Asset Disposition.

"NET CASH PROCEEDS," with respect to any issuance or sale of capital stock, shall mean the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually incurred in connection with such issuance

or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions and any tax sharing arrangements).

"NOTES" shall mean the Notes described in and provided for by SECTION 2.03, together with any and all renewals, extensions for any period, increases, rearrangements, substitutions or modifications thereof.

"NYMEX STRIP PRICE" shall mean the average closing price of contracts for future delivery for the next occurring 24 months as of the close of trading on the New York Mercantile Exchange ("NYMEX") on the date of any calculation. For crude oil, the reference contract will be light sweet crude oil, the NYMEX symbol for which is currently "CL." For natural gas, the reference contract will be natural gas delivered at the Henry Hub in Louisiana, the NYMEX symbol for which is currently "NG." To the extent that reference prices are not available for the entire 24 month period, prices will be determined on the average of the contracts which are available during such 24 month period.

"OIL AND GAS PROPERTIES" shall mean Hydrocarbon Interests; the Properties now or hereafter pooled or unitized with Hydrocarbon Interests; all presently existing or future unitization, pooling agreements and declarations of pooled units and the units created thereby (including without limitation all units created under orders, regulations and rules of any Governmental Authority) which may affect all or any portion of the Hydrocarbon Interests; all operating agreements, contracts and other agreements which relate to any of the Hydrocarbon Interests or the production, sale, purchase, exchange or processing of Hydrocarbons from or attributable to such Hydrocarbon Interests; all Hydrocarbons in and under and which may be produced and saved or attributable to the Hydrocarbon Interests, including all oil in tanks, the lands covered thereby and all rents, issues, profits, proceeds, products, revenues and other incomes from or attributable to the Hydrocarbon Interests; all tenements, hereditaments, appurtenances and Properties in any manner appertaining, belonging, affixed or incidental to the Hydrocarbon Interests; and all Properties, rights, titles, interests and estates described or referred to above, including any and all Property, real or personal, now owned or hereinafter acquired and situated upon, used, held for use or useful in connection with the operating, working or development of any of such Hydrocarbon Interests or Property (excluding drilling rigs, automotive equipment or other personal property which may be on such premises for the purpose of drilling a well or for other similar temporary uses) and including any and all oil wells, gas wells, injection wells or other wells, buildings, structures, fuel separators, liquid extraction plants, plant compressors, pumps, pumping units, field gathering systems, tanks and tank batteries, fixtures, valves, fittings, machinery and parts, engines, boilers, meters, apparatus, equipment, appliances, tools, implements, cables, wires, towers, casing, tubing and rods, surface leases, rights-of-way, easements and servitudes together with all additions, substitutions, replacements, accessions and attachments to any and all of the foregoing. Unless otherwise indicated, Oil and Gas Properties shall mean such Property of Borrower and its Restricted Subsidiaries.

"OTHER TAXES" shall have the meaning assigned such term in SECTION 4.05(b).

"PARI PASSU NOTES" shall have the meaning assigned such term in SECTION 9.11(b).

"PBGC" shall mean the Pension Benefit Guaranty Corporation or any Person succeeding to any or all of its functions.

"PERCENTAGE SHARE" shall mean the percentage of the aggregate Loans to be provided by a Lender under this Agreement as indicated on Annex I hereto, as modified from time to time to reflect any assignments permitted by SECTION 12.06(b).

"PERMITTED BUSINESS INVESTMENT" shall mean any Investment made in the ordinary course of, and of a nature that is or shall have become customary in, the Related Business including investments or expenditures for exploiting, exploring for, acquiring, developing, producing, processing, gathering, marketing or transporting oil and gas through agreements, transactions,

interests or arrangements which permit one to share risks or costs, comply with regulatory requirements regarding local ownership or satisfy other objectives customarily achieved through the conduct of the Related Business jointly with third parties, including (i) ownership interests in oil and gas properties, processing facilities, gathering systems, pipelines or ancillary real property interests and (ii) Investments in the form of or pursuant to 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 corporations other than Restricted Subsidiaries.

"PERMITTED CONSIDERATION" shall have the meaning assigned such term in SECTION 9.11.

"PERMITTED EQUIPMENT FINANCING" shall mean any Debt incurred by Borrower or any Subsidiary of Borrower to finance or refinance the acquisition, after the Closing Date, from a third party that is not an Affiliate of Borrower of any equipment and related assets to be used in a Related Business; provided that (i) the aggregate amount of all such Debt shall not exceed 50% of the cumulative amount of capital expenditures made by Borrower and its Restricted Subsidiaries after the Closing Date for capital equipment to be used in a Related Business, together with any taxes, duties, installation costs or similar costs related thereto, and (ii) such Debt shall be non-recourse to Borrower and each Subsidiary of Borrower other than an Equipment Financing Subsidiary related to such acquired equipment.

"PERMITTED INDEBTEDNESS" shall mean:

(a) the Notes and any additional Notes under SECTION 2.02 or any guaranty of or suretyship arrangement for the Notes;

(b) Debt (other than that associated with the Senior Secured Credit Facility and the Duke Credit Facility) of Borrower existing on the Amendment and Restatement Date which is reflected in the Financial Statements or is disclosed in Schedule 9.01, and any renewals or extensions (but not increases) thereof;

(c) accounts payable (for the deferred purchase price of Property or services) from time to time incurred in the ordinary course of business which, if greater than ninety (90) days past the invoice or billing date, are being contested in good faith by appropriate proceedings if reserves adequate under GAAP shall have been established therefor;

(d) Debt under capital leases (as required to be reported on the financial statements of Borrower pursuant to GAAP) in addition to any obligations that are Debt as permitted under SECTION 9.06;

(e) Debt associated with bonds or surety obligations required by Governmental Requirements in connection with the operation of the Oil and Gas Properties;

(f) Hedging Agreements covering (A) oil and gas production of proved developed producing Oil and Gas Properties of Borrower or any Consolidated Subsidiary; provided, however, that such Hedging Agreements related to oil or gas production shall not, either individually or in the aggregate, cover more than 80% of estimated production on the date such hedges are entered into of oil or gas of Borrower and the Consolidated Subsidiaries for each individual period covered by the Hedging Agreements, (B) fluctuations in interest rates for notional principal amounts not to exceed at any time outstanding 80% of the Debt for borrowed money of Borrower and its Consolidated Subsidiaries, and (C) foreign exchange risk;

(g) Debt arising out of the Deferred Compensation Plan to the extent such Debt can be satisfied out of the investments held by such plan and the proceeds thereof;

(h) Debt arising under the Senior Secured Credit Facility in a

total principal amount outstanding not greater than $125,000,000;

(i) Debt arising under the Duke Credit Facility in a total principal amount outstanding not greater than $95,000,000, less the amount of any repayment of principal required pursuant to SECTION 7.07 or 8.09;

(j) Debt of a Restricted Subsidiary incurred and outstanding on the date on which such Restricted Subsidiary is acquired by Borrower (other than Debt incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was otherwise acquired by Borrower or (ii) otherwise in connection with, or in contemplation of, such acquisition); provided, however, that at the time such Restricted Subsidiary is acquired by Borrower, Borrower would have been

able to incur $1.00 of additional Debt pursuant to SECTION 9.01(a) after giving effect to the incurrence of such Debt pursuant to this clause (j);

(k) Debt incurred in respect of workers' compensation claims, self-insurance obligations, performance, bid, surety and similar bonds, letters of credit and guarantees supporting such performance, bid, surety and similar bonds and completion guarantees provided by Borrower or a Restricted Subsidiary in the ordinary course of business;

(l) Debt arising from agreements of Borrower or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or capital stock of a Restricted Subsidiary, provided that the maximum aggregate liability in respect of all such Debt other than Debt related to environmental liabilities to governmental agencies shall at no time exceed the gross proceeds actually received by Borrower and its Restricted Subsidiaries in connection with such disposition;

(m) Debt arising from the honoring by a bank or other financial institution of a check, draft of similar instrument (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; provided, however, that such Debt is extinguished within five (5) Business Days of incurrence;

(n) obligations relating to net gas balancing positions arising in the ordinary course of business and consistent with past practice;

(o) non-recourse debt not to exceed $10,000,000 in the aggregate at any one time outstanding;

(p) the issuance of Debt issued in a Qualified Offering (other than Debt issued in exchange for Notes converted under ARTICLE V subject to SECTION 8.09), provided that the sum of any Debt issued pursuant to SECTION 2.02 plus all Debt issued in a Qualified Offering (other than Debt issued in exchange for Notes converted under ARTICLE V) shall not exceed $165,000,000;

(q) Permitted Equipment Financing;

(r) in addition to the items referred to in clauses (a) through (q) above, Debt of Borrower and its Restricted Subsidiaries in an aggregate outstanding principal amount which, when taken together with the principal amount of all other indebtedness incurred pursuant to this clause (s) and then outstanding, will not exceed $10,000,000; and

(s) renewals or extensions of any Debt referred to in clauses (a) through (f) above.

"PERMITTED INVESTMENT" shall mean an Investment by Borrower or any Restricted Subsidiary in:

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

(b) 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, Borrower or a Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business;

(c) cash and Cash Equivalents;

(d) receivables owing to Borrower or any Restricted Subsidiary 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 Borrower or any such Restricted Subsidiary deems reasonable under the circumstances;

(e) 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;

(f) loans or advances to employees made in the ordinary course of business consistent with past practices of Borrower or such Restricted Subsidiary;

(g) stock, obligations or securities received in settlement of Debts created in the ordinary course of business and owing to Borrower or any Restricted Subsidiary or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of a debtor;

(h) Investments made as a result of the receipt of non-cash consideration from an Asset Disposition that was made pursuant to and in compliance with SECTION 9.11;

(i) Investments in existence on the date hereof;

(j) Hedging Agreements which transactions or obligations are incurred in compliance with SECTION 9.01;

(k) Investments by Borrower or any of its Restricted Subsidiaries, together with all other Investments pursuant to this clause (k), in an aggregate amount at the time of such Investment not to exceed $10,000,000; outstanding at any one time;

(l) guarantees issued in accordance with SECTION 9.01;

(m) Investments representing deferred compensation of employees and earnings thereon under Borrower's KEYSOP plan;

(n) any investment arising out of the Permitted Medusa Transaction; and

(o) Permitted Business Investments.

"PERMITTED LIEN" shall mean with respect to any Person:

(a) Liens securing the obligations of Borrower under the Senior Secured Credit Facility, any other Senior Secured Debt permitted under SECTION 9.01(b) or the Duke Credit Facility and related Hedging Agreements and Liens on assets of Restricted Subsidiaries securing Debt and other obligations of Borrower or such Restricted Subsidiaries under the Senior Secured Credit Facility and the Duke Credit Facility;

(b) pledges or deposits by such Person under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits or cash or United States government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import or customs duties or for the payment of rent, in each case incurred in the ordinary course of business;

(c) Liens imposed by law, including carriers', warehousemen's, mechanics', materialmen's and operator's Liens, (including Liens arising pursuant to Article 9.319 of the Texas Uniform Commercial Code or other similar statutory provisions of other states with respect to production purchased from others) in each case for sums not yet due or being contested in good faith by appropriate proceedings if a reserve or other appropriate provisions, if any, as shall be required by GAAP shall have been made in respect thereof;

(d) Liens for taxes, assessments or other governmental charges not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings provided appropriate reserves required pursuant to GAAP have been made in respect thereof;

(e) Liens in favor of issuers of surety or performance bonds or letters of credit or bankers' acceptances issued pursuant to the request of and for the account of such Person in the ordinary course of its business; provided, however, that such letters of credit do not constitute Debt;

(f) encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines, pipelines and other similar purposes, or zoning or other restrictions as to the use of real properties or liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(g) Liens securing Hedging Agreements so long as the related Debt is, and is permitted to be under this Agreement, secured by a Lien on the same property securing such Hedging Agreement;

(h) leases and subleases of real property which do not materially interfere with the ordinary conduct of the business of Borrower or any of its Restricted Subsidiaries;

(i) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(j) Liens for the purpose of securing the payment of all or a part of the purchase price of, or capitalized lease obligations with respect to, assets or property acquired or constructed in the ordinary course of business, provided that:

(1) the aggregate principal amount of Debt secured by such Liens is otherwise permitted to be incurred hereunder and does not exceed the cost of the assets or property so acquired or constructed; and

(2) such Liens are created within one hundred eighty (180) days of construction or acquisition of such Property and do not encumber any other Property of Borrower or any Restricted Subsidiary other than such Property affixed or appurtenant thereto;

(k) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar

rights and remedies as to deposit accounts or other funds maintained with a depositary institution; provided that:

(1) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by Borrower in excess of those set forth by regulations promulgated by the Federal Reserve Board; and

(2) such deposit account is not intended by Borrower or any Restricted Subsidiary to provide collateral to the depository institution;

(l) Liens arising from Uniform Commercial Code financing statement filings regarding operating leases entered into by Borrower and its Restricted Subsidiaries in the ordinary course of business;

(m) Liens existing on the Closing Date;

(n) Liens on property or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary; provided, however, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such other Person becoming a Restricted Subsidiary; provided further, however, that any such Lien may not extend to any other property owned by Borrower or any Restricted Subsidiary;

(o) Liens on property at the time Borrower or a Restricted Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into Borrower or any Restricted Subsidiary; provided, however, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such acquisition; provided further, however, that such Liens may not extend to any other property owned by Borrower or any Restricted Subsidiary;

(p) Liens securing Debt or other obligations of a Restricted Subsidiary owing to Borrower or a Wholly-Owned Subsidiary;

(q) Liens securing the Notes or the obligations under this Agreement;

(r) Liens securing refinancing indebtedness incurred to refinance Debt that was previously so secured, provided that any such Lien is limited to all or part of the same Property (plus improvements, future interests and additional acquired interests in the same Property apportionment thereto, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Debt being refinanced or is in respect of Property that is the security for a Permitted Lien hereunder;

(s) Liens upon specific Properties of Borrower or any of its Subsidiaries securing Debt incurred in the ordinary course of business to provide all or part of the funds for the exploration, drilling, production or development of those Properties;

(t) Liens in respect of production payments and reserve sales;

(u) farm-out, farm-in, seismic, carried working interests, areas of mutual interests, joint operating, joint exploration, unitization, gas balancing, royalty, overriding royalty, bonus, rental, sales and similar agreements relating to the exploration or development of, or production from, oil and gas properties and related facilities (production and transportation) entered into in the ordinary course of business;

(v) Liens on the capital stock or other equity interests of any Equipment Financing Subsidiary to secure Debt of such Equipment Financing Subsidiary incurred in connection with a Permitted Equipment Financing; and

(w) Liens with respect to Permitted Indebtedness on the

capital stock or other equity interests of any Unrestricted Subsidiary to secure Debt of such Unrestricted Subsidiary which is non-recourse to Borrower or any Restricted Subsidiary.

"PERMITTED MEDUSA TRANSACTION" shall have the meaning ascribed to such term in the credit agreement for the Senior Secured Credit Facility in effect on the date hereof.

"PERSON" shall mean any individual, corporation, company, association, partnership, joint venture, trust, unincorporated organization or government or any agency, instrumentality or political subdivision thereof, or any other form of entity.

"PLAN" shall mean any employee pension benefit plan, as defined in Section 3(2) of ERISA, which (i) is currently or hereafter sponsored, maintained or contributed to by Borrower, any Subsidiary or an ERISA Affiliate or (ii) was at any time during the preceding six calendar years sponsored, maintained or contributed to, by Borrower, any Subsidiary or an ERISA Affiliate.

"POST-DEFAULT RATE" shall mean, in respect of any principal of any Loan or any other amount payable by Borrower under this Agreement or any other Loan Document, a rate per annum during the period commencing on the date of occurrence of an Event of Default until such amount is paid in full or all Events of Default then existing are cured or waived equal to 11.75% per annum, but in no event to exceed the Highest Lawful Rate.

"PREFERRED STOCK," as applied to the capital stock of any Person, shall mean capital stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of capital stock of any other class of such Person.

"PROPERTY" shall mean any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"QUARTERLY DATE" shall mean the last day of each March, June, September, and December, in each year, the first of which shall be March 31, 2004; provided, however, that if any such day is not a Business Day, such Quarterly Date shall be the next succeeding Business Day.

"QUALIFIED OFFERING" shall mean each of the following transactions (or any combination thereof), provided that no Debt incurred in such Qualified Offering shall be amortized or mature on a date earlier than the date on which the Loans are paid in full:

(a) an offering by Borrower (which may be guaranteed by one or more Subsidiaries) of debt securities of Borrower that are registered with the SEC under the Securities Act pursuant to an effective registration statement; or

(b) an offering by Borrower (which may be guaranteed by one or more Subsidiaries) of debt securities of Borrower to "qualified institutional buyers," without registration under the Securities Act in reliance on Rule 144A (provided that a Qualified Offering may also include a simultaneous offering of such debt securities to Persons outside of the United States in reliance on Regulation S promulgated under the Securities Act and to a limited number of institutional accredited investors in reliance on Regulation D promulgated under the Securities Act); provided, that such securities sold to qualified institutional buyers in the United States shall be eligible for trading on The PORTAL Market.

"RELATED BUSINESS" shall mean any business which is the same as or related, ancillary or complementary to any of the businesses of Borrower and its Restricted Subsidiaries on the date hereof.

"RESPONSIBLE OFFICER" shall mean, as to any Person, the Chief Executive Officer, the President or any Vice President of such Person and, with

respect to financial matters, the term "RESPONSIBLE OFFICER" shall include the Chief Financial Officer of such Person. Unless otherwise specified, all references to a Responsible Officer herein shall mean a Responsible Officer of Borrower.

"RESTRICTED INVESTMENT" shall mean any Investment other than a Permitted Investment.

"RESTRICTED PAYMENT" shall have the meaning assigned such term in SECTION 9.03(a).

"RESTRICTED SUBSIDIARY" shall mean any Subsidiary identified as a Restricted Subsidiary on Schedule 7.14 and any Subsidiary created after the date hereof that Borrower does not designate as an Unrestricted Subsidiary.

"RULE 144A" shall mean Rule 144A as promulgated under the Securities Act (including any successor rule thereof), as the same may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

"SEC" shall mean the Securities and Exchange Commission or any successor Governmental Authority.

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

"SENIOR INDEBTEDNESS" shall mean, whether outstanding on the date hereof or thereafter issued, created, incurred or assumed, the Senior Secured Credit Facility Debt, the Duke Credit Facility Debt, and all other Debt of Borrower, including accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to Borrower at the rate specified in the documentation with respect thereto whether or not a claim for post filing interest is allowed in such proceeding) and fees relating thereto; provided, however, that Senior Indebtedness will not include:

(a) any Debt which, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that the obligations in respect of such Debt are subordinate to payment of the Notes;

(b) any obligation of Borrower to any Subsidiary;

(c) any liability for federal, state, foreign, local or other taxes owed or owing by Borrower;

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

(e) any Debt, guarantee or obligation of Borrower that is expressly subordinate or junior in right of payment to any other Debt, guarantee or obligation of Borrower, including, without limitation, any Subordinated Debt; or

(f) any capital stock.

"SENIOR SECURED CREDIT FACILITY" shall mean Borrower's primary senior revolving credit facility or facilities as constituted, amended, modified or restated from time to time which allow Borrower to borrow and reborrow amounts up to a borrowing base determined by the lenders thereunder, which is currently the $75,000,000 Senior Secured Credit Facility among Borrower, Wachovia Bank, National Association, as Administrative Agent and the other lenders thereto.

"SENIOR SECURED DEBT" shall mean, whether outstanding on the date hereof or thereafter issued, created, incurred or assumed, any Senior Indebtedness of the Borrower or any Restricted Subsidiary secured by a Lien, including, but not limited to the Senior Secured Credit Facility Debt.

"SPECIAL ENTITY" shall mean, with regard to a Person, any joint venture, limited liability company or partnership, general or limited

partnership or any other type of partnership or company other than a corporation in which such first Person or one or more of its other Subsidiaries is a member, owner, partner or joint venturer and owns, directly or indirectly, at least a majority of the equity of such entity or controls such entity, but excluding any tax partnerships that are not classified as partnerships under state law.

"SUBORDINATED DEBT" shall mean any Debt of Borrower expressly subordinated to the Loans, on terms including, without limitation, that payments on such Debt shall be prohibited if a Default exists or would result from such payment, and other terms and conditions substantially similar to those found in the Existing Subordinated Debt.

"SUBORDINATED OBLIGATION" shall mean any Debt of Borrower (whether outstanding on the date hereof or thereafter incurred) which is subordinate or junior in right of payment to the Notes pursuant to a written agreement.

"SUBSIDIARY" shall mean, with regard to a Person, (i) any corporation of which at least a majority of the outstanding shares of stock having by the terms thereof ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether or not at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more of its Subsidiaries and (ii) any Special Entity of which at least a majority of the equity interests are owned directly or indirectly or controlled by such Person. Unless otherwise indicated herein, each reference to the term "Subsidiary" shall mean a Subsidiary of Borrower.

"SUBSIDIARY SECURITIES" shall have the meaning assigned such term in SECTION 7.14.

"TAXES" shall have the meaning assigned such term in SECTION 4.05(a).

"UNRESTRICTED SUBSIDIARY" shall mean any Subsidiary of Borrower that is not a Restricted Subsidiary.

"VOLUMETRIC PRODUCTION PAYMENTS" shall mean production payment obligations recorded as defined revenue in accordance with GAAP, together with all undertakings and obligations in connection therewith.

"WHOLLY-OWNED SUBSIDIARY" shall mean a Restricted Subsidiary of Borrower, all of the capital stock of which (other than director's qualifying shares) is owned by Borrower or one or more other Wholly-Owned Subsidiaries.

"2005 SENIOR SUBORDINATED NOTES" shall mean the 11% Senior Subordinated Notes due 2005 issued by Borrower pursuant to that certain Supplemental Indenture, dated as of October 26, 2000, to the Indenture dated October 26, 2000 between Borrower and American Stock Transfer and Trust Company.

SECTION 1.03 ACCOUNTING TERMS AND DETERMINATIONS. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all financial statements and certificates and reports as to financial matters required to be furnished to the Administrative Agent or the Lenders hereunder shall be prepared, in accordance with GAAP, applied on a basis consistent with the audited financial statements of Borrower referred to in SECTION 7.02 (except for changes concurred with by Borrower's independent public accountants).

ARTICLE II

COMMITMENTS

SECTION 2.01 LOANS.

(a) COMMITMENT TO MAKE THE LOANS AND THE AMENDED AND RESTATED NOTES. Each Lender party to the Credit Agreement has made Loans to the Borrower in the respective amount for each such Lender indicated on Annex I as of the Closing Date in the aggregate principal amount of $100,000,000 and each New Lender severally agrees, subject to the terms and conditions

of this Agreement, to make the Loans to Borrower, on the Amendment and Restatement Date, in the aggregate principal amount of $85,000,000 and in the respective amount for each such Lender indicated on Annex I (the "ADDITIONAL LOANS").

(b) TRANSFER OF FUNDS ON AMENDMENT AND RESTATEMENT DATE. Subject to the terms and conditions of this Agreement, the Additional Loans shall be made available to Borrower by the New Lenders by wire transfer or other immediately available funds to the account of Borrower in accordance with Borrower's wiring instructions provided prior to the Amendment and Restatement Date.

SECTION 2.02 OPTION TO ISSUE ADDITIONAL NOTES.

(a) Subject to the conditions set forth in subsection (b) below, the Borrower may issue additional Notes to a Lender or a Person that at such time is not a Lender, provided such Person becomes a Lender (an "ADDITIONAL LENDER").

(b) Any such new Notes shall be subject to the following additional conditions:

(1) such additional Notes shall have a principal amount of not less than $5,000,000, and no such increase shall be permitted if after giving effect thereto the aggregate principal of all Notes would exceed $200,000,000;

(2) no Default shall have occurred and be continuing at the effective date of such increase;

(3) no Lender shall be required to issue additional Notes without such Lender's consent;

(4) if a Lender elects to increase the amount of its Loan pursuant to this SECTION 2.02, the Borrower and such Lender shall execute and deliver to the Administrative Agent a certificate substantially in the form of Exhibit E-1 (a "LOAN INCREASE CERTIFICATE"), and the Borrower shall deliver a new Note in exchange for the existing Note held by such Lender payable to the order of such Lender in a principal amount equal to the sum of the principal amount of the existing Note and the principal amount of additional Debt the Lender has agreed to issue; and

(5) if the Borrower elects to issue additional Notes by causing an Additional Lender to become a party to this Agreement, then the Borrower and such Additional Lender shall execute and deliver to the Administrative Agent a certificate substantially in the form of Exhibit E-2 (an "ADDITIONAL LENDER CERTIFICATE"), and the Borrower shall deliver a Note payable to the order of such Additional Lender in a principal amount equal to the Notes such Additional Lender has agreed to issue to Borrower.

(c) Subject to acceptance and recording thereof pursuant to subsection (b) above, from and after the effective date specified in the Loan Increase Certificate or the Additional Lender Certificate: (a) the amount of the aggregate Commitments shall be increased as set forth therein, and (b) in the case of an Additional Lender Certificate, any Additional Lender party thereto shall be a party to this Agreement and the other Loan Documents and have the rights and obligations of a Lender under this Agreement and the other Loan Documents. Upon its receipt of a duly completed Loan Increase Certificate or an Additional Lender Certificate, executed by the Borrower and the Lender or the Borrower and the Additional Lender party thereto, as applicable, the Administrative Agent shall accept such Loan Increase Certificate or Additional Lender Certificate and record the information contained therein in Annex I pursuant to SECTION 12.06(b).

SECTION 2.03 NOTES.

(a) The Loan made by each Lender shall be evidenced by a single promissory note (each a "NOTE") of Borrower in substantially the form of Exhibit A, dated as of the Closing Date, or in the case of a New Lender, such later date of issuance after the Amendment and Restatement Date, payable to the order of such Lender for the principal amount of all Loan outstanding and due such Lender, and otherwise duly completed.

(b) Restrictive Legends. Each of the Notes shall bear a legend in substantially the following form:

THE ISSUANCE AND SALE OF THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAWS. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, AGREES FOR THE BENEFIT OF THE COMPANY THAT THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED PRIOR TO THE EXPIRATION OF THE HOLDING PERIOD APPLICABLE THERETO UNDER RULE 144(k) UNDER THE SECURITIES ACT WHICH IS APPLICABLE TO THIS NOTE (THE "RESALE RESTRICTION TERMINATION DATE") OTHER THAN (1) TO THE COMPANY OR THEIR RESPECTIVE SUBSIDIARIES, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) INSIDE THE UNITED STATES TO AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT), (4) TO A NON-"U.S. PERSON" IN AN "OFFSHORE TRANSACTION" (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (5) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, INCLUDING THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT, IF AVAILABLE, OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL, AND SUBJECT TO THE RIGHT OF THE ADMINISTRATIVE AGENT OR THE COMPANY PRIOR TO ANY SUCH SALE, PLEDGE OR OTHER TRANSFER TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF

THEM. THIS LEGEND WILL BE REMOVED UPON REQUEST OF THE HOLDER ON OR AFTER THE RESALE RESTRICTION TERMINATION DATE.

SECTION 2.04 PREPAYMENTS.

(a) Voluntary Prepayments.

(1) Subject to the prepayment premiums provided for in clause (2) of this SECTION 2.04(a), at any time after December 8, 2007, Borrower may prepay the Loans without premium or penalty upon not less than one Business Day's prior notice to the Administrative Agent (which shall promptly notify the Lenders), which notice shall specify the prepayment date (which shall be a Business Day) and the amount of the prepayment (which shall be at least $1,000,000 or the remaining aggregate principal balance outstanding on the Notes) and shall be irrevocable and effective only upon receipt by the Administrative Agent, provided that interest on the principal prepaid, accrued to the prepayment date, shall be paid on the prepayment date.

(2) Voluntary prepayments made by Borrower pursuant to SECTION 2.04(a)(1) shall be subject to the following prepayment premiums:

(A) For any voluntary prepayment made after December 8, 2007, but before December 8, 2008, Borrower shall pay a prepayment premium equal to 5% of the amount prepaid;

(B) For any voluntary prepayment made after December 8, 2008, but before December 8, 2009, Borrower shall pay a prepayment premium equal to 3% of the amount prepaid; and

(C) For any voluntary prepayment made after December 8, 2009 but before the Final Maturity Date, Borrower shall pay a prepayment premium equal to 1% of the amount prepaid.

(b) Mandatory Prepayments. Upon the occurrence of a Change in Control, each Lender shall have the right to require Borrower to prepay the aggregate principal amount of its Loan outstanding on the date such prepayment is made, together with accrued and unpaid interest, if any, thereon to the date of such prepayment, plus a prepayment premium of 1% of the principal amount prepaid. If a Lender elects to require such prepayment, such Lender shall instruct the Administrative Agent to deliver written notice thereof to Borrower, such prepayment to be made on or before the date (which must be a Business Day at least two (2) days following receipt of such notice) specified in such written notice.

(c) Generally. Any prepayment made pursuant to this SECTION 2.04 may not be reborrowed and shall be applied to the aggregate outstanding principal amount of the Loans.

ARTICLE III

PAYMENTS OF PRINCIPAL AND INTEREST

SECTION 3.01 REPAYMENT OF LOANS. On the Final Maturity Date, Borrower shall repay the outstanding aggregate principal and accrued and unpaid interest under the Notes and any other amounts due under the Loan Documents. Such payment shall be made to the Administrative Agent, for the account of each Lender.

SECTION 3.02 INTEREST.

(a) Interest on Notes. Borrower will pay to the Administrative Agent, for the account of each Lender, interest on the unpaid principal amount of the Loan made by such Lender for the period commencing on the date such Loan was made (being either the Closing Date or, with respect to the New Lenders, the date of the Notes issued to the New Lenders) up to, but excluding the date such Loan shall be paid in full, at the simple rate per annum equal to nine and seventy-five one-hundredths percent (9.75%), but in no event to exceed the Highest Lawful Rate.

(b) Post-Default Rate. Notwithstanding the foregoing, Borrower will pay to the Administrative Agent, for the account of each Lender, interest at the applicable Post-Default Rate on any principal of the Loan made by such Lender to the extent such principal is past due and owing for the period commencing on the date of notice to Borrower of an Event of Default until the same is paid in full or all Events of Default are cured or waived.

(c) Due Dates. Accrued and unpaid interest on the Loans shall be payable on each Quarterly Date commencing on March 31, 2004, and on the Final Maturity Date.

ARTICLE IV

PAYMENTS; PRO RATA TREATMENT; COMPUTATIONS; ETC.

SECTION 4.01 PAYMENTS. Except to the extent otherwise provided herein, all payments of principal, interest and other amounts to be made by Borrower under this Agreement and the Notes shall be made in Dollars, in immediately available funds, to the Administrative Agent at such account as the Administrative Agent shall specify by notice to Borrower at least three (3) Business Days prior to the date such payment is due from time to time, not later than 11:00 a.m. New York, New York time on the date on which such payments shall

become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day). Such payments shall be made without (to the fullest extent permitted by applicable law) defense, set-off or counterclaim. Each payment received by the Administrative Agent under this Agreement or any Note for account of a Lender shall be paid promptly to such Lender in immediately available funds. If the due date of any payment under this Agreement or any Note would otherwise fall on a day which is not a Business Day such date

shall be extended to the next succeeding Business Day and interest shall be payable for any principal so extended for the period of such extension.

SECTION 4.02 PRO RATA TREATMENT. Except to the extent otherwise provided herein each Lender agrees that: (a) the borrowing from the Lenders hereunder shall be made from the Lenders pro rata in accordance with their Percentage Share; (b) each payment of principal of the Loan by Borrower shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amount of the Loan held by the Lenders; and (c) each payment of interest on the Loan by Borrower shall be made for account of the Lenders pro rata in accordance with the amounts of interest due and payable to the respective Lenders.

SECTION 4.03 COMPUTATIONS. Interest shall be computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed (including the first day but excluding the last day) occurring in the period for which such interest is payable.

SECTION 4.04 SET-OFF, SHARING OF PAYMENTS, ETC.

(a) Borrower agrees that, in addition to (and without limitation of) any right of set-off, bankers' lien or counterclaim a Lender may otherwise have, each Lender shall have the right and be entitled, at its option, to offset balances held by it or by any of its Affiliates for account of Borrower or any Subsidiary at any of its offices, in Dollars or in any other currency, against any principal of or interest on any of such Lender's Loan, or any other amount payable to such Lender hereunder, which is not paid when due (regardless of whether such balances are then due to Borrower), in which case it shall promptly notify Borrower and the Administrative Agent thereof, provided that such Lender's failure to give such notice shall not affect the validity thereof.

(b) If any Lender shall obtain payment of any principal of or interest on the Loan made by it to Borrower under this Agreement through the exercise of any right of set-off, banker's lien or counterclaim or similar right or otherwise, and, as a result of such payment, such Lender shall have received a greater percentage of the principal or interest then due hereunder by Borrower to such Lender than the percentage received by any other Lenders, it shall promptly (1) notify the Administrative Agent and each other Lender thereof and (2) purchase from such other Lenders participations in (or, if and to the extent specified by such Lender, direct interests in) the Loans made by such other Lenders (or in interest due thereon, as the case may be) in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that all the Lenders shall share the benefit of such excess payment (net of any expenses which may be incurred by such Lender in obtaining or preserving such excess payment) pro rata in accordance with the unpaid principal and/or interest on the Loan held by each of the Lenders. To such end all the Lenders shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored. Borrower agrees that any Lender so purchasing a participation (or direct interest) in the Loan made by other Lenders (or in interest due thereon, as the case may be) may exercise all rights of set-off, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans in the amount of such participation. Nothing contained herein shall

require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of Borrower. If under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a set-off to which this SECTION 4.04 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders entitled under this SECTION 4.04 to share the benefits of any recovery on such secured claim.

SECTION 4.05 TAXES.

(a) Payments Free and Clear. Any and all payments by Borrower hereunder shall be made, in accordance with SECTION 4.01, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Administrative Agent, taxes imposed on its income, and franchise or similar taxes imposed on it, by (1) any jurisdiction (or political subdivision thereof) of which the Administrative Agent or such Lender, as the case may be, is a citizen or resident or in which such Lender has an office, (2) the jurisdiction (or any political subdivision thereof) in which the Administrative Agent or such Lender is organized, or (3) any jurisdiction (or political subdivision thereof) in which such Lender or the Administrative Agent is presently doing business which taxes are imposed solely as a result of doing business in such jurisdiction (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "TAXES"). If Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Lenders or the Administrative Agent (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this SECTION 4.05) such Lender or the Administrative Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions and (iii) Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law.

(b) Other Taxes. In addition, to the fullest extent permitted by applicable law, Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "OTHER TAXES").

(c) INDEMNIFICATION. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER WILL INDEMNIFY EACH LENDER AND THE ADMINISTRATIVE AGENT FOR THE FULL AMOUNT OF TAXES AND OTHER TAXES (INCLUDING, BUT NOT LIMITED TO, ANY TAXES OR OTHER TAXES IMPOSED BY ANY GOVERNMENTAL AUTHORITY ON AMOUNTS PAYABLE UNDER THIS SECTION 4.05) PAID BY SUCH LENDER OR THE ADMINISTRATIVE AGENT (ON THEIR BEHALF OR ON BEHALF OF

ANY LENDER), AS THE CASE MAY BE, AND ANY LIABILITY (INCLUDING PENALTIES, INTEREST AND EXPENSES) ARISING THEREFROM OR WITH RESPECT THERETO, WHETHER OR NOT SUCH TAXES OR OTHER TAXES WERE CORRECTLY OR LEGALLY ASSERTED UNLESS SUCH LENDER'S PAYMENT OF SUCH TAXES OR OTHER TAXES WAS THE RESULT OF ITS GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. ANY PAYMENT PURSUANT TO SUCH INDEMNIFICATION SHALL BE MADE WITHIN THIRTY (30) DAYS AFTER THE DATE ANY LENDER OR THE ADMINISTRATIVE AGENT, AS THE CASE MAY BE, MAKES WRITTEN DEMAND THEREFOR. IF ANY LENDER OR THE ADMINISTRATIVE AGENT RECEIVES A REFUND OR CREDIT IN RESPECT OF ANY TAXES OR OTHER TAXES FOR WHICH SUCH LENDER OR THE ADMINISTRATIVE AGENT HAS RECEIVED PAYMENT FROM BORROWER IT SHALL PROMPTLY NOTIFY BORROWER OF SUCH REFUND OR CREDIT AND SHALL, IF NO DEFAULT HAS OCCURRED AND IS CONTINUING, WITHIN THIRTY (30) DAYS AFTER RECEIPT OF A REQUEST BY BORROWER (OR PROMPTLY UPON RECEIPT, IF BORROWER HAS REQUESTED APPLICATION FOR SUCH REFUND OR CREDIT PURSUANT HERETO), PAY AN AMOUNT EQUAL TO SUCH REFUND OR CREDIT TO BORROWER WITHOUT INTEREST (BUT WITH ANY INTEREST SO REFUNDED OR CREDITED), PROVIDED THAT BORROWER, UPON

THE REQUEST OF SUCH LENDER OR THE ADMINISTRATIVE AGENT, AGREES TO RETURN SUCH REFUND OR CREDIT (PLUS PENALTIES, INTEREST OR OTHER CHARGES) TO SUCH LENDER OR THE ADMINISTRATIVE AGENT IN THE EVENT SUCH LENDER OR THE ADMINISTRATIVE AGENT IS REQUIRED TO REPAY SUCH REFUND OR CREDIT.

(d) Lender Representations and Actions.

(1) Each Lender represents that it is either (A) a banking association or corporation organized under the laws of the United States of America or any state thereof or (B) it is entitled to complete exemption from United States withholding tax imposed on or with respect to any payments, including fees, to be made to it pursuant to this Agreement (i) under an applicable provision of a tax convention to which the United States of America is a party or (ii) because it is acting through a branch, agency or office in the United States of America and any payment to be received by it hereunder is effectively connected with a trade or business in the United States of America. Each Lender that is not a banking association or corporation organized under the laws of the United States of America or any state thereof agrees to provide to Borrower and the Administrative Agent on the Amendment and Restatement Date, or on the date of its delivery of the Assignment pursuant to which it becomes a Lender, and at such other times as required by United States law or as Borrower or the Administrative Agent shall reasonably request, two accurate and complete original signed copies of either (a) Internal Revenue Service Form W-8ECI (or successor form) certifying that all payments to be made to it hereunder will be effectively connected to a United States trade or business (the "FORM W-8ECI CERTIFICATION") or (b) Internal Revenue Service Form W-8BEN (or successor

form) certifying that it is entitled to the benefit of a provision of a tax convention to which the United States of America is a party which completely exempts from United States withholding tax all payments to be made to it hereunder (the "FORM W-8BEN CERTIFICATION"). In addition, each Lender agrees that if it previously filed a Form W-8ECI Certification, it will deliver to Borrower and the Administrative Agent a new Form W-8ECI Certification prior to the first payment date occurring in each of its subsequent taxable years; and if it previously filed a Form W-8BEN Certification, it will deliver to Borrower and the Administrative Agent a new certification prior to the first payment date falling in the third year following the previous filing of such certification. Each Lender also agrees to deliver to Borrower and the Administrative Agent such other or supplemental forms as may at any time be required as a result of changes in applicable law or regulation in order to confirm or maintain in effect its entitlement to exemption from United States withholding tax on any payments hereunder, provided that the circumstances of such Lender at the relevant time and applicable laws permit it to do so. If a Lender determines, as a result of any change in either (i) a Governmental Requirement or (ii) its circumstances, that it is unable to submit any form or certificate that it is obligated to submit pursuant to this SECTION 4.05, or that it is required to withdraw or cancel any such form or certificate previously submitted, it shall promptly notify Borrower and the Administrative Agent of such fact. If a Lender is organized under the laws of a jurisdiction outside the United States of America, unless Borrower and the Administrative Agent have received a Form W-8BEN Certification or Form W-8ECI Certification satisfactory to them indicating that all payments to be made to such Lender hereunder are not subject to United States withholding tax, Borrower shall withhold taxes from such payments at the applicable statutory rate. Each Lender agrees to indemnify and hold harmless Borrower or Administrative Agent, as applicable, from any United States taxes, penalties, interest and other expenses, costs and losses incurred or payable by (i) the Administrative Agent as a result of such Lender's failure to submit any form or certificate that it is required to provide pursuant to this SECTION 4.05 or (ii) Borrower or the Administrative Agent as a result of their reliance on any such form or certificate which such Lender has provided to them pursuant to this SECTION 4.05.

(2) For any period with respect to which a Lender has failed to provide Borrower with the form required pursuant to this SECTION 4.05, if any, (other than if such failure is due to a change in a Governmental Requirement occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under SECTION 4.05 with respect to taxes imposed by the United States which taxes would not have been imposed but for such failure to provide such forms; provided, however, that if a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, becomes subject to taxes because of its failure to deliver a form required hereunder, Borrower shall take such steps as such Lender shall reasonably request to assist such Lender to recover such taxes.

(3) Any Lender claiming any additional amounts payable pursuant to this SECTION 4.05 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by Borrower or the Administrative Agent or to change the jurisdiction of its applicable lending office or to contest any tax imposed if the making of such a filing or change or contesting such tax would avoid the need for or reduce the amount of any such additional amounts that may thereafter accrue and would not, in the sole determination of such Lender, be otherwise disadvantageous to such Lender. The Administrative Agent, at the written request of Borrower, shall use its commercially reasonable best efforts to replace any Lender claiming such additional amounts. No Lender may claim reimbursement for incurred costs more than ninety (90) days from the date of written request to Borrower.

ARTICLE V

CONVERSION OF NOTES

SECTION 5.01 CONVERSION UNDER RULE 144A.

(a) Subject to the terms and conditions of this SECTION 5.01, the Notes shall automatically be converted into notes ("INDENTURE NOTES") issued pursuant to an indenture entered into between Borrower and a designated trustee selected by Borrower and reasonably acceptable to the Administrative Agent (the "INDENTURE"). Borrower will initiate the conversion of the Notes under this SECTION 5.01 on or before January 31, 2004.

(b) Except as discussed below, the terms of the Indenture will reflect substantially the same terms and conditions as this Agreement, except that the limitations on additional Debt specified in SECTION 9.18 will not be incorporated and the Indenture Notes will have the same ranking, interest rate, maturity and redemption terms as the Notes. The Indenture will be acceptable to Borrower and the Majority Lenders, acting reasonably, and will include the following additional provisions:

(1) the Indenture Notes will be issued without coupons, in denominations of $1,000 and integral multiples thereof, and will initially be issued as global securities in book-entry form. The global securities shall be deposited with a custodian for the Depository Trust Company ("DTC") and registered in the name of DTC or a nominee for DTC (qualified institutional buyers shall be able to hold their interests in a Rule 144A global security directly through DTC, if they are DTC participants, or indirectly through organizations that are DTC participants);

(2) the Indenture Notes shall be eligible for trading on the PORTAL Market;

(3) Borrower shall furnish to the Lenders, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) if, at any

time while the Indenture Notes are restricted securities within the meaning of the Securities Act, Borrower is not subject to the informational requirements of the Securities Exchange Act of 1934;

(4) Borrower and Lenders shall enter into a registration rights agreement on or prior to the conversion of the Notes to Indenture Notes. Pursuant to the registration rights agreement, Borrower will agree (i) to file with the SEC within ninety (90) days of the date on which it issues the Indenture Notes either (x) a shelf registration statement on Form S-1 or Form S-3, if the use of such form is then available, to cover resales of registrable securities by the holders thereof who satisfy certain conditions relating to the provision of information in connection with the shelf registration statement or (y) an exchange offer registration statement on Form S-4, (ii) to use its reasonable best efforts to cause the registration statement to be declared effective by the SEC within 180 days of the date on which it issues the Indenture Notes, and (iii) to use its reasonable best efforts to keep (x) such shelf registration statement continuously effective under the Securities Act, subject to the Borrower's right to impose commercially reasonable trading blackouts until such time as there are no longer any registrable securities covered thereby or (y) such exchange offer registration statement effective until the completion of the exchange offer contemplated thereby; and

(5) such other terms and conditions as are usual and customary for indentures related to offerings of notes pursuant to Rule 144A including, without limitation, provisions related to the transfer and redemption procedures applicable to the Indenture Notes and delivery of customary legal opinions, including assurances as to the adequacy of information provided to investors.

(c) In the event that a conversion of the Notes is initiated under this SECTION 5.01, the Borrower and each Lender will use commercially reasonable efforts to cause the conversion to be completed within forty-five (45) days of its initiation.

(d) In connection with a conversion of the Notes under this SECTION 5.01, prior to the issuance of Indenture Notes to a Lender, each Lender will (i) represent and warrant that such Lender is an "accredited investor" as such term is defined in Section 501 of Regulation D promulgated under the Securities Act of 1933, as amended, and (ii) will surrender its Notes to the Borrower.

SECTION 5.02 REMEDIES FOR CERTAIN EVENTS. If Borrower fails to initiate conversion of the Notes on or before the date specified for such in SECTION 5.01(a), (b) Borrower fails to use reasonable best efforts to cause the conversion of the Notes on or before the date specified in SECTION 5.01(c), (c) Borrower fails to file a registration statement with the SEC on or before the date specified in SECTION 5.01(b), (d) Borrower fails to cause such registration statement to be declared effective by the SEC on or prior to September 30, 2004, or Borrower fails to use its reasonable best efforts to keep such registration statement effective if the registration statement with respect to the Notes is declared effective, then the interest rate on the Notes will increase immediately following the occurrence of any default referred to in clauses (a)

through (e) above by 0.25% per annum. Following the cure of all such defaults, the accrual of such additional interest will cease and the interest rate will revert to the original rate.

ARTICLE VI

CONDITIONS PRECEDENT

SECTION 6.01 DOCUMENTS TO BE DELIVERED ON AMENDMENT AND RESTATEMENT DATE. The obligation of the New Lenders to fund the Additional Loans and of the Lenders to execute this Agreement on the Amendment and Restatement Date is subject to the receipt by the Administrative Agent of the following documents

and satisfaction of the other conditions provided for in SECTION 6.02 and this SECTION 6.01, each of which shall be satisfactory to the Administrative Agent in form and substance:

(a) A certificate of the Secretary or an Assistant Secretary of Borrower setting forth (i) resolutions of its board of directors with respect to the authorization of Borrower to execute and deliver this Agreement and the Loan Documents and to enter into the transactions contemplated thereby, (ii) the officers of Borrower (y) who are authorized to sign the Loan Documents to which Borrower is a party and (z) who will, until replaced by another officer or officers duly authorized for that purpose, act as its representative for the purposes of signing documents and giving notices and other communications in connection with this Agreement and the transactions contemplated hereby, (iii) specimen signatures of the authorized officers, and (iv) the articles or certificate of incorporation and bylaws of Borrower, certified as being true and complete. The Administrative Agent and the Lenders may conclusively rely on such certificate until the Administrative Agent receives notice in writing from Borrower to the contrary.

(b) Certificates of the appropriate state agencies with respect to the existence, qualification and good standing of Borrower in its state of incorporation and each jurisdiction where it is qualified as a foreign corporation.

(c) A compliance certificate, which shall be substantially in the form of Exhibit B, duly and properly executed by a Responsible Officer and dated as of the date of the Amendment and Restatement Date.

(d) The Notes, duly completed and executed.

(e) An opinion of Haynes and Boone, LLP, counsel to Borrower, in form and substance reasonably acceptable to the Majority Lenders as to such matters incident to the transactions herein contemplated.

(f) Third Amendment to Senior Secured Credit Facility by Wachovia Bank, National Association, as Administrative Agent, consenting to the transactions contemplated by this Agreement.

(g) Waiver letter with respect to the Duke Credit Facility by Ingalls & Snyder LLC, as Administrative Agent thereunder, consenting to the transactions contemplated by this Agreement.

(h) The seven year warrants for the purchase of 15,000 shares of Borrower's Common Stock at a purchase price of $10.00 per share for each $1,000,000.00 in Notes to be issued to the New Lenders on the Amendment and Restatement Date and on the date any Additional Lenders purchase additional Notes pursuant to SECTION 2.02, issued to the Lenders in proportion to each Lender's Loan as originally in effect, in form reasonably acceptable to the Lenders. For the avoidance of doubt, warrants to purchase 1,500,000 shares of Borrower's Common Stock have already been issued to the Lenders party to the Credit Agreement and, assuming the aggregate principal amount of Notes to be issued to New Lenders on the Amendment and Restatement Date is $85,000,000.00, warrants to purchase 1,275,000 shares of the Borrower's Common Stock will be issued to the New Lenders on the Amendment and Restatement Date.

(i) Such other documents as the Administrative Agent or any Lender or special counsel to the Administrative Agent may reasonably request.

(j) Executed guarantees of the Notes by each of Callon Petroleum Operating Company, Callon Offshore Production, Inc. and Mississippi Marketing, Inc.

SECTION 6.02 CONDITIONS PRECEDENT TO FUNDING. The obligation of the New Lenders to make the Additional Loans to Borrower and of the Lenders to enter into this Agreement on the Amendment and Restatement Date is subject to the further conditions precedent that, as of the date of such Loans and after giving effect thereto:

(a) no Default shall have occurred and be continuing; and

(b) the representations and warranties made by Borrower in ARTICLE VII shall be true on and as of the Amendment and Restatement Date.

SECTION 6.03 CONDITIONS PRECEDENT FOR THE BENEFIT OF LENDERS. All conditions precedent to the obligations of the Lenders to make the Loans are imposed hereby solely for the benefit of the Lenders, and no other Person may require satisfaction of any such condition precedent or be entitled to assume that the Lenders will refuse to make the Loans in the absence of strict compliance with such conditions precedent.

SECTION 6.04 NO WAIVER. No waiver of any condition precedent shall preclude the Administrative Agent or the Lenders from thereafter declaring that the failure of Borrower to satisfy such condition precedent constitutes a Default.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to the Administrative Agent and the Lenders each of the following matters.

SECTION 7.01 CORPORATE EXISTENCE; CAPITALIZATION.

(a) Each of Borrower and each Restricted Subsidiary: (i) is a corporation duly organized, legally existing and in good standing under the laws of the jurisdiction of its incorporation or legal existence; (ii) has all requisite corporate power, and has all material governmental permits, licenses, authorizations, consents and approvals necessary to own its Property and carry on its business as now being or as proposed to be conducted; and (iii) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify would have a Material Adverse Effect.

(b) As of the Amendment and Restatement Date, the authorized capital stock of Borrower consists solely of 20,000,000 shares of common stock, par value $0.01 per share (the "COMMON STOCK"), of which 13,935,311 shares are issued and outstanding and 28,578 shares of which are held in treasury, and 2,500,000 shares of preferred stock, par value $0.01 per share, of which 600,861 shares of $2.125 Convertible Exchangeable Preferred Stock, Series A, are issued and outstanding. Other than as set forth on Schedule 7.01(b) or the certificate of designation for Borrower's $2.125 Convertible Exchangeable Preferred Stock as of the Amendment and Restatement Date, no subscription, warrant, option, convertible security, stock appreciation or other rights (contingent or other) to purchase or acquire any shares of any class of capital stock or, or any other equity interest in, Borrower is authorized or outstanding, and there is not outstanding any commitment of Borrower or any of its Subsidiaries to issue any shares, warrants, options or other such rights or to distribute to holders of any class of its capital stock any evidences of indebtedness or assets. Except as set forth on SCHEDULE 7.01(b) or the certificate of designation for Borrower's $2.125 Convertible Exchangeable Preferred Stock as of the Amendment and Restatement Date, Borrower does not have any contingent or other obligation to purchase, redeem or otherwise acquire any shares of its capital stock or any interest therein or to pay any dividend or make any other distribution in respect thereof, and neither Borrower nor any of its Subsidiaries is a party to any voting agreement, voting trust or similar agreement or arrangement relating to its capital stock or any agreement or arrangement relating to or providing for registration rights with respect to its capital stock.

SECTION 7.02 FINANCIAL CONDITION. The audited consolidated balance sheet of Borrower and its Consolidated Subsidiaries as at December 31, 2002 and the related consolidated statement of income, stockholders' equity and cash flow of Borrower and its Consolidated Subsidiaries for the fiscal year ended on said date, with the opinion thereon of Ernst & Young LLP heretofore furnished to each

of the Lenders and the unaudited consolidated balance sheet of Borrower and its Consolidated Subsidiaries as at September 30, 2003 and their related consolidated statements of income, stockholders' equity and cash flow of Borrower and its Consolidated Subsidiaries for the three and nine month period ended on such date heretofore furnished to the Administrative Agent (collectively, the "FINANCIAL STATEMENTS"), are complete and correct and fairly present the consolidated financial condition of Borrower and its Consolidated Subsidiaries as at said dates and the results of its operations for the fiscal year and the three month period on said dates, all in accordance with GAAP, as applied on a consistent basis (subject, in the case of the interim financial statements, to normal year-end adjustments). Neither Borrower nor any Subsidiary has on the Amendment and Restatement Date any material Debt, contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or

unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in the Financial Statements or in Schedule 7.02. Since September 30, 2003, there has been no change or event having a Material Adverse Effect. Since the date of the Financial Statements, neither the business nor the Properties of Borrower or any Subsidiary have been materially and adversely affected as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of Property or cancellation of contracts, permits or concessions by any Governmental Authority, riot, activities of armed forces or acts of God or of any public enemy.

SECTION 7.03 LITIGATION. Except as disclosed to the Lenders in SCHEDULE 7.03 hereto, at the Amendment and Restatement Date there is no litigation, legal, administrative or arbitral proceeding, investigation or other action of any nature pending or, to the knowledge of Borrower threatened against or affecting Borrower or any Subsidiary which involves the possibility of any judgment or liability against Borrower or any Subsidiary not fully covered by insurance (except for normal deductibles), and which would be reasonably likely to have a Material Adverse Effect.

SECTION 7.04 NO BREACH. Neither the execution and delivery of the Loan Documents, nor compliance with the terms and provisions hereof will conflict with or result in a breach of, or require any consent which has not been obtained as of the Amendment and Restatement Date under, the respective charter or by-laws of Borrower or any Restricted Subsidiary, or any Governmental Requirement or any agreement or instrument to which Borrower or any Restricted Subsidiary is a party or by which it is bound or to which it or its Properties are subject, or constitute a default under any such agreement or instrument, or result in the creation or imposition of any Lien upon any of the revenues or assets of Borrower or any Restricted Subsidiary pursuant to the terms of any such agreement or instrument other than the Liens created by the Loan Documents.

SECTION 7.05 AUTHORITY. Borrower has all necessary corporate power and authority to execute, deliver and perform its obligations under the Loan Documents to which it is a party; and the execution, delivery and performance by Borrower of the Loan Documents to which it is a party, have been duly authorized by all necessary corporate action on its part; and the Loan Documents constitute the legal, valid and binding obligations of Borrower, enforceable in accordance with their terms.

SECTION 7.06 APPROVALS. No authorizations, approvals or consents of, and no filings or registrations with, any Governmental Authority are necessary for the execution, delivery or performance by Borrower of the Loan Documents or for the validity or enforceability thereof.

SECTION 7.07 USE OF LOANS. The net proceeds of the Additional Loans shall be used (a) first to repay up to $95,000,000.00 in outstanding principal amount under the Duke Credit Facility, and (b) any remainder following the repayment of the entire outstanding principal amount under the Duke Credit Facility, for general corporate purposes. Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying margin stock (within the meaning of Regulation T, U or X of the Board of Governors of the Federal Reserve

System) and no part of the proceeds of any Loan hereunder will be used to buy or carry any margin stock.

SECTION 7.08 ERISA.

(a) Borrower, each Subsidiary and each ERISA Affiliate have complied in all material respects with ERISA and, where applicable, the Code regarding each Plan.

(b) Each Plan is, and has been, maintained in substantial compliance with ERISA and, where applicable, the Code.

(c) No act, omission or transaction has occurred which could result in imposition on Borrower, any Subsidiary or any ERISA Affiliate (whether directly or indirectly) of (i) either a civil penalty assessed pursuant to section 502(c), (i) or (l) of ERISA or a tax imposed pursuant to Chapter 43 of Subtitle D of the Code or (ii) breach of fiduciary duty liability damages under section 409 of ERISA.

(d) No Plan (other than a defined contribution plan) or any trust created under any such Plan has been terminated since September 2, 1974. No liability to the PBGC (other than for the payment of current premiums which are not past due) by Borrower, any Subsidiary or any ERISA Affiliate has been or is expected by Borrower, any Subsidiary or any ERISA Affiliate to be incurred with respect to any Plan. No ERISA Event with respect to any Plan has occurred.

(e) Full payment when due has been made of all amounts which Borrower, any Subsidiary or any ERISA Affiliate is required under the terms of each Plan or applicable law to have paid as contributions to such Plan, and no accumulated funding deficiency (as defined in section 302 of ERISA and section 412 of the Code), whether or not waived, exists with respect to any Plan.

(f) The actuarial present value of the benefit liabilities under each Plan which is subject to Title IV of ERISA does not, as of the end of Borrower's most recently ended fiscal year, exceed the current value of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities. The term "actuarial present value of the benefit liabilities" shall have the meaning specified in section 4041 of ERISA.

(g) None of Borrower, any Subsidiary or any ERISA Affiliate sponsors, maintains, or contributes to an employee welfare benefit plan, as defined in section 3(1) of ERISA, including, without limitation, any such plan maintained to provide benefits to former employees of such entities, that may not be terminated by Borrower, a Subsidiary or any ERISA Affiliate in its sole discretion at any time without any material liability.

(h) None of Borrower, any Subsidiary or any ERISA Affiliate sponsors, maintains or contributes to, or has at any time in the preceding six calendar years, sponsored, maintained or contributed to, any Multiemployer Plan.

(i) None of Borrower, any Subsidiary or any ERISA Affiliate is required to provide security under section 401(a)(29) of the Code due to a Plan amendment that results in an increase in current liability for the Plan.

SECTION 7.09 TAXES. Except as set out in SCHEDULE 7.09, each of Borrower and its Subsidiaries has filed all United States Federal income tax returns and all other tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by Borrower or any Subsidiary. The charges, accruals and reserves on the books of Borrower and its Subsidiaries in respect of taxes and other governmental charges are, in the opinion of Borrower, adequate. No tax lien has been filed and, to the knowledge of

Borrower, no claim is being asserted with respect to any such tax, fee or other charge. There is no ongoing audit or examination or, to the knowledge of Borrower, other investigation by any Governmental Authority of the tax liability of Borrower or any of its Subsidiaries, and there is no unresolved claim by any Governmental Authority concerning the tax liability of Borrower or any Subsidiary for any period for which tax returns have been or were required to have been filed, other than unsecured claims for which adequate reserves have been established in accordance with GAAP.

SECTION 7.10 TITLES, PROPERTY, ETC.

(a) Except as set out in SCHEDULE 7.10, each of Borrower and its Restricted Subsidiaries has good and defensible title to its material (individually or in the aggregate) Properties, free and clear of all Liens, except Liens permitted by SECTION 9.02. Except as set forth in SCHEDULE 7.10, after giving full effect to the Permitted Liens, Borrower owns the net interests in production attributable to the Hydrocarbon Interests reflected in the most recent balance sheet included with the Financial Statements, and the ownership of such Properties shall not in any material respect obligate Borrower to bear the costs and expenses relating to the maintenance, development and operations of each such Property in an amount in excess of the working interest of each Property.

(b) All leases and agreements necessary for the conduct of the business of Borrower and its Restricted Subsidiaries are valid and existing, in full force and effect and there exists no default or event or circumstance which with the giving of notice or the passage of time or both would give rise to a default under any such lease or leases, which would affect in any material respect the conduct of the business of Borrower and its Restricted Subsidiaries.

(c) The rights, Properties and other assets presently owned, leased or licensed by Borrower and its Restricted Subsidiaries including, without limitation, all easements and rights of way, include all rights, Properties and other assets necessary to permit Borrower and its Restricted Subsidiaries to conduct their business in all material respects in the same manner as its business has been conducted prior to the Amendment and Restatement Date.

(d) All of the assets and Properties of Borrower and its Restricted Subsidiaries which are necessary for the operation of its business are in good working

condition, normal wear and tear excepted, and are maintained in accordance with prudent business standards.

(e) Borrowers' and its Restricted Subsidiaries' Oil and Gas Properties (and properties unitized therewith) have been maintained, operated and developed in a good and workmanlike manner and in conformity with all applicable laws and all rules, regulations and orders of all duly constituted authorities having jurisdiction and in conformity with the provisions of all leases, subleases or other contracts comprising a part of the Hydrocarbon Interests and other contracts and agreements forming a part of the Oil and Gas Properties; specifically in this connection, (i) after the Amendment and Restatement Date, no Oil and Gas Property is subject to having allowable production reduced below the full and regular allowable (including the maximum permissible tolerance) because of any overproduction (whether or not the same was permissible at the time) prior to the Amendment and Restatement Date and (ii) none of the wells comprising a part of the Oil and Gas Properties (or properties unitized therewith) are deviated from the vertical more than the maximum permitted by applicable laws, regulations, rules and orders, and such wells are, in fact, bottomed under and are producing from, and the well bores are wholly within, the Oil and Gas Properties (or in the case of wells located on properties unitized therewith, such unitized properties).

SECTION 7.11 NO MATERIAL MISSTATEMENTS. No written information, statement, exhibit, certificate, document or report furnished to the Administrative Agent and the Lenders (or any of them) by Borrower or any

Subsidiary in connection with the negotiation of this Agreement contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statement contained therein not materially misleading in the light of the circumstances in which made and with respect to Borrower and its Subsidiaries taken as a whole. There is no fact peculiar to Borrower or any Subsidiary which has a Material Adverse Effect or in the future is reasonably likely to have (so far as Borrower can now foresee) a Material Adverse Effect.

SECTION 7.12 INVESTMENT COMPANY ACT. Neither Borrower nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

SECTION 7.13 PUBLIC UTILITY HOLDING COMPANY ACT. Neither Borrower nor any Subsidiary is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

SECTION 7.14 SUBSIDIARIES.

(a) Except as set forth on SCHEDULE 7.14, as of the Amendment and Restatement Date, Borrower has no Subsidiaries or Unrestricted Subsidiaries.

(b) With respect to each Subsidiary of Borrower existing as of the Amendment and Restatement Date, SCHEDULE 7.14 sets forth the following information:

(1) the jurisdiction of formation and headquarters of such Subsidiary;

(2) the identity of each other jurisdiction wherein such Subsidiary is qualified to do business;

(3) the identity of each class of authorized capital stock of such Subsidiary;

(4) the amount and ownership of the capital stock of such Subsidiary that is issued and outstanding (collectively, the "SUBSIDIARY SECURITIES"); and

(5) the identity of each Person or joint venture entity in which such Subsidiary has an equity or similar interest.

All of the Subsidiary Securities have been duly authorized and validly issued and are fully paid and nonassessable, to the extent such term is applicable under local law. None of the Subsidiary Securities have been issued in violation of any shareholder's preemptive rights.

(c) As of the Amendment and Restatement Date, and except as disclosed on SCHEDULE 7.14, there are no contracts obligating Borrower or any of its Affiliates to issue, sell, pledge, dispose of or encumber, nor any options, warrants or rights of any kind to acquire, nor any securities that are convertible into or exercisable or exchangeable for, any shares of any class of capital stock of any Subsidiary. There are no contracts obligating Borrower or any of its Affiliates to redeem, purchase or acquire or offer to acquire any shares of any class of capital stock of any Subsidiary. As of the Amendment and Restatement Date, and except as disclosed on SCHEDULE 7.14, there are no contracts obligating any Subsidiary to make any dividend or distribution of any kind.

(d) As of the Amendment and Restatement Date, and except as disclosed on SCHEDULE 7.14, there are no shareholder agreements, voting agreements, management agreements, proxies or other similar agreements or understandings with respect to Borrower or any Subsidiary to which Borrower or any of its Affiliates is a party. Except as described in the Material Agreements listed on SCHEDULE 7.21, as of the Amendment and Restatement Date there are no outstanding or authorized stock appreciation, phantom stock, profit participation or similar rights

affecting the capital stock of Borrower or any Subsidiary with respect to which Borrower or any of its Affiliates is a party or issuer.

SECTION 7.15 LOCATION OF BUSINESS AND OFFICES. As of the Amendment and Restatement Date, Borrower's principal place of business and chief executive offices are located at the address stated on the signature page of this Agreement. As of the Amendment and Restatement Date, the principal place of business and chief executive office of each Subsidiary are located at the addresses stated on SCHEDULE 7.14.

SECTION 7.16 DEFAULTS. Neither Borrower nor any Restricted Subsidiary is in default nor has any event or circumstance occurred which, but for the expiration of any

applicable grace period or the giving of notice, or both, would constitute a default under any material agreement or instrument to which Borrower or any Restricted Subsidiary is a party or by which Borrower or any Restricted Subsidiary is bound which default would be reasonably likely to have a Material Adverse Effect. No Default hereunder has occurred and is continuing.

SECTION 7.17 ENVIRONMENTAL MATTERS. Except (i) as provided in SCHEDULE 7.17 or (ii) as would not be reasonably likely to have a Material Adverse Effect (or with respect to (c), (d) and (e) below, where the failure to take such actions would not be reasonably likely to have a Material Adverse Effect):

(a) Neither any Property now or previously owned or leased or in the possession of or operated by or under the direction of Borrower or any Subsidiary nor the operations now or previously conducted thereon violate any order or requirement of any court or Governmental Authority or any Environmental Laws;

(b) Without limitation of clause (a) above, no Property now or previously owned or leased or in the possession of or operated by or under the direction of Borrower or any Subsidiary nor the operations currently conducted thereon or previously conducted thereon while in the ownership of or under the operation, possession or direction of Borrower or any Subsidiary, or, to the best knowledge of Borrower, by any prior owner or operator of such Property or operation, are in violation of or subject to any existing, pending or threatened action, suit, investigation, inquiry or proceeding by or before any court or Governmental Authority or to any remedial obligations under Environmental Laws;

(c) All notices, permits, licenses or similar authorizations, if any, required to be obtained or filed in connection with the operation or use of any and all Property now or previously owned or leased or in the possession of or operated by or under the direction of Borrower and each Subsidiary, including without limitation all permits for the treatment, storage, disposal or release of a hazardous substance or solid waste, have been duly obtained or filed, and Borrower and each Subsidiary are in compliance with the terms and conditions of all such notices, permits, licenses and similar authorizations;

(d) All hazardous substances, solid waste, and oil and gas exploration and production wastes, if any, generated at any and all Property now or previously owned or leased or in the possession of or operated by or under the direction of Borrower or any Subsidiary have in the past been transported, treated or disposed of in accordance with Environmental Laws, and, to the knowledge of Borrower, all such transport carriers and treatment and disposal facilities are in compliance with Environmental Laws, and are not the subject of any existing, pending or threatened action, investigation or inquiry by any Governmental Authority in connection with any Environmental Laws;

(e) Borrower has taken steps reasonably necessary to determine and has determined that no hazardous substances, solid waste, or oil and gas exploration and production wastes, have been disposed of or otherwise released and there has been no threatened release of any hazardous substances on or to any Property now or previously

owned or leased or in the possession of or operated by or under the direction of Borrower or any Subsidiary except in compliance with Environmental Laws;

(f) To the extent applicable, all Property owned, leased, in the possession of or operated by or under the direction of Borrower and each Subsidiary currently satisfies all design, operation, and equipment requirements currently imposed by the OPA (as defined in the definition of "ENVIRONMENTAL LAWS" herein), and Borrower does not have any reason to believe that such Property, to the extent subject to OPA, will not be able to maintain compliance with the OPA requirements during the term of this Agreement; and

(g) To Borrower's knowledge, neither Borrower nor any Subsidiary has any known contingent liability in connection with any release or threatened release of any oil, hazardous substance or solid waste into the environment.

SECTION 7.18 COMPLIANCE WITH THE LAW. Neither Borrower nor any Restricted Subsidiary has violated any Governmental Requirement in any material respect or failed to obtain any license, permit, franchise or other governmental authorization reasonably necessary for the ownership of any of its Properties or the conduct of its business as it is currently being conducted or proposed to be conducted in the future. All such licenses, permits, franchises or other governmental authorizations are currently in full force and effect.

SECTION 7.19 INSURANCE. SCHEDULE 7.19 attached hereto contains an accurate and complete description of all material policies of fire, liability, workmen's compensation and other forms of insurance owned or held by Borrower and each Subsidiary as of the Amendment and Restatement Date. All such policies are in full force and effect, all premiums with respect thereto covering all periods up to and including the Amendment and Restatement Date have been paid, and no notice of cancellation or termination has been received with respect to any such policy. Such policies are sufficient for compliance with all requirements of law and of all agreements to which Borrower or any Restricted Subsidiary is a party; are valid, outstanding and enforceable policies; provide adequate insurance coverage in at least such amounts and against at least such risks (but including in any event public liability) as are usually insured against in the same general area by companies engaged in the same or a similar business for the assets and operations of Borrower and each Restricted Subsidiary; will remain in full force and effect through the respective dates set forth in SCHEDULE 7.19 without the payment of additional premiums; and will not in any way be affected by, or terminate or lapse by reason of, the transactions contemplated by this Agreement. As of the Amendment and Restatement Date, neither Borrower nor any Restricted Subsidiary has been refused any insurance with respect to its assets or operations, nor has its coverage been limited below usual and customary policy limits, by an insurance carrier to which it has applied for any such insurance or with which it has carried insurance during the last three years.

SECTION 7.20 HEDGING AGREEMENTS. SCHEDULE 7.20 sets forth, as of the Amendment and Restatement Date, a true and complete list of all Hedging Agreements (including commodity price swap agreements, insurance swap or option agreements, forward agreements for terms in excess of thirty (30) days or contracts of sale which provide for prepayment for deferred shipment or delivery of oil, gas or other commodities) of Borrower and

each Subsidiary, the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark to market value thereof, all credit support agreements relating thereto (including any margin required or supplied), and the counter party to each such agreement.

SECTION 7.21 MATERIAL AGREEMENTS. Set forth on SCHEDULE 7.21 hereto is a complete and correct list of all material agreements, contracts, leases, indentures, purchase agreements, obligations in respect of letters of credit, guarantees, joint venture agreements, and other instruments in effect or to be in effect as of the Amendment and Restatement Date (other than Hedging

Agreements and agreements relating to Debt of the type described in clause (iii) in the definition of Debt or clause (vii) in the definition of Debt to the extent relating to primary obligations of the type described in clause (iii) in the definition of Debt) providing for, evidencing, securing or otherwise relating to any Debt of Borrower or any of its Subsidiaries to the extent such instrument evidences Debt in excess of $5,000,000, and all obligations of Borrower or any of its Subsidiaries to issuers of surety or appeal bonds issued for account of Borrower or any such Subsidiary in excess of $5,000,000 (collectively, the "MATERIAL AGREEMENTS"), and such list correctly sets forth the names of the debtor or lessee and creditor or lessor with respect to the Debt or lease obligations outstanding or to be outstanding and the Property subject to any Lien securing such Debt or lease obligation. Borrower has heretofore delivered to the Administrative Agent a complete and correct copy of all such material credit agreements, indentures, purchase agreements, contracts, letters of credit, guarantees, joint venture agreements, or other instruments, including any modifications or supplements thereto, as in effect on the Amendment and Restatement Date, which the Administrative Agent has requested. Each Material Agreement is in full force and effect and is enforceable by Borrower in accordance with its terms, and none of Borrower nor, to the knowledge of Borrower, any other party thereto is in breach of or default under any Material Agreement that would reasonably be likely to have a Material Adverse Effect or has given notice of termination or cancellation of any Material Agreement.

SECTION 7.22 GAS IMBALANCES. As of the Amendment and Restatement Date, except as set forth on SCHEDULE 7.22, on a net basis, there are no gas imbalances, take or pay or other prepayments with respect to Borrower's Oil and Gas Properties which would require Borrower to deliver, in the aggregate, five percent or more of the quarterly production from Hydrocarbons produced from Borrower's Oil and Gas Properties at some future time without then or thereafter receiving full payment therefor.

SECTION 7.23 LABOR RELATIONS. None of Borrower or any Subsidiary is engaged in any unfair labor practice within the meaning of the National Labor Relations Act of 1947, as amended. There is (a) no unfair labor practice complaint before the National Labor Relations Board, or grievance or arbitration proceeding arising out of or under any collective bargaining agreement, pending or, to the knowledge of Borrower, threatened, against Borrower or any Subsidiary, (b) no strike, lock-out, slowdown, stoppage, walkout or other labor dispute pending or, to the knowledge of Borrower, threatened, against Borrower or any Subsidiary, nor has any such action occurred within the last five years, and (c) to the knowledge of Borrower, no petition for certification or union election or union organizing activities taking place with respect to Borrower.

SECTION 7.24 INTELLECTUAL PROPERTY. Each of Borrower and its Subsidiaries owns, or has the legal right to use, all intellectual property necessary for each of them to conduct its business as currently conducted ("BORROWER INTELLECTUAL Property"). Borrower has not received notice of any claim challenging or questioning the use of any Borrower Intellectual Property or the validity or effectiveness of any Borrower Intellectual Property, and to the knowledge of Borrower, the use of such Borrower Intellectual Property by Borrower or any Restricted Subsidiary does not infringe on the rights of any Person, except for such claims and infringements that in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

ARTICLE VIII

AFFIRMATIVE COVENANTS

Borrower covenants and agrees that, until payment in full of all Loans hereunder, all interest thereon and all other amounts payable by Borrower hereunder and under the other Loan Documents:

SECTION 8.01 REPORTING REQUIREMENTS. Borrower shall deliver, or shall cause to be delivered, to the Administrative Agent with sufficient copies of each for the Lenders:

(a) Annual Financial Statements. As soon as available and in any event within ninety (90) days after the end of each fiscal year of Borrower, the audited consolidated (and if Borrower ever has any

Unrestricted Subsidiaries, the unaudited consolidating) statements of income, stockholders' equity, changes in financial position and cash flow of Borrower and its Consolidated Subsidiaries for such fiscal year, and the related consolidated (and if Borrower ever has any Consolidated, Unrestricted Subsidiaries, the consolidating) balance sheets of Borrower and its Consolidated Subsidiaries as at the end of such fiscal year, and setting forth in each case in comparative form the corresponding figures for the preceding fiscal year, and accompanied by the related opinion of independent public accountants of recognized national standing acceptable to the Administrative Agent which opinion shall state that said financial statements fairly present the consolidated financial condition and results of operations of Borrower and its Consolidated Subsidiaries as at the end of, and for, such fiscal year and that such financial statements have been prepared in accordance with GAAP, except for such changes in such principles with which the independent public accountants shall have concurred and such opinion shall not contain a "going concern" or like qualification or exception, and a certificate of such accountants stating that, in making the examination necessary for their opinion, they obtained no knowledge, except as specifically stated, of any Default.

(b) Quarterly Financial Statements. As soon as available and in any event within forty-five (45) days after the end of each of the first three fiscal quarterly periods of each fiscal year of Borrower, consolidated (and if Borrower ever has any Consolidated, Unrestricted Subsidiaries, the consolidating) statements of income, stockholders' equity, changes in financial position and cash flow of Borrower and its Consolidated Subsidiaries for such period and for the period from the beginning of the

respective fiscal year to the end of such period, and the related consolidated (and if Borrower ever has any Unrestricted Subsidiaries, the consolidating) balance sheets as at the end of such period, and setting forth in each case in comparative form the corresponding figures for the corresponding period in the preceding fiscal year, accompanied by the certificate of a Responsible Officer, which certificate shall state that said financial statements fairly present the consolidated financial condition and results of operations of Borrower and its Consolidated Subsidiaries in accordance with GAAP, as at the end of, and for, such period (subject to normal year-end audit adjustments).

(c) Notice of Default, Etc. Promptly after Borrower knows that any Default or any Material Adverse Effect has occurred, a notice of such Default or Material Adverse Effect, describing the same in reasonable detail and the action Borrower proposes to take with respect thereto.

(d) Other Accounting Reports. Promptly upon receipt thereof, a copy of each other material report or letter submitted to Borrower or any Subsidiary by independent accountants in connection with any annual, interim or special audit made by them of the books of Borrower and its Subsidiaries, and a copy of any response by Borrower or any Subsidiary of Borrower, or the Board of Directors of Borrower or any Subsidiary of Borrower, to such letter or report.

(e) SEC Filings, Etc. Promptly upon its becoming available, each financial statement, report, notice or proxy statement sent by Borrower to stockholders generally and each regular or periodic report and any registration statement, prospectus or written communication (other than transmittal letters) in respect thereof filed by Borrower with or received by Borrower in connection therewith from any securities exchange or the SEC.

(f) Notices Under Other Loan Agreements. Promptly after the furnishing thereof, copies of any statement, report or notice furnished to any Person pursuant to the terms of any indenture, loan or credit or other similar agreement, other than this Agreement and not otherwise required to be furnished to the Lenders pursuant to any other provision of this SECTION 8.01.

(g) Other Matters. From time to time such other information regarding the business, affairs or financial condition of Borrower or any

Subsidiary (including, without limitation, any Plan or Multiemployer Plan and any reports or other information required to be filed under ERISA) as any Lender or the Administrative Agent may reasonably request.

(h) Hedging Agreements. As soon as available and in any event within forty-five (45) days after the last day of each calendar quarter, a report, in form and substance reasonably satisfactory to the Administrative Agent, setting forth as of the last Business Day of such calendar quarter a true and complete list of all Hedging Agreements (including commodity price swap agreements, insurance swap or option agreements, forward agreements with terms in excess of thirty (30) days or contracts of sale which provide for prepayment for deferred shipment or delivery of oil, gas or other

commodities) of Borrower and each Restricted Subsidiary, the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark to market value therefor, any new credit support agreements relating thereto not listed on SCHEDULE 7.20, any margin required or supplied under any credit support document, and the counter party to each such agreement.

(i) Responsible Officer's Certificate. Borrower will furnish to the Administrative Agent, at the time it furnishes each set of financial statements pursuant to paragraph (a) or (b) above, a certificate substantially in the form of Exhibit C executed by a Responsible Officer (1) certifying as to the matters set forth therein and stating that no Default has occurred and is continuing (or, if any Default has occurred and is continuing, describing the same in reasonable detail), and (2) setting forth in reasonable detail the computations necessary to determine whether Borrower is in compliance with SECTION 9.01(a) as of the end of the respective calendar quarter or fiscal year.

SECTION 8.02 LITIGATION. Borrower shall promptly give to the Administrative Agent notice of: (i) all legal or arbitral proceedings, and of all proceedings before any Governmental Authority against or adversely affecting Borrower or any Restricted Subsidiary, except proceedings which, if adversely determined, could not reasonably be expected to have a Material Adverse Effect, and (ii) of any litigation or proceeding against or adversely affecting in any material respect Borrower or any Restricted Subsidiary in which the amount involved is not covered in full by insurance (subject to normal and customary deductibles and for which the insurer has not assumed the defense), or in which injunctive or similar relief is sought. Borrower will, and will cause each of its Restricted Subsidiaries to, promptly notify the Administrative Agent and each of the Lenders of any claim, judgment, Lien (other than those permitted under SECTION 9.02) or other encumbrance affecting any Property of Borrower or any Restricted Subsidiary if the value of the claim, judgment, Lien, or other encumbrance affecting such Property shall exceed $500,000.

SECTION 8.03 MAINTENANCE, ETC.

(a) Generally. Borrower shall and shall cause each Restricted Subsidiary to: preserve and maintain its corporate existence and all of its material rights, privileges and franchises; keep books of record and account in which full, true and correct entries will be made of all dealings or transactions in relation to its business and activities; comply with all Governmental Requirements if failure to comply with such requirements would be reasonably likely to have a Material Adverse Effect; pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its Property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained; upon reasonable notice, permit representatives of the Administrative Agent or any Lender, during normal business hours, to examine, copy and make extracts from its books and records, to inspect its Properties, and to discuss its business and affairs with its officers, all to the extent reasonably requested by such Lender or the Administrative Agent (as the case may be); and keep, or cause to be kept, insured by financially sound and reputable insurers all Property of a character usually

insured by Persons engaged in the same or similar business similarly situated against loss or damage of the kinds and in the amounts customarily insured against by such Persons and carry such other insurance as is usually carried by such Persons including, without limitation, environmental risk insurance to the extent reasonably available. Subject to SECTION 9.14, Borrower will, and will cause each Restricted Subsidiary, to pay, discharge or otherwise satisfy at or before maturity all liabilities and obligations as and when due (subject to any applicable subordination provisions), and any additional costs that are imposed as a result of any failure to so pay, discharge or otherwise satisfy such obligations, except to the extent failure to do so would not, individually or in the aggregate be reasonably likely to have a Material Adverse Effect.

(b) Oil and Gas Properties. Borrower will and will cause each Restricted Subsidiary to maintain all of its Oil and Gas Properties as a reasonably prudent operator. Borrower will and will cause each Restricted Subsidiary to keep unimpaired, except for Liens described in SECTION 9.02, its rights with respect to its Oil and Gas Properties and other material Properties and prevent any forfeiture thereof or a default thereunder. Borrower will cause and cause each Restricted Subsidiary to perform or make reasonable and customary efforts to cause to be performed, in accordance with industry standards, the obligations required by each and all of the assignments, deeds, leases, sub-leases, contracts and agreements affecting its interests in its Oil and Gas Properties and other material Properties.

SECTION 8.04 ENVIRONMENTAL MATTERS.

(a) Compliance with Environmental Laws. Borrower will and will cause each Subsidiary to maintain and operate all Property of Borrower and its Subsidiaries in compliance with applicable Environmental Laws in all material respects.

(b) Notice of Action. Borrower will promptly notify the Administrative Agent and the Lenders in writing of any threatened action, investigation or inquiry by any Governmental Authority of which Borrower has knowledge in connection with any Environmental Laws, excluding routine testing and corrective action, which if adversely determined could have a Material Adverse Effect.

(c) Future Acquisitions. Borrower will and will cause each Subsidiary to provide environmental audits and tests in accordance with industry standards as reasonably requested by the Majority Lenders (or as otherwise required to be obtained by the Lenders by any Governmental Authority) in connection with any future acquisitions of Oil and Gas Properties.

SECTION 8.05 FURTHER ASSURANCES. Borrower will cure promptly any defects in the creation and issuance of the Notes and the execution and delivery of this Agreement. Borrower at its expense will promptly execute and deliver to the Administrative Agent upon request all such other documents, agreements and instruments to comply with or accomplish the covenants and agreements of Borrower this Agreement, or to correct any omissions in, or to state more fully the obligations set out herein or to make any recordings, to

file any notices or obtain any consents, all as may be necessary or appropriate in connection therewith.

SECTION 8.06 PERFORMANCE OF OBLIGATIONS. Borrower will pay the Notes according to the reading, tenor and effect thereof; and Borrower will do and perform every act and discharge all of the obligations to be performed and discharged by it under this Agreement and the Notes, at the time or times and in the manner specified.

SECTION 8.07 ERISA INFORMATION AND COMPLIANCE. Borrower will

promptly furnish and will cause the Subsidiaries and any ERISA Affiliate to promptly furnish to the Administrative Agent with sufficient copies to the Lenders (i) promptly after the filing thereof with the United States Secretary of Labor, the Internal Revenue Service or the PBGC, copies of each annual and other report with respect to each Plan or any trust created thereunder, (ii) immediately upon becoming aware of the occurrence of any ERISA Event or of any "prohibited transaction," as described in section 406 of ERISA or in section 4975 of the Code, in connection with any Plan or any trust created thereunder, a written notice signed by a Responsible Officer specifying the nature thereof, what action Borrower, the Subsidiary or the ERISA Affiliate is taking or proposes to take with respect thereto, and, when known, any action taken or proposed by the Internal Revenue Service, the Department of Labor or the PBGC with respect thereto, and (iii) immediately upon receipt thereof, copies of any notice of the PBGC's intention to terminate or to have a trustee appointed to administer any Plan. With respect to each Plan (other than a Multiemployer Plan), Borrower will, and will cause each Subsidiary and ERISA Affiliate to, (i) satisfy in full and in a timely manner, without incurring any late payment or underpayment charge or penalty and without giving rise to any lien, all of the contribution and funding requirements of section 412 of the Code (determined without regard to subsections (d), (e), (f) and (k) thereof) and of section 302 of ERISA (determined without regard to sections 303, 304 and 306 of ERISA), and (ii) pay, or cause to be paid, to the PBGC in a timely manner, without incurring any late payment or underpayment charge or penalty, all premiums required pursuant to sections 4006 and 4007 of ERISA.

SECTION 8.08 RESTRICTED SUBSIDIARIES.

(a) Borrower shall ensure that each Restricted Subsidiary is at all times a Consolidated Subsidiary.

(b) Borrower shall cause all Restricted Subsidiaries created or acquired after the date hereof to execute a subsidiary guarantee of the Notes and to provide legal opinions and such other documents as the Majority Lenders may reasonably request.

SECTION 8.09 USE OF PROCEEDS OF QUALIFIED OFFERING. If the Borrower issues Debt in a Qualified Offering, the Borrower shall use the net proceeds of such offering to repay or redeem Debt, including Debt under the Senior Secured Credit Facility (which may be reborrowed from time to time as Permitted Indebtedness). If the aggregate net proceeds from Qualified Offerings equals or exceeds $150,000,000, Borrower shall repay in full all Debt under the Duke Credit Facility.

SECTION 8.10 RATING. Prior to September 30, 2004, the Borrower will cause the Notes to be rated by Standard & Poor's, Moody's Investor Services or Fitch Ratings.

ARTICLE IX

NEGATIVE COVENANTS

Borrower covenants and agrees that, until payment in full of all Loans hereunder, all interest thereon and all other amounts payable by Borrower hereunder and under the other Loan Documents, without the prior written consent of the Majority Lenders:

SECTION 9.01 DEBT INCURRENCE.

(a) Borrower will not, and will not permit any Restricted Subsidiary to, incur, create or assume any Debt, other than Permitted Indebtedness, if (i) the Interest Coverage Ratio after giving effect to the incurrence, creation or assumption of such Debt is less than 2.5 to 1.0, or (ii) the Debt Coverage Ratio after giving effect to the incurrence, creation or assumption of such Debt is more than 4.0 to 1.0.

(b) Borrow will not, and will not permit any Restricted Subsidiary to, incur, create or assume more than $175,000,000 in aggregate principal amount of Senior Secured Debt unless the Ratio of Borrower's Adjusted Consolidated Net Tangible Assets to Senior Secured Debt is equal to, or greater than, 2.5 to 1.0.

SECTION 9.02 LIENS. Unless the Loans are secured equally and ratably, Borrower will not, and will not permit any Restricted Subsidiary to, create, incur or assume any Lien securing pari passu or subordinated Debt on any of its Properties (now owned or hereafter acquired), except:

(a) Liens securing the payment of the Loans;

(b) Permitted Liens;

(c) Liens securing leases allowed under clause (d) in the definition of Permitted Indebtedness, but only on the Property under lease;

(d) Liens disclosed on SCHEDULE 9.02;

(e) Liens on cash or securities of Borrower securing Debt described in clause (e) of the definition of Permitted Indebtedness; and

(f) any Lien on any Property acquired after the date hereof existing prior to the acquisition thereof by Borrower or any Restricted Subsidiary or existing on any Property of any Person that becomes a Restricted Subsidiary after the date hereof prior to the time such Person becomes a Restricted Subsidiary; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Restricted Subsidiary, as the case may be, (ii) such Lien shall not apply to any other Property of Borrower or any Restricted Subsidiary and (iii) such Lien shall

secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Restricted Subsidiary, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof.

SECTION 9.03 RESTRICTED INVESTMENTS; RESTRICTIVE AGREEMENTS.

(a) Borrower will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

(1) declare or pay any dividend or make any distribution on or in respect of its capital stock (including any payment in connection with any merger or consolidation involving Borrower or any of its Restricted Subsidiaries) except:

(A) dividends or distributions payable in capital stock of Borrower (other than Disqualified Stock) or in options, warrants or other rights to purchase such capital stock;

(B) dividends or distributions payable to Borrower or a Restricted Subsidiary of Borrower (and if such Restricted Subsidiary is not a Wholly-Owned Subsidiary, to its other holders of common capital stock on a pro rata basis); and

(C) dividends on Borrower's $2.125 Convertible Exchangeable Preferred Stock, Series A currently outstanding;

(2) purchase, redeem, retire or otherwise acquire for value any capital stock of Borrower or any direct or indirect parent of Borrower held by Persons other than Borrower or a Restricted Subsidiary of Borrower (other than in exchange for capital stock of Borrower (other than Disqualified Stock));

(3) purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Debt (other than the purchase, repurchase or other acquisition of Subordinated Debt 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 purchase, repurchase or

acquisition); or

(4) make any Restricted Investment in any Person;

(any such dividend, distribution, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in clauses (1) through (4) only shall be referred to herein as a "RESTRICTED PAYMENT"), if at the time Borrower or such Restricted Subsidiary makes such Restricted Payment:

(A) a Default shall have occurred and be continuing (or would result therefrom); or

(B) Borrower is not able to incur an additional $1.00 of Debt pursuant to SECTION 9.01(a) after giving effect, on a pro forma basis, to such Restricted Payment; or

(C) the aggregate amount of such Restricted Payment and all other Restricted Payments declared or made subsequent to the date hereof would exceed the sum of:

(i) 50% of Consolidated Net Income for the period (treated as one accounting period) from the beginning of the first calendar quarter commencing after the date of this Agreement to the end of the most recent calendar quarter ending prior to the date of such Restricted Payment for which financial statements are in existence (or, in case such Consolidated Net Income is a deficit, minus 100% of such deficit); provided, however, that writedowns of oil and gas properties due to the application of the full-cost method of accounting will not be deducted in calculating Consolidated Net Income for purposes of this paragraph;

(ii) the aggregate Net Cash Proceeds received by Borrower from the issue or sale of its capital stock (other than Disqualified Stock) or other capital contributions subsequent to the date hereof (other than Net Cash Proceeds received from an issuance or sale of such capital stock to a Subsidiary of Borrower or an employee stock ownership plan, option plan or similar trust to the extent such sale to an employee stock ownership plan, option plan or similar trust is financed by loans from or guaranteed by Borrower or any Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination);

(iii) the amount by which Debt of Borrower is reduced on Borrower's balance sheet upon the conversion or exchange (other than by a Subsidiary of Borrower) subsequent to the date hereof of any Debt of Borrower convertible or exchangeable for capital stock (other than Disqualified Stock) of Borrower (less the amount of any cash, or other property, distributed by Borrower upon such conversion or exchange); and

(iv) the amount equal to the net reduction in Restricted Investments made by Borrower or any of its Restricted Subsidiaries in any Person resulting from:

(a) repurchases or redemptions of such Restricted Investments by such Person, proceeds realized

upon the sale of such Restricted Investment to an unaffiliated purchaser, repayments of loans or

advances or other transfers of assets (including by way of dividend or distribution) by such Person to Borrower or any Restricted Subsidiary of Borrower; or

(b) the redesignation of Unrestricted Subsidiaries as Restricted Subsidiaries (valued in each case as provided in the definition of "INVESTMENT") not to exceed, in the case of any Unrestricted Subsidiary, the amount of Investments previously made by Borrower or any Restricted Subsidiary in such Unrestricted Subsidiary,

which amount in each case under this clause (iv) was included in the calculation of the amount of Restricted Payments; provided, however, that no amount will be included under this clause (iv) to the extent it is already included in Consolidated Net Income.

The provisions of the preceding paragraph will not prohibit:

(1) any purchase or redemption of capital stock or Subordinated Debt of Borrower made by exchange for, or out of the proceeds of the substantially concurrent sale of, capital stock of Borrower or Subordinated Debt with a maturity after December 31, 2010; provided, however, that (a) such purchase or redemption will be excluded in subsequent calculations of the amount of Restricted Payments and (b) the Net Cash Proceeds from such sale will be excluded from clause (c)(ii) of the preceding paragraph;

(2) any purchase or redemption of Subordinated Obligations of Borrower made by exchange for, or out of the proceeds of the substantially concurrent sale of, Subordinated Debt of Borrower that is refinanced in compliance with this Agreement; provided, however, that such purchase or redemption will be excluded in subsequent calculations of the amount of Restricted Payments;

(3) so long as no Default or Event of Default has occurred and is continuing, any purchase or redemption of Subordinated Debt from Net Available Cash to the extent permitted under SECTION 9.11 below; provided, however, that such purchase or redemption will be excluded in subsequent calculations of the amount of Restricted Payments;

(4) dividends paid within sixty (60) days after the date of declaration if at such date of declaration such dividend would have complied with this provision; provided, however, that such dividends will be included in subsequent calculations of the amount of Restricted Payments;

(5) so long as no Default or Event of Default has occurred and is continuing,

(A) the purchase, redemption or other acquisition, cancellation or retirement for value of capital stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire capital stock of Borrower or any Restricted Subsidiary of Borrower or any parent of Borrower held by any existing or former directors, employees or management of Borrower or any Subsidiary of Borrower or their assigns, estates or heirs, in each case in connection with the repurchase provisions under employee or director stock option or stock purchase agreements or other agreements to compensate management employees or directors; provided that such redemptions or repurchases pursuant to this clause will not exceed $2,000,000 in the aggregate during any calendar year and $10,000,000 in the aggregate for all such redemptions and repurchases; provided, however, that the amount of any such repurchase or redemption will be included in subsequent

calculations of the amount of Restricted Payments; and

(B) loans or advances to employees or directors of Borrower or any Subsidiary of Borrower the proceeds of which are used to purchase capital stock of Borrower, in an aggregate amount not in excess of $2,000,000 at any one time outstanding; provided, however, that the amount of such loans and advances will be included in subsequent calculations of the amount of Restricted Payments;

(6) repurchases of capital stock deemed to occur upon the exercise of stock options if such capital stock represents a portion of the exercise price thereof; provided, however, that such repurchases will be excluded from subsequent calculations of the amount of Restricted Payments; and

(7) Restricted Payments in an amount not to exceed $10,000,000; provided that the amount of such Restricted Payments will be included in the calculation of the amount of Restricted Payments pursuant to SECTION 9.03(a)(4)(c).

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the Property or securities proposed to be paid, transferred or issued by Borrower or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount and any non-cash Restricted Payment shall be determined conclusively by the board of directors of Borrower acting in good faith.

(c) Borrower 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 consensual restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its capital stock or pay any Debt or other obligations owed to Borrower or any Restricted Subsidiary;

(2) make any loans or advances to Borrower or any Restricted Subsidiary; or

(3) transfer any of its Property to Borrower or any Restricted Subsidiary.

The preceding provisions will not prohibit:

(A) any encumbrance or restriction pursuant to this Agreement, the Senior Secured Credit Facility, the Duke Credit Facility or an agreement in effect on the date hereof;

(B) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Debt incurred by a Restricted Subsidiary on or before the date on which such Restricted Subsidiary was acquired by Borrower (other than Debt incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by Borrower or in contemplation of the transaction) and outstanding on such date;

(C) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement effecting a refunding, replacement or refinancing of Debt incurred pursuant to an agreement referred to in clause (a) or (b) of this paragraph or this clause (c) or contained in any amendment to an agreement referred to in clause (a) or (b) of this paragraph or this clause (c); provided, however, that the encumbrances and restrictions with respect to such Restricted

Subsidiary contained in any such agreement are no less favorable in any material respect to the holders of the Notes than the encumbrances and restrictions contained in such agreements referred to in clauses (a) or (b) of this paragraph on the date hereof or the date such Restricted Subsidiary became a Restricted Subsidiary, whichever is applicable:

(D) in the case of clause (3) of this covenant, any encumbrance or restriction;

(i) that restricts in a customary manner the subletting, assignment or transfer of any Property that is subject to a lease, license or similar contract, or the assignment or transfer of any such lease, license or other contract;

(ii) contained in mortgages, pledges or other security agreements permitted under this Agreement securing Debt of Borrower or a Restricted Subsidiary to the extent such encumbrances or restrictions restrict the transfer of the Property subject to such mortgages, pledges or other security agreements; or

(iii) pursuant to customary provisions regarding preferential rights or rights of first refusal or restricting dispositions of real property interests set forth in any reciprocal easement agreements of Borrower or any Restricted Subsidiary;

(E) purchase money obligations for Property acquired in the ordinary course of business that impose encumbrances or restrictions of the nature described in clause (3) of this covenant on the Property so acquired;

(F) any restriction with respect to a Restricted Subsidiary (or any of its Property) imposed pursuant to an agreement entered into for the direct or indirect sale or disposition of all or substantially all the capital stock or Property of such Restricted Subsidiary (or the Property that is subject to such restriction) pending the closing of such sale or disposition;

(G) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order;

(H) any encumbrance or restriction arising out of any Permitted Lien; and

(I) customary provisions with respect to the distribution of assets or property in joint venture agreements.

SECTION 9.04 SALES AND LEASEBACKS. Other than in connection with Permitted Equipment Financings, neither Borrower nor any Restricted Subsidiary will enter into any arrangement, directly or indirectly, with any Person whereby Borrower or any Restricted Subsidiary shall sell or transfer any of its Property, whether now owned or hereafter acquired, and whereby Borrower or any Restricted Subsidiary shall then or thereafter rent or lease as lessee such Property or any part thereof or other Property which Borrower or any Restricted Subsidiary intends to use for substantially the same purpose or purposes as the Property sold or transferred.

SECTION 9.05 NATURE OF BUSINESS. Neither Borrower nor any Restricted Subsidiary will allow any material change to be made in the character of its business.

SECTION 9.06 LIMITATION ON LEASES. Other than in connection with Permitted Equipment Financings, neither Borrower nor any Restricted Subsidiary will create, incur, assume or permit to exist any obligation for the payment of

rent or hire of Property of any kind whatsoever (real or personal including capital leases, but excluding leases of Hydrocarbon Interests), under leases or lease agreements for terms in excess of, or that are non-cancelable by Borrower or such Subsidiary within, twelve months which would cause all payments made by Borrower and its Restricted Subsidiaries pursuant to all such leases or lease agreements to exceed (i) $2,000,000 per annum during the calendar years 2004 and 2005 or (ii) $4,000,000 per annum during calendar years 2006 through 2010.

SECTION 9.07 CONSOLIDATION AND MERGER. Borrower shall not merge into or consolidate with or sell all or substantially all of its Property to any Person or group of affiliated Persons unless (a) either (1) Borrower survives, or (2) survivor is an entity organized under United States law or any state thereof or the District of Columbia and assumes, in writing, the Loans; (b) no Default or Event of Default shall have occurred and be continuing; (c) except in the case of the consolidation or merger of any Restricted Subsidiary with or into Borrower, the consolidated net worth of Borrower (or the surviving entity) does not decrease; Borrower could incur $1.00 of additional Debt (excluding Permitted Indebtedness) under SECTION 9.01(a); and (e) if any of Borrower's assets become subject to any Lien, the imposition of such Lien shall have been in compliance with SECTION 9.02. Notwithstanding the preceding clause (D), (i) any Restricted Subsidiary of Borrower may consolidate with, merge into or transfer all or part of its properties and assets to Borrower, (ii) Borrower may merge with an Affiliate incorporated solely for the purpose of reincorporating Borrower in another jurisdiction to realize tax or other benefits and (iii) any Wholly-Owned Subsidiary can consolidate with or merge into any other Wholly-Owned Subsidiary, except Restricted Subsidiaries cannot merge with Unrestricted Subsidiaries.

SECTION 9.08 PROCEEDS OF NOTES AND LOANS. Borrower will not permit the proceeds of the Notes and Loans to be used for any purpose other than those permitted by SECTION 7.07. Neither Borrower nor any Person acting on behalf of Borrower has taken or will take any action which might cause any of the Loan Documents to violate Regulation T, U or X or any other regulation of the Board of Governors of the Federal Reserve System or to violate Section 7 of the Securities Exchange Act of 1934 or any rule or regulation thereunder, in each case as now in effect or as the same may hereinafter be in effect.

SECTION 9.09 ERISA COMPLIANCE. Borrower will not at any time:

(a) engage in, or permit any Subsidiary or ERISA Affiliate to engage in, any transaction in connection with which Borrower, any Subsidiary or any ERISA Affiliate could be subjected to either a civil penalty assessed pursuant to section 502(c), (i) or (l) of ERISA or a tax imposed by Chapter 43 of Subtitle D of the Code;

(b) terminate, or permit any Subsidiary or ERISA Affiliate to terminate, any Plan in a manner, or take any other action with respect to any Plan, which could result in any liability to Borrower, any Subsidiary or any ERISA Affiliate to the PBGC;

(c) fail to make, or permit any Subsidiary or ERISA Affiliate to fail to make, full payment when due of all amounts which, under the provisions of any Plan, agreement relating thereto or applicable law, Borrower, a Subsidiary or any ERISA Affiliate is required to pay as contributions thereto;

(d) permit to exist, or allow any Subsidiary or ERISA Affiliate to permit to exist, any accumulated funding deficiency within the meaning of Section 302 of ERISA or section 412 of the Code, whether or not waived, with respect to any Plan;

(e) permit, or allow any Subsidiary or ERISA Affiliate to permit, the actuarial present value of the benefit liabilities under any Plan maintained by Borrower,

any Subsidiary or any ERISA Affiliate which is regulated under Title IV of ERISA to exceed the current value of the assets (computed on a plan

termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities. The term "actuarial present value of the benefit liabilities" shall have the meaning specified in section 4041 of ERISA;

(f) contribute to or assume an obligation to contribute to, or permit any Subsidiary or ERISA Affiliate to contribute to or assume an obligation to contribute to, any Multiemployer Plan;

(g) acquire, or permit any Subsidiary or ERISA Affiliate to acquire, an interest in any Person that causes such Person to become an ERISA Affiliate with respect to Borrower, any Subsidiary or any ERISA Affiliate if such Person sponsors, maintains or contributes to, or at any time in the six-year period preceding such acquisition has sponsored, maintained, or contributed to, (1) any Multiemployer Plan, or (2) any other Plan that is subject to Title IV of ERISA under which the actuarial present value of the benefit liabilities under such Plan exceeds the current value of the assets (computed on a plan termination basis in accordance with Title IV of ERISA) of such Plan allocable to such benefit liabilities;

(h) incur, or permit any Subsidiary or ERISA Affiliate to incur, a liability to or on account of a Plan under sections 515, 4062, 4063, 4064, 4201 or 4204 of ERISA;

(i) contribute to or assume an obligation to contribute to, or permit any Subsidiary or ERISA Affiliate to contribute to or assume an obligation to contribute to, any employee welfare benefit plan, as defined in section 3(1) of ERISA, including, without limitation, any such plan maintained to provide benefits to former employees of such entities, that may not be terminated by such entities in their sole discretion at any time without any material liability; or

(j) amend or permit any Subsidiary or ERISA Affiliate to amend, a Plan resulting in an increase in current liability such that Borrower, any Subsidiary or any ERISA Affiliate is required to provide security to such Plan under section 401(a)(29) of the Code.

SECTION 9.10 SALE OR DISCOUNT OF RECEIVABLES. Neither Borrower nor any Restricted Subsidiary will discount or sell (with or without recourse) any of its notes receivable or accounts receivable other than settlement of any past due accounts in the ordinary course of business and in accordance with prudent commercial practices.

SECTION 9.11 SALE OF PROPERTY.

(a) Borrower shall not, and shall not permit any Restricted Subsidiary to, sell, assign, convey or otherwise transfer any Property unless (i) consideration equal to the fair market value of the Property sold is received, (ii) the sale is an arm's length transaction; (iii) all of the consideration received consists of cash, Cash Equivalents, liquid securities or Exchanged Properties ("PERMITTED CONSIDERATION"); provided,

however, that Borrower and its Restricted Subsidiaries may receive Property that does not constitute Permitted Consideration, so long as the aggregate fair market value of all Property received pursuant to this proviso shall not exceed 10.0% of Adjusted Consolidated Net Tangible Assets, as determined by the Borrower's Board of Directors.

(b) Within 365 days following the receipt of Net Available Cash, an amount equal to 100% of the Net Available Cash from such Asset Disposition shall be applied by Borrower or such Restricted Subsidiary, as the case may be:

(1) to apply all or any of the Net Available Cash therefrom to repay indebtedness under the Senior Secured Credit Facility, or

(2) invest all or any part of the Net Available Cash in Property that will be used in the oil and gas business of Borrower

or its Restricted Subsidiaries.

Any Net Available Cash from Asset Dispositions that are not applied or invested as provided in the preceding paragraph will be deemed to constitute "EXCESS PROCEEDS." On the 366th day after an Asset Disposition, if the aggregate amount of Excess Proceeds exceeds $5,000,000.00, Borrower will be required to make an offer ("ASSET DISPOSITION OFFER") to all holders of Notes and to the extent required by the terms of other Senior Indebtedness, to all holders of other Senior Indebtedness outstanding with similar provisions requiring Borrower to make an offer to purchase such Senior Indebtedness with the proceeds from any Asset Disposition ("PARI PASSU NOTES"), to purchase the maximum principal amount of Notes and any such Pari Passu Notes to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in cash in an amount equal to 100% of the principal amount of the Notes and Pari Passu Notes plus accrued and unpaid interest to the date of purchase, in accordance with the procedures set forth herein or in the agreements governing the Pari Passu Notes, as applicable, and subject to the prepayment provisions of SECTION 2.04 (the term "voluntary" therein being deleted). To the extent that the aggregate amount of Notes and Pari Passu Notes so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, Borrower may use any remaining Excess Proceeds for general corporate purposes, subject to the other covenants contained herein. If the aggregate principal amount of Notes surrendered by holders thereof and other Pari Passu Notes surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, Borrower shall select the Notes and Pari Passu Notes to be purchased on a pro rata basis on the basis of the aggregate principal amount of tendered Notes and Pari Passu Notes. Upon completion of such Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero.

The Asset Disposition Offer will remain open for a period of twenty (20) Business Days following its commencement, except to the extent that a longer period is required by applicable law (the "ASSET DISPOSITION OFFER PERIOD"). No later than five (5) Business Days after the termination of the Asset Disposition Offer Period (the "ASSET DISPOSITION PURCHASE DATE"), Borrower will purchase the principal amount of Notes and Pari Passu Notes required to be purchased pursuant to this covenant (the "ASSET DISPOSITION OFFER AMOUNT") or, if less than

the Asset Disposition Offer Amount has been so validly tendered, all Notes and Pari Passu Notes validly tendered in response to the Asset Disposition Offer.

Any accrued and unpaid interest will be paid to the Person in whose name a Note is registered at the close of business on such date, and no additional interest will be payable to holders of the Notes who tender Notes pursuant to the Asset Disposition Offer.

On or before the Asset Disposition Purchase Date, Borrower will, to the extent lawful, accept for payment, on a pro rata basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Pari Passu Notes or portions of Notes and Pari Passu Notes so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Notes so validly tendered and not properly withdrawn. Borrower will deliver all certificates and notes required, if any, by this Agreement or the agreements governing the Pari Passu Notes. Borrower will promptly (but in any case not later than the Asset Disposition Purchase Date) mail or deliver to each tendering holder of Notes or holder or lender of Pari Passu Notes, as the case may be, an amount equal to the purchase price of the Notes or Pari Passu Notes so validly tendered and not properly withdrawn by such holder or lender, as the case may be, and accepted by Borrower for purchase, and Borrower will promptly issue a new Note and will deliver such new Note to such holder, in a principal amount equal to any unpurchased portion of the Note surrendered. In addition, Borrower will take any and all other actions required by the agreements governing the Pari Passu Notes. Any Note not so accepted will be promptly mailed or delivered by Borrower to the holder thereof. Borrower will publicly announce the results of the Asset Disposition Offer on the Asset Disposition Purchase Date.

For the purposes of this covenant, the following will be deemed to be cash:

(1) the assumption by the transferee of Debt (other than Subordinated Obligations or Disqualified Stock) of Borrower or Debt (other than Preferred Stock) of any Restricted Subsidiary of Borrower and the release of Borrower or such Restricted Subsidiary from all liability on such Debt in connection with such Asset Disposition (in which case Borrower will, without further action, be deemed to have applied such deemed cash to Debt in accordance with SECTION 9.11(b) above); and

(2) securities, notes or other obligations received by Borrower or any Restricted Subsidiary of Borrower from the transferee that are promptly converted by Borrower or such Restricted Subsidiary into cash or Cash Equivalents.

Borrower will comply, to the extent applicable, with the requirements of securities laws or regulations in connection with the repurchase of Notes pursuant to this Agreement. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, Borrower will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this Agreement by virtue of complying with such securities laws and regulations.

SECTION 9.12 ENVIRONMENTAL MATTERS. Neither Borrower nor any Restricted Subsidiary will cause or, to the extent within its control, permit any of its Property to be in violation of, or do anything or, to the extent within its control, permit anything to be done which will subject any such Property to any remedial obligations under any Environmental Laws, assuming disclosure to the applicable Governmental Authority of all relevant facts, conditions and circumstances, if any, pertaining to such Property where such violations or remedial obligations would have a Material Adverse Effect.

SECTION 9.13 TRANSACTIONS WITH AFFILIATES. Neither Borrower nor any Restricted Subsidiary will enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of Property or the rendering of any service, with any Affiliate unless such transactions are otherwise permitted under this Agreement, are in the ordinary course of its business and are upon fair and reasonable terms no less favorable to it than it would obtain in a comparable arm's length transaction with a Person not an Affiliate; provided, however, that notwithstanding the provisions of SECTION 9.12, Borrower may engage in the Permitted Medusa Transaction.

SECTION 9.14 SUBORDINATED DEBT. If a Default exists or would result therefrom, Borrower shall not make any payment in respect of any Subordinated Debt or the Existing Subordinated Debt. Borrower will not amend, supplement or otherwise modify any instruments evidencing, or agreements relating to or executed in connection with, any Existing Subordinated Debt, in any manner which would have the effect of (i) accelerating the timing or amount of any scheduled payments of principal or interest thereon, (ii) increasing the rate of interest payable thereon or (iii) resulting in a Material Adverse Effect.

SECTION 9.15 ISSUANCE AND SALE OF CAPITAL STOCK. Borrower (a) shall not permit any Restricted Subsidiary to issue any capital stock (other than to Borrower or a Wholly-Owned Subsidiary of Borrower) and (b) shall not permit any Person (other than Borrower or a wholly-owned Restricted Subsidiary of Borrower) to own any capital stock of any Restricted Subsidiary, except, in each case, for (1) directors' qualifying shares, (2) capital stock of a Restricted Subsidiary organized in a foreign jurisdiction required to be issued to, or owned by, the government of such foreign jurisdiction or individual or corporate citizens of such foreign jurisdiction in order for such Restricted Subsidiary to transact business in such foreign jurisdiction, (3) a sale of all or substantially all the capital stock of a Restricted Subsidiary effected in connection with a Property sale in accordance with SECTION 9.11, and (4) the capital stock of a Restricted Subsidiary owned by a Person at the time such Restricted Subsidiary became a Restricted Subsidiary or acquired by such Person in connection with the formation of the Restricted Subsidiary; provided, however, that any capital stock retained by Borrower or a Restricted Subsidiary shall be treated as an Investment for purposes of SECTION 9.03, if the amount of such capital stock represents less than a majority of the voting stock of such Restricted Subsidiary.

SECTION 9.16 MODIFICATION OF AGREEMENTS. Borrower shall not, and shall not permit any Subsidiary to, amend, modify or change any provision of its articles, certificate of incorporation, bylaws, partnership agreement, certificate of formation or operating agreement, as applicable, or the terms of any class or series of its capital stock, other than in a manner that would not be reasonably likely to have a Material Adverse Effect or to adversely affect the right

or ability of Borrower to receive dividend payments or other distributions from its Subsidiaries, or amend, modify, cancel or terminate or fail to renew or extend or permit the amendment, modification, cancellation or termination of any Material Agreement, except to the extent that such amendments, modifications, cancellations or terminations would not be reasonably likely to have a Material Adverse Effect.

SECTION 9.17 GUARANTEES. Borrower shall not, and shall not permit any Restricted Subsidiary to, guarantee, directly or indirectly, any Debt of any Unrestricted Subsidiary.

SECTION 9.18 LIMITATION ON ADDITIONAL DEBT. Borrower shall not incur any Debt other than (i) Permitted Debt or (ii) Debt incurred under the Senior Secured Credit Facility. For purposes of this SECTION 9.18, Debt shall only include the obligations listed in clauses (i) through (v), (vii), and (ix) through (xi) of the definition of Debt in SECTION 1.02.

SECTION 9.19 PERMITTED MEDUSA TRANSACTIONS. Notwithstanding anything in this Agreement or any other Loan Document to the contrary, so long as no Default or Event of Default has occurred and is continuing at the time Borrower or any of its Subsidiaries enters into any Permitted Medusa Transaction, the entering into and carrying out of such Permitted Medusa Transaction shall be allowed hereunder and shall not in itself constitute a breach of, non-compliance with, or Default or Event of Default under this Agreement or any other Loan Document.

ARTICLE X

EVENTS OF DEFAULT; REMEDIES

SECTION 10.01 EVENTS OF DEFAULT. One or more of the following events shall constitute an "EVENT OF DEFAULT":

(a) Borrower shall default in the payment or prepayment when due of any principal of or interest on any Loan or any fees payable by it hereunder or under any Loan Document and such default, other than a default of a payment or prepayment of principal (which shall have no cure period), shall continue unremedied for a period of thirty (30) days; or

(b) Borrower or any Restricted Subsidiary shall default in the payment when due of any principal of or interest on any of its other Debt (other than Debt owed to Borrower or any Restricted Subsidiary) aggregating $10,000,000 or more ($15,000,000 in the case of non-recourse Debt), or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Debt shall occur if the effect of such event is to cause, or (with the giving of any notice or the lapse of time or both) to permit the holder or holders of such Debt (or a trustee or administrative agent on behalf of such holder or holders) to cause, such Debt to become due prior to its stated maturity; or

(c) any representation, warranty or certification made or deemed made herein, in any Loan Document by Borrower, or any certificate furnished to any Lender or the Administrative Agent pursuant to the provisions hereof, or any Loan Document, shall

prove to have been false or misleading as of the time made or furnished in any material respect; or

(d) Borrower shall default in the performance of any of its obligations under SECTION 9.07 of this Agreement; (ii) Borrower shall default in the performance of any of its obligations under SECTION 2.04(b), ARTICLE VIII or ARTICLE IX (other than the payment of amounts due which shall be governed by SECTION 10.01(a) or SECTION 9.07 which shall be governed by SECTION 10.01(D)(I)) and such default shall continue unremedied for a period of thirty (30) days after the earlier to occur of (a) notice thereof to Borrower by the Administrative Agent or any Lender (through the Administrative Agent), or (b) Borrower otherwise becoming aware of such default; or (iii) Borrower shall default in the performance of any of its other obligations under this Agreement and such default shall continue unremedied for a period of sixty (60) days after the earlier to occur of (a) notice thereof to Borrower by the Administrative Agent or any Lender (through the Administrative Agent), or (b) Borrower otherwise becoming aware of such default; or

(e) Borrower or any Restricted Subsidiary shall admit in writing its inability to, or be generally unable to, pay its debts as such debts become due; or

(f) Borrower or any Restricted Subsidiary shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, liquidation or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Federal Bankruptcy Code, or (vi) take any corporate action for the purpose of effecting any of the foregoing; or

(g) a proceeding or case shall be commenced, without the application or consent of Borrower or any Restricted Subsidiary, in any court of competent jurisdiction, seeking (i) its liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of such Person of all or any substantial part of its assets, or (iii) similar relief in respect of such Person under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of sixty (60) days; or (iv) an order for relief against such Person shall be entered in an involuntary case under the Federal Bankruptcy Code;

(h) a judgment or judgments for the payment of money in excess of $10,000,000 in the aggregate (net of any amounts that a reputable and creditworthy insurance company has acknowledged liability for in writing) shall be rendered by a court against Borrower or any Restricted Subsidiary and the same shall not be discharged (or

provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within sixty (60) days from the date of entry thereof and Borrower or such Subsidiary shall not, within said period of sixty (60) days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal; or

(i) any Subsidiary takes, suffers or permits to exist any of the events or conditions referred to in clauses (e), (f), (g) or (h), and such event or condition has a Material Adverse Effect.

SECTION 10.02 REMEDIES.

(a) In the case of an Event of Default other than one referred to in clauses (e), (f) or (g)of SECTION 10.01, or in clause (i) to the

extent it relates to clauses (e), (f) or (g), the Administrative Agent, upon request of the Majority Lenders, shall, by notice to Borrower declare the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by Borrower hereunder and under the other Loan Documents and the Notes to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or other formalities of any kind, all of which are hereby expressly waived by Borrower.

(b) In the case of the occurrence of an Event of Default referred to in clauses (e), (f) or (g) of SECTION 10.01, or in clause (i) to the extent it relates to clauses (e), (f) or (g), the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by Borrower hereunder and under the other Loan Documents and the Notes shall become automatically immediately due and payable without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or other formalities of any kind, all of which are hereby expressly waived by Borrower.

(c) All proceeds received after maturity of the Notes, whether by acceleration or otherwise shall be applied first to reimbursement of expenses and indemnities provided for in this Agreement and the other Loan Documents; second to accrued interest on the Notes; third to fees; fourth pro rata to principal outstanding on the Notes; and any excess shall be paid to Borrower or as otherwise required by any Governmental Requirement.

ARTICLE XI

THE ADMINISTRATIVE AGENT

SECTION 11.01 APPOINTMENT, POWERS AND IMMUNITIES. Each Lender hereby irrevocably appoints and authorizes the Administrative Agent to act as its Administrative Agent hereunder with such powers as are specifically delegated to the Administrative Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. The Administrative Agent (which term as used in this sentence and in SECTION 11.04 and the first

sentence of SECTION 11.05 shall include reference to its Affiliates and its and its Affiliates' officers, directors, employees, attorneys, accountants, experts and administrative agents): (i) shall have no duties or responsibilities except those expressly set forth in the Loan Documents, and shall not by reason of the Loan Documents be a trustee or fiduciary for any Lender; (ii) makes no representation or warranty to any Lender and shall not be responsible to the Lenders for any recitals, statements, representations or warranties contained in the Loan Documents, this Agreement, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement, or for the value, validity, effectiveness, genuineness, execution, effectiveness, legality, enforceability or sufficiency of this Agreement, the Loan Documents, any Note or any other document referred to or provided for herein or for any failure by Borrower or any other Person (other than the Administrative Agent) to perform any of its obligations hereunder or thereunder or for the existence, value, perfection or priority of any collateral security or the financial or other condition of Borrower, its Subsidiaries or any other obligor or guarantor; (iii) except pursuant to SECTION 11.06 shall not be required to initiate or conduct any litigation or collection proceedings hereunder; and (iv) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other document or instrument referred to or provided for herein or in connection herewith including its own ordinary negligence, except for its own gross negligence or willful misconduct. The Administrative Agent may employ administrative agents, accountants, attorneys and experts and shall not be responsible for the negligence or misconduct of any such administrative agents, accountants, attorneys or experts selected by it in good faith or any action taken or omitted to be taken in good faith by it in accordance with the advice of such administrative agents, accountants, attorneys or experts. The Administrative Agent shall not be required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties hereunder. The Administrative Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a written notice of the assignment or transfer thereof permitted hereunder shall

have been filed with the Administrative Agent. The Administrative Agent is authorized to release any collateral that is permitted to be sold or released pursuant to the terms of the Loan Documents.

SECTION 11.02 RELIANCE BY ADMINISTRATIVE AGENT. The Administrative Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telex, telecopier, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Administrative Agent.

SECTION 11.03 DEFAULTS. The Administrative Agent shall not be deemed to have knowledge of the occurrence of a Default (other than the non-payment of principal of or interest on Loans or of fees) unless the Administrative Agent has received written notice from a Lender or Borrower specifying such Default and stating that such notice is a "Notice of Default." In the event that the Administrative Agent receives such a notice of the occurrence of a Default, the Administrative Agent shall give prompt written notice thereof to the Lenders. In the event of a payment Default, the Administrative Agent shall give each Lender prompt written notice of each such payment Default.

SECTION 11.04 INDEMNIFICATION. THE LENDERS AGREE TO INDEMNIFY AND HOLD HARMLESS THE ADMINISTRATIVE AGENT AND ITS AFFILIATES AND EACH OF THEIR RESPECTIVE DIRECTORS, OFFICERS, PRINCIPALS, MEMBERS, MANAGERS, SHAREHOLDERS, EMPLOYEES, FAMILY MEMBERS AND AGENTS RATABLY IN ACCORDANCE WITH EACH LENDER'S PERCENTAGE SHARES FOR THE INDEMNITY MATTERS AS DESCRIBED IN SECTION 12.03 TO THE EXTENT NOT INDEMNIFIED OR REIMBURSED BY BORROWER UNDER SECTION 12.03, BUT WITHOUT LIMITING THE OBLIGATIONS OF BORROWER UNDER SAID SECTION 12.03 AND FOR ANY AND ALL OTHER INDEMNITY MATTERS WHICH MAY BE IMPOSED ON, INCURRED BY OR ASSERTED AGAINST THE ADMINISTRATIVE AGENT IN ANY WAY RELATING TO OR ARISING OUT OF: (i) THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY OTHER DOCUMENTS CONTEMPLATED BY OR REFERRED TO HEREIN OR THE TRANSACTIONS CONTEMPLATED HEREBY, BUT EXCLUDING, UNLESS A DEFAULT HAS OCCURRED AND IS CONTINUING, NORMAL ADMINISTRATIVE COSTS AND EXPENSES INCIDENT TO THE PERFORMANCE OF ITS AGENCY DUTIES HEREUNDER OR (ii) THE ENFORCEMENT OF ANY OF THE TERMS OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENTS; WHETHER OR NOT ANY OF THE FOREGOING SPECIFIED IN THIS SECTION 11.04 ARISES FROM THE SOLE OR CONCURRENT NEGLIGENCE OF THE ADMINISTRATIVE AGENT, PROVIDED THAT NO LENDER SHALL BE LIABLE FOR ANY OF THE FOREGOING TO THE EXTENT THEY ARISE FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE ADMINISTRATIVE AGENT.

SECTION 11.05 NON-RELIANCE ON ADMINISTRATIVE AGENT AND OTHER LENDERS. Each Lender acknowledges and agrees that it has, independently and without reliance on the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis of Borrower and its decision to enter into this Agreement, and that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Administrative Agent shall not be required to keep itself informed as to the performance or observance by Borrower of this Agreement, the Notes or any Loan Document or other document referred to or provided for herein or to inspect the properties or books of Borrower. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of Borrower (or any of its Affiliates) which may come into the possession of the Administrative Agent or any of its Affiliates.

SECTION 11.06 ACTION BY ADMINISTRATIVE AGENT. Except for action or other matters expressly required of the Administrative Agent hereunder, the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall (i) receive written instructions from the Majority Lenders (or all of the Lenders as expressly required by SECTION 12.04) specifying the action to be taken, and (ii) be indemnified to its satisfaction by the Lenders against any and all liability and expenses which may be incurred by it by reason of

taking or continuing to take any such action. The instructions of the Majority Lenders (or all of the Lenders as expressly required by SECTION 12.04) and any action taken or failure to act pursuant thereto by the Administrative Agent shall be binding on all of the Lenders. If a Default has occurred and is continuing, the Administrative Agent shall take such action with respect to such Default as shall be directed by the Majority Lenders (or all of the Lenders as required by SECTION 12.04) in the written instructions (with indemnities satisfactory to the Administrative Agent) described in this SECTION 11.07, provided that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent shall not be obligated to take any such action with respect to such Default. In no event, however, shall the Administrative Agent be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement or applicable law.

SECTION 11.07 RESIGNATION OR REMOVAL OF ADMINISTRATIVE AGENT. Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by giving at least thirty (30) days' written notice thereof to the Lenders and Borrower, and the Administrative Agent may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Administrative Agent with consent of Borrower (such consent not to be unreasonably withheld), except no such consent shall be necessary if an Event of Default has occurred and is continuing. If no successor Administrative Agent shall have been so appointed by the Majority Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent with consent of Borrower (such consent not to be unreasonably withheld), except no such consent shall be necessary if an Event of Default has occurred and is continuing. Upon the acceptance of such appointment hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this ARTICLE XI and SECTION 12.03 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Administrative Agent.

ARTICLE XII

MISCELLANEOUS

SECTION 12.01 WAIVER. No failure on the part of the Administrative Agent or any Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under any of the Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any of the Loan Documents preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

SECTION 12.02 NOTICES. All notices and other communications provided for herein and in the other Loan Documents (including, without limitation, any modifications of, or waivers or consents under, this Agreement or the other Loan Documents) shall be given or made by telex, telecopy, courier (including overnight delivery service with delivery confirmation) or U.S. Mail or in writing and telexed, telecopied, mailed or delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof or, as to any party, at such other address as shall be designated by such party in a notice to each other party pursuant to the terms hereof. Except as otherwise provided in this Agreement or in the other Loan Documents, all such communications shall be deemed to have been duly given when transmitted, if transmitted before 1:00 p.m. local time on a Business Day (otherwise on the next succeeding Business Day) by telex or telecopier and evidence or confirmation of receipt is obtained, or personally delivered (including overnight delivery

service with delivery confirmation) or, in the case of a mailed notice, three (3) Business Days after the date deposited in the mails, postage prepaid, in each case given or addressed as aforesaid.

SECTION 12.03 PAYMENT OF EXPENSES, INDEMNITIES, ETC.

(a) Borrower agrees:

(1) to pay the reasonable fees and disbursements of counsel to the Majority Lenders in connection with this Agreement and related matters (not to exceed $100,000), together with all of the Administrative Agent's and Majority Lenders' reasonable legal fees and expenses in connection with any amendment, waiver or consent relating to this Agreement and related matters, and, in the case of enforcement pursuant to or in connection with this Agreement, the reasonable fees and disbursements of counsel for the Administrative Agent and any of the Lenders; and promptly reimburse the Administrative Agent for all amounts expended, advanced or incurred by the Administrative Agent or the Lenders to satisfy any obligation of Borrower under this Agreement or any other Loan Document, including without limitation, all costs and expenses of foreclosure;

(2) TO INDEMNIFY THE ADMINISTRATIVE AGENT AND EACH LENDER AND EACH OF THEIR AFFILIATES AND EACH OF THEIR RESPECTIVE OFFICERS, MEMBERS, MANAGERS, DIRECTORS, EMPLOYEES, REPRESENTATIVES, AGENTS, ATTORNEYS, ACCOUNTANTS AND EXPERTS ("INDEMNIFIED PARTIES") FROM, HOLD EACH OF THEM HARMLESS AGAINST AND PROMPTLY UPON DEMAND PAY OR REIMBURSE EACH OF THEM FOR, THE INDEMNITY MATTERS WHICH MAY BE INCURRED BY OR ASSERTED AGAINST OR INVOLVE ANY OF THEM (WHETHER OR NOT ANY OF THEM IS DESIGNATED A PARTY THERETO) AS A RESULT OF, ARISING OUT OF OR IN ANY WAY RELATED TO (I) ANY ACTUAL OR PROPOSED USE BY BORROWER OF THE PROCEEDS OF ANY OF THE LOANS, (II) THE EXECUTION, DELIVERY AND PERFORMANCE OF THE LOAN DOCUMENTS, (III) THE OPERATIONS OF THE BUSINESS OF BORROWER AND ITS SUBSIDIARIES, (IV) THE FAILURE OF BORROWER OR ANY SUBSIDIARY TO COMPLY WITH THE TERMS OF

THIS AGREEMENT, OR WITH ANY GOVERNMENTAL REQUIREMENT, (V) ANY INACCURACY OF ANY REPRESENTATION OR ANY BREACH OF ANY WARRANTY OF BORROWER SET FORTH IN ANY OF THE LOAN DOCUMENTS, OR (VI) ANY OTHER ASPECT OF THE LOAN DOCUMENTS, INCLUDING, WITHOUT LIMITATION, THE REASONABLE FEES AND DISBURSEMENTS OF COUNSEL AND ALL OTHER EXPENSES INCURRED IN CONNECTION WITH INVESTIGATING, DEFENDING OR PREPARING TO DEFEND ANY SUCH ACTION, SUIT, PROCEEDING (INCLUDING ANY INVESTIGATIONS, LITIGATION OR INQUIRIES) OR CLAIM AND INCLUDING ALL INDEMNITY MATTERS ARISING BY REASON OF THE ORDINARY NEGLIGENCE OF ANY INDEMNIFIED PARTY, BUT EXCLUDING ALL INDEMNITY MATTERS ARISING SOLELY BY REASON OF CLAIMS BETWEEN THE LENDERS OR ANY LENDER AND THE ADMINISTRATIVE AGENT OR A LENDER'S SHAREHOLDERS OR OWNERS AGAINST THE ADMINISTRATIVE AGENT OR LENDER OR BY REASON OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT ON THE PART OF THE INDEMNIFIED PARTY; AND

(3) TO INDEMNIFY AND HOLD HARMLESS FROM TIME TO TIME THE INDEMNIFIED PARTIES FROM AND AGAINST ANY AND ALL LOSSES, CLAIMS, COST RECOVERY ACTIONS, ADMINISTRATIVE ORDERS OR PROCEEDINGS, DAMAGES AND LIABILITIES TO WHICH ANY SUCH PERSON MAY BECOME SUBJECT (I) UNDER ANY ENVIRONMENTAL LAW APPLICABLE TO BORROWER OR ANY SUBSIDIARY OR ANY OF THEIR PROPERTIES, INCLUDING WITHOUT LIMITATION, THE TREATMENT OR DISPOSAL OF HAZARDOUS SUBSTANCES ON ANY OF THEIR PROPERTIES, (II) AS A RESULT OF THE BREACH OR NON-COMPLIANCE BY BORROWER OR ANY SUBSIDIARY WITH ANY ENVIRONMENTAL LAW APPLICABLE TO BORROWER OR ANY SUBSIDIARY, (III) DUE TO PAST OWNERSHIP BY BORROWER OR ANY SUBSIDIARY OF ANY OF THEIR PROPERTIES OR PAST ACTIVITY ON ANY OF THEIR PROPERTIES WHICH, THOUGH LAWFUL AND FULLY PERMISSIBLE AT THE TIME, COULD RESULT IN PRESENT LIABILITY, (IV) THE PRESENCE, USE, RELEASE, STORAGE, TREATMENT OR DISPOSAL OF HAZARDOUS SUBSTANCES ON OR AT ANY OF THE PROPERTIES OWNED OR OPERATED BY BORROWER OR ANY SUBSIDIARY, OR (V) ANY OTHER ENVIRONMENTAL, HEALTH OR SAFETY

CONDITION IN CONNECTION WITH THE LOAN DOCUMENTS; PROVIDED, HOWEVER, NO INDEMNITY SHALL BE AFFORDED UNDER THIS SECTION 12.03(a)(3) IN RESPECT OF ANY PROPERTY FOR ANY OCCURRENCE ARISING FROM THE ACTS OR OMISSIONS OF THE ADMINISTRATIVE AGENT OR ANY LENDER DURING THE PERIOD AFTER WHICH SUCH PERSON, ITS SUCCESSORS OR ASSIGNS SHALL HAVE OBTAINED POSSESSION OF SUCH PROPERTY (WHETHER BY FORECLOSURE OR DEED IN LIEU OF FORECLOSURE, AS MORTGAGEE-IN-POSSESSION OR OTHERWISE).

(b) No Indemnified Party may settle any claim to be indemnified without the consent of the indemnitor, such consent not to be unreasonably withheld; provided, that the indemnitor may not reasonably withhold consent to any settlement that an Indemnified Party proposes, if the indemnitor does not have the financial ability to pay all its obligations outstanding and asserted against the indemnitor at that time, including the maximum potential claims against the Indemnified Party to be indemnified pursuant to this Section 12.03. No indemnitor shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement (1) includes an unconditional release of such Indemnified Party in form and substance satisfactory to such Indemnified Party from all liability on claims that are the subject matter of such proceeding and (2) does not include any statement as to an admission of fault, culpability or failure to act by or on behalf of any Indemnified Party.

(c) In the case of any indemnification hereunder, the Administrative Agent or Lender, as appropriate shall give notice to Borrower of any such claim or demand being made against the Indemnified Party and Borrower shall have the non-exclusive right to join in the defense against any such claim or demand provided that if Borrower provides a defense (such defense counsel to be reasonably acceptable to the Administrative Agent and the Indemnified Party), the Indemnified Party shall bear its own cost of defense unless there is a conflict between Borrower and such Indemnified Party.

(d) THE FOREGOING INDEMNITIES SHALL EXTEND TO THE INDEMNIFIED PARTIES NOTWITHSTANDING THE SOLE OR CONCURRENT NEGLIGENCE OF EVERY KIND OR CHARACTER WHATSOEVER, WHETHER ACTIVE OR PASSIVE, WHETHER AN AFFIRMATIVE ACT OR AN OMISSION, INCLUDING WITHOUT LIMITATION, ALL TYPES OF NEGLIGENT CONDUCT IDENTIFIED IN THE RESTATEMENT (SECOND) OF TORTS OF ONE OR MORE OF THE INDEMNIFIED PARTIES OR BY REASON OF STRICT LIABILITY IMPOSED WITHOUT FAULT ON ANY ONE OR MORE OF THE INDEMNIFIED PARTIES. TO THE EXTENT THAT AN INDEMNIFIED PARTY IS FOUND TO HAVE COMMITTED AN ACT OF GROSS NEGLIGENCE OR WILLFUL MISCONDUCT, THIS CONTRACTUAL OBLIGATION OF INDEMNIFICATION SHALL CONTINUE BUT SHALL ONLY EXTEND TO THE PORTION OF THE CLAIM THAT IS DEEMED TO HAVE OCCURRED BY REASON OF EVENTS OTHER THAN THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE INDEMNIFIED PARTY.

(e) Borrower's obligations under this SECTION 12.03 shall survive any termination of this Agreement and the Loan Documents and the payment of the Notes and shall continue for a period of three years and one day thereafter in full force and effect.

(f) Borrower shall pay any amounts due under this SECTION 12.03 within thirty (30) days of the receipt by Borrower of notice of the amount due.

SECTION 12.04 AMENDMENTS, ETC. Any provision of this Agreement or any Loan Document may be amended, modified or waived with Borrower's and the Majority Lenders' prior written consent; provided that (i) no amendment, modification or waiver which extends the final maturity of the Loans, forgives the principal amount of any Loans outstanding under this Agreement or reduces the interest rate applicable to the Loans or the fees payable to the Lenders generally, affects this SECTION 12.04 or SECTIONS 12.03 or 12.06(a) or modifies the definition of "Majority Lenders" shall be effective without the consent of all Lenders; (ii) no amendment, modification or waiver which modifies the

rights, duties or obligations of the Administrative Agent shall be effective without the consent of the Administrative Agent.

SECTION 12.05 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. SECTION 12.06 ASSIGNMENTS AND PARTICIPATIONS.

(a) Borrower may not assign its rights or obligations hereunder or under the Notes without the prior written consent of all of the Lenders and the Administrative Agent.

(b) Any Lender may, upon the written consent of the Administrative Agent and, if no Event of Default has occurred and is continuing, Borrower (which consent will not be unreasonably withheld), assign to one or more assignees all or a portion of its rights and obligations under this Agreement pursuant to an Assignment Agreement substantially in the form of Exhibit D (an "ASSIGNMENT"); provided, however, that any such assignment shall be in the amount of at least $5,000,000 or such lesser amount to which Borrower has consented. Any such assignment will become effective upon the execution and delivery to the Administrative Agent of the Assignment and the consent of the Administrative Agent. Promptly after receipt of an executed Assignment, the Administrative Agent shall send to Borrower a copy of such executed Assignment. Upon receipt of such executed Assignment, Borrower, will, at its own expense, execute and deliver new Notes to the assignor and/or assignee, as appropriate, in accordance with their respective interests as they appear. Upon the effectiveness of any assignment pursuant to this SECTION 12.06(b), the assignee will become a "Lender," if not already a "Lender," for all purposes of this Agreement. The assignor shall be relieved of its obligations hereunder to the extent of such assignment (and if the assigning Lender no longer holds any rights or obligations under this Agreement, such assigning Lender shall cease to be a "Lender" hereunder except that its rights under SECTIONS 4.05 and 12.03 shall not be affected). The Administrative Agent will prepare on the last Business Day of each month during which an assignment has become effective pursuant to this SECTION 12.06(b), a new ANNEX I giving effect to all such assignments effected during such month, and will promptly provide the same to Borrower and each of the Lenders.

(c) The Lenders may furnish any information concerning Borrower in the possession of the Lenders from time to time to assignees and participants (including prospective assignees and participants); provided that, such Persons agree to be bound by the provisions of SECTION 12.15.

(d) Notwithstanding anything in this SECTION 12.06 to the contrary, any Lender may assign and pledge its Note to any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any operating circular issued by such Federal Reserve System and/or such Federal Reserve Bank. No such assignment and/or pledge shall release the assigning and/or pledging Lender from its obligations hereunder.

(e) Notwithstanding any other provisions of this SECTION 12.06, no transfer or assignment of the interests or obligations of any Lender or any grant of participations therein shall be permitted if such transfer, assignment or grant would require Borrower to file a registration statement with the SEC or to qualify the Loans under the "Blue Sky" laws of any state.

SECTION 12.07 INVALIDITY. In the event that any one or more of the provisions contained in any of the Loan Documents shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of the Notes, this Agreement or any other Loan Document.

SECTION 12.08 COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

SECTION 12.09 REFERENCES. The words "herein," "hereof," "hereunder" and other words of similar import when used in this Agreement refer to this Agreement as a whole, and not to any particular article, section or subsection. Any reference herein to a section shall be deemed to refer to the applicable section of this Agreement unless otherwise stated herein. Any reference herein to an annex, exhibit or schedule shall be deemed to refer to the applicable annex, exhibit or schedule attached hereto unless otherwise stated herein.

SECTION 12.10 SURVIVAL. The obligations of the parties under SECTION 4.05 and SECTIONS 11.04 and 12.03 shall survive the termination of this Agreement and the repayment of the Loans. To the extent that any payments on the Loans are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver or other Person under any bankruptcy law, common law or equitable cause, then to such extent, the portion of the Loans so satisfied shall be revived and continue as if such payment or proceeds had not been received and the Administrative Agent's and the Lenders' Liens, security interests, rights, powers and remedies under this Agreement and each Loan Document shall continue in full force and effect. In such event, each Loan Document shall be automatically reinstated and Borrower shall take such action as may be reasonably requested by the Administrative Agent and the Lenders to effect such reinstatement.

SECTION 12.11 CAPTIONS. Captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

SECTION 12.12 NO ORAL AGREEMENTS. THE LOAN DOCUMENTS EMBODY THE ENTIRE AGREEMENT AND UNDERSTANDING BETWEEN THE

PARTIES AND SUPERSEDE ALL OTHER AGREEMENTS AND UNDERSTANDINGS BETWEEN SUCH PARTIES RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF. THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

SECTION 12.13 GOVERNING LAW; SUBMISSION TO JURISDICTION.

(a) THIS AGREEMENT, THE OTHER LOAN DOCUMENTS AND THE NOTES (INCLUDING, BUT NOT LIMITED TO, THE VALIDITY AND ENFORCEABILITY HEREOF AND THEREOF) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK INCLUDING SECTION 5-1401 OF THE GENERAL OBLIGATIONS OF THE STATE OF NEW YORK, BUT OTHERWISE WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAWS.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THE LOAN DOCUMENTS SHALL BE BROUGHT IN ANY FEDERAL OR STATE COURT OF COMPETENT JURISDICTION LOCATED IN THE BOROUGH OF MANHATTAN, CITY OF NEW YORK, AND ANY APPELLATE COURT AUTHORIZED TO HEAR APPEALS THEREFROM, AND, BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF BORROWER, THE ADMINISTRATIVE AGENT AND EACH LENDER HEREBY ACCEPTS FOR ITSELF AND (TO THE EXTENT PERMITTED BY LAW) IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS. EACH OF BORROWER, THE ADMINISTRATIVE AGENT AND EACH LENDER HEREBY IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING IN SUCH RESPECTIVE JURISDICTIONS. THIS SUBMISSION TO JURISDICTION IS EXCLUSIVE AND IS INTENDED TO AND DOES PRECLUDE THE PARTIES FROM OBTAINING JURISDICTION OVER OTHER PARTIES IN ANY OTHER COURT.

(c) BORROWER HEREBY IRREVOCABLY DESIGNATES CT CORPORATION LOCATED AT 1633 BROADWAY, NEW YORK, NEW YORK 10019, AS THE DESIGNEE, APPOINTEE AND AGENT OF BORROWER TO RECEIVE, FOR AND ON BEHALF OF BORROWER, SERVICE OF PROCESS IN SUCH RESPECTIVE JURISDICTIONS IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THE LOAN DOCUMENTS. IT IS UNDERSTOOD THAT A COPY OF SUCH PROCESS SERVED ON SUCH AGENT WILL BE PROMPTLY FORWARDED BY OVERNIGHT COURIER TO BORROWER AT ITS ADDRESS SET FORTH UNDER ITS SIGNATURE BELOW, BUT THE FAILURE OF

BORROWER TO RECEIVE SUCH COPY SHALL NOT AFFECT IN ANY WAY THE SERVICE OF SUCH PROCESS. BORROWER FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO BORROWER AT ITS SAID ADDRESS, SUCH SERVICE TO BECOME EFFECTIVE THIRTY (30) DAYS AFTER SUCH MAILING.

(d) NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE ADMINISTRATIVE AGENT OR ANY LENDER OR ANY HOLDER OF A NOTE TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

(e) BORROWER AND EACH LENDER HEREBY (I) IRREVOCABLY AND UNCONDITIONALLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN; (II) IRREVOCABLY WAIVE, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES, OR DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES; (III) CERTIFY THAT NO PARTY HERETO NOR ANY REPRESENTATIVE OR ADMINISTRATIVE AGENT OF COUNSEL FOR ANY PARTY HERETO HAS REPRESENTED, EXPRESSLY OR OTHERWISE, OR IMPLIED THAT SUCH PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS, AND (IV) ACKNOWLEDGE THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS SECTION 12.13.

SECTION 12.14 INTEREST. It is the intention of the parties hereto that each Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated hereby would be usurious as to any Lender under laws applicable to it (including the laws of the United States of America and the State of New York or any other jurisdiction whose laws may be mandatorily applicable to such Lender notwithstanding the other provisions of this Agreement), then, in that event, notwithstanding anything to the contrary in any of the Loan Documents or any agreement entered into in connection with or as security for the Notes, it is agreed as follows: (i) the aggregate of all consideration which constitutes interest under law applicable to any Lender that is contracted for, taken, reserved, charged or received by such Lender under any of the Loan Documents or agreements or otherwise in connection with the Notes shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be canceled automatically and if theretofore paid shall be credited by such Lender on the principal amount of the Loans (or, to the extent that the principal amount of the Loans shall have been or would thereby be paid in full, refunded by such Lender to Borrower); and (ii) in the event that the maturity of the Notes is accelerated by reason of an

election of the holder thereof resulting from any Event of Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration that constitutes interest under law applicable to any Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in this Agreement or otherwise shall be canceled automatically by such Lender as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited by such Lender on the principal amount of the Loans (or, to the extent that the principal amount of the Loans shall have been or would thereby be paid in full, refunded by such Lender to Borrower). All sums paid or agreed to be paid to any Lender for the use, forbearance or detention of sums due hereunder shall, to the extent permitted by law applicable to such Lender, be amortized, prorated, allocated and spread throughout the full term of the Loans evidenced by the Notes until payment in full so that the rate or amount of interest on account of any Loans hereunder does not exceed the maximum amount allowed by such applicable law. If at any time and from time to time (i) the amount of interest payable to any Lender on any date shall be computed at the Highest Lawful Rate applicable to such Lender pursuant to this SECTION 12.14 and (ii) in respect of any subsequent interest computation period the amount of interest otherwise payable to such Lender would be less than the amount of interest payable to such Lender computed at the Highest Lawful Rate applicable to such Lender, then the

amount of interest payable to such Lender in respect of such subsequent interest computation period shall continue to be computed at the Highest Lawful Rate applicable to such Lender until the total amount of interest payable to such Lender shall equal the total amount of interest which would have been payable to such Lender if the total amount of interest had been computed without giving effect to this SECTION 12.14.

SECTION 12.15 CONFIDENTIALITY. In the event that Borrower provides to the Administrative Agent or the Lenders written confidential information belonging to Borrower, the Administrative Agent and the Lenders shall thereafter maintain such information in confidence in accordance with the standards of care and diligence that each utilizes in maintaining its own confidential information. This obligation of confidence shall not apply to such portions of the information which (i) are in the public domain, (ii) hereafter become part of the public domain without the Administrative Agent or the Lenders breaching their obligation of confidence to Borrower, (iii) are previously known by the Administrative Agent or the Lenders from some source other than Borrower, (iv) are hereafter developed by the Administrative Agent or the Lenders without using Borrower's information, (v) are hereafter obtained by or available to the Administrative Agent or the Lenders from a third party who owes no obligation of confidence to Borrower with respect to such information or through any other means other than through disclosure by Borrower, (vi) are disclosed with Borrower's consent, (vii) must be disclosed either pursuant to any Governmental Requirement or to Persons regulating the activities of the Administrative Agent or the Lenders, or (viii) as may be required by law or regulation or order of any Governmental Authority in any judicial, arbitration or governmental proceeding. Further, the Administrative Agent or a Lender may disclose any such information to any other Lender, any independent certified public accountants, any legal counsel employed by such Person in connection with this Agreement or any Loan Document, including without limitation, the enforcement or exercise of all rights and remedies thereunder, or any assignee or participant (including prospective assignees and participants) in the Loans; provided, however, that the Administrative Agent or the Lenders shall ensure that the Person to whom such information is disclosed shall have the same obligation to maintain the confidentiality of such information as is imposed upon the Administrative Agent or the Lenders hereunder. Notwithstanding anything to

the contrary provided herein, this obligation of confidence shall cease three years from the date all Loans are paid in full, unless Borrower requests in writing at least thirty (30) days prior to the expiration of such three (3) year period, to maintain the confidentiality of such information for an additional three year period. Borrower waives any and all other rights it may have to confidentiality as against the Administrative Agent and the Lenders arising by contract, agreement, statute or law except as expressly stated in this SECTION 12.15.

SECTION 12.16 EFFECTIVENESS. This Agreement shall be effective on the Amendment and Restatement Date.

SECTION 12.17 EXCULPATION PROVISIONS. EACH OF THE PARTIES HERETO SPECIFICALLY AGREES THAT IT HAS A DUTY TO READ THIS AGREEMENT AND EACH LOAN DOCUMENT AND AGREES THAT IT IS CHARGED WITH NOTICE AND KNOWLEDGE OF THE TERMS OF THIS AGREEMENT AND EACH LOAN DOCUMENT; THAT IT HAS IN FACT READ THIS AGREEMENT AND EACH LOAN DOCUMENT AND IS FULLY INFORMED AND HAS FULL NOTICE AND KNOWLEDGE OF THE TERMS, CONDITIONS AND EFFECTS OF THIS AGREEMENT AND EACH LOAN DOCUMENT; THAT IT HAS BEEN REPRESENTED BY INDEPENDENT LEGAL COUNSEL OF ITS CHOICE THROUGHOUT THE NEGOTIATIONS PRECEDING ITS EXECUTION OF THIS AGREEMENT AND EACH LOAN DOCUMENT; AND HAS RECEIVED THE ADVICE OF ITS ATTORNEY IN ENTERING INTO THIS AGREEMENT AND EACH LOAN DOCUMENT; AND THAT IT RECOGNIZES THAT CERTAIN OF THE TERMS OF THIS AGREEMENT AND EACH LOAN DOCUMENT RESULT IN ONE PARTY ASSUMING THE LIABILITY INHERENT IN SOME ASPECTS OF THE TRANSACTION AND RELIEVING THE OTHER PARTY OF ITS RESPONSIBILITY FOR SUCH LIABILITY. EACH PARTY HERETO AGREES AND COVENANTS THAT IT WILL NOT CONTEST THE VALIDITY OR ENFORCEABILITY OF ANY EXCULPATORY PROVISION OF THIS AGREEMENT AND EACH LOAN DOCUMENT ON THE BASIS THAT THE PARTY HAD NO NOTICE OR KNOWLEDGE OF SUCH PROVISION OR THAT THE PROVISION IS NOT "CONSPICUOUS."

The parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

BORROWER: CALLON PETROLEUM COMPANY

By: _____
Name: John S. Weatherly
Title: Senior Vice President and
Chief Financial Officer

Address for Notices:

200 North Canal Street
Natchez, Mississippi 39120

Telecopier No.: (601) 446-1374
Telephone No.: (601) 442-1601
Attention: John S. Weatherly

ADMINISTRATIVE AGENT: WELLS FARGO BANK, NATIONAL ASSOCIATION

By: _____
Name: Melissa Scott
Title: Vice President

Address for Notices:

505 Main Street, Suite 301
Fort Worth, TX 76102
Telecopier No.: (817) 885-8650
Telephone No.: (817) 334-7065

LENDERS: FTVIPT-INCOME SECURITIES FUND

By: _____
Name: David P. Goss
Title: Vice President

Address for Notices:

1 Franklin Parkway
San Mateo, CA 94403

With copy to:

Paul, Hastings, Janofsky & Walker
55 Second St., 24th Floor
San Francisco, CA 94105

DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: FTIF INCOME FUND

By: _____
Name: Greg McGowan
Title: Director

Address for Notices:

1 Franklin Parkway
San Mateo, CA 94403

With copy to:

Paul, Hastings, Janofsky & Walker
55 Second St., 24th Floor
San Francisco, CA 94105

LENDERS: FRANKLIN CUSTODIAN FUNDS - INCOME SERIES

By: _____
Name: David P. Gross
Title: Vice President

Address for Notices:

1 Franklin Parkway
San Mateo, CA 94403

With copy to:

Paul, Hastings, Janofsky & Walker
55 Second St., 24th Floor
San Francisco, CA 94105

LENDERS: MERRILL LYNCH PCG, INC.

By: _____
Name: Martin McInerney
Title: _____

Address for Notices:

4 World Financial Center
9th Floor
New York, NY 10080
ATTN: Larry First

-SIGNATURE PAGE-
AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: DB DISTRESSED OPPORTUNITIES FUND, L.P., AS ASSIGNEE

BY: POST ADVISORY GROUP, LLC, AS INVESTMENT MANAGER

By: _____
Name: Carl Goldsmith
Title: Executive Vice President

Address for Notices:

Post Advisory Group, LLC
11755 Wilshire Blvd., Suite 1400
Los Angeles, CA 90025
ATTN: Mark Porrazzo

-SIGNATURE PAGE-
AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: HFR ASSET MANAGEMENT, L.L.C., AS ASSIGNEE

BY: POST ADVISORY GROUP, LLC, AS INVESTMENT MANAGER

By:_____
Name: Carl Goldsmith
Title: Executive Vice President

Address for Notices:

Post Advisory Group, LLC
11755 Wilshire Blvd., Suite 1400
Los Angeles, CA 90025
ATTN: Mark Porrazzo

-SIGNATURE PAGE-
AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: THE OPPORTUNITY FUND, LLC, AS ASSIGNEE

BY: POST ADVISORY GROUP, LLC, AS INVESTMENT MANAGER

By:_____
Name: Carl Goldsmith
Title: Executive Vice President

Address for Notices:

Post Advisory Group, LLC
11755 Wilshire Blvd., Suite 1400
Los Angeles, CA 90025
ATTN: Mark Porrazzo

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AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: POST BALANCED FUND, L.P., AS ASSIGNEE

BY: POST ADVISORY GROUP, LLC, AS
INVESTMENT MANAGER

By:_____
Name: Carl Goldsmith
Title: Executive Vice President

Address for Notices:

Post Advisory Group, LLC
11755 Wilshire Blvd., Suite 1400
Los Angeles, CA 90025
ATTN: Mark Porrazzo

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AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: POST OPPORTUNITY FUND, L.P., AS ASSIGNEE

BY: POST ADVISORY GROUP, LLC, AS
INVESTMENT MANAGER

By:_____
Name: Carl Goldsmith
Title: Executive Vice President

Address for Notices:

Post Advisory Group, LLC
11755 Wilshire Blvd., Suite 1400
Los Angeles, CA 90025
ATTN: Mark Porrazzo

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AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: MW POST OPPORTUNITY OFFSHORE
FUND, LTD., AS ASSIGNEE

BY: POST ADVISORY GROUP, LLC, AS
INVESTMENT MANAGER

By:_____
Name: Carl Goldsmith
Title: Executive Vice President

Address for Notices:

Post Advisory Group, LLC
11755 Wilshire Blvd., Suite 1400
Los Angeles, CA 90025
ATTN: Mark Porrazzo

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AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: POST TOTAL RETURN FUND, L.P.,
AS ASSIGNEE

BY: POST ADVISORY GROUP, LLC, AS
INVESTMENT MANAGER

By:_____
Name: Carl Goldsmith
Title: Executive Vice President

Address for Notices:

Post Advisory Group, LLC
11755 Wilshire Blvd., Suite 1400
Los Angeles, CA 90025
ATTN: Mark Porrazzo

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AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: SOUTH DAKOTA INVESTMENT COUNCIL,
AS ASSIGNEE

BY: POST ADVISORY GROUP, LLC, AS
INVESTMENT MANAGER

By:_____
Name: Carl Goldsmith
Title: Executive Vice President

Address for Notices:

Post Advisory Group, LLC
11755 Wilshire Blvd., Suite 1400
Los Angeles, CA 90025
ATTN: Mark Porrazzo

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AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

LENDERS: SPHINX DISTRESSED FUND SPC, AS ASSIGNEE

BY: POST ADVISORY GROUP, LLC, AS
INVESTMENT MANAGER

By:_____
Name: Carl Goldsmith
Title: Executive Vice President

Address for Notices:

Post Advisory Group, LLC
11755 Wilshire Blvd., Suite 1400
Los Angeles, CA 90025
ATTN: Mark Porrazzo

LENDERS: DEUTSCH BANK AG, LONDON BRANCH

By: _____
Name: Tracy Fu
Title: _____

Address for Notices:

31 West 52nd Street
New York, NY 10019
ATTN: Tracy Fu

LENDERS: CREDIT SUISSE FIRST BOSTON
INTERNATIONAL

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Address for Notices:

11 Madison Avenue
4th Floor
New York, NY 10010
ATTN: Jeff Tuck

AND THE LENDERS SIGNATORY HERETO

LENDERS: DOUBLE BLACK DIAMOND OFFSHORE LDC

By: Carlson Capital, L.P., Investment Advisor

By: Asgard Investment Corp., its
General Partner

By: _____
Name: Clint D. Carlson
Title: President

Address for Notices:

210 McKinney Avenue
Suite 1600
Dallas, TX 75201
ATTN: Don Kendall

LENDERS: BLACK DIAMOND OFFSHORE LTD.

By: Carlson Capital, L.P., Investment Advisor

By: Asgard Investment Corp., its
General Partner

By: _____
Name: Clint D. Carlson
Title: President

Address for Notices:

210 McKinney Avenue
Suite 1600
Dallas, TX 75201
ATTN: Don Kendall

LENDERS: JEFFERIES & COMPANY, INC.

By: _____
Name: Robert J. Welch
Title: Senior Vice President

Address for Notices:

The Metro Center
One Station Place, Three North
Stamford, CT 06902
ATTN: Robert J. Welch

-SIGNATURE PAGE-
AMENDED AND RESTATED SENIOR UNSECURED CREDIT AGREEMENT,
DATED AS OF DECEMBER 23, 2003, AMONG
CALLON PETROLEUM COMPANY, AS BORROWER,
WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT
AND THE LENDERS SIGNATORY HERETO

ANNEX I

LIST OF COMMITMENTS

<TABLE>
<CAPTION>

LENDER	COMMITMENTS
<S>	<C>
Franklin Custodian Funds-Income Series, A Maryland corporation	U.S. $ 92,500,000
FTVIPT-Income Securities Fund, A Massachusetts Business Trust.....	U.S. $ 6,000,000
FTIF Income Fund, A Luxembourg corporation.....	U.S. $ 1,500,000
	U.S. $100,000,000
NEW LENDER	
Merrill Lynch PCG, Inc.....	U.S. $ 20,000,000
DB Distressed Opportunities Fund, L.P.....	U.S. $ 300,000
HFR Asset Management, L.L.C.....	U.S. $ 700,000
The Opportunity Fund, LLC.....	U.S. $ 2,000,000
Post Balanced Fund, L.P.....	U.S. $ 1,500,000
Post Opportunity Fund, L.P.....	U.S. $ 3,800,000
MW Post Opportunity Offshore Fund, Ltd.....	U.S. $ 3,500,000
Post Total Return Fund, L.P.....	U.S. $ 1,250,000
South Dakota Investment Council.....	U.S. $ 1,650,000
Sphinx Distressed Fund SPC.....	U.S. $ 300,000
Deutsch Bank AG, London Branch.....	U.S. $ 5,000,000
Credit Suisse First Boston International.....	U.S. $ 5,000,000
Double Black Diamond Offshore LDC.....	U.S. $ 14,280,000
Black Diamond Offshore Ltd.....	U.S. $ 2,720,000
Black Diamond Energy Offshore LDC.....	U.S. $ 3,000,000
Jefferies & Company, Inc.....	U.S. $ 10,000,000
Franklin Custodian Funds - Income Series, a Maryland corporation.....	U.S. $ 10,000,000
	U.S. $ 85,000,000
TOTAL	U.S. $185,000,000

</TABLE>

Annex I

EXHIBIT A

[FORM OF]
NOTE

THE ISSUANCE AND SALE OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAWS. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, AGREES FOR THE BENEFIT OF THE COMPANY THAT THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED PRIOR TO THE EXPIRATION OF THE HOLDING PERIOD APPLICABLE THERETO UNDER RULE 144(k) UNDER THE SECURITIES ACT WHICH IS APPLICABLE TO THIS NOTE (THE "RESALE RESTRICTION TERMINATION DATE") OTHER THAN (1) TO THE COMPANY OR THEIR RESPECTIVE SUBSIDIARIES, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) INSIDE THE UNITED STATES TO AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT), (4) TO A NON-"U.S. PERSON" IN AN "OFFSHORE TRANSACTION" (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (5) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, INCLUDING THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT, IF AVAILABLE, OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL, AND SUBJECT TO THE RIGHT OF THE ADMINISTRATIVE AGENT OR THE COMPANY PRIOR TO ANY SUCH SALE, PLEDGE OR OTHER TRANSFER TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON REQUEST OF THE HOLDER ON OR AFTER THE RESALE RESTRICTION TERMINATION DATE.

$_____ December 23, 2003

CALLON PETROLEUM COMPANY, a Delaware corporation (the "BORROWER"), for value received, promises and agrees to pay to _____ (the "LENDER"), or order, at the account of Wells Fargo Bank, National Association, a national banking association, as Administrative Agent, maintained at _____, or such other account as the Administrative Agent may from time to time specify by written notice to Borrower, the principal sum of [_____] ($_____), or such lesser amount as shall equal the aggregate unpaid principal amount of the Loans owed to the Lender under the Credit Agreement, as hereafter defined, in lawful money of the United States of America and in immediately available funds, on the dates and in the principal amounts provided for in the Credit Agreement, and to pay interest on the unpaid principal amount as provided for in the Credit Agreement, at such account, in like money and funds, for the period commencing on the date of each such Loan until such Loan shall be paid in full, at the rate per annum equal to 9.75% or as otherwise specified in the Credit Agreement, but in no event to exceed the Highest Lawful Rate, and on the dates provided in the Amended and Restated Credit Agreement..

This note evidences the Loan owed to the Lender under that certain Amended and Restated Credit Agreement dated as of December 8, 2003 and amended and restated as of December 23, 2003, by and among Borrower, Wells Fargo Bank, National Association, a national banking association, as Administrative Agent, and the other lenders signatory thereto (including the Lender) (such Credit Agreement, together with all modifications, amendments, supplements or successors thereto, being the "CREDIT AGREEMENT"), and shall be governed by the Credit Agreement. Capitalized terms used in this note and not defined in this note, but which are defined in the Credit Agreement, have the respective meanings herein as are assigned to them in the Credit Agreement.

Each payment made on account of the principal and interest hereof

shall be recorded by the Lender on its books, provided that any failure by the Lender to make any such record shall not affect the obligations of Borrower under the Credit Agreement or under this note in respect of such Loans.

Except only for any notices which are specifically required by the Credit Agreement or the other Loan Documents, Borrower and any and all co-makers, endorsers, guarantors and sureties severally waive notice (including but not limited to notice of intent to accelerate and notice of acceleration, notice of protest and notice of dishonor), demand, presentment for payment, protest, diligence in collecting and the filing of suit for the purpose of fixing liability, and consent that the time of payment hereof may be extended and re-extended from time to time without notice to any of them. Each such person agrees that his, her or its liability on or with respect to this note shall not be affected by any release of or change in any guaranty or security at any time existing or by any failure to perfect or maintain perfection of any lien against or security interest in any such security or the partial or complete unenforceability of any guaranty or other surety obligation, in each case in whole or in part, with or without notice and before or after maturity.

The Credit Agreement provides for the acceleration of the maturity of this note upon the occurrence of certain events and for prepayment of Loans upon the terms and conditions specified therein. Reference is made to the Credit Agreement for all other pertinent purposes. This note may not be assigned, transferred, sold or indorsed except in accordance with the Credit Agreement.

This note is issued pursuant to and is entitled to the benefits of the Credit Agreement.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK INCLUDING SECTION 5-1401 OF THE GENERAL OBLIGATIONS OF THE STATE OF NEW YORK, BUT OTHERWISE WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAWS AND THE UNITED STATES OF AMERICA FROM TIME TO TIME IN EFFECT.

CALLON PETROLEUM COMPANY

By: _____
Name: _____
Title:_____

EXHIBIT B

FORM OF
COMPLIANCE CERTIFICATE

The undersigned hereby certifies that he is the _____ of CALLON PETROLEUM COMPANY, a Delaware corporation (the "BORROWER"), and that as such he is authorized to execute and deliver this certificate on behalf of Borrower. This certificate is being delivered pursuant to that certain Amended and Restated Credit Agreement dated as of December 8, 2003 and amended and restated as of December 23, 2003 (as restated, amended, modified, supplemented and in effect from time to time, the "AGREEMENT"), among Borrower, the Lenders signatory thereto, and Wells Fargo Bank, National Association, a national banking association, as Administrative Agent for the Lenders.

The undersigned represents and warrants as follows (each capitalized term used herein having the same meaning given to it in the Agreement unless otherwise specified);

(a)_____[There currently does not exist any Default under the Agreement.] [Attached hereto is a schedule specifying the reasonable details of [a] certain Default[s] which exist under the Agreement and the action taken or proposed to be taken with respect thereto.]

(b)_____All of the representations and warranties of Borrower set

forth in the Agreement are true and correct as of the date hereof, unless such representations and warranties speak as to a certain date.

EXECUTED AND DELIVERED this ____ day of _____, 20__.

CALLON PETROLEUM COMPANY

By: _____
Name: _____
Title: _____

EXHIBIT C

FORM OF
RESPONSIBLE OFFICER'S CERTIFICATE

Pursuant to SECTION 8.01(I) of that certain Amended and Restated Credit Agreement dated as of December 8, 2003 and amended and restated as of December 23, 2003 (the "CREDIT AGREEMENT") among Callon Petroleum Company, a Delaware corporation (the "Borrower"), the Lenders signatory thereto, and Wells Fargo Bank, National Association, a national banking association, as Administrative Agent for the Lenders, the undersigned hereby certifies, as of the date hereof, that:

1. He is the duly appointed _____ of Borrower and is duly authorized to make, execute and deliver this certificate.

2. The matters set forth in the financial statements attached hereto are accurate and correctly reflect the financial condition of the Corporation for the respective calendar quarter or fiscal year of the statements.

3. No Default has occurred and is continuing (or, if any Default has occurred and is continuing, such Default is described in reasonable detail in a document attached hereto).

4. Attached hereto, in reasonable detail, are the computations necessary to determine whether Borrower is in compliance with SECTION 9.01(a) of the Credit Agreement as of the end of the respective calendar quarter or fiscal year of the financial statements attached hereto.

IN WITNESS HEREOF, the undersigned has executed this certificate as of the ___ day of _____, 20__.

By: _____
Name:
Title:

EXHIBIT D

FORM OF
ASSIGNMENT AGREEMENT

This Assignment Agreement ("Assignment") between Assignor and Assignee is executed and delivered pursuant to that certain Amended and Restated Credit Agreement dated as of December 8, 2003 and amended and restated as of December 23, 2003 (as amended, modified, supplemented and in effect on the date hereof, (the "CREDIT AGREEMENT"), among Callon Petroleum Company, a Delaware corporation, the Lenders signatory thereto and Wells Fargo Bank, National Association, a national banking association, as Administrative Agent for the Lenders. Capitalized terms used but not defined herein are as defined in the Credit Agreement.

The Assignor named herein hereby sells and assigns, without

recourse, to the Assignee named herein, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Assignment Date (defined below) the interests set forth herein (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the Loans which are outstanding on the Assignment Date, but excluding accrued interest and fees to and excluding the Assignment Date. The Assignee hereby acknowledges receipt of a copy of the Credit Agreement. From and after the Assignment Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the Assigned Interest, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent of the Assigned Interest, relinquish its rights and be released from its obligations under the Credit Agreement.

This Assignment is being delivered to the Administrative Agent together with (i) if the Assignee is a foreign lender, any documentation required to be delivered by the Assignee pursuant to SECTION 4.05(D) of the Credit Agreement, duly completed and executed by the Assignee, and (ii) if the Assignee is not already a Lender under the Credit Agreement, any other documentation required by the Credit Agreement or any Loan Document, duly completed by the Assignee, to Borrower, the Administrative Agent and each Lender, as applicable. The Assignee shall pay the fee payable to the Administrative Agent pursuant to SECTION 12.06(b) of the Credit Agreement.

This Assignment shall be governed by and construed in accordance with the laws of the State of New York including section 5-1401 of the General Obligations Law of the State of New York, but otherwise without giving effect to principles of conflicts of laws.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment ("Assignment Date"):

<TABLE>
<CAPTION>

Facility	Principal Amount Assigned	Percentage Assigned of Facility/Commitment (set forth, to at least 8 decimals, as a percentage of the Facility and the aggregate Commitments of all Lenders thereunder)
<S>	<C>	<C>
_____	_____	_____
Commitment Assigned:		
_____	$_____	_____
Loans:		
_____	_____	_____

</TABLE>

The terms set forth above are hereby agreed to:

[NAME OF ASSIGNEE], AS ASSIGNEE

By: _____
Name: _____
Title:_____

[NAME OF ASSIGNOR], AS ASSIGNOR

By: _____
Name: _____
Title:_____

The undersigned hereby consent to this Assignment:

CALLON PETROLEUM COMPANY

By: _____
Name: _____
Title: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION, AS ADMINISTRATIVE AGENT

By: _____
Name: _____
Title: _____

EXHIBIT E-1
FORM OF LOAN INCREASE CERTIFICATE

[_____], 200[__]

To: Wells Fargo Bank, National Association,
as Administrative Agent

The Borrower, the Administrative Agent and the other Agents and certain Lenders have heretofore entered into that certain Amended and Restated Credit Agreement, dated as of December 8, 2003 and amended and restated as of December 23, 2003, as amended from time to time (the "CREDIT AGREEMENT"). Capitalized terms not otherwise defined herein shall have the meaning given to such terms in the Credit Agreement.

This Commitment Increase Certificate is being delivered pursuant to SECTION 2.02 of the Credit Agreement.

Please be advised that the undersigned has agreed to increase its Commitment under the Credit Agreement effective [ ], 200[ ] from $[ ] to $[ ] and (b) that it shall continue to be a party in all respect to the Credit Agreement and the other Loan Documents.

[The [Borrower/Lender] shall pay the fee payable to the Administrative Agent pursuant to SECTION ____ of the Credit Agreement.]

Very truly yours,

[ ]

By: _____
Name: _____
Title: _____

Accepted and Agreed:

Wells Fargo Bank, National Association,
as Administrative Agent

By: _____
Name: _____
Title: _____

Accepted and Agreed:

Callon Petroleum Company

By: _____
Name: _____
Title: _____

EXHIBIT E-2
FORM OF ADDITIONAL LENDER CERTIFICATE

[_____], 200[___]

To: Wells Fargo Bank, National Association,
as Administrative Agent

The Borrower, the Administrative Agent and the other Lenders have heretofore entered into that certain Amended and Restated Credit Agreement, dated as of December 8, 2003 and amended and restated as of December 23, 2003, as amended from time to time (the "Credit Agreement"). Capitalized terms not otherwise defined herein shall have the meaning given to such terms in the Credit Agreement.

This Additional Lender Certificate is being delivered pursuant to SECTION ___ of the Credit Agreement.

Please be advised that the undersigned has agreed (a) to become a Lender under the Credit Agreement effective [ ], 200[ ] with a Commitment of $[ ] and (b) that it shall be a party in all respect to the Credit Agreement and the other Loan Documents.

This Additional Lender Certificate is being delivered to the Administrative Agent together with (i) if the Additional Lender is a Foreign Lender, any documentation required to be delivered by such Additional Lender pursuant to SECTION 4.05(D) of the Credit Agreement, duly completed and executed by the Additional Lender[, and (ii) an Administrative Questionnaire in the form supplied by the Administrative Agent, duly completed by the Additional Lender]. [The [Borrower/Additional Lender] shall pay the fee payable to the Administrative Agent pursuant to SECTION ___ of the Credit Agreement.]

Very truly yours,

[ ]

By: _____
Name: _____
Title:_____

Accepted and Agreed:

Wells Fargo Bank, National Association,
as Administrative Agent

By: _____
Name: _____
Title: _____

Accepted and Agreed:

Callon Petroleum Company

By: _____
Name: _____
Title: _____

EXHIBIT 10.19

==========

MEDUSA SPAR AGREEMENT

AMONG

MURPHY EXPLORATION & PRODUCTION COMPANY-USA,

CALLON PETROLEUM OPERATING COMPANY

AND

OCEANEERING INTERNATIONAL, INC.

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MEDUSA SPAR AGREEMENT

THIS MEDUSA SPAR AGREEMENT (this "Agreement") is made and entered into among MURPHY EXPLORATION & PRODUCTION COMPANY-USA, a Delaware corporation ("Murphy"), CALLON PETROLEUM OPERATING COMPANY, a Delaware corporation ("Callon"), and OCEANEERING INTERNATIONAL, INC., a Delaware corporation ("OII"), and shall be effective as of the date (the "Effective Date") on which this Agreement has been fully executed by Murphy, Callon and OII (each a "Party", and hereinafter referred to collectively as the "Parties" or the "Members").

RECITALS

A. Murphy is the successor owner of certain assets that Murphy acquired from Murphy Exploration & Production Company, a Delaware corporation ("MEPCO"), and as such successor, Murphy is the owner of an undivided 60% interest in that certain truss spar, hull, buoyancy cans, deck, facilities, equipment and moorings located on Mississippi Canyon Block 582, Outer Continental Shelf, Gulf of Mexico, USA (the "Medusa Spar"), being constructed under that certain EPCI contract between J. Ray McDermott, Inc. and MEPCO, dated February 23, 2001, as amended (the "EPCI Contract"), and Callon is the owner of an undivided 15% interest in the Medusa Spar.

B. British-Borneo Deepwater, LLC ("BBD") is the successor owner of certain assets that BBD acquired from British-Borneo Petroleum, Inc. ("BBP"), and as such successor, BBD owns an undivided 25% interest in the Medusa Spar, and the Medusa Spar is subject to, and is to be operated under, that certain Joint Operating Agreement, dated February 1, 1999, among MEPCO, Callon and BBP (hereinafter referred to as the "Medusa JOA").

C. Murphy and Callon desire to contribute their collective undivided 75% interest in the Medusa Spar to a new Delaware limited liability company ("Medusa Spar LLC"), and in return for such contribution, acquire a 50% membership interest in Medusa Spar LLC in the proportions of 40% to Murphy and 10% to Callon.

D. OII desires to make a cash contribution to Medusa Spar LLC as set forth hereinafter, and in return for such contribution, acquire a 50% membership interest in Medusa Spar LLC.

E. The Parties intend to arrange for non-recourse financing for Medusa Spar LLC (the "Non-Recourse Financing"), in an amount equal to 50% of the Deemed Value (as defined hereinafter).

F. Murphy, Callon and OII further desire to enter into an agreement with Medusa Spar LLC for, among other things, the operation of the Medusa Spar, and the production and the handling of the production of Murphy and Callon, from those certain Mississippi Canyon Blocks (the "Dedicated Blocks") as listed on Exhibit "A" attached hereto and made a part hereof.

NOW THEREFORE, in consideration of the covenants, provisions and representations set forth herein, and for other good and valuable consideration, the Parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE I

ORGANIZATION OF MEDUSA SPAR LLC

1.1 Medusa Spar LLC.

(a) Not less than five (5) business days prior to the Closing (as defined in Section 6.2 hereinafter), the Parties shall cause the formation of Medusa Spar LLC by filing a certificate of formation (hereinafter referred to as the "LLC Formation Document") with the Secretary of State of the State of Delaware pursuant to the Delaware Limited Liability Company Act. The LLC Formation Document shall be in the form of, and shall contain the terms, conditions and provisions as are more particularly set forth in, Exhibit B attached hereto and is made a part hereof. As used in this Agreement, the term "business day" shall mean any day other than a Saturday, Sunday or legal holiday on which banks in New Orleans, Louisiana are open for the conduct of a substantial part of their commercial banking business.

(b) Murphy, Callon and OII shall each be a "Member" of Medusa Spar LLC. OII shall have a membership interest in Medusa Spar LLC of 50%, Murphy shall have a membership interest in Medusa Spar LLC of 40%, and Callon shall have a membership interest in Medusa Spar LLC of 10%.

(c) At the Closing, the Members shall execute an agreement memorializing the affairs of Medusa Spar LLC and the conduct of its business (the "LLC Agreement"). The LLC Agreement shall be in the form of, and contain the terms, conditions and provisions as are more particularly set forth in, Exhibit C attached hereto and made a part hereof.

1.2 Initial Capital Contributions.

(a) At the Closing, each of the Members shall make an initial capital contribution (the "Initial Capital Contribution") to Medusa Spar LLC as follows:

(i) Murphy shall assign and transfer to Medusa Spar LLC: an undivided sixty percent (60%) ownership in the Medusa Spar, free and clear of any liens, charges or other encumbrances, except for the lien and security interest granted pursuant to Section 6.3 of the Medusa JOA, which assignment (the "Murphy Assignment") shall be in the form of, and contain such terms,

conditions and provisions as are more particularly set forth in, Exhibit D attached hereto and made a part hereof;

(ii) Callon shall assign and transfer to Medusa Spar LLC: an undivided fifteen percent (15%) ownership in the Medusa Spar, free and clear of any liens, charges or other encumbrances, except for (A) the lien and security interest granted pursuant to Section 6.3 of the Medusa JOA, and (B) the Callon Third Party Encumbrances (as defined hereinafter), which assignment

(the "Callon Assignment") shall be in the form of, and contain such terms, conditions and provisions as are more particularly set forth in, Exhibit E attached hereto and made a part hereof; and

(iii) OII shall assign and transfer to Medusa Spar LLC a cash amount (the "OII Initial Capital Cash Contribution") equal to $83,625,000.00, less the sum of (A) 50% of the amount of the Non-Recourse Financing, (B) $120,000.00 incurred by OII for out-of-pocket expenses for due diligence, and (C) $30,000.00 incurred by OII for the fees and costs for independent engineers retained by OII to provide the certification set forth in Section 6.1(a)(vii), as evidenced by applicable documentation that is acceptable to Murphy and Callon in all reasonable respects.

(iv) Each Member shall contribute its percentage share of the required initial working capital as determined by unanimous vote of the Members.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS OF MURPHY AND CALLON

2.1 Representations and Warranties.

Except as otherwise stated in this Article II, Murphy and Callon hereby respectively represent and warrant, each as to itself, to OII, as of the Effective Date and as of the Closing, that:

(a) Murphy is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Murphy has the power to execute, deliver and perform this Agreement and to own its undivided interest in the Medusa Spar.

(b) Callon is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Callon has the power to execute, deliver and perform this Agreement and to own its undivided interest in the Medusa Spar.

(c) Each of Murphy and Callon has all requisite authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary formal action on the part of Murphy and Callon. No vote of, or consent by, the holders of any class or series of stock or other equity issued by Murphy or Callon is necessary to authorize the execution and delivery by Murphy or Callon of this Agreement or the consummation by it of the transactions contemplated herein. This Agreement has been duly executed and delivered by Murphy and Callon and constitutes the legal, valid and biding obligation of Murphy and Callon, enforceable against each such Party in accordance with its terms, except as the enforcement hereof may be limited by (a) bankruptcy, insolvency, reorganization, moratorium and other similar laws now or hereafter in effect relating to creditors' rights generally and (b) general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

(d) Neither Murphy nor Callon nor any of its subsidiaries has entered into any agreement or arrangement entitling any agent, broker, investment banker, financial advisor or other firm or entity to any broker's or finder's fee or any other commission or similar fee in connection with any of the transactions contemplated in this Agreement, except for any fees associated with the Non-Recourse Financing.

(e) Murphy and Callon, each as to its own interest, have valid and merchantable title in and to an undivided seventy-five percent (75%) ownership interest in and to the Medusa Spar (the "Murphy/Callon Spar Interest").

(f) The Murphy/Callon Spar Interest is free and clear of any liens, charges or other encumbrances of any kind whatsoever, other than (i) the liens and security interests granted by Murphy and Callon

pursuant to Section 6.3 of the Medusa JOA, (ii) the lien and privilege being claimed by Berry Contracting, LP d/b/a Bay Ltd. which is more particularly described in (A) that certain Statement of Privilege recorded in the records of Plaquemines Parish, Louisiana, in MOB 370, page 228, under Entry No. 03004606, as amended by that certain Amendment to Statement of Privilege recorded in the records of Plaquemines Parish, Louisiana, in MOB 372, page 531, under Entry No. 03005125, (B) that certain UCC-1 financing statement filed in the UCC records of Plaquemines Parish, Louisiana, under Original File No. 38-03-532, as amended, (C) that certain UCC-1 financing statement filed with the Delaware Department of State, UCC Filing Section, under Initial Filing Number 3164184 7, as amended, and (D) that certain Statement of Privilege and UCC-1 financing statement filed with the Minerals Management Service on June 27, 2003, as amended (the "Bay Lien"), which Bay Lien will be released on or before August 29, 2003, and (iii) the liens and security interests granted by Callon (the "Callon Third Party Encumbrances") disclosed on Exhibit "F" attached hereto and made a part hereof, which Callon Third Party Encumbrances burdening Callon's undivided fifteen percent (15%) ownership interest in and to the Medusa Spar and the right to dedicate Callon's working interest production from the Dedicated Blocks for handling on the Medusa Spar will be released or subordinated at or prior to the Closing.

(g) The Medusa Spar and production risers have been operated and maintained by Murphy on behalf of the working interest owners under the Medusa JOA in a safe and workmanlike manner in accordance with all applicable laws and regulations and the generally accepted standards of petroleum industry practices for a prudent operator.

(h) The installation of the export pipelines attached to the Medusa Spar has been completed and, to the best of Murphy's and Callon's knowledge, have been operated and maintained by Shell Pipeline Company LP and VK Deepwater Gathering Company LLC in a safe and workmanlike manner in accordance with all applicable laws and regulations and the generally accepted standards of petroleum industry practices for a prudent operator. As used in this Agreement, "knowledge" means the actual (and not constructive or imputed) knowledge of an officer of Murphy or Callon, as the case may be.

(i) Murphy has obtained and maintained in force and effect all licenses, permits, franchises, consents, privileges and other authorizations issued by any government or authority having

jurisdiction related to the ownership and operation of the Medusa Spar.

(j) Murphy, as operator under the Medusa JOA, represents that, except for the amount being claimed with respect to the Bay Lien, all amounts due and payable to manufacturers, suppliers or contractors that constructed, equipped or installed the Medusa Spar or that otherwise provided goods, supplies or services in relation to the Medusa Spar have been paid.

(k) Murphy and Callon have provided to OII all material documents, contracts and agreements relating to the transfer of the Murphy/Callon Spar Interest.

(l) All obligations or requirements under the Medusa JOA or any other applicable agreement or document have been satisfied in order to mortgage, pledge or otherwise encumber the Murphy/Callon Spar Interest.

(m) Murphy and Callon has each paid as due all charges authorized under the Medusa JOA, and Murphy and Callon, each as to itself, has not received a notice that it is in default for non-payment of any such charges pursuant to Section 6.4 of the Medusa JOA.

(n) Murphy, as operator under the Medusa JOA, has paid as due (a) rentals, royalties and other fees as required under Section 19.2 of the Medusa JOA, and (b) taxes and assessments as required under Article 20 of the Medusa JOA and Callon, as non-operator has paid any such charge that has been billed pursuant to the Medusa JOA.

(o) Except for (i) the liens and security interests granted by Murphy and Callon pursuant to Section 6.3 of the Medusa JOA, (ii) the Callon Third Party Encumbrances, (iii) the Bay Lien, which will be released on or before August 29, 2003, and (iv) the Non-Recourse Financing contemplated in this Agreement, neither Murphy nor Callon shall have allowed any lien, charge or other encumbrance to attach to or burden its interest under the Medusa JOA, its working interests in the Dedicated Blocks, or its share of hydrocarbon production from the Dedicated Blocks.

(p) Neither Murphy nor Callon shall have (i) assigned, or otherwise transferred, all or any portion of its rights or obligations under the Medusa JOA, (ii) made a non-consent election under the Medusa JOA that would reduce its interest or rights in or to the Medusa Spar, (iii) proposed or elected to withdraw from the Medusa JOA, or (iv) made any dedication of the reserves in and under the

Dedicated Blocks to any processing agreement other than those agreements contemplated herein.

(q) Except for the Bay Lien, which will be released on or before August 29, 2003, there are no claims, demands, litigation, arbitrations, or other proceedings on-going, pending or threatened in writing in relation to the Dedicated Blocks.

(r) The Medusa JOA is in full force and effect. Except for the Bay Lien, which will be released on or before August 29, 2003, there are no claims, demands, litigation, arbitrations, or other proceedings on-going, pending or threatened in writing in relation to the Medusa JOA or the Medusa Spar.

(s) The Medusa Spar does not constitute "qualified property" within the meaning of Section 168(k)(2) of the United States Internal Revenue Code.

(t) Except for the representations and warranties expressly contained in this Article II, neither Murphy nor Callon nor any other person or entity acting on behalf of Murphy or Callon makes any representation or warranty, express or implied.

2.2 Covenants.

Prior to the Closing:

(a) Murphy and Callon shall use their good faith efforts to obtain the right to provide OII promptly after provision or receipt, but without duplication, with a copy of any proposal or notice of any

type, including, without limitation, AFEs, Plans and Budgets, given or received pursuant to the Medusa JOA that relates to or may affect, directly or indirectly, the ownership, operation, use or condition of the Medusa Spar or that relates to or may affect, directly or indirectly, Murphy's or Callon's rights in or to the Medusa Spar.

(b) Prior to casting a vote, making an election, granting or withholding approval, or otherwise taking any action pursuant to the Medusa JOA which relates to or may affect, directly or indirectly, the ownership, operation, use or condition of the Medusa Spar or that relate to or may affect, directly or indirectly, Murphy's or Callon's rights in or to the Medusa Spar, Murphy and Callon shall each consult with OII.

(c) Murphy and Callon shall each use its commercially reasonable efforts not to take any action that would have a direct adverse effect on the ownership, operation, use or condition of the Medusa

Spar, other than such actions relating to human health, safety, the environment or otherwise that would be taken by a prudent operator under generally accepted standards of petroleum industry practices.

(d) Murphy and Callon shall, but without duplication, promptly notify OII of all material developments related to the Medusa Spar. As used in this Section 2.2 (d), "material" means one or more events, occurrences, changes or effects which, individually or in the aggregate, has had or could be reasonably expected to have an adverse effect or impact on any Party's ability to consummate the transactions contemplated by this Agreement, in accordance with the terms of this Agreement.

(e) Murphy and Callon shall, but without duplication, promptly notify OII of any on-going, pending or threatened claim, demand, litigation, arbitration or other proceeding related to the federal oil and gas leases covered by the Medusa JOA, the Medusa JOA, or the Medusa Spar.

(f) Murphy, Callon and OII shall each execute and deliver at the Closing such documents as may be required by lenders in order to obtain the Non-Recourse Financing.

(g) Murphy and Callon shall obtain the release of the Bay Lien on or before August 29, 2003.

(h) Murphy and Callon shall each use its reasonable efforts to obtain on or before August 29, 2003, a written amendment to the Medusa JOA, signed by Murphy, Callon and BBD, and approved by OII, evidencing to the reasonable satisfaction of all Parties hereto, BBD's approval of the transactions contemplated by this Agreement (the "BBD Approval").

(i) Neither Murphy or Callon shall claim (directly or indirectly) any additional allowance for depreciation under Section 168(k) of the United States Internal Revenue Code with respect to the Medusa Spar.

(j) Murphy and Callon shall each cause its representations and warranties to be true, correct and accurate in all respects as of the Closing, and neither shall take any action that would cause a representation and warranty to be untrue, incorrect or inaccurate.

ARTICLE III

REPRESENTATIONS AND WARRANTIES
OF OII

OII represents and warrants to Murphy and Callon, as of the Effective Date and as of the Closing, that:

3.1 Organization of OII.

OII is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. OII has the corporate power to own, lease and operate its properties and to carry on its business as now being conducted.

3.2 Authority.

OII has all requisite authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary formal action on the part of OII. No vote of, or consent by, the holders of any class or series of stock or other equity issued by OII is necessary to authorize the execution and delivery by OII of this Agreement or the consummation by it of the transactions contemplated herein. This Agreement has been duly executed and delivered by OII and constitutes the legal, valid and binding obligation of OII, enforceable against OII in accordance with its terms, except as the enforcement hereof may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (b) general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

3.3 Availability of Funds.

OII currently has access to sufficient immediately available funds in cash or cash equivalents and will at the Closing have sufficient immediately available funds, in cash, to pay the OII Initial Capital Cash Contribution and to pay any other amounts payable pursuant to this Agreement and to effect the transactions contemplated in this Agreement.

3.4 Brokers or Finders.

Neither OII nor any of its subsidiaries has entered into any agreement or arrangement entitling any agent, broker, investment banker, financial advisor or other firm or entity to any broker's or finder's fee or any other commission or similar fee (collectively, "Commissions") in connection with any of the transactions contemplated in this Agreement other than Convergent Energy Group LLC (hereinafter referred to as "OII's Broker") which has heretofore acted, and shall hereafter continue to act, for and on behalf of OII. OII represents and warrants to Murphy and Callon that there will be no Commissions payable by Murphy and/or Callon in connection with this Agreement or any of the transactions contemplated by this Agreement by reason of any dealings, negotiations or communications with OII's Broker.

ARTICLE IV

FINANCING AND OTHER MATTERS

4.1 Deemed Value.

As used in this Agreement, the term "Deemed Value" shall mean $167,250,000.00.

4.2 Commitment for Non-Recourse Financing.

The Parties intend to obtain the Non-Recourse Financing for Medusa Spar LLC in an amount equal to 50% of Deemed Value. Collateral for the Non-Recourse Financing may include a security interest in the Parties' interests in Medusa Spar LLC, as well as accounts receivable, contracts, cash accounts, guarantees, insurances, pledges and cash flows of Medusa Spar LLC. The terms and conditions

of the Non-Recourse Financing shall require the unanimous approval by all of the Parties. Should the Parties, despite the good-faith efforts of the Parties, be unable to obtain a written commitment letter (or similar document) for the Non-Recourse Financing by not later than September 30, 2003, then any Party may terminate this Agreement by providing written notice thereof to the other Parties, but only if the Party wishing to terminate this Agreement is not in material breach of this Agreement, and upon such termination, the Parties hereto shall have no further obligation or liability to each other hereunder. If the commitment letter (or similar document) for the Non-Recourse Financing is not obtained because of a Party's material breach of this Agreement, the other Parties shall be entitled to all remedies which they may have at law or in equity.

4.3 Costs Prior to the Closing.

Murphy and Callon will be responsible for the payment of all costs incurred in connection with their combined undivided 75% interest in the Medusa Spar prior to the Closing.

4.4 BBD Approval.

If the BBD Approval is not obtained on or before August 29, 2003, then any Party may terminate this Agreement by providing written notice thereof to the other Parties, but only if the Party wishing to terminate this Agreement is not in material breach of this Agreement.

4.5 Release of the Bay Lien.

If the Bay Lien is not released on or before August 29, 2003, then any Party may terminate this Agreement by providing written notice thereof to the other Parties, but only if the Party wishing to terminate this Agreement is not in material breach of this Agreement.

ARTICLE V

MEDUSA SPAR OPERATING AND PRODUCTION HANDLING AGREEMENT

5.1 Medusa Spar Operating and Production Handling Agreement.

At the Closing, Murphy, Callon, OII and Medusa Spar LLC will enter into an agreement pursuant to which, among other things: (i) the Parties will agree on the manner in which the rights and obligations under the Medusa JOA related to the Medusa Spar will be exercised and fulfilled, (ii) Murphy will operate the Medusa Spar, (iii) Murphy and Callon will dedicate for handling on the Medusa Spar, and Medusa Spar LLC will handle, the production of Murphy and Callon from the Dedicated Blocks as listed on Exhibit "A" attached hereto, and (iv) Medusa Spar LLC may handle on the Medusa Spar third party production (the "Medusa Spar Operating and Production Handling Agreement"). The Medusa Spar Operating and Production Handling Agreement shall be in the form of Exhibit G attached hereto and made a part hereof.

ARTICLE VI

CLOSING

6.1 Closing Conditions.

(a) As used in this Agreement, the term "Closing Conditions Satisfaction Date" shall mean the first date on which all of the following conditions have been satisfied:

(i) the EPCI Contract shall have been completed, or substantially completed, as the case may be, and Murphy and Callon shall have either finally accepted the Medusa Spar and production risers from the applicable contractors, or, in the case of such substantial completion, such final acceptance shall be conditioned on the completion of minor or inconsequential matters that remain to be finished, and/or the correction of minor defects or errors in the work on the Medusa Spar that

need to be remedied;

(ii) the export pipelines from the Medusa Spar shall have been accepted and placed in operation by Shell Oil Pipeline LC and VK Deepwater Gathering Company LLC ;

(iii) all permits and authorizations required for the operation of the Medusa Spar, production risers and pipelines shall have been obtained;

(iv) Murphy and Callon shall have conducted production operations through the Medusa Spar for a period of not less than ten (10) days after the first date of such production operations without significant interruption or underperformance due to equipment problems;

(v) no material default by Murphy, Callon or OII shall have occurred and be continuing under (a) this Agreement, (b) any lease or operating agreement for any of the Dedicated Blocks listed on Exhibit "A" or (c) any construction or installation contract for the construction or installation of the Medusa Spar, production risers, or related export pipelines;

(vi) there are no claims, demands, litigation, arbitrations, or other proceedings on-going, pending or threatened in writing in relation to the transactions contemplated by this Agreement;

(vii) Medusa Spar LLC shall have received a certification from independent engineers retained by OII that the matters described in items (i) through (iv) and (v) (c) above have occurred, unless waived by OII;

(viii) Medusa Spar LLC shall have received a certification from Murphy and Callon that the conditions described in items (i) through (vi) have occurred, which certification shall be in the form of, and shall contain such terms, conditions and provisions as are more particularly set forth in, Exhibit H attached hereto and made a part hereof;

(ix) Murphy, Callon and OII and/or Medusa Spar LLC shall have entered into a credit agreement (or similar financing document) for the Non-Recourse Financing;

(x) the leases for the Dedicated Blocks shall be in full force and effect;

(xi) the Callon Third Party Encumbrances shall have been released or subordinated as represented in Section 2.1(f).

Each Party shall use commercially reasonable efforts to cause the conditions set out above to be satisfied in an expeditious manner, and no Party shall take any action that would cause the conditions not to be satisfied.

(b) In addition to the satisfaction of the conditions set out in Section 6.1(a), the obligation of OII to proceed with Closing is subject to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived, in whole or in part, by OII:

(i) Murphy and Callon shall each have complied in all respects with each of its covenants contained in this Agreement, and each representation and warranty contained in Section 2.1 shall be true, correct and accurate;

(ii) OII shall have received a certificate, dated as of Closing, of an officer of each of Murphy and Callon certifying as to the matters specified in Section 6.1(b)(i);

(iii) the matters set out in Section 6.2(b) shall have occurred;

(iv) the Bay Lien shall have been released; and

(v) the BBD Approval shall have been obtained.

(c) In addition to the satisfaction of the conditions set out in Section 6.1(a), the obligation of each of Murphy and Callon to proceed with Closing is subject to the satisfaction at or prior to the Closing of all of the following conditions, any one or more of which may be waived, in whole or in part, by Murphy or Callon:

(i) OII shall have complied in all respects with each of its covenants contained in this Agreement, and each representation and warranty of OII contained in Section 3.1 shall be true, correct and accurate;

(ii) Murphy and Callon shall each have received a certificate, dated as of Closing, of an officer of

OII certifying as to the matters specified in Section 6.1(c)(i);

(iii) the matters set out in Section 6.2(b) shall have occurred;

(iv) the Bay Lien shall have been released; and

(v) the BBD Approval shall have been obtained.

(d) To the extent that a matter set out in Section 6.2(b) is within the control of OII, and neither Murphy or Callon is in breach of this Agreement and both are ready, willing and able to perform, OII shall use its best efforts to cause the matter to occur. To the extent that a matter set out in Section 6.2(b) is within the control of Murphy or Callon, and OII is not in breach of this Agreement and is ready, willing and able to perform, Murphy and Callon shall each use its best efforts to make the matter occur.

6.2 Closing.

(a) The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on a date that is not later than the fifth (5th) business day after the Closing Conditions Satisfaction Date. The Closing shall be held at such location, and on such date (the "Closing Date"), as may be specified by written notice from Murphy to Callon and OII not less than three (3) days prior to the Closing Date. If Closing has not occurred on or before December 15, 2003 despite the good-faith efforts of the Parties, any Party may terminate this Agreement by providing written notice thereof to the other Parties, but only if the Party wishing to terminate this Agreement is not in material breach of this Agreement. If the Closing does not occur because of a Party's material breach of this Agreement or because of a Party's failure or refusal to close that is not permitted by the terms of this Agreement, the other Parties shall be entitled to all remedies which they may have at law or in equity.

(b) On the Closing Date, the Closing shall take place as follows:

(i) Murphy, Callon and OII shall execute the LLC Agreement and, by virtue of the execution of the Murphy Assignment by Murphy and the Callon Assignment by Callon, Murphy and Callon shall make their respective Initial Capital Contributions to Medusa Spar LLC as set forth in Section 1.2(a) (i) and (ii) above;

(ii) OII shall pay to Medusa Spar LLC the OII Initial Capital Cash Contribution as specified in Section 1.2 (a)(iii) above;

(iii) Murphy, Callon and OII shall execute and/or deliver such documents as may be required to obtain the Non-Recourse Financing;

(iv) the Non-Recourse Financing shall fund;

(v) Murphy, Callon, OII and Medusa Spar LLC shall execute the Medusa Spar Operating and Production Handling Agreement; and

(vi) Medusa Spar LLC will distribute the sum of the OII Initial Capital Cash Contribution and the funds received from the Non-Recourse Financing to Murphy and Callon in the respective proportions of 80% and 20%.

(c) At the Closing, Murphy and Callon shall each deliver to OII:

(i) a Secretary's Certificate or Assistant Secretary's Certificate certifying as to the due authorization of the signatory to the documents signed at the Closing; and

(ii) the certificate contemplated by Section 6.1(b)(ii).

(d) At the Closing, OII shall deliver to each of Murphy and Callon:

(i) a Secretary's Certificate or Assistant Secretary's Certificate certifying as to the due authorization of the signatory to the documents signed at the Closing; and

(ii) the certificate contemplated by Section 6.1(c)(ii).

6.3 Medusa Spar Contractors and Suppliers.

Any amounts payable to manufacturers, suppliers or contractors that constructed, equipped or installed the Medusa Spar or that otherwise provided goods, supplies or services in relation to the Medusa Spar shall remain the responsibility of Murphy and Callon and shall be paid by Murphy and Callon when due, provided that, subject to Sections 2.2(g), 4.5, 6.1(b)(iv) and 6.1(c)(iv), the amount being claimed with respect to the Bay Lien shall not be paid until the amount in dispute has been resolved to the satisfaction of all parties having an interest in such

dispute, including, without limitation, Murphy and Callon. Murphy and Callon will provide evidence satisfactory to OII of full payment of all such amounts.

ARTICLE VII

SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION

7.1 Survival of Representations and Warranties.

All of the Parties' representations, warranties, covenants, and agreements in this Agreement or in any certificate or instrument delivered pursuant to this Agreement shall survive the Closing of the transactions contemplated in this Agreement.

7.2 Indemnification by Transaction Parties.

Each of the Parties (a "Transaction Indemnifying Party") shall reimburse, indemnify, defend and hold harmless the other Parties from and against any and all claims, demands, lawsuits, liabilities, judgments, damages,

awards, fines, costs, expenses, fees, penalties, deficiencies, losses, amounts paid or incurred in defense and/or settlement and related expenses, including without limitation interest, court and other legal proceeding costs, reasonable fees of attorneys, accountants, and other experts or other expenses of litigation or other proceedings or of any claim, default or assessment (collectively, "Losses") incurred by each of the other Parties, and its and their officers, directors, employees, and agents (a "Transaction Indemnified Party"), in each case net of insurance proceeds if and when received by such Transaction Indemnified Party in connection with such Losses, directly or indirectly as a result of any of the following events (an "Indemnification Event"):

(a) any inaccuracy in, or breach of, a representation or warranty of the Transaction Indemnifying Party contained herein (or in any certificate or instrument delivered by the Transaction Indemnifying Party pursuant to this Agreement);

(b) any failure by the Transaction Indemnifying Party to perform or comply with any of its covenants or agreements contained herein; and/or

(c) third party claims related to ownership, operation, use, or condition of the Medusa Spar prior to Closing, regardless of when any such claim arises, in which case Murphy and Callon shall each be a Transaction Indemnifying Party, and Medusa Spar LLC and OII, and its and their officers, directors, employees and agents, shall be the Transaction Indemnified Party;

provided, however, that no indemnification shall be owed by a Transaction Indemnifying Party to a Transaction Indemnified Party under this Section 7.2, and no amount of indemnity shall be payable by a Transaction Indemnifying Party in the case of a claim by any Transaction Indemnified Party under this Section 7.2, unless and until an Indemnified Event has occurred and

is continuing for a period of thirty (30) business days after written notice thereof given by the Transaction Indemnified Party to the Transaction Indemnifying Party in accordance with Section 8.1 of this Agreement.

7.3 Matters Involving Third Parties.

(a) If any third party shall notify any Party entitled to indemnification under Section 7.2 (the "Indemnified Party") with respect to any matter (a "Third Party Claim") which may give rise to a claim for indemnification against any other Party hereto (the "Indemnifying Party") under this Article VII, then the Indemnified Party shall promptly notify (and in any event by the sooner to occur of (i) 10 days after receipt of notice by it, and (ii) five days prior to the date a responsive pleading is due (which notification shall be made by either facsimile or overnight delivery pursuant to Section 8.1 hereof) each Indemnifying Party thereof in writing; provided, however, that no delay on the part of the Indemnified Party in notifying any Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party thereby is prejudiced.

(b) Any Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (i) the Indemnifying Party promptly notifies the Indemnified Party in writing that the Indemnifying Party will indemnify the Indemnified Party, to the extent indemnification is provided for under Section 7.2, (ii) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party will have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, and (iii) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently.

(c) So long as the Indemnifying Party is conducting the defense of the Third Party Claim in accordance with Section 7.3(b) above, (i) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (ii) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (which consent shall not unreasonably be withheld), (iii) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim unless a written agreement is obtained releasing the Indemnified Party from all liability thereunder, (iv) the Indemnifying Party will

not consent to the entry of any judgment or enter into any settlement with respect to a Third Party Claim, which involves an injunction or other equitable relief, without the consent of the Indemnified Party, which consent will not be unreasonably withheld, and (v) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to a Third Party Claim which will, in the good faith judgment of the Indemnified Party, likely establish a precedential custom or practice adverse to the continuing business interests of the Indemnified Party.

(d) In the event any of the conditions in Section 7.3(b) above is or becomes unsatisfied, however, (i) the Indemnified Party may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, any Indemnifying Party in connection therewith), (ii) the Indemnifying Parties will reimburse the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including attorneys' fees and expenses), provided that the Third Party Claim is subject to indemnification under Section 7.2 and (iii) the Indemnifying Parties will remain responsible for any Losses the Indemnified Party may incur to the extent provided in Section 7.2.

7.4 Limitation on Damages.

Except for such damages that must be paid by an Indemnified Party to a third party, no Party shall be entitled to indemnification under this Article VII for incidental, indirect, consequential, exemplary or punitive damages; provided, however that it is understood and agreed that diminution in value of the Medusa Spar shall constitute actual damages.

7.5 Exclusive Remedies.

The remedies provided in this Article VII constitute the sole and exclusive remedies available to each of the Parties for recoveries against the other Parties for breaches or failures to comply with or non-fulfillments of the representations, warranties, covenants and agreements of this Agreement or in any certificate or document furnished to any of the Parties by any other Party pursuant to this Agreement except that nothing in this Agreement shall limit the right of a Party to pursue any appropriate remedy at equity, including specific performance for breach of any of the covenants of any other Party contained herein or rescission based upon allegations of fraud or willful misconduct in connection with this Agreement.

ARTICLE VIII

GENERAL PROVISIONS

8.1 Notices.

All notices and other communications hereunder shall be in writing and shall be deemed given when delivered by hand, or when sent by electronic facsimile transmission (with acknowledgement of complete transmission), or on the first business day after delivery to any overnight commercial delivery service, freight prepaid, or fourteen (14) days after being mailed by registered or certified mail (return receipt requested), postage prepaid, and addressed to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice):

(a) if to Murphy, to:

Murphy Exploration & Production Company-USA
131 South Robertson, New Orleans, LA 70112
Attention: Steve Jones, General Manager-Land
Facsimile: 504-561-2551

(b) if to Callon, to:

Callon Petroleum Operating Company
200 North Canal Street, Natchez, MS 39120
Attention: Dee A. Newman, Land Manager
Facsimile: 601-446-1362

(c) if to OII, to

Oceaneering International, Inc.
11911 FM 529, Houston, TX 77041-3011
Attention: Fred E. Shumaker, Vice President and General Manager-MOPS
Facsimile: 713-329-4825

8.2 Expenses.

In the event the transactions contemplated in this Agreement are not consummated, all fees and expenses incurred in connection with the transactions contemplated in this Agreement including, without limitation, all legal, accounting, financial advisory, consulting and all other fees and expenses of third parties ("Third Party Expenses") incurred by a Party in connection with the negotiation and implementation of the terms and conditions of this Agreement and the transactions contemplated hereby, shall be the obligation of the respective Party incurring such fees and expenses, provided, however, that in the event the transactions contemplated by this Agreement are not consummated as a result of the willful misconduct of any of the Parties (which willful misconduct shall not include failure of a condition to be satisfied where such Party has used reasonable commercial efforts to satisfy such condition), and in addition to all other remedies at law and in equity, then the Party who has committed such

willful misconduct will reimburse to the other Parties all such hird Party Expenses incurred in connection with such transactions immediately upon demand therefor.

8.3 Interpretation.

The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The term "Person" means any individual, corporation, partnership, association, trust, limited liability company or partnership, unincorporated organization, joint venture, other legal entity or group.

8.4 Counterparts.

This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Parties, it being understood that all Parties need not sign the same counterpart.

8.5 Entire Agreement; Assignment.

This Agreement, the schedules and Exhibits hereto, and the documents and instruments and other agreements among the Parties hereto referenced herein: (a) constitute the entire agreement among the Parties with respect to the subject matter hereof and supersede all prior agreements (including that certain Medusa Spar Ownership and Operation Letter of Intent, dated April 29, 2003, as amended, among Murphy, Callon and OII) and understandings, both written and oral, among the Parties with respect to the subject matter hereof; (b) are not intended to confer upon any other person any rights or remedies hereunder; and (c) shall not be assigned by operation of law or otherwise except as otherwise specifically provided, or with the written consent of each of the other Parties hereto.

8.6 Severability.

In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the Parties hereto. The Parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

8.7 Governing Law; Jurisdiction; Venue.

This Agreement shall be governed by and construed in accordance with the laws of the State of Louisiana excluding any provisions of Louisiana conflicts of law which would require application of the substantive laws of another jurisdiction. Such law shall govern the validity, interpretation, performance and breach of this Agreement. The Parties agree that any action, proceeding or suit seeking to enforce any provision of, or based on any rights of the Parties arising out of, this Agreement shall be brought in the Courts of the State of Louisiana,

and further agree the United States District Court for the Eastern District of Louisiana shall have exclusive jurisdiction to hear and determine any suit to enforce the rights of the Parties under this Agreement. Each of the Parties consents to the jurisdiction of such court (and of the appropriate Appellate Courts), in an any such action, claim or proceeding and waives any objection to venue. Each of the Parties further agrees that process may be served upon them in any manner authorized by the laws of the State of Louisiana for such persons, and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction and venue and such process. Further, in the event jurisdiction is denied in the United States District Court for the Eastern District of Louisiana, the Parties agree that any action, proceeding or suit may be brought against any of the Parties in the 24th Judicial District Court for the Parish of Jefferson, State of Louisiana, and each of the Parties consents to the jurisdiction of such Court (and of the appropriate Appellate Courts) in any such action or proceeding and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction and venue.

8.8 Rules of Construction.

The Parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the Party drafting such agreement or document.

8.9 Survival.

Articles VII and VIII shall survive termination of this Agreement.

8.10 Medusa JOA.

Each of the Parties hereto recognize that the Medusa Spar is subject

to, and is operated under the Medusa JOA. If any of the terms, conditions or provisions in this Agreement, or in any document or agreement executed pursuant to this Agreement, conflicts with any of the terms, conditions or provisions of the Medusa JOA as they affect a working interest owner under the Medusa JOA that is not a Party to this Agreement, the terms, conditions and provisions of the Medusa JOA shall be controlling in application to such working interest owner.

8.11 News Releases.

The Parties hereto shall use reasonable efforts to unanimously agree upon the timing and content of releases to the news media covering the signing of this Agreement and/or the occurrence of the Closing. However, in the event the Parties cannot unanimously agree upon either the timing and/or the content of the news release within two (2) business days of such proposed news release, then the Party proposing such news release shall be entitled to issue the news release as so proposed.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, Murphy has caused this Agreement to be signed by its duly authorized officer, on the date set forth below, to be effective as of the Effective Date.

MURPHY EXPLORATION & PRODUCTION COMPANY-USA

BY:

NAME:
TITLE:

DATE:

IN WITNESS WHEREOF, Callon has caused this Agreement to be signed by its duly authorized officer, on the date set forth below, to be effective as of the Effective Date.

CALLON PETROLEUM OPERATING COMPANY

BY:

NAME: DENNIS W. CHRISTIAN
TITLE: CHIEF OPERATING OFFICER

DATE: AUGUST 7, 2003

IN WITNESS WHEREOF, OII has caused this Agreement to be signed by its duly authorized officer, on the date set forth below, to be effective as of the Effective Date.

OCEANEERING INTERNATIONAL, INC.

BY:

NAME: T. JAY COLLINS
TITLE: PRESIDENT AND CHIEF OPERATING OFFICER

Date:

EXHIBIT 10.20

CREDIT AGREEMENT

DATED AS OF
DECEMBER 18, 2003

AMONG

MEDUSA SPAR LLC,
AS BORROWER,

THE BANK OF NOVA SCOTIA,
AS ADMINISTRATIVE AGENT,

BANK ONE, N.A.

AND

SUNTRUST BANK,
AS SYNDICATION AGENTS,

AND

THE LENDERS PARTY HERETO

SOLE LEAD ARRANGER AND SOLE BOOKRUNNER

THE BANK OF NOVA SCOTIA

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THIS CREDIT AGREEMENT dated as of December 18, 2003, is among: Medusa Spar LLC, a limited liability company duly formed and existing under the laws of the State of Delaware (the "Borrower"); each of the Lenders from time to time party hereto; and The Bank of Nova Scotia, as administrative agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent"); and Bank One, N.A. and SunTrust Bank, as syndication agents for the Lenders (each in such capacity, together with its successors in such capacity, a "Syndication Agent").

R E C I T A L S

A. The Borrower has requested that the Lenders provide a single advance term loan to the Borrower.

B. The Lenders have agreed to make such term loan subject to the terms and conditions of this Agreement.

C. In consideration of the mutual covenants and agreements herein contained and of the term loan and commitments hereinafter referred to, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS AND ACCOUNTING MATTERS

Section 1.01 Terms Defined Above. As used in this Agreement, each term

defined above has the meaning indicated above.

Section 1.02 Certain Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or the Term Loan, refers to whether such Loan, or the Loans comprising the Term Loan, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Account Bank" has the meaning assigned such term in the Security Agreement.

"Actual CPOC Throughput Amount" means, with respect to any given calendar quarter, that portion of the Tariff received by the Borrower which is attributable to CPOC's actual throughput of production through the Medusa Spar.

"Adjusted LIBO Rate" means, with respect to the Term Loan for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affected Loan" has the meaning assigned such term in Section 5.05.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Agents" means, collectively, the Administrative Agent and the Syndication Agents, and "Agent" shall mean either the Administrative Agent or a Syndication Agent, as the context requires.

"Agreement" means this Credit Agreement, as the same may from time to time be amended, modified, supplemented or restated.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Amortization Schedule" means the amortization schedule set forth in Annex II.

"Applicable Margin" means, from time to time, the following percentages, based upon the Debt Rating as set out below:

	DEBT RATINGS	
PRICING LEVEL	S&P/MOODY'S	APPLICABLE MARGIN +
1	A-/A3 or better	0.75%
2	BBB+/Baa1	1.00%
3	BBB/Baa2	1.30%
4	BBB-/Baa3	1.50%
5	BB+/Ba1 or worse	2.50%

Initially, the Applicable Margin shall be determined based upon the Debt Rating specified in the certificate delivered pursuant to Section 6.01(q). Thereafter, each change in the Applicable Margin resulting from a publicly announced change in the Debt Rating shall be effective, in the case of an upgrade, during the period commencing on the date of delivery by the Borrower to the Administrative Agent of notice thereof pursuant to Section 8.01(l) and ending on the date immediately preceding the effective date of the next such change and, in the case of a downgrade, during the period commencing on the date of the public announcement thereof and ending on the date immediately preceding the effective date of the next such change. In the event of a split rating between S&P and Moody's, (a) the higher rating will apply (with the Debt Rating for Price Level 1 being the highest and the Debt Rating of Price Level 5 being

the lowest), (b) if the split rating is of a differential greater than one level, the rating level immediately above the lower of the two ratings will apply, and (c) notwithstanding clause (a) or clause (b), if the MOC Debt Rating of either S&P or Moody's is less than BB+ or Ba1 or is unrated, the Applicable Margin shall be 2.50%.

"Applicable Percentage" means, with respect to any Lender, the percentage of the total Commitments represented by such Lender's Commitment as such percentage is set forth on Annex I.

"Approved Counterparty" means any Lender or any Affiliate of a Lender.

"Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Approved Petroleum Engineers" means Knowledge Reservoir Inc. and any other independent petroleum engineers reasonably acceptable to the Administrative Agent and the Majority Lenders.

"Arranger" means The Bank of Nova Scotia, in its capacity as the sole lead arranger and sole bookrunner hereunder.

"Assignment and Assumption" means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 12.04(b)), and accepted by the Administrative Agent, in the form of Exhibit F or any other form approved by the Administrative Agent.

"Available Cash" means the amount of "excess" cash as defined in Section 11.7 of the Borrower's LLC Agreement as such agreement is in effect on the date hereof.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America or any successor Governmental Authority.

"Borrower's LLC Agreement" means the Limited Liability Company Agreement of Medusa Spar LLC dated as of December 18, 2003, as the same may from time to time be amended, modified, supplemented or restated.

"Borrowing Request" means a written request by the Borrower for the Term Loan in accordance with Section 2.03, in substantially the form of Exhibit B.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City or Atlanta, Georgia are authorized or required by law to remain closed; and if such day relates to a borrowing or continuation of, a payment or prepayment of principal of or interest on, or the Interest Period for, a Eurodollar Loan or a notice by the Borrower with respect to any such borrowing or continuation, payment, prepayment, or Interest Period, any day which is also a day on which dealings in dollar deposits are carried out in the London interbank market.

"Capital Expenditures" means, in respect of any Person, for any period, the aggregate (determined without duplication) of all expenditures and costs that are capitalized or should have been capitalized on the balance sheet of such Person in accordance with GAAP.

"Casualty Event" means any loss, casualty or other insured damage to, or any nationalization, taking under power of eminent domain or by condemnation or similar proceeding of, any Property of the Borrower having a fair market value in excess of $2,500,000.

"Change in Control" occurs (a) upon the acquisition of ownership,

directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the SEC thereunder as in effect on the date hereof) of Equity Interests representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of MOC, other than by members of the Murphy Family; (b) upon the occupation of a majority of the seats (other than vacant seats) on the board of directors of MOC by Persons who were neither (i) nominated by the board of directors of MOC nor (ii) appointed by directors so nominated; (c) if MOC should at any time fail to own, directly or indirectly, beneficially or of record, 100% of all of the issued and outstanding Equity Interests of MEPC; (d) if MEPC should at any time fail to own, directly or indirectly, beneficially or of record, 40% of all of the issued and outstanding Equity Interests of the Borrower or (e) if OII should at any time fail to own, directly or indirectly, beneficially or of record, 50% of all of the issued and outstanding Equity Interests of the Borrower.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender (or, for purposes of Section 5.01(b)), by any lending office of such Lender or by such Lender's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

"Commitment" means, with respect to each Lender, the commitment of such Lender to make its Loan pursuant to Section 2.01, expressed as an amount representing the maximum aggregate amount of such Lender's Credit Exposure hereunder, as such commitment may be modified from time to time pursuant to assignments by or to such Lender pursuant to Section 12.04(b). The amount representing each Lender's Commitment shall at any time be such Lender's Applicable Percentage of the total Commitments.

"Collateral" means (a) 100% of the Equity Interests of the Borrower; (b) all of the Borrower's Property (excluding the Medusa Spar and the Borrower's related tangible assets), including, without limitation, all cash and cash equivalents (including Dedicated Cash Receipts), accounts receivable, contracts, guarantees, insurance, deposit accounts and securities accounts (and all cash and financial assets credited thereto), and all of the Borrower's interest in the Medusa Spar Documents and all other contracts relating to the ownership and use of the Medusa Spar (including, without limitation, all production and handling agreements) and (c) any other Property which at any time is subject to a Lien under the Security Instruments.

"Consolidated Subsidiaries" means, as to any Person, each Subsidiary of such Person (whether now existing or hereafter created or acquired) the financial statements of which shall be

(or should have been) consolidated with the financial statements of such Person in accordance with GAAP.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. For the purposes of this definition, and without limiting the generality of the foregoing, any Person that owns directly or indirectly 15% or more of the Equity Interests having ordinary voting power for the election of the directors or other governing body of a Person (other than as a limited partner of such other Person) will be deemed to "control" such other Person. "Controlling" and "Controlled" have meanings correlative thereto.

"CPC" means Callon Petroleum Company, a Delaware corporation.

"CPC Parent Guarantee" means that certain Guaranty and Consent Agreement of even date herewith among the Borrower, the Administrative Agent and CPC, in substantially the form of Exhibit E-4, as the same may from time to time

be amended, modified, supplemented or restated.

"CPOC" means Callon Petroleum Operating Company, a Delaware corporation.

"Credit Exposure" means, with respect to any Lender at any time, the outstanding principal amount of such Lender's Loan at such time.

"Debt" means, for any Person, the sum of the following (without duplication): (a) all obligations of such Person for borrowed money or evidenced by bonds, bankers' acceptances, debentures, notes or other similar instruments; (b) all obligations of such Person (whether contingent or otherwise) in respect of letters of credit, surety or other bonds and similar instruments; (c) all accounts payable and all accrued expenses, liabilities or other obligations of such Person to pay the deferred purchase price of Property or services; (d) all obligations under capital leases; (e) all obligations under synthetic leases; (f) all Debt (as defined in the other clauses of this definition) of others secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) a Lien on any Property of such Person, whether or not such Debt is assumed by such Person; (g) all Debt (as defined in the other clauses of this definition) of others guaranteed by such Person or in which such Person otherwise assures a creditor against loss of the Debt (howsoever such assurance shall be made) to the extent of the lesser of the amount of such Debt and the maximum stated amount of such guarantee or assurance against loss; (h) all obligations or undertakings of such Person to maintain or cause to be maintained the financial position or covenants of others or to purchase the Debt or Property of others; (i) obligations to deliver commodities, goods or services, including, without limitation, hydrocarbons, in consideration of one or more advance payments, other than gas balancing arrangements in the ordinary course of business; (j) obligations to pay for goods or services even if such goods or services are not actually received or utilized by such Person; (k) any Debt of a partnership for which such Person is liable either by agreement, by operation of law or by a Governmental Requirement but only to the extent of such liability; (l) Disqualified Capital Stock; and (m) the undischarged balance of any production payment created by such Person or for the creation of which such Person directly or indirectly received payment. The Debt of any Person shall include all obligations of such Person of the character described above to the extent

such Person remains legally liable in respect thereof notwithstanding that any such obligation is not included as a liability of such Person under GAAP.

"Debt Rating" means, as of any date of determination, the rating as determined by either S&P or Moody's of MOC's non-credit-enhanced, senior unsecured long-term debt.

"Dedicated Blocks" means the Blocks of Mississippi Canyon, Outer Continental Shelf, Gulf of Mexico described on Schedule 1.02.

"Dedicated Cash Receipts" means all cash or cash equivalents received by or on behalf of the Borrower with respect to the following: (a) any amounts payable to the Borrower by any Loan Party under the Minimum Throughput Guarantee, the Guarantees, the Operating and Production Handling Agreement or any other Loan Document or Medusa Spar Document; (b) cash representing operating revenue earned or to be earned by the Borrower; (c) any proceeds from Swap Agreements and (d) any other cash or cash equivalents received by the Borrower from whatever source; provided that none of the following shall constitute "Dedicated Cash Receipts: (i) proceeds from the Term Loan; (ii) capital contributions received from the members of the Borrower; (iii) proceeds payable to third parties under any policy in respect of third party liability insurance or (iv) proceeds required to be deposited in the Casualty Account pursuant to Section 3.04(a) of the Security Agreement.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Disposition" or "Dispose" means the sale, transfer, license, lease, assignment, farm-out, conveyance, abandonment or other transfer or disposition

(including any sale and leaseback transaction) of any Property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

"Disqualified Capital Stock" means any Equity Interest 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, matures or is mandatorily redeemable for any consideration other than other Equity Interests (which would not constitute Disqualified Capital Stock), pursuant to a sinking fund obligation or otherwise, or is convertible or exchangeable for Debt or redeemable for any consideration other than other Equity Interests (which would not constitute Disqualified Capital Stock) at the option of the holder thereof, in whole or in part, on or prior to the date that is one year after the earlier of (a) the Maturity Date and (b) the date on which there are no Loans or other obligations hereunder outstanding and all of the Commitments are terminated.

"dollars" or "$" refers to lawful money of the United States of America.

"Effective Date" means the date on which the conditions specified in Section 6.01 are satisfied (or waived in accordance with Section 12.02).

"Environmental Laws" means any and all Governmental Requirements pertaining in any way to health, safety, the environment or the preservation or reclamation of natural resources, in effect in any and all jurisdictions in which the Borrower is conducting or at any time has

conducted business, or where any Property of the Borrower or the Dedicated Blocks are located, including without limitation, the Oil Pollution Act of 1990 ("OPA"), as amended, the Clean Air Act, as amended, the Comprehensive Environmental, Response, Compensation, and Liability Act of 1980 ("CERCLA"), as amended, the Federal Water Pollution Control Act, as amended, the Occupational Safety and Health Act of 1970, as amended, the Resource Conservation and Recovery Act of 1976 ("RCRA"), as amended, the Safe Drinking Water Act, as amended, the Toxic Substances Control Act, as amended, the Superfund Amendments and Reauthorization Act of 1986, as amended, the Hazardous Materials Transportation Act, as amended, and other environmental conservation or protection Governmental Requirements. The term "oil" shall have the meaning specified in OPA, the terms "hazardous substance" and "release" (or "threatened release") have the meanings specified in CERCLA, the terms "solid waste" and "disposal" (or "disposed") have the meanings specified in RCRA and the term "oil and gas waste" shall have the meaning specified in Section 91.1011 of the Texas Natural Resources Code ("Section 91.1011"); provided, however, that (a) in the event either OPA, CERCLA, RCRA or Section 91.1011 is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment and (b) to the extent the laws of the state or other jurisdiction in which any Property of the Borrower or the Dedicated Blocks are located establish a meaning for "oil," "hazardous substance," "release," "solid waste," "disposal" or "oil and gas waste" which is broader than that specified in either OPA, CERCLA, RCRA or Section 91.1011, such broader meaning shall apply.

"Equity Interests" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such Equity Interest.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means any corporation, trade, business or entity under common control with the Borrower within the meaning of Section 414(b), (c), (m) or (o) of the Code or Section 4001 of ERISA.

"Eurodollar", when used in reference to any Loan or the Term Loan, refers to whether such Loan, or the Loans comprising the Term Loan, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned such term in Section 10.01.

"Excepted Liens" means: (a) Liens for Taxes, assessments or other governmental charges or levies which are not delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP; (b) Liens in connection with workers' compensation, unemployment insurance or other social security, old age pension or public liability obligations (other than Liens imposed under ERISA) which are not delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP; (c) statutory landlord's liens, operators', vendors', carriers', warehousemen's, repairmen's, mechanics', suppliers', workers', materialmen's, construction, maritime or other like Liens

arising by operation of law in the ordinary course of business or incident to the exploration, development, operation and maintenance of oil and gas properties each of which is in respect of obligations that are not delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP; (d) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies and burdening only deposit accounts or other funds maintained with a creditor depository institution, provided that no such deposit account is a cash collateral account or is subject to restrictions against access by the depositor in excess of those set forth by regulations promulgated by the Board and no such deposit account is intended by Borrower to provide collateral to the depository institution; (e) easements, restrictions, servitudes, permits, conditions, covenants, exceptions or reservations in any Property of the Borrower or any similar Liens created or resulting from zoning, planning and environmental laws and ordinances and other governmental regulations for the purpose of pipelines, transmission lines, transportation lines, distribution lines for the removal of gas, oil, coal or other minerals, and other like purposes, or for the joint or common use of real estate, rights of way, facilities and equipment, that do not secure any monetary obligations and which in the aggregate do not materially impair the use of such Property for the purposes of which such Property is held by the Borrower or materially impair the value of such Property subject thereto; (f) rights reserved to or vested in any municipality or governmental, statutory or public authority by the terms of any right, power, franchise, grant, license or permit, or by any provision of law, to terminate such right, power, franchise, grant, license or permit or to purchase, condemn, expropriate or recapture or to designate a purchaser of any of the Property of a Person and rights reserved to or vested in any municipality or governmental, statutory or public authority to control, regulate or use any Property of a Person, in each case, that do not secure any monetary obligations; (g) rights of a common owner of any interest in Property held by a Person and such common owner as tenants in common or through other common ownership and (h) judgment and attachment Liens not giving rise to an Event of Default (and Liens in connection with bonding such judgments), provided that any appropriate legal proceedings which may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such proceeding may be initiated shall not have expired and no action to enforce such Lien has been commenced; provided, further that Liens described in clauses (a) through (d) and (f) shall remain "Excepted Liens" only for so long as no action to enforce such Lien has been commenced and no intention to subordinate the first priority Lien granted in favor of the Administrative Agent and the Lenders is to be hereby implied or expressed by the permitted existence of such Excepted Liens.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower or any Guarantor hereunder or under any other Loan Document, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America or such other jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign

Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with Section 5.03(e), except to the extent

that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts with respect to such withholding tax pursuant to Section 5.03(a) or Section 5.03(c).

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Officer" means (a) as to the Borrower, any Person authorized by the Managers of the Borrower pursuant to a unanimous written resolution to execute and deliver certificates and other documents required to be delivered hereunder on behalf of the Borrower and (b) as to any other Person, the chief financial officer, principal accounting officer, treasurer or controller of such Person. Unless otherwise specified, all references herein to a Financial Officer means a Financial Officer of the Borrower.

"Financial Statements" means the financial statement or statements of the Borrower referred to in Section 7.04(a).

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"Funding Date" means the date specified in the Borrowing Request as the date of the borrowing of the Term Loan by the Borrower.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time subject to the terms and conditions set forth in Section 1.05.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government over the Borrower or any of its Properties, any Agent or any Lender.

"Governmental Requirement" means any law, statute, code, ordinance, order, determination, rule, regulation, judgment, decree, injunction, franchise, permit, certificate, license, authorization or other directive or requirement, whether now or hereinafter in effect, including, without limitation, Environmental Laws, energy regulations and occupational, safety and health standards or controls, of any Governmental Authority.

"Guarantees" means, collectively, the Parent Guarantees and the Minimum Throughput Guarantee.

"Guarantors" means (a) the Parent Guarantors and (b) the Subsidiary Guarantors.

"Highest Lawful Rate" means, with respect to each Lender, the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received on the Notes or on other

Indebtedness under laws applicable to such Lender which are presently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws allow as of the date hereof.

"Indebtedness" means any and all amounts owing or to be owing by the Borrower or any other Loan Party (whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising): (a) to the Administrative Agent or any Lender or Affiliate of a Lender under any Loan Document and (b) all renewals, extensions and/or rearrangements of any of the above.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Information Memorandum" means the Transaction Overview dated November 2003 relating to the Borrower, the Medusa Spar Transactions and the Transactions.

"Initial Reserve Report" means a report, in form and substance reasonably satisfactory to the Administrative Agent, regarding the oil and gas reserves attributable to the Dedicated Blocks.

"Interest Payment Date" means with respect to the Term Loan, for the period commencing on the Funding Date through and including December 30, 2003, December 31, 2003 and thereafter, the last day of each Interest Period applicable to the Term Loan.

"Interest Period" means with respect to the Term Loan, initially, the period commencing on the Funding Date and ending on December 30, 2003, and thereafter, the period commencing on the date of the borrowing of such Term Loan and ending on the numerically corresponding day in the calendar month that is three months; provided, that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period pertaining to the Term Loan that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a "borrowing" initially shall be December 31, 2003 and thereafter shall be the effective date of the most recent continuation of the Loans comprising the Term Loan as Eurodollar Loans, or conversion of the Loans comprising the Term Loan, into Eurodollar Loans.

"Investment" means, for any Person: (a) the acquisition (whether for cash, Property, services or securities or otherwise) of Equity Interests of any other Person or any agreement to make any such acquisition (including, without limitation, any "short sale" or any sale of any securities at a time when such securities are not owned by the Person entering into such short sale); (b) the making of any deposit with, or advance, loan, capital contribution to, assumption of Debt of, purchase or other acquisition of any other Debt or equity participation or interest in, or

other extension of credit to, any other Person (including the purchase of Property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such Property to such Person, but excluding any such advance, loan or extension of credit having a term not exceeding ninety (90) days representing the purchase price of inventory or supplies sold by such Person in the ordinary course of business); (c) the purchase or acquisition (in one or a series of transactions) of Property of another Person that constitutes a business unit or (d) the entering into of any guarantee of, or other contingent obligation (including the deposit of any Equity Interests to be sold) with respect to, Debt or other liability of any other Person and (without duplication) any amount committed to be advanced, lent or extended to such Person.

"JOA Liens" means the Liens granted by the operator and the non-operators under Section 6.3 of the Joint Operating Agreement.

"Joint Operating Agreement" means that certain Prospect Medusa Joint Operating Agreement dated effective as of February 1, 1999, by and between MEPC, CPOC and British-Borneo Petroleum, Inc., as amended by that certain First Amendment and Supplement to Joint Operating Agreement dated effective as of August 29, 2003 by and among MEPC, CPOC and ENI Deepwater LLC (as successor-in-interest to British-Borneo Petroleum, Inc.) and as amended by that certain Second Amendment and Supplement to Joint Operating Agreement effective as of December 18, 2003 by and among MEPC, CPOC and ENI Deepwater LLC, as the same may from time to time be amended, modified, supplemented or restated.

"Lenders" means the Persons listed on Annex I and any Person that shall have become a party hereto pursuant to an Assignment and Assumption, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption.

"LIBO Rate" means, with respect to the Term Loan for any Interest Period, the rate appearing on Page 3750 of the Dow Jones Market Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, (a) with respect to the initial two-week Interest Period described in Section 2.02(b), on the Funding Date, and (b) with respect to all other Interest Periods, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to the Term Loan for such Interest Period shall be the rate at which dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and whether such obligation or claim is fixed or contingent, and including but not limited to (a) the lien or security interest arising from a mortgage, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for

security purposes or (b) production payments and the like payable out of oil and gas properties. The term "Lien" shall include easements, restrictions, servitudes, permits, conditions, covenants, exceptions or reservations. For the purposes of this Agreement, the Borrower shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement, or leases under a financing lease or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person in a transaction intended to create a financing.

"Loan Documents" means this Agreement, the Notes, the Secured Swap Agreements and the Security Instruments.

"Loan Parties" means, collectively, the Borrower, each Pledgor and each Guarantor.

"Loans" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

"Majority Lenders" means, at any time while no Loans are outstanding, Lenders having at least sixty-six and two-thirds percent (66-2/3%) of the total Commitments; and at any time while any Loans are outstanding, Lenders holding at least sixty-six and two-thirds percent (66-2/3%) of the outstanding aggregate principal amount of the Loans (without regard to any sale by a Lender of a participation in any Loan under Section 12.04(c)).

"Material Adverse Effect" means a material adverse change in, or

material adverse effect on (a) the business, operations, Property, liabilities (actual or contingent), condition (financial or otherwise) or prospects of the Borrower taken as a whole or of MOC taken as a whole, the Medusa Spar, or the facts and information regarding such entities as represented to the Administrative Agent or the Lenders, (b) the ability of the Borrower or MOC to perform any of its obligations under any Loan Document to which it is a party, (c) the validity or enforceability of any Loan Document or (d) the rights and remedies of or benefits available to the Administrative Agent, any other Agent or any Lender or Affiliate of a Lender under any Loan Document.

"Material Indebtedness" means, with respect to MOC, MEPC or the Borrower, Debt (other than the Loans), or obligations in respect of one or more Swap Agreements, of such Person (and in the case of MOC and MEPC, and their Subsidiaries) in an aggregate principal amount exceeding (a) in the case of MOC, $35,000,000; (b) in the case of MEPC, $35,000,000 or (c) in the case of the Borrower, $1,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of any such Person in respect of any Swap Agreement at any time shall be the Swap Termination Value.

"Maturity Date" means December 31, 2009.

"Medusa Spar" means that certain truss spar, hull, buoyancy cans, deck, facilities, equipment and moorings located on the Mississippi Canyon Block 582, Outer Continental Shelf, Gulf of Mexico, U.S.A. as constructed under that certain EPCI Contract between J. Ray McDermott, Inc. and MEPC dated February 23, 2001, as amended, including upgrades and expansions thereof, together with all components of the Medusa Spar falling within the definition of the term "Facilities" as set forth in Article 2.21 of the Joint Operating Agreement.

"Medusa Spar Agreement" means that certain Medusa Spar Agreement dated effective August 8, 2003 by and among MEPC, CPOC and OII, as the same may from time to time be amended, modified, supplemented or restated.

"Medusa Spar Documents" means the following documents and agreements:

(a) the Joint Operating Agreement;

(b) the Operating and Production Handling Agreement;

(c) the Borrower's LLC Agreement;

(d) the Medusa Spar Agreement;
(e) the Minimum Throughput Guarantee;

(f) the Parent Guarantees; and

(g) all other agreements, instruments, certificates, assignments, bills of sale, security instruments, conveyance instruments, consents and documents executed in connection with any of the foregoing or the Medusa Spar Transactions.

"Medusa Spar Transactions" means the following transactions:

(a) the due formation and capitalization of the Borrower, including without limitation (i) the contribution by MEPC of its 60% undivided interest in the Medusa Spar to the Borrower, free and clear of all Liens, other than Excepted Liens and JOA Liens in connection with amounts not past due; (ii) the contribution by CPOC of its 15% undivided interest in the Medusa Spar to the Borrower, free and clear of all Liens, other than Excepted Liens and JOA Liens in connection with amounts not past due; (iii) the contribution by OII of cash to the Borrower in the amount required under the Medusa Spar Agreement and the Borrower's LLC Agreement and (iv) the Borrower obtaining good and defensible title to a 75% undivided interest in the Medusa Spar, free and clear of all Liens, other than Excepted Liens and JOA Liens in connection with amounts not past due, and with all necessary regulatory approvals and consents having been obtained and being in full force and effect;

(b) the closing of the transactions contemplated by the Medusa Spar Agreement;

(c) the execution and delivery of the Medusa Spar Agreement and the additional agreements contemplated thereby, including without limitation, the Borrower's LLC Agreement, the conveyances, assignments and bills of sale from MEPC and CPOC to the Borrower of the collective 75% interest in the Medusa Spar, the Operating and Production Handling Agreement and the other Medusa Spar Documents, all in form and substance satisfactory to the Administrative Agent, and the satisfaction of all closing conditions and conditions precedent specified in such agreements (including, without limitation, the satisfaction of the closing conditions specified in Section 6.1 of the Medusa Spar Agreement);

(d) the acceptance and the taking of possession of the Medusa Spar by MEPC, as operator for the Borrower and the other non-operators under the Joint Operating Agreement, and the satisfactory performance of the completion and performance tests related thereto; and

(e) the dedication of production by MEPC and CPOC from the Dedicated Blocks for handling at the Medusa Spar for the life of the applicable leases and any extensions and renewals thereof;

in each case, as described in the Information Memorandum and pursuant to and in accordance with the Medusa Spar Documents.

"MEPC" means Murphy Exploration & Production Company - USA, a Delaware corporation.

"Minimum Throughput Guarantee" means that certain Minimum Throughput Guarantee and Consent Agreement of even date herewith among the Borrower, MEPC, CPOC and the Administrative Agent, in substantially the form of Exhibit E-5, as the same may from time to time be amended, modified, supplemented or restated.

"MOC" means Murphy Oil Corporation, a Delaware corporation.

"MOC Credit Agreement" means that certain 3-Year Revolving Credit Agreement dated as of December 4, 2003 among MOC, JPMorgan Chase Bank, as Administrative Agent, and the lenders from time to time party thereto, as the same exists on the date of execution of this Agreement and without regard to (a) any termination or cancellation thereof, whether by reason of payment of all indebtedness incurred thereunder or otherwise or (b) unless consented to in writing by the Majority Lenders, any amendment, modification, addition, waiver or consent thereto or thereof.

"MOC Parent Guarantee" means that certain Guaranty and Consent Agreement of even date herewith among the Borrower, the Administrative Agent and MOC, in substantially the form of Exhibit E-3, as the same may from time to time be amended, modified, supplemented or restated.

"Moody's" means Moody's Investors Service, Inc. and any successor thereto that is a nationally recognized rating agency.

"Murphy Family" means (a) the C.H. Murphy Family Investments Limited Partnership; (b) the Estate of C.H. Murphy, Jr. and (c) siblings of the late C.H. Murphy, Jr. and his and their respective Immediate Family. For purposes of this definition, "Immediate Family" of a Person means such Person's spouse, children, siblings, mother-in-law and father -in-law, sons-in-law, daughters-in-law, brothers-in-law and sisters-in-law.

"Notes" means the promissory notes of the Borrower described in Section 2.02(c) and being substantially in the form of Exhibit A, together with all amendments, modifications, replacements, extensions and rearrangements thereof.

"OII" means Oceaneering International, Inc., a Delaware corporation.

"Operator" means MEPC or any successor operator of the Medusa Spar under the Joint Operating Agreement.

"Operating and Production Handling Agreement" means that certain Operating and Production Handling Agreement dated effective December 18, 2003, by and among MEPC, CPOC, OII and the Borrower, as the same may from time to time be amended, modified, supplemented or restated.

"Organization Documents" means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating or limited liability company agreement and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or Property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement and any other Loan Document.

"Parent Guarantors" means, collectively, MOC and CPC.

"Parent Guarantees" means, collectively, the MOC Parent Guarantee and the CPC Parent Guarantee.

"Participant" has the meaning set forth in Section 12.04(c)(i).

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Pledge Agreement" means, that certain Pledge Agreement of even date herewith among MEPC, CPOC, OII and the Administrative Agent, in substantially the form of Exhibit E-6, as the same may from time to time be amended, modified, supplemented or restated.

"Pledgors" mean, collectively, MEPC, CPOC and OII.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by The Bank of Nova Scotia as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective. Such rate is set by The Bank of Nova Scotia as a general reference rate of interest, taking into account such factors as The Bank of Nova Scotia may deem appropriate; it being understood that many of The Bank of Nova Scotia's commercial or other

loans are priced in relation to such rate, that it is not necessarily the lowest or best rate actually charged to any customer and that The Bank of Nova Scotia may make various commercial or other loans at rates of interest having no relationship to such rate.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including, without limitation, cash, securities, accounts and contract rights.

"Redemption" means with respect to any Debt, the repurchase, redemption, prepayment, repayment, defeasance or any other acquisition or retirement for value (or the segregation of funds with respect to any of the foregoing) of such Debt. "Redeem" has the correlative meaning thereto.

"Register" has the meaning assigned such term in Section 12.04(b)(iv).

"Regulation D" means Regulation D of the Board, as the same may be amended, supplemented or replaced from time to time.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors (including attorneys, accountants and experts) of such Person and such Person's Affiliates.

"Remedial Work" has the meaning assigned such term in Section 8.10(a).

"Responsible Officer" means (a) as to the Borrower, any Person authorized by the Managers of the Borrower pursuant to an unanimous written resolution to execute and deliver certificates and other documents required to be delivered hereunder on behalf of the Borrower and (b) as to any other Person, the Chief Executive Officer, the President, any Financial Officer or any Vice President of such Person. Unless otherwise specified, all references to a Responsible Officer herein shall mean a Responsible Officer of the Borrower.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other Property) with respect to any Equity Interests in the Borrower, or any payment (whether in cash, securities or other Property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interests in the Borrower or any option, warrant or other right to acquire any such Equity Interests in the Borrower.

"SEC" means the Securities and Exchange Commission or any successor Governmental Authority.

"Secured Swap Agreement" means any Swap Agreement between the Borrower and any Lender or any Affiliate of any Lender while such Person (or, in the case of an Affiliate of a Lender, the Person affiliated therewith) is a Lender, including any Swap Agreement between such Persons in existence prior to the date hereof, as the same may from time to time be amended, modified, supplemented or restated and (b) entered into in order to maintain the hedge position required by Section 6.01(m). For the avoidance of doubt, a Swap Agreement ceases to be a Secured Swap Agreement if the Person that is the counterparty to the Borrower under a

Swap Agreement ceases to be a Lender under the Credit Agreement (or, in the case of an Affiliate of a Lender, the Person affiliated therewith ceases to be a Lender under the Credit Agreement).

"Securities Intermediary" has the meaning assigned such term in the Security Agreement.

"Security Agreement" means that certain Security Agreement of even date herewith between the Borrower and the Administrative Agent, in substantially the form of Exhibit E-2, as the same may from time to time be amended, modified, supplemented or restated.

"Security Instruments" means the Pledge Agreement, the Parent Guarantees, the Minimum Throughput Guarantee, the Security Agreement, mortgages, deeds of trust and other agreements, instruments, consents or certificates described or referred to in Exhibit E-1, and any and all other agreements, instruments, payment direction letters, consents or certificates now or hereafter executed and delivered by the Borrower or any other Person in connection with, or as security for the payment or performance of the Indebtedness, the Notes or this Agreement or any other Loan Document, as such agreements may be amended, modified, supplemented or restated from time to time.

"S&P" means Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., and any successor thereto that is a nationally recognized rating agency.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any

marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Subsidiary" means as to any Person (the "first Person"): (a) any other Person of which at least a majority of the outstanding Equity Interests having by the terms thereof ordinary voting power to elect a majority of the board of directors, manager or other governing body of such Person (irrespective of whether or not at the time Equity Interests of any other class or classes of such Person shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by the first Person or by the first Person and one or more of its Subsidiaries and (b) any partnership of which the first Person or any of its Subsidiaries is a general partner.

"Subsidiary Guarantors" means, collectively, MEPC and CPOC.

"Swap Agreement" means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement, whether exchange traded, "over-the-

counter" or otherwise, involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or the Subsidiaries shall be a Swap Agreement.

"Swap Termination Value" means, in respect of any one or more Swap Agreements, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Agreements, (a) for any date on or after the date such Swap Agreements have been closed out and termination value(s) determined in accordance therewith, such termination value(s) and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Agreements, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Agreements (which may include a Lender or any Affiliate of a Lender).

"Tariff" means the tariffs paid by (a) MEPC and CPOC to the Borrower pursuant to Section 4.6 of the Operating and Production Handling Agreement and (ii) other Persons for production processed through the Medusa Spar in accordance with the applicable third party production handling agreements entered into pursuant to Section 6.1 of the Operating and Production Handling Agreement.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Term Loan" has the meaning given such term in Section 2.01.

"Termination Date" means the earlier of the Maturity Date and the date of termination of the Commitments or the acceleration of the Loans pursuant to Section 10.02.

"Third Party Throughput Amount" means, with respect to any given calendar quarter, that portion of the Tariff received by the Borrower which is attributable to throughput of production through the Medusa Spar from Persons other than MEPC and CPOC.

"Transactions" means, with respect to (a) the Borrower, the execution, delivery and performance by the Borrower of this Agreement and each other Loan Document and Medusa Spar Document to which it is a party, the Medusa Spar Transactions, the borrowing of the Term Loan, the use of the proceeds thereof, and the grant of Liens by the Borrower on certain of its Properties pursuant to the Security Instruments and (b) each other Loan Party, the execution, delivery and performance by such Loan Party of each Loan Document and Medusa Spar Document to which it is a party, the Medusa Spar Transactions, and its guarantee, grant of Liens, pledge and provision of collateral and other agreements pursuant to the Security Instruments.

"Type", when used in reference to any Loan, refers to whether the rate of interest on such Loan is determined by reference to the Alternate Base Rate or the Adjusted LIBO Rate.

Section 1.03 Types of Loans. For purposes of this Agreement, Loans may be classified and referred to by Type (e.g., a "Eurodollar Loan").

Section 1.04 Terms Generally; Rules of Construction. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth in the Loan Documents), (b) any reference herein to any law shall be construed as referring to such law as amended, modified, codified or reenacted, in whole or in part, and in effect from time to time, (c) any reference herein to any Person shall be construed to include such Person's successors and assigns (subject to the restrictions contained in the Loan Documents), (d) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (e) with respect to the determination of any time period, the word "from" means "from and including" and the word "to" means "to and including" and (f) any reference herein to Articles, Sections, Annexes, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Annexes, Exhibits and Schedules to, this Agreement. No provision of this Agreement or any other Loan Document shall be interpreted or construed against any Person solely because such Person or its legal representative drafted such provision.

Section 1.05 Accounting Terms and Determinations; GAAP. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all financial statements and certificates and reports as to financial matters required to be furnished to the Administrative Agent or the Lenders hereunder shall be prepared, in accordance with GAAP, applied on a basis consistent with the financial statements described in Section 7.04(a) except for changes in which the Borrower's (or, in the case of any other Person, such Person's) independent certified public accountants concur and which are disclosed to Administrative Agent on the next date on which financial statements are required to be delivered to the Lenders pursuant to Section 8.01(a); provided that, unless the Borrower and the Majority Lenders shall otherwise agree in writing, no such change shall modify or affect the manner in which compliance with the covenants contained herein is computed such that all such computations shall be conducted utilizing financial information presented consistently with prior periods.

ARTICLE II
THE TERM LOAN

Section 2.01 Term Loan. Subject to the terms and conditions set forth herein, each Lender agrees to make a Loan to the Borrower, as part of a single advance term loan in an aggregate principal amount equal to $83,741,602.17 (the "Term Loan"), on the Funding Date in an aggregate principal amount equal to such Lender's Applicable Percentage of the Term Loan; provided that the making of such Loan shall not result in (a) such Lender's Credit Exposure exceeding such Lender's Commitment or (b) the total Credit Exposures exceeding the total Commitments. The Term Loan shall be fully funded in a single advance to the Borrower on the Funding Date, and once paid or prepaid, neither the Term Loan nor any Loan (nor any portion thereof) comprising a part of the Term Loan may be reborrowed under any circumstance.

Section 2.02 Loans.

(a) Term Loan; Several Obligations. Each Loan shall be made as part of the Term Loan, which shall consist of Loans made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make the Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments are several and no Lender shall be responsible for any other Lender's failure to make its Loan as required hereby.

(b) Type of Loans. From the period commencing on the Funding Date through and including December 30, 2003, the Term Loan shall be comprised entirely of Eurodollar Loans having an Interest Period of two weeks; thereafter, subject to Section 3.03 and Section 5.05, the Term Loan shall be comprised entirely of Eurodollar Loans having an Interest Period of three months, which Eurodollar Loans shall automatically continue as Eurodollar Loans having an Interest Period of three months at the end of the first three-month Interest Period and all subsequent Interest Periods thereafter. Each Lender at its option may make its Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) Notes. The Loan made by each Lender shall be evidenced by a single promissory note of the Borrower in substantially the form of Exhibit A, dated, in the case of (i) any Lender party hereto as of the date of this Agreement, as of the date of this Agreement, or (ii) any Lender that becomes a party hereto pursuant to an Assignment and Assumption, as of the effective date of the Assignment and Assumption, payable to the order of such Lender in a principal amount equal to its Commitment as in effect on such date, and otherwise duly completed. In the event that any Lender's Commitment increases or decreases for any reason (whether pursuant to Section 12.04(b) or otherwise), the Borrower shall deliver or cause to be delivered on the effective date of such increase or decrease, a new Note payable to the order of such Lender in a principal amount equal to its Commitment after giving effect to such increase or decrease, and otherwise duly completed. The date, amount, Type, interest rate and, if applicable, Interest Period of the Loan made by each Lender, and all payments made on account of the principal thereof, shall be recorded by such Lender on its books for its Note, and, prior to any transfer, may be endorsed by such Lender on a schedule attached to such Note or any

continuation thereof or on any separate record maintained by such Lender. Failure to make any such notation or to attach a schedule shall not affect any Lender's or the Borrower's rights or obligations in respect of its Loan or affect the validity of such transfer by any Lender of its Note.

Section 2.03 Request for Term Loan To request the Term Loan, the Borrower shall provide the Borrowing Request signed by the Borrower to the Administrative Agent, not later than 12:00 noon, New York City time, on the date of the proposed borrowing of the Term Loan. The Borrowing Request shall be irrevocable and shall specify the following information:

(i) the aggregate amount of the Term Loan, which shall be $83,741,602.17;

(ii) the date of the borrowing of the Term Loan, which shall be a Business Day; and

(iii) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.04.

The Borrowing Request shall constitute a representation that the amount of the requested Term Loan shall not cause the total Credit Exposures to exceed the total Commitments.

Promptly following receipt of the Borrowing Request in accordance with this Section 2.03, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the Term Loan.

Section 2.04 Funding of Term Loan.

(a) Funding by Lenders. Each Lender shall make the Loan to be made by it hereunder on the Funding Date by wire transfer of immediately available funds by 1:00 p.m., New York City time, to the account of the Administrative Agent designated by it for such purpose by notice to the Lenders. The Administrative Agent will make the Term Loan available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in Atlanta, Georgia and designated by the Borrower in the Borrowing Request. Nothing herein shall be deemed to obligate any Lender to obtain the funds for its Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for its Loan in any particular place or manner.

(b) Presumption of Funding by the Lenders. Unless the Administrative Agent shall have received notice from a Lender prior to Funding Date that such Lender will not make available to the Administrative Agent such Lender's share of the Term Loan, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.04(a) and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the Term Loan available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i)

in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in the Term Loan.

ARTICLE III
PAYMENTS OF PRINCIPAL AND INTEREST; PREPAYMENTS; FEES

Section 3.01 Repayment of Loans. The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of the Lenders, (a) the principal of the Loans in such principal amounts and on such dates as are set forth in the Amortization Schedule and (b) the then unpaid principal amount of the Loans on the Termination Date.

Section 3.02 Interest.

(a) ABR Loans. Each ABR Loan shall bear interest at the Alternate Base Rate plus the Applicable Margin, but in no event to exceed the Highest Lawful Rate.

(b) Eurodollar Loans. Each Eurodollar Loan shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Loan plus the Applicable Margin, but in no event to exceed the Highest Lawful Rate.

(c) Post-Default Rate. Notwithstanding the foregoing, (i) during the continuance of any Default, all Loans shall bear interest, after as well as

before judgment, at a rate per annum equal to two percent (2%) plus the rate applicable to Eurodollar Loans as provided in Section 3.02(b), but in no event to exceed the Highest Lawful Rate and (ii) all amounts payable by the Borrower hereunder (other than principal of and interest on the Loans) that are not paid when due shall bear interest, after as well as before judgment, at a rate per annum equal to two percent (2%) plus the rate applicable to ABR Loans as provided in Section 3.02(a), but in no event to exceed the Highest Lawful Rate.

(d) Interest Payment Dates. Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and on the Termination Date; provided that (i) interest accrued pursuant to Section 3.02(c) shall be payable on demand and (ii) in the event of any repayment or prepayment of any Loan, accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment.

(e) Interest Rate Computations. All interest hereunder shall be computed on the basis of a year of 360 days, unless such computation would exceed the Highest Lawful Rate, in which case interest shall be computed on the basis of a year of 365 days (or 366 days in a leap year), except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error, and be binding upon the parties hereto.

Section 3.03 Alternate Rate of Interest. If prior to the commencement of any Interest Period for the Term Loan:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Majority Lenders that the Adjusted LIBO Rate or LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in the Term Loan for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, the Loans comprising the Term Loan shall not be continued as Eurodollar Loans at the end of the then current Interest Period, but instead, shall be converted to ABR Loans at the end of the then current Interest Period.

Section 3.04 Prepayments.

(a) Optional Prepayments. The Borrower shall have the right at any time and from time to time to prepay the Term Loan in whole or in part, subject to prior notice in accordance with Section 3.04(b). In connection with any such prepayment, in addition to any other amounts required to be paid hereunder, the Borrower shall pay any unwind payments or other amounts due as a result of such prepayment under any Swap Agreement entered into by the Borrower pursuant to Section 6.01(m), when and as the same shall become due and payable.

(b) Notice and Terms of Optional Prepayment. The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder, not later than 12:00 noon, New York City time, three Business Days before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of the Term Loan to be prepaid. Promptly following receipt of any such notice relating to the Term Loan, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of the Term Loan shall be in an aggregate amount that is an integral multiple of $100,000 and not less than $1,000,000.

(c) Application of Prepayments. Each prepayment made pursuant to

Section 3.04 shall be applied ratably to the Loans and to the scheduled principal payments of the Term Loan in the inverse order of their maturity. Prepayments shall be accompanied by accrued interest to the extent required by Section 3.02.

(d) No Premium or Penalty. Prepayments permitted or required under this Section 3.04 shall be without premium or penalty, except as required under Section 5.02.

Section 3.05 Fees. The Borrower shall pay to the Administrative Agent, the Arranger, and the Lenders, for their respective accounts, such fees as shall have been agreed upon in writing with the Administrative Agent in amounts and at times so specified.

ARTICLE IV
PAYMENTS; PRO RATA TREATMENT; SHARING OF SET-OFFS

Section 4.01 Payments Generally; Pro Rata Treatment; Sharing of Set-offs.

(a) Payments by the Borrower. The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or of amounts payable under Section 5.01, Section 5.02, Section 5.03 or otherwise) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without defense, deduction, recoupment, set-off or counterclaim. Fees, once paid, shall be fully earned and shall not be refundable under any circumstances. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices specified in Section 12.01, except that payments pursuant to Section 5.01, Section 5.02, Section 5.03 and Section 12.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in dollars.

(b) Application of Insufficient Payments. If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties and (ii) second, towards payment of principal then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal then due to such parties.

(c) Sharing of Payments by Lenders. If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on its Loan resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loan and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest and (ii) the provisions of this Section 4.01(c) shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loan to any assignee or participant, other than to the Borrower (as to which the provisions of this Section 4.01(c) shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender

acquiring a participation pursuant to the foregoing arrangements

may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

Section 4.02 Presumption of Payment by the Borrower. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

Section 4.03 Certain Deductions by the Administrative Agent. If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(b) or Section 4.02 then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

ARTICLE V
INCREASED COSTS; BREAK FUNDING PAYMENTS; TAXES; ILLEGALITY

Section 5.01 Increased Costs.

(a) Eurodollar Changes in Law. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate); or

(ii) impose on any Lender or the London interbank market any other condition affecting this Agreement or the Eurodollar Loan made by such Lender;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining its Eurodollar Loan (or of maintaining its obligation to make such Loan) or to reduce the amount of any sum received or receivable by such Lender (whether of principal, interest or otherwise), then the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's or holding company, if any, as a consequence

of this Agreement or the Loan made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in Section 5.01(a) or (b) shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Effect of Failure or Delay in Requesting Compensation. Failure or delay on the part of any Lender to demand compensation pursuant to this Section 5.01 shall not constitute a waiver of such Lender's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender pursuant to this Section 5.01 for any increased costs or reductions incurred more than 365 days prior to the date that such Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 365-day period referred to above shall be extended to include the period of retroactive effect thereof.

Section 5.02 Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan into an ABR Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto, or (d) the failure to continue any Loan as a Eurodollar Loan at the beginning of the next succeeding Interest Period, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. Such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market.

A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section 5.02 shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

Section 5.03 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower under any Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 5.03(a)), the Administrative Agent or Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower. The Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent and each Lender, within 10 days after written demand

therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent or such Lender, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 5.03) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate of the Administrative Agent or a Lender as to the amount of such payment or liability under this Section 5.03 shall be delivered to the Borrower and shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Foreign Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement or any other Loan Document shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

Section 5.04 Mitigation Obligations. If any Lender requests compensation under Section 5.01, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 5.03, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 5.01 or Section 5.03, as the case

may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

Section 5.05 Illegality. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or its applicable lending office to honor its obligation to make or maintain a Eurodollar Loan either generally or having a particular Interest Period hereunder, then (a) such Lender shall promptly notify the Borrower and the Administrative Agent thereof and such Lender's obligation to make such Eurodollar Loan shall be suspended (the "Affected Loan") until such time as such Lender may again make and maintain such Eurodollar Loan and (b) any Affected Loan which would otherwise be made by such Lender shall be made instead as an ABR Loan (and, if such Lender so requests by notice to the Borrower and the Administrative Agent, any Affected Loan of such Lender then outstanding shall be automatically converted into ABR Loan on the date specified by such Lender in such notice) and, to the extent that any Affected Loan is so made as (or converted into) an ABR Loan, all payments of principal which would otherwise be applied to such Lender's Affected Loan shall be applied instead to its ABR Loan.

ARTICLE VI
CONDITIONS PRECEDENT

Section 6.01 Effective Date. The obligations of the Lenders to make Loans hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 12.02):

(a) The Administrative Agent, the Arranger and the Lenders shall have received all fees and other amounts due and payable on or prior to the Effective

Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(b) The Administrative Agent shall have received a certificate of the Secretary or an Assistant Secretary of each Loan Party setting forth (i) resolutions of its board of directors or other governing body with respect to the authorization of such Loan Party to execute and deliver the Loan Documents to which it is a party and to enter into the transactions contemplated in those documents, (ii) the officers of such Loan Party (A) who are authorized to sign the Loan Documents to which the such Loan Party is a party and (B) who will, until replaced by another officer or officers duly authorized for that purpose, act as its representative for the purposes of signing documents and giving notices and other communications in connection with this Agreement and the transactions contemplated hereby, (iii) specimen signatures of such authorized officers, and (iv) the Organization Documents of such Loan Party, certified as being true and complete. The Administrative Agent and the Lenders may conclusively rely on such certificate until the Administrative Agent receives notice in writing from the Borrower to the contrary.

(c) The Administrative Agent shall have received certificates of the appropriate State agencies with respect to the existence, qualification and good standing of each Loan Party in its jurisdiction of formation.

(d) The Administrative Agent shall have received a compliance certificate which shall be substantially in the form of Exhibit C, duly and properly executed by a Responsible Officer and dated as of the date of Effective Date.

(e) The Administrative Agent shall have received from each party hereto counterparts (in such number as may be requested by the Administrative Agent) of this Agreement signed on behalf of such party.

(f) The Administrative Agent shall have received duly executed Notes payable to the order of each Lender in a principal amount equal to its Commitment dated as of the Effective Date.

(g) The Administrative Agent shall have received from each party thereto duly executed counterparts (in such number as may be requested by the Administrative Agent) of the Security Instruments, including the Guarantees, the Pledge Agreement, the Security Agreement and the other Security Instruments described on Exhibit E-1. In connection with the execution and delivery of the Pledge Agreement and the Security Agreement, the Administrative Agent shall be satisfied that (after giving effect to the filing of financing statements or the taking of any other action contemplated thereby for perfection) (i) the Pledge Agreement creates first priority, perfected Liens in the collateral described therein, and the Security Agreement creates first priority, perfected Liens in the collateral described therein (subject to any Liens permitted thereby) and (ii) the deposit accounts and the collateral securities account referred to in the Security Agreement shall have been established in the name of the Administrative Agent.

(h) The Administrative Agent shall have received an opinion of (i) Baker Botts L.L.P., special counsel to the Borrower and OII, substantially in the form of Exhibit D-1 hereto; (ii) Lemle & Kelleher, L.L.P., special counsel to MEPC and MOC, substantially in the form of Exhibit D-2 hereto; (iii) Haynes and Boone, LLP, special counsel to CPC and CPOC, substantially in the form of Exhibit D-3 hereto and (iv) John Moore, in-house counsel to MEPC and MOC, substantially in the form of Exhibit D-4 hereto.

(i) The Administrative Agent shall have received a certificate of insurance coverage of the Borrower evidencing that the Borrower is carrying insurance in accordance with Section 7.13.

(j) The Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower certifying that the Borrower has received all consents and approvals required by Section 7.03.

(k) The Administrative Agent shall have received the financial

statements referred to in Section 7.04(a).

(l) The Administrative Agent shall have received appropriate UCC search certificates reflecting no prior Liens encumbering the Collateral for each jurisdiction reasonably requested by the Administrative Agent;

(m) The Administrative Agent shall have received evidence satisfactory to it that the Borrower has entered into one or more Swap Agreements with Approved Counterparties which shall effectively convert the floating rate of interest from time to time in effect hereunder to a fixed rate of interest, the notional amount of which shall at all times be equal to the then outstanding principal amount of the Loans (and on the Effective Date, the notional amount shall be equal to the total Commitments), on such terms (including, the applicable fixed rate and provisions for the reduction of the notional amount(s) thereof in accordance with the amortization of the Term Loan hereunder and in connection with any optional prepayment made by the Borrower hereunder) and conditions, and durations reasonably satisfactory to the Administrative Agent.

(n) The Administrative Agent shall be satisfied that the Medusa Spar Transactions are being simultaneously consummated on terms, conditions and documentation satisfactory to it.

(o) The Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower certifying that the Medusa Spar Transactions have been consummated and all closing conditions and conditions precedent specified in the Medusa Spar Documents have been satisfied.

(p) The Administrative Agent shall have received an execution copy, certified by a Responsible Officer as true and complete, of each of the Medusa Spar Documents (together with all amendments, if any).

(q) The Administrative shall have received a certificate duly signed by a Responsible Officer of the Borrower certifying the Debt Rating of MOC as determined by each such rating agency;

(r) The Administrative Agent shall have received, reviewed and be satisfied with, the following:

(i) a certificate of a Responsible Officer of MOC containing a detailed summary of MOC's accounting treatment of its investment in the Borrower and its accounting treatment of the MOC Parent Guarantee, in each case, in accordance with GAAP;

(ii) such other financial information as the Administrative Agent may reasonably request;

(iii) title information as the Administrative Agent may reasonably require satisfactory to the Administrative Agent regarding the status of title to the Medusa Spar and the Dedicated Blocks;

(iv) information as to the environmental condition of the Medusa Spar, the other Properties of the Borrower and the Dedicated Blocks;

(v) copies of the Declaration of Operating and Production Handling Agreement and Dedication of Leases and any other instruments to be filed with the parishes and MMS related to the dedication of the Dedicated Blocks;

(vi) information regarding litigation, tax, accounting, labor, insurance, pension liabilities (actual or contingent), leases, material contracts, debt agreements, Property ownership, contingent liabilities and management of the Borrower; and

(vii) Initial Reserve Report from an Approved Petroleum Engineer.

(s) The Administrative Agent shall have completed and be satisfied with the results of its due diligence in respect of the Loan Parties, the Medusa Spar, the Medusa Spar Transactions, the Collateral, the Medusa Spar Documents and all other contracts relating to the ownership and use of the Medusa Spar, including all production handling agreements, production sales agreements, production transportation agreements, supply agreements, and master service contracts with vendors.

(t) The Administrative Agent shall have received a letter from CT Corporation System evidencing the appointment of CT Corporation System as authorized agent for service of process on each of each Loan Party under each Loan Document to which it is a party.

(u) The Administrative Agent shall have received such other documents as the Administrative Agent or special counsel to the Administrative Agent may reasonably request.

(v) At the time of and immediately after giving effect to the borrowing of the Term Loan, no Default shall have occurred and be continuing.

(w) At the time of and immediately after giving effect to the borrowing of the Term Loan, no event, development or circumstance has occurred or shall then exist that has resulted in, or could reasonably be expected to have, a Material Adverse Effect.

(x) The representations and warranties of the Loan Parties set forth in this Agreement and in the other Loan Documents shall be true and correct on and as of the date of the borrowing of the Term Loan, except to the extent any such representations and warranties are expressly limited to an earlier date, in which case, on and as of the date of borrowing of the Term Loan, such representations and warranties shall continue to be true and correct as of such specified earlier date.

(y) The making of the Term Loan would not conflict with, or cause any Lender to violate or exceed, any applicable Governmental Requirement, and no Change in Law shall have occurred, and no litigation shall be pending or threatened, which does or, with respect to any threatened litigation, seeks to, enjoin, prohibit or restrain, the making or repayment of any Loan or any participations therein or the consummation of the transactions contemplated by this Agreement or any other Loan Document.

(z) The receipt by the Administrative Agent of the Borrowing Request in accordance with Section 2.03.

The borrowing of the Term Loan shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in Section 6.01(v) through Section 6.01(z).

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 12.02) at or prior to 2:00 p.m., New York City time, on December 31, 2003 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

ARTICLE VII
REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

Section 7.01 Organization; Powers. Each of the Loan Parties is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority, and has all material governmental licenses, authorizations, consents and approvals necessary, to own its assets and to carry on its business as now conducted, and is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required, except where failure to have such power, authority, licenses, authorizations, consents, approvals and qualifications

could not reasonably be expected to have a Material Adverse Effect.

Section 7.02 Authority; Enforceability. The Transactions are within each Loan Party's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder or member action (including, without limitation, any action required to be taken by any class of directors, members or managers of any Loan Party, whether interested or disinterested, in order to ensure the due authorization of the Transactions). Each Loan Document and Medusa Spar Document to which each Loan Party is a party has been duly executed and delivered by such Loan Party and constitutes a legal, valid and binding obligation of such Loan Party, as applicable, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 7.03 Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority or any other third Person (including shareholders or members or any class of directors, members or managers, whether interested or disinterested, of any Loan Party or any other Person), nor is any such consent, approval, registration, filing or other action necessary for the validity or enforceability of any Loan Document or Medusa Spar Document or the consummation of the transactions contemplated thereby, except such as have been obtained or made and are in full

force and effect other than (i) the recording and filing of the Security Instruments as required by this Agreement and (ii) those third party approvals or consents which, if not made or obtained, would not cause a Default hereunder, could not reasonably be expected to have a Material Adverse Effect or do not have an adverse effect on the enforceability of the Loan Documents, (b) will not violate any applicable law or regulation or the Organization Documents of any Loan Party or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon any Loan Party or its Properties, or give rise to a right thereunder to require any payment to be made by any Loan Party and (d) will not result in the creation or imposition of any Lien on any Property of any Loan Party (other than the Liens created by the Loan Documents).

Section 7.04 Financial Condition; No Material Adverse Change.

(a) The Borrower has heretofore furnished to the Lenders (i) the Borrower's pro forma balance sheet and projected statements of income, members' equity and cash flows for the period beginning the Effective Date and ending December 31, 2006; and (ii) MOC's consolidated balance sheet and statements of income, stockholders' equity and cash flows (A) as of and for the fiscal year ended December 31, 2002, reported on by KPMG, independent public accountants, and (B) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2003, certified by its chief financial officer. The Borrower's financial statements were prepared in good faith based upon assumptions believed to be reasonable at the time. MOC's financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of MOC and its Consolidated Subsidiaries, as of such dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of the unaudited quarterly financial statements.

(b) Since December 31, 2002, there has been no event, development or circumstance that has had or could reasonably be expected to have a Material Adverse Effect.

(c) The Borrower does not have on the date hereof any material Debt (including Disqualified Capital Stock) or any contingent liabilities, off-balance sheet liabilities or partnerships, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in the Financial Statements and under Swap Agreements disclosed pursuant to Section 7.19.

Section 7.05 Litigation.

(a) Except as set forth on Schedule 7.05, there are no actions, suits, investigations or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or involving the Medusa Spar, the Medusa Spar Transactions or the Dedicated Blocks (i) as to which there is a reasonable possibility of an adverse determination that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, (ii) that involve any Loan Document, any Medusa Spar Document, the Medusa Spar, the Medusa Spar Transactions, the Dedicated Blocks or the Transactions or (iii) that could

reasonably be expected to impair the consummation of the Medusa Spar Transactions on the time and in the manner contemplated by the Medusa Spar Documents.

(b) Since the date of this Agreement, there has been no change in the status of the matters disclosed in Schedule 7.05 that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

Section 7.06 Environmental Matters. Except as could not be reasonably expected to have a Material Adverse Effect (or with respect to (c), (d) and (e) below, where the failure to take such actions could not be reasonably expected to have a Material Adverse Effect):

(a) neither any Property of the Borrower nor the operations conducted thereon nor the Dedicated Blocks nor the operations conducted thereon violate any order or requirement of any court or Governmental Authority or any Environmental Laws.

(b) no Property of the Borrower nor the operations currently conducted thereon nor the Dedicated Blocks nor the operations currently conducted thereon or, to the knowledge of the Borrower, by any prior owner or operator of such Property or operation, are in violation of or subject to any existing, pending or threatened action, suit, investigation, inquiry or proceeding by or before any court or Governmental Authority or to any remedial obligations under Environmental Laws.

(c) all notices, permits, licenses, exemptions, approvals or similar authorizations, if any, required to be obtained or filed in connection with the operation or use of any and all Property of the Borrower and the Dedicated Blocks, including, without limitation, past or present treatment, storage, disposal or release of a hazardous substance, oil and gas waste or solid waste into the environment, have been duly obtained or filed, and the Borrower and the Dedicated Blocks are in compliance with the terms and conditions of all such notices, permits, licenses and similar authorizations.

(d) all hazardous substances, solid waste and oil and gas waste, if any, generated at any and all Property of the Borrower and the Dedicated Blocks have in the past been transported, treated and disposed of in accordance with Environmental Laws and so as not to pose an imminent and substantial endangerment to public health or welfare or the environment, and, to the knowledge of the Borrower, all such transport carriers and treatment and disposal facilities have been and are operating in compliance with Environmental Laws and so as not to pose an imminent and substantial endangerment to public health or welfare or the environment, and are not the subject of any existing, pending or threatened action, investigation or inquiry by any Governmental Authority in connection with any Environmental Laws.

(e) the Borrower has taken all steps reasonably necessary to determine and has determined that no oil, hazardous substances, solid waste or oil and gas waste, have been disposed of or otherwise released and there has been no threatened release of any oil, hazardous substances, solid waste or oil and gas waste on or to any Property of the Borrower or the Dedicated Blocks, in each case, except in compliance with Environmental Laws and so as not to pose an imminent and substantial endangerment to public health or welfare or the environment.

(f) to the extent applicable, all Property of the Borrower and the Dedicated Blocks currently satisfies all design, operation, and equipment requirements imposed by the OPA, and the Borrower does not have any reason to believe that such Property, to the extent subject to the OPA, will not be able to maintain compliance with the OPA requirements during the term of this Agreement.

(g) the Borrower does not have any known contingent liability or Remedial Work in connection with any release or threatened release of any oil, hazardous substance, solid waste or oil and gas waste into the environment, and there is no known contingent liability or Remedial Work in connection with any release or threatened release of any oil, hazardous substance, solid waste or oil and gas waste into the environment associated with the Dedicated Blocks.

Section 7.07 Compliance with the Laws and Agreements; No Defaults.

(a) Each Loan Party is in compliance with all Governmental Requirements applicable to it or its Property and all agreements and other instruments binding upon it or its Property, and possesses all licenses, permits, franchises, exemptions, approvals and other governmental authorizations necessary for the ownership of its Property and the conduct of its business, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(b) No Loan Party is in default nor has any event or circumstance occurred which, but for the expiration of any applicable grace period or the giving of notice, or both, would constitute a default or would require any Loan Party to Redeem or make any offer to Redeem under any indenture, note, credit agreement or instrument pursuant to which any Material Indebtedness is outstanding or by which any Loan Party or any of its Properties is bound.

(c) No Default has occurred and is continuing.

Section 7.08 Investment Company Act. Neither the Borrower nor any other Loan Party is an "investment company" or a company "controlled" by an "investment company," within the meaning of, or subject to regulation under, the Investment Company Act of 1940, as amended.

Section 7.09 Public Utility Holding Company Act. Neither the Borrower nor any other Loan Party is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," or a "public utility" within the meaning of, or subject to regulation under, the Public Utility Holding Company Act of 1935, as amended.

Section 7.10 Taxes. The Borrower has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower has set aside on its books adequate reserves in accordance with GAAP or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower in respect of Taxes and other governmental charges are, in the reasonable

opinion of the Borrower, adequate. No Tax Lien has been filed and, to the knowledge of the Borrower, no claim is being asserted with respect to any such Tax or other such governmental charge.

Section 7.11 ERISA. Neither the Borrower nor any ERISA Affiliate currently has or has ever had any employees and neither the Borrower nor any ERISA Affiliate currently sponsors, maintains or contributes to or has ever sponsored, maintained or contributed to any "employee benefit plan" as such term is defined in Section 3(3) of ERISA.

Section 7.12 Disclosure; No Material Misstatements. The Borrower has disclosed to the Administrative Agent and the Lenders all material agreements, instruments and corporate or other restrictions to which it is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. Neither the Information Memorandum nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of the Borrower or any other Loan Party to the Administrative Agent or any Lender or any of their Affiliates in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or under any other Loan Document (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time. There is no fact peculiar to the Borrower or any other Loan Party which could reasonably be expected to have a Material Adverse Effect or in the future is reasonably likely to have a Material Adverse Effect and which has not been set forth in this Agreement or the Loan Documents or the other documents, certificates and statements furnished to the Administrative Agent or the Lenders by or on behalf of the Borrower or any other Loan Party prior to, or on, the date hereof in connection with the transactions contemplated hereby. There are no statements or conclusions in the Initial Reserve Report or any other reserve report delivered hereunder which are based upon or include misleading information or fail to take into account material information regarding the matters reported therein, it being understood that projections concerning volumes attributable to the Dedicated Blocks and production and cost estimates contained in the Initial Reserve Report and each other reserve report delivered hereunder are necessarily based upon professional opinions, estimates and projections and that the Borrower does not warrant that such opinions, estimates and projections will ultimately prove to have been accurate.

Section 7.13 Insurance. The Borrower has, or the Borrower's owners on behalf of the Borrower have obtained, (a) all insurance policies sufficient for the compliance by it with all material Governmental Requirements, the Medusa Spar Documents and all other material agreements and (b) insurance coverage in at least amounts and against such risk (including, without limitation, public liability) that are usually insured against by companies similarly situated and engaged in the same or a similar business for the assets and operations of the Borrower. The Administrative Agent and the Lenders have been named as additional insureds in respect of such liability insurance policies (other than the insurance policy obtained by MOC on behalf of the Borrower issued by Oil Insurance Limited) and the Administrative Agent, for the benefit of the Lenders, has been named as loss payee with respect to property loss insurance.

Section 7.14 Restriction on Liens. None of the Borrower or any Pledgor is a party to any material agreement or arrangement, or subject to any order, judgment, writ or decree, which either restricts or purports to restrict its ability to grant Liens to the Administrative Agent and the Lenders on or in respect of their Properties upon which Liens have been or are purported to be granted under the Security Instruments to secure the Indebtedness and the Loan Documents.

Section 7.15 Subsidiaries. The Borrower has no Subsidiaries nor has any Equity Interest in any other Person.

Section 7.16 Location of Business and Offices. The Borrower's jurisdiction of organization is Delaware; the name of the Borrower as listed in the public records of its jurisdiction of organization is Medusa Spar LLC; and the organizational identification number of the Borrower in its jurisdiction of organization is 3724209 (or, in each case, as set forth in a notice delivered to the Administrative Agent pursuant to Section 8.01(j) in accordance with Section 12.01). The Borrower's principal place of business and chief executive offices are located at the address specified in Section 12.01 (or as set forth in a notice delivered pursuant to Section 8.01(j) and Section 12.01(c)).

Section 7.17 Properties; Titles, Etc.

(a) The Borrower has good and defensible title to a 75% undivided interest in and to the Medusa Spar and the Borrower's other Properties, free and clear of all Liens except Liens permitted by Section 9.02.

(b) Each of MEPC and CPOC has good and defensible title to the Dedicated Blocks owned by it evaluated in the most recently delivered reserve report hereunder, free and clear of all Liens except Excepted Liens and JOA Liens. After giving full effect to the Excepted Liens, each of MEPC and CPOC owns the net interests in production attributable to the Dedicated Blocks owned by it as reflected in the most recently delivered reserve report hereunder, and the ownership of the Dedicated Blocks shall not in any material respect obligate MEPC or CPOC to bear the costs and expenses relating to the maintenance, development and operations of the Dedicated Blocks in an amount in excess of the working interest of the Dedicated Blocks set forth in the most recently delivered reserve report hereunder that is not offset by a corresponding proportionate increase in MEPC's or CPOC's net revenue interest in the Dedicated Blocks.

(c) All material leases and agreements necessary for the conduct of the business of the Borrower are valid and subsisting, in full force and effect, and there exists no default or event or circumstance which with the giving of notice or the passage of time or both would give rise to a default under any such lease or leases, which could reasonably be expected to have a Material Adverse Effect.

(d) The rights and Properties presently owned, leased or licensed by the Borrower including, without limitation, all easements and rights of way, include all rights and Properties necessary to permit the Borrower to conduct its business in all material respects in the same manner as its business has been conducted prior to the date hereof, except to the extent the failure to maintain could reasonably be expected to have a Material Adverse Effect.

(e) All of the Properties of the Borrower which are reasonably necessary for the operation of its business are in good working condition and are maintained in accordance with prudent business standards.

(f) The Borrower owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual Property material to its business, and the use thereof by the Borrower does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. The Borrower either owns or has valid licenses or other rights to use all databases, geological data, geophysical data, engineering data, seismic data, maps, interpretations and other technical information used in its business as presently conducted, subject to the limitations contained in the agreements governing the use of the same, which limitations are customary for similarly situated companies engaged in the similar businesses, with such exceptions as could not reasonably be expected to have a Material Adverse Effect.

Section 7.18 Maintenance of Properties. Except for such acts or failures to act as could not be reasonably expected to have a Material Adverse Effect, the Properties of the Borrower have been maintained, operated and developed in a good and workmanlike manner and in conformity with all Government Requirements and in conformity with the provisions of all leases, subleases or other contracts and agreements to which it is a party. All pipelines, wells, gas processing plants, platforms and other material improvements, fixtures and equipment owned in whole or in part by the Borrower or that are necessary to conduct normal operations are being maintained in a state adequate to conduct normal operations, and with respect to such of the foregoing which are operated by the Borrower, in a careful and efficient manner in accordance with the practices of the industry and in compliance with all applicable contracts and agreements and in compliance with all Governmental Requirements (other than those the failure of which to maintain in accordance with this Section 7.07 could not reasonably be expect to have a Material Adverse Effect).

Section 7.19 Swap Agreements. Schedule 7.19, as of the date hereof, and after the date hereof, each report required to be delivered by the Borrower pursuant to Section 8.01(d), sets forth, a true and complete list of all Swap Agreements of the Borrower, the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net

mark to market value thereof, all credit support agreements relating thereto (including any margin required or supplied) and the counterparty to each such agreement.

Section 7.20 Use of Loans. The proceeds of the Loans shall be used to reimburse MEPC and CPOC for a portion of their respective capital contributions to the Borrower, which amounts represent in the aggregate, an amount equal to approximately 50% of the purchase price of an undivided 75% interest in the Medusa Spar, and for the transaction fees and expenses associated with the Medusa Spar Transactions. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying margin stock (within the meaning of Regulation T, U or X of the Board). No part of the proceeds of any Loan will be used for any purpose which violates the provisions of Regulations T, U or X of the Board.

Section 7.21 Solvency. After giving effect to the transactions contemplated hereby, (a) the aggregate assets (after giving effect to amounts that could reasonably be received by reason of indemnity, offset, insurance or any similar arrangement), at a fair valuation, of the Borrower will exceed the aggregate Debt of the Borrower, as the Debt becomes absolute and matures, (b) the Borrower will not have incurred or intended to incur, and will not believe that it will incur, Debt beyond its ability to pay such Debt (after taking into account the timing and amounts of cash to be received by the Borrower and the amounts to be payable on or in respect of its liabilities, and giving effect to amounts that could reasonably be received by reason of indemnity, offset, insurance or any similar arrangement) as such Debt becomes absolute and matures and (c) the Borrower will not have (and will have no reason to believe that it will have thereafter) unreasonably small capital for the conduct of its business.

Section 7.22 Medusa Spar Documents. The copies of the Medusa Spar Documents previously delivered by the Borrower to the Administrative Agent are true, accurate and complete and have not been amended or modified in any manner, other than pursuant to amendments or modifications previously delivered to the Administrative Agent and otherwise permitted by Section 9.17. No party to any Medusa Spar Document is in default in respect of any term or obligation thereunder which could reasonably be expected to have a Material Adverse Effect.

ARTICLE VIII
AFFIRMATIVE COVENANTS

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder and all other amounts payable under the Loan Documents shall have been paid in full, the Borrower covenants and agrees with the Lenders that:

Section 8.01 Financial Statements; Ratings Change; Other Information. The Borrower will furnish to the Administrative Agent and each Lender:

(a) Annual Financial Statements. As soon as available, but in any event in accordance with then applicable law and not later than 120 days after the end of each fiscal year of such Person, the Borrower's audited balance sheet and the consolidated balance sheet of each Parent Guarantor and its Consolidated Subsidiaries and MEPC, and related statements of operations, members' or stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by independent public accountants of recognized national standing acceptable to the Administrative Agent and the Majority Lenders (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such financial statements or consolidated financial statements, as applicable, present fairly in all material respects the financial condition and results of operations of such Person or such Person on a consolidated basis, as applicable, in accordance with GAAP consistently applied.

(b) Quarterly Financial Statements. As soon as available, but in any event in accordance with then applicable law and not later than 60 days after the end of each of the first

three fiscal quarters of each fiscal year of such Person, the Borrower's balance sheet and the consolidated balance sheet of each Parent Guarantor and its Consolidated Subsidiaries and MEPC, and related statements of operations, members' or stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of such Person's Financial Officers as presenting fairly in all material respects the financial condition and results of operations of such Person in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes.

(c) Certificate of Financial Officer -- Compliance. Concurrently with any delivery of financial statements under Section 8.01(a) or Section 8.01(b), a certificate of a Financial Officer in substantially the form of Exhibit C hereto (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto and (ii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 7.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate.

(d) Certificate of Financial Officer - Swap Agreements. Concurrently with any delivery of financial statements under Section 8.01(a) and Section 8.01(b), a certificate of a Financial Officer, in form and substance satisfactory to the Administrative Agent, setting forth as of a recent date, a true and complete list of all Swap Agreements of the Borrower, the material terms thereof (including the type, term, effective date, termination date and notional amounts or volumes), the net mark-to-market value therefor, and the counterparty to each such agreement.

(e) Certificate of Insurer -- Insurance Coverage. Concurrently with any delivery of financial statements under Section 8.01(a), a certificate of insurance coverage from each insurer with respect to the insurance required by Section 8.07, in form and substance reasonably satisfactory to the Administrative Agent, and, if requested by the Administrative Agent or any Lender, all copies of the applicable policies.

(f) SEC and Other Filings; Reports to Shareholders. Promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or MOC with the SEC, or with any national securities exchange, or distributed by the Borrower or MOC to its shareholders or members generally, as the case may be.

(g) Notices Under Material Instruments. Promptly after the furnishing thereof, copies of any financial statement, report or notice furnished to or by the Borrower pursuant to the terms of any preferred stock designation, indenture, loan or credit or other similar agreement, other than this Agreement and not otherwise required to be furnished to the Lenders pursuant to any other provision of this Section 8.01.

(h) Notice of Dispositions. In the event the Borrower intends to Dispose of any Properties in accordance with Section 9.11, prior written notice of such Disposition, the

price thereof and the anticipated date of closing and any other details thereof requested by the Administrative Agent or any Lender.

(i) Notice of Casualty Events. Prompt written notice, and in any event within three Business Days, of the occurrence of any Casualty Event or the commencement of any action or proceeding that could reasonably be expected to result in a Casualty Event.

(j) Information Regarding Loan Parties. Prompt written notice (and in any event within thirty (30) days prior thereto) of any change (i) in the Borrower or any other Loan Party's corporate name or in any trade name used to identify such Person in the conduct of its business or in the ownership of its Properties, (ii) in the location of the Borrower or any other Loan Party's chief executive office or principal place of business, (iii) in the Borrower or any other Loan Party's identity or corporate structure or in the jurisdiction in which such Person is incorporated or formed, (iv) in the Borrower or any other Loan Party's jurisdiction of organization or such Person's organizational identification number in such jurisdiction of organization and (v) in the Borrower or any other Loan Party's federal taxpayer identification number.

(k) Notices of Certain Changes. Promptly, but in any event within five (5) Business Days after the execution thereof, copies of any amendment, modification or supplement to the Borrower's LLC Agreement, the certificate or articles of formation, any preferred membership interest designation or any other Organization Document of the Borrower.

(l) Ratings Change. Promptly after, but in no event later than three (3) Business Days after, Moody's or S&P shall have announced a change in the Debt Rating, written notice of such rating change.

(m) Reserve Reports. If requested by the Administrative Agent, the Borrower shall furnish to the Administrative Agent and the Lenders a reserve report regarding the Dedicated Blocks, in form and substance reasonably satisfactory to the Administrative Agent, prepared as of a date requested by the Administrative Agent. Such reserve report shall be prepared by one or more Approved Petroleum Engineers. With the delivery of each such reserve report, the Borrower shall furnish to the Administrative Agent and the Lenders a certificate from a Responsible Officer of MEPC or CPOC, as applicable, certifying that in all material respects: (i) the information provided to the Approved Petroleum Engineer by MEPC or CPOC, as applicable, upon which the Approved Petroleum Engineer has prepared such reserve report and any other information delivered in connection therewith is true and correct; (ii) MEPC or CPOC, as applicable, owns good and defensible title to their respective percentage interests in the Dedicated Blocks evaluated in such reserve report and such Properties are free of all Liens other than Excepted Liens and JOA Liens; (iii) none of its interests in the Properties comprising the Dedicated Blocks have been sold since the date of the most recently delivered reserve report except for production therefrom and as set forth on an exhibit to the certificate, which certificate shall list any such Property sold and in such detail as reasonably required by the Administrative Agent and (iv) attached to the certificate is a list of all marketing agreements entered into in respect of its interest in the Dedicated Blocks.

(n) Other Requested Information. Promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any other Loan Party, or compliance with the terms of this Agreement or any other Loan Document, as the Administrative Agent or any Lender may reasonably request.

Section 8.02 Notices of Material Events. The Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of, or the threat in writing of, any action, suit, proceeding, investigation or arbitration by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof not previously disclosed in writing to the Lenders or any material adverse development in any action, suit, proceeding, investigation or arbitration previously disclosed to the Lenders that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect; and

(c) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section 8.02 shall be accompanied by a statement of a Responsible Officer setting forth the details of the event or

development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 8.03 Existence; Conduct of Business. The Borrower will do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business and maintain, if necessary, its qualification to do business in each other jurisdiction in which its Properties is located or the ownership of its Properties requires such qualification, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 8.04 Payment of Obligations. The Borrower will pay its obligations, including Tax liabilities of the Borrower before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect or result in the seizure or levy of any Property of the Borrower.

Section 8.05 Performance of Obligations under Loan Documents and Medusa Spar Documents. The Borrower will pay the Notes according to the reading, tenor and effect thereof, and the Borrower will do and perform every act and discharge all of the obligations to be performed and discharged by it under the Loan Documents, including, without limitation, this Agreement, at the time or times and in the manner specified, and the Borrower shall comply with, observe and perform all of its material obligations, undertakings, agreements, covenants and duties under each Medusa Spar Document to which it is a party in accordance with the terms thereof.

Section 8.06 Operation and Maintenance of Properties. The Borrower, at its own expense, will:

(a) maintain all bonding required to be maintained by any Governmental Authority in connection with its Properties (including the Borrower's operatorship of its interest in the Medusa Spar) and operate its Properties or cause such Properties to be operated in a careful and efficient manner in accordance with the practices of the industry and in compliance with all applicable contracts and agreements and in compliance with all Governmental Requirements, including, without limitation, applicable pro ration requirements and Environmental Laws, and all applicable laws, rules and regulations of every other Governmental Authority from time to time constituted to regulate the development and operation of its Properties and the production and sale, gathering, handling, operation and transportation of hydrocarbons and other minerals therefrom, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

(b) keep and maintain all Property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted preserve, maintain and keep in good repair, working order and efficiency (ordinary wear and tear excepted) all of its material Properties, including, without limitation, all equipment, machinery and facilities.

(c) promptly pay and discharge, or make reasonable and customary efforts to cause to be paid and discharged, all delay rentals, royalties, expenses and indebtedness accruing under the leases or other agreements affecting or pertaining to its Properties and will do all other things necessary to keep unimpaired their rights with respect thereto and prevent any forfeiture thereof or default thereunder, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

(d) promptly perform or make reasonable and customary efforts to cause to be performed, in accordance with industry standards, the obligations required by each and all of the assignments, deeds, leases, sub-leases, contracts and agreements affecting its interests in its Properties, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

(e) cause MEPC to become and maintain its status as a sole "Operator" of the Medusa Spar under the Joint Operating Agreement.

(f) to the extent the Borrower is not the operator of any of its Property, the Borrower shall use reasonable efforts to cause the operator to comply with this Section 8.06.

Section 8.07 Insurance. The Borrower will, or the Borrower's owners on behalf of the Borrower will, maintain, with insurance companies rated A-VII or better by Best's Insurance Guide and Key Ratings (or an equivalent rating by another nationally recognized insurance rating agency for an insurer not rated by Best's Insurance Guide and Key Ratings), insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations, but in any event, at least as required by the terms of the Medusa Spar Documents. The Administrative Agent and the

Lenders hereby agree that the energy industry mutual insurer, Oil Insurance Limited, is an acceptable insurer. The loss payable clauses or provisions in said insurance policy or policies insuring the Borrower's undivided ownership interest in the Medusa Spar and any of the collateral for the Loans shall be endorsed in favor of and made payable to the Administrative Agent as its interests may appear and such policies shall name the Administrative Agent and the Lenders as "additional insureds" (other than with respect to the insurance policy obtained by MOC on behalf of the Borrower issued by Oil Insurance Limited). The insured or the insurer will endeavor to give at least 30 days prior notice of any cancellation to the Administrative Agent.

Section 8.08 Books and Records; Inspection Rights. The Borrower will keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower will permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its Properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

Section 8.09 Compliance with Laws. The Borrower will comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its Property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 8.10 Environmental Matters.

(a) The Borrower shall at its sole expense: (i) comply, and shall cause its Properties and operations to comply, with all applicable Environmental Laws, the breach of which could be reasonably expected to have a Material Adverse Effect; (ii) not dispose of or otherwise release any oil, oil and gas waste, hazardous substance, or solid waste on, under, about or from any of the Borrower's Properties or any other Property to the extent caused by the Borrower's operations except in compliance with applicable Environmental Laws, the disposal or release of which could reasonably be expected to have a Material Adverse Effect; (iii) timely obtain or file all notices, permits, licenses, exemptions, approvals, registrations or other authorizations, if any, required under applicable Environmental Laws to be obtained or filed in connection with the operation or use of the Borrower's Properties, which failure to obtain or file could reasonably be expected to have a Material Adverse Effect; (iv) promptly commence and diligently prosecute to completion any assessment, evaluation, investigation, monitoring, containment, cleanup, removal, repair, restoration, remediation or other remedial obligations (collectively, the "Remedial Work") in the event any Remedial Work is required or reasonably necessary under applicable Environmental Laws because of or in connection with the actual or suspected past, present or future disposal or other release of any oil, oil and gas waste, hazardous substance or solid waste on, under, about or from any of the Borrower's Properties, which failure to commence and diligently prosecute to completion could reasonably be expected to have a Material Adverse

Effect; and (v) establish and implement such procedures as may be necessary to continuously determine and assure that the Borrower's obligations under this Section 8.10(a) are timely and fully satisfied, which failure to establish and implement could reasonably be expected to have a Material Adverse Effect.

(b) The Borrower will promptly, but in no event later than five days of the occurrence thereof, notify the Administrative Agent and the Lenders in writing of any threatened action, investigation or inquiry by any Governmental Authority or any threatened demand or lawsuit by any landowner or other third party against the Borrower or related to any of its Properties (including, without limitation, the Medusa Spar) or the Dedicated Blocks of which the Borrower has knowledge in connection with any Environmental Laws (excluding routine testing and corrective action) if the Borrower reasonably anticipates that such action will result in liability (whether individually or in the aggregate) in excess of $2,000,000, not fully covered by insurance, subject to normal deductibles.

Section 8.11 Further Assurances.

(a) The Borrower at its expense will promptly execute and deliver to the Administrative Agent all such other documents, agreements and instruments reasonably requested by the Administrative Agent to comply with, cure any defects or accomplish the conditions precedent, covenants and agreements of the Borrower in the Loan Documents, including the Notes, or to further evidence and more fully describe the collateral intended as security for the Indebtedness, or to correct any omissions in this Agreement or the Security Instruments, or to state more fully the obligations secured therein, or to perfect, protect or preserve any Liens created pursuant to this Agreement or any of the Security Instruments or the priority thereof, or to make any recordings, file any notices or obtain any consents, all as may be reasonably necessary or appropriate, in the sole discretion of the Administrative Agent, in connection therewith.

(b) The Borrower hereby authorizes the Administrative Agent to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral without the signature of the Borrower or any other Person where permitted by law. A carbon, photographic or other reproduction of the Security Instruments or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

Section 8.12 Collateral. The Borrower will at all times cause the Collateral to be subject to a Lien of the Security Instruments on such terms and conditions and documentation as the Administrative Agent shall reasonably require.

Section 8.13 Swap Agreements. The Borrower shall maintain the hedge position established by the Swap Agreements required under Section 6.01(m) during the period specified therein and shall neither assign, terminate or unwind any such Swap Agreements nor sell any Swap Agreements if the effect of such action (when taken together with any other Swap Agreements executed contemporaneously with the taking of such action) would have the effect of canceling its positions under such Swap Agreements required hereby.

Section 8.14 MEPC Restricted Account. The Borrower shall cause all amounts from time to time credited to the MEPC Restricted Account (as defined in the Security Agreement) to be held in the form of cash or Investments permitted by Section 9.04(c), Section 9.04(d), Section 9.04(e) or Section 9.04(f); provided that the Borrower may from time to time cause the withdrawal of any such amounts in order to prepay the Loans in accordance with Section 3.04(a).

ARTICLE IX
NEGATIVE COVENANTS

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder and all other amounts

payable under the Loan Documents have been paid in full, the Borrower covenants and agrees with the Lenders that:

Section 9.01 Debt. The Borrower will not incur, create, assume or suffer to exist any Debt, except:

(a) the Notes or other Indebtedness arising under the Loan Documents.

(b) Debt of the Borrower under the Joint Operating Agreement.

(c) accounts payable from time to time incurred in the ordinary course of business which are not greater than ninety (90) days past the date of invoice or delinquent or which are being contested in good faith by appropriate action and for which adequate reserves have been maintained in accordance with GAAP.

(d) accrued expenses or accrued liabilities arising in the ordinary course of business (other than Debt referred to in Section 9.01(c)) not to exceed in the aggregate at any one time outstanding $1,000,000.

(e) endorsements of negotiable instruments for collection in the ordinary course of business.

Section 9.02 Liens. The Borrower will not create, incur, assume or permit to exist any Lien on any of its Properties (now owned or hereafter acquired), except:

(a) Liens securing the payment of any Indebtedness.

(b) Excepted Liens.

(c) the JOA Liens securing obligations that are not delinquent.

Section 9.03 Restricted Payments. The Borrower will not declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, return any capital to its stockholders or make any distribution of its Property to its Equity Interest holders, except (a) the Borrower may declare and pay a one time cash dividend or distribution to each MEPC and CPOC from the proceeds of the Term Loan for the purpose specified in Section 7.20 in the amounts set forth in Schedule 9.03; (b) the Borrower may declare and pay dividends with respect to its Equity Interests payable solely in additional shares of its Equity Interests (other than Disqualified Capital Stock) and (c) subject to the terms of the Security Agreement, the Borrower may declare and pay cash dividends and distributions in an amount not to exceed the sum of the Actual CPOC Throughput Amount and the Third Party Throughput Amount, to the extent and only to the extent such amounts constitute Available Cash and so long as no Default has occurred and is continuing, or would occur, after giving effect to any such payment.

Section 9.04 Investments. The Borrower will not make or permit to remain outstanding any Investments in or to any Person, except that the foregoing restriction shall not apply to:

(a) Investments reflected in the Financial Statements or which are disclosed to the Lenders in Schedule 9.05.

(b) accounts receivable arising in the ordinary course of business.

(c) direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any agency thereof, in each case maturing within one year from the date of creation thereof.

(d) commercial paper maturing within one year from the date of creation thereof rated in the highest grade by S&P or Moody's.

(e) deposits maturing within one year from the date of creation thereof with, including certificates of deposit issued by, any Lender or any office located in the United States of any other bank or trust company which is organized under the laws of the United States or any state thereof, has capital, surplus and undivided profits aggregating at least $100,000,000 (as of the date

of such bank or trust company's most recent financial reports) and has a short term deposit rating of no lower than A2 or P2, as such rating is set forth from time to time, by S&P or Moody's, respectively.

(f) deposits in money market funds investing exclusively in Investments described in Section 9.04(c), Section 9.04(d) or Section 9.04(e).

(g) Investments in stock, obligations or securities received in settlement of debts arising from Investments permitted under this Section 9.04 owing to the Borrower as a result of a bankruptcy or other insolvency proceeding of the obligor in respect of such debts or upon the enforcement of any Lien in favor of the Borrower.

Section 9.05 Nature of Business; International Operations. The Borrower will not allow any material change to be made in the character of its business as it is currently being conducted on the date hereof. The Borrower will not operate its business outside of the

geographical boundaries of the United States, provided that the Borrower may purchase Property from Persons located outside of the geographical boundaries of the United States.

Section 9.06 Limitation on Leases. The Borrower will not create, incur, assume or suffer to exist any obligation for the payment of rent or hire of Property of any kind whatsoever (real or personal or otherwise), under leases or lease agreements.

Section 9.07 Proceeds of Notes. The Borrower will not permit the proceeds of the Notes to be used for any purpose other than those permitted by Section 7.20. Neither the Borrower nor any Person acting on behalf of the Borrower has taken or will take any action which might cause any of the Loan Documents to violate Regulations T, U or X or any other regulation of the Board or to violate Section 7 of the Securities Exchange Act of 1934 or any rule or regulation thereunder, in each case as now in effect or as the same may hereinafter be in effect. If requested by the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 or such other form referred to in Regulation U, Regulation T or Regulation X of the Board, as the case may be.

Section 9.08 ERISA Compliance. Neither the Borrower nor any ERISA Affiliate will at any time employ any employees or sponsor, maintain or contribute to any "employee benefit plan" as such term is defined in Section 3(3) of ERISA.

Section 9.09 Sale or Discount of Receivables. The Borrower will not discount or sell (with or without recourse) any of its notes receivable or accounts receivable.

Section 9.10 Mergers, Etc. The Borrower will not merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its Property to any other Person (whether now owned or hereafter acquired), or liquidate or dissolve.

Section 9.11 Dispositions. The Borrower will not Dispose of any Property or make any agreement to make any Disposition other than a Disposition the Operator is permitted to make in the ordinary course of its operations under the Joint Operating Agreement in respect of the Medusa Spar without the consent of the working interest owners which are parties to the Joint Operating Agreement.

Section 9.12 Environmental Matters. The Borrower will not cause or permit any of its Property to be in violation of, or do anything or permit anything to be done which will subject any such Property to any Remedial Work under any Environmental Laws, assuming disclosure to the applicable Governmental Authority of all relevant facts, conditions and circumstances, if any, pertaining to such Property where such violations or remedial obligations could

reasonably be expected to have a Material Adverse Effect.

Section 9.13 Transactions with Affiliates. Except for transactions contemplated by the Oceaneering Products & Services Agreement dated August 8, 2003 (as in effect on the date hereof) and the Medusa Spar Documents (as in effect on the date hereof), the Borrower will not enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of

Property or the rendering of any service, with any Affiliate unless such transactions are otherwise permitted under this Agreement and are upon fair and reasonable terms no less favorable to it than it would obtain in a comparable arm's length transaction with a Person not an Affiliate.

Section 9.14 Subsidiaries. The Borrower will not create, acquire or have any Subsidiaries or acquire or have any Equity Interest in any other Person.

Section 9.15 Negative Pledge Agreements. The Borrower will not create, incur, assume or suffer to exist any contract, agreement or understanding (other than this Agreement or the Security Instruments) which in any way prohibits or restricts the granting, conveying, creation or imposition of any Lien on any of its Property in favor of the Administrative Agent and the Lenders, or which requires the consent of or notice to other Persons in connection therewith.

Section 9.16 Swap Agreements. The Borrower will not enter into any Swap Agreements other than as required by Section 6.01(m). In no event shall any Swap Agreement contain any requirement, agreement or covenant for the Borrower or any other Loan Party to post collateral or margin to secure its obligations under such Swap Agreement or to cover market exposures.

Section 9.17 Amendments of Agreements. The Borrower will not amend, modify, supplement or terminate, or agree to amend, modify, supplement or terminate, any Medusa Spar Document, or any other provision of any security issued by the Borrower or of any agreement, instrument or other undertaking to which the Borrower is a party or by which it or any of its Property is bound, related to the ownership, operation, or use of the Medusa Spar by the Borrower, without the prior written consent of the Majority Lenders.

Section 9.18 Limitation on Capital Expenditures. The Borrower shall not agree to pay for any Capital Expenditures in respect of any of its Properties except for Capital Expenditures in respect of the Medusa Spar for which the Borrower is responsible pursuant to the terms of the Operating and Production Handling Agreement and which is entirely prefunded from the proceeds of capital contributions from one or more of its members.

ARTICLE X
EVENTS OF DEFAULT; REMEDIES

Section 10.01 Events of Default. One or more of the following events shall constitute an "Event of Default":

(a) the Borrower shall fail to pay any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof, by acceleration or otherwise.

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in Section 10.01(a)) payable under any Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of three Business Days.

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any other Loan Party in or in connection with any Loan Document or Medusa Spar Document or any amendment or modification of any Loan Document or Medusa Spar Document or waiver under such Loan Document or Medusa

Spar Document, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document, Medusa Spar Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect when made or deemed made.

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 8.01(g), Section 8.01(j), Section 8.01(l), Section 8.02, Section 8.03, Section 8.12, Section 8.14 or in ARTICLE IX.

(e) MOC shall fail to observe or perform any covenant, condition or agreement contained in Section 3.2 of the MOC Parent Guarantee.

(f) the Borrower or any other Loan Party shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in Section 10.01(a), Section 10.01(b) or Section 10.01(d)) or any other Loan Document, and such failure shall continue unremedied for a period of 30 days after the earlier to occur of (A) notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender) or (B) a Responsible Officer of the Borrower otherwise becoming aware of such default.

(g) the Borrower, MOC or MEPC shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness of such Person, when and as the same shall become due and payable.

(h) any event or condition occurs that results in any Material Indebtedness of the Borrower, MOC or MEPC becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of such Material Indebtedness or any trustee or agent on its or their behalf to cause such Material Indebtedness to become due, or to require the Redemption thereof or any offer to Redeem to be made in respect thereof, prior to its scheduled maturity or require such Person to make an offer in respect thereof.

(i) any event or condition occurs which constitutes an "Event of Default" or which upon notice, lapse of time or both would, unless cured or waived, become an "Event of Default" under the MOC Credit Agreement;

(j) (i) an "Event of Default" or an "Additional Termination Event" under the documentation related to any Swap Agreement entered into by the Borrower pursuant to Section 6.01(m) occurs or (ii) the Borrower is required to pay an amount in respect of an Early Termination Date designated under such documentation as a result of a "Termination Event" as to which the Borrower is the "Affected Party" (quoted terms in this paragraph having the meanings given such terms in such documentation).

(k) the failure of any Loan Party to make any payment when due, or the failure by such Person to observe or perform any other covenant, agreement or condition, under

any Medusa Spar Document to which it is a party, including, without limitation, the Minimum Throughput Guarantee and the Parent Guarantees (and in the case of the Joint Operating Agreement, which would entitle any party to the Joint Operating Agreement to exercise its rights in connection with any Lien granted under or in connection with the Joint Operating Agreement), in each case, subject to any applicable grace period provided for therein.

(l) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any other Loan Party or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or other Loan Party or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 30 days or an order or decree approving or ordering any of the foregoing shall be entered.

(m) the Borrower or any other Loan Party shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in Section 10.01(l), (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any other Loan Party or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing.

(n) the Borrower or any other Loan Party shall become unable, admit in writing its inability or fail generally to pay its debts as they become due.

(o) (i) one or more judgments for the payment of money in an aggregate amount in excess of (A) $35,000,000, in the case of MOC; (B) $35,000,000, in the case of MEPC or (C) $2,000,000, in the case of the Borrower, (in each case, to the extent not covered by independent third party insurance provided by insurers of the highest claims paying rating or financial strength as to which the insurer does not dispute coverage and is not subject to an insolvency proceeding) or (ii) any one or more non-monetary judgments that have, or could reasonably be expected to have, individually or the aggregate, a Material Adverse Effect, shall be rendered against the Borrower, MOC, or MEPC or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower, MOC or MEPC to enforce any such judgment.

(p) the Loan Documents after delivery thereof shall for any reason, except to the extent permitted by the terms thereof, cease to be in full force and effect and valid, binding and enforceable in accordance with their terms against the Borrower or any other Loan Party thereto or shall be repudiated by any of them, or cease to create a valid and perfected Lien of the priority required thereby on any of the collateral purported to be covered thereby, except to the

extent permitted by the terms of this Agreement, or the Borrower or any other Loan Party or any of their Affiliates shall so state in writing.

(q) the Borrower shall at any time fail to have good and defensible title to an undivided 75% interest in and to the Medusa Spar, free and clear of any Lien other than Liens permitted by Section 9.02.

(r) MEPC, or any other Person approved in writing by the Lenders, shall at any time cease to be the "Operator" under the Joint Operating Agreement.

(s) a Change in Control shall occur.

(t) CPC shall at any time sell or otherwise dispose of any of the Equity Interests of the Borrower owned by CPC on the date hereof (whether directly or indirectly, or beneficially or of record), to any other Person, and such other Person, at the time of acquisition of any such Equity Interests (i) fails to have a long term senior, unsecured debt rating from S&P of B and Moody's of B2 or (ii) fails to execute and deliver to the Administrative Agent documentation similar in form and substance to the Loan Documents to which CPC is then a party (including, without limitation, the CPC Parent Guarantee), in form and substance satisfactory to the Administrative Agent and the Lenders, and such other documentation (including legal opinions) as the Administrative Agent and the Lenders may reasonably require.

Section 10.02 Remedies.

(a) In the case of an Event of Default other than one described in Section 10.01(l), Section 10.01(m) or Section 10.01(n), at any time thereafter during the continuance of such Event of Default, the Administrative Agent may, and at the request of the Majority Lenders, shall, by notice to the Borrower, take either or both of the following actions, at the same or different times:

(i) terminate the Commitments, and thereupon the Commitments shall terminate immediately and (ii) declare the Notes and the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder and under the Notes and the other Loan Documents, shall become due and payable immediately, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or other notice of any kind, all of which are hereby waived by the Borrower; and in case of an Event of Default described in Section 10.01(l), Section 10.01(m) or Section 10.01(n), the Commitments shall automatically terminate and the Notes and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and the other obligations of the Borrower accrued hereunder and under the Notes and the other Loan Documents, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower and each other Loan Party.

(b) In the case of the occurrence of an Event of Default, the Administrative Agent and the Lenders will have all other rights and remedies available at law and equity.

(c) All proceeds realized from the liquidation or other disposition of collateral or otherwise received after maturity of the Notes, whether by acceleration or otherwise, shall be applied:

(i) first, to payment or reimbursement of that portion of the Indebtedness constituting fees, expenses, indemnities and other amounts payable to the Administrative Agent in its capacity as such;

(ii) second, pro rata to payment or reimbursement of that portion of the Indebtedness constituting fees, expenses, indemnities and other amounts (other than principal and interest) payable to the Lenders;

(iii) third, pro rata to payment of accrued interest on the Loans;

(iv) fourth, pro rata to payment of principal outstanding on the Loans and that portion of the Indebtedness constituting Swap Termination Values; and

(v) and any excess, if any, after all of the Indebtedness shall have been indefeasibly paid in full in cash, shall be paid to the Borrower or as otherwise required by any Governmental Requirement.

ARTICLE XI
THE AGENTS

Section 11.01 Appointment; Powers. Each of the Lenders hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof and the other Loan Documents, together with such actions and powers as are reasonably incidental thereto.

Section 11.02 Duties and Obligations of Administrative Agent. The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing (the use of the term "agent" herein and in the other Loan Documents with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law; rather, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties), (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except as provided in Section 11.03, and (c) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information

relating to the Borrower or any other Loan Party that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other

Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or under any other Loan Document or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or in any other Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document, (v) the satisfaction of any condition set forth in ARTICLE VI or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent or as to those conditions precedent expressly required to be to the Administrative Agent's satisfaction, (vi) the existence, value, perfection or priority of any collateral security or the financial or other condition of the Borrower or any other Loan Party or any other obligor or guarantor, or (vii) any failure by the Borrower or any other Person (other than itself) to perform any of its obligations hereunder or under any other Loan Document or the performance or observance of any covenants, agreements or other terms or conditions set forth herein or therein. For purposes of determining compliance with the conditions specified in ARTICLE VI, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed closing date specifying its objection thereto.

Section 11.03 Action by Administrative Agent. The Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing as directed by the Majority Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 12.02) and in all cases the Administrative Agent shall be fully justified in failing or refusing to act hereunder or under any other Loan Documents unless it shall (a) receive written instructions from the Majority Lenders or the Lenders, as applicable, (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 12.02) specifying the action to be taken and (b) be indemnified to its satisfaction by the Lenders against any and all liability and expenses which may be incurred by it by reason of taking or continuing to take any such action. The instructions as aforesaid and any action taken or failure to act pursuant thereto by the Administrative Agent shall be binding on all of the Lenders. If a Default has occurred and is continuing, then the Administrative Agent shall take such action with respect to such Default as shall be directed by the requisite Lenders in the written instructions (with indemnities) described in this Section 11.03, provided that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders. In no event, however, shall the Administrative Agent be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement, the Loan Documents or applicable law. If a Default has occurred and is continuing, the Syndication Agents shall have no obligation to perform any act in respect thereof. No Agent shall be liable for any action taken or not taken by it with the consent or at the request of the Majority Lenders or the Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 12.02), and otherwise no Agent shall be liable for any action taken or not taken by it hereunder or under any other Loan Document or under any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith INCLUDING

ITS OWN ORDINARY NEGLIGENCE, except for its own gross negligence or willful misconduct.

Section 11.04 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon and each of the Borrower and the Lenders hereby waives the right to dispute the Administrative Agent's record of such statement, except in the case of gross negligence or willful misconduct by the Administrative Agent. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts. The Agents may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a written notice of the assignment or transfer thereof permitted hereunder shall have been filed with the Administrative Agent.

Section 11.05 Subagents. The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding Sections of this ARTICLE XI shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Section 11.06 Resignation or Removal of Agents. Subject to the appointment and acceptance of a successor Agent as provided in this Section 11.06, any Agent may resign at any time by notifying the Lenders and the Borrower, and any Agent may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation or removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Agent's resignation hereunder, the provisions of this ARTICLE XI and Section 12.03 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Agent.

Section 11.07 Agents as Lenders. Each bank serving as an Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not an Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any other Loan Party or other Affiliate thereof as if it were not an Agent hereunder.

Section 11.08 No Reliance. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent, any other Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and each other Loan Document to which it is a party. Each Lender also

acknowledges that it will, independently and without reliance upon the Administrative Agent, any other Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document, any related agreement or any document furnished hereunder or thereunder. The Agents shall not be required to keep themselves informed as to the performance or observance by the Borrower or any other Loan Party of this Agreement, the Loan Documents or any other document referred to or provided for herein or to inspect the Properties or books of the Borrower or any other Loan Party . Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Administrative Agent hereunder, no Agent or the Arranger shall have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of the Borrower (or any of its Affiliates) which may come into the possession of such Agent or any of its Affiliates. In this regard, each Lender acknowledges that Vinson & Elkins L.L.P. is acting in this transaction as special counsel to the Administrative Agent only, except to the extent otherwise expressly stated in any legal opinion or any Loan Document. Each other party hereto will consult with its own legal counsel to the extent that it deems necessary in connection with the Loan Documents and the matters contemplated therein.

Section 11.09 Administrative Agent May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Loan Party, the Administrative Agent (irrespective of whether the principal of any Loan shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans and all other Indebtedness that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Section 12.03) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Section 12.03.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Indebtedness or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

Section 11.10 Authority of Administrative Agent to Release Collateral and Liens. Each Lender hereby authorizes the Administrative Agent to release any collateral that is permitted to be sold or released pursuant to the terms of the Loan Documents. Each Lender hereby authorizes the Administrative Agent to execute and deliver to the Borrower, at the Borrower's sole cost and expense, any and all releases of Liens, termination statements, assignments or other documents reasonably requested by the Borrower in connection with any sale or other disposition of Property to the extent such sale or other disposition is permitted by the terms of Section 9.11 or is otherwise authorized by the terms

of the Loan Documents.

Section 11.11 The Arranger and the Syndication Agents. The Arranger and the Syndication Agents shall have no duties, responsibilities or liabilities under this Agreement and the other Loan Documents other than their duties, responsibilities and liabilities in their capacity as Lenders hereunder.

ARTICLE XII
MISCELLANEOUS

Section 12.01 Notices.

(a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to Section 12.01(b)), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Borrower, to it at 131 South Robertson, New Orleans, Louisiana 70112, Attention of John C. Higgins (Telecopy No. (504) 561-2551);

(ii) if to the Administrative Agent, to it at 1100 Louisiana, Suite 3000, Houston, Texas 77002, Attention of Randy Crath (Telecopy No. (713) 752-2425), with a copy to The Bank of Nova Scotia, at 600 Peachtree Street, NE Suite 2700, Atlanta, Georgia 30308, Attention of Eudia Smith (Telecopy No. (404) 888-8998); and

(iii) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to ARTICLE II, ARTICLE III, ARTICLE IV and ARTICLE V unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

(c) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 12.02 Waivers; Amendments.

(a) No failure on the part of the Administrative Agent or any Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege, or any abandonment or discontinuance of steps to enforce such right, power or privilege, under any of the Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any of the Loan Documents preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies of the Administrative Agent and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by Section 12.02(b), and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent or any Lender may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof nor any Security

Instrument nor any provision thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Majority Lenders or by the Borrower and the Administrative Agent with the consent of the Majority Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or reduce the rate of interest thereon, or reduce any fees payable hereunder, or reduce any other Indebtedness hereunder or under any other Loan Document, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment or prepayment of the principal amount of any Loan, or any interest thereon, or any fees payable hereunder, or any other Indebtedness hereunder or under any other Loan Document, or reduce the amount of, waive or excuse any such payment, or postpone or extend the Termination Date without the written consent of each Lender affected thereby, (iv) change Section 4.01(b) or Section 4.01(c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (v) waive or amend Section 6.01, Section 8.12, Section 10.02(c) or

Section 12.14 or change the definition of the term "Subsidiary", without the written consent of each Lender, (vi) release any Guarantor (except as set forth in the Guarantees), release any of the collateral (other than as provided in Section 11.10), without the written consent of each Lender, or (vii) change any of the provisions of this Section 12.02(b) or the definitions of "Majority Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or under any other Loan Documents or make any determination or grant any consent hereunder or any other Loan Documents, without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder or under any other Loan Document without the prior written consent of the Administrative Agent.

Section 12.03 Expenses, Indemnity; Damage Waiver.

(a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including, without limitation, the reasonable fees, charges and disbursements of counsel and other outside consultants for the Administrative Agent, the reasonable travel, photocopy, mailing, courier, telephone and other similar expenses, and the cost of environmental audits and surveys and appraisals, in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration (both before and after the execution hereof and including advice of counsel to the Administrative Agent as to the rights and duties of the Administrative Agent and the Lenders with respect thereto) of this Agreement and the other Loan Documents and any amendments, modifications or waivers of or consents related to the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable costs, expenses, Taxes, assessments and other charges incurred by any Agent or any Lender in connection with any filing, registration, recording or perfection of any security interest contemplated by this Agreement or any Security Instrument or any other document referred to therein, (iii) all reasonable out-of-pocket expenses incurred by any Agent or any Lender, including the fees, charges and disbursements of any counsel for any Agent or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement or any other Loan Document, including its rights under this Section 12.03, or in connection with the Loans made hereunder, including, without limitation, all such reasonable out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) THE BORROWER SHALL INDEMNIFY EACH AGENT, THE ACCOUNT BANK, THE SECURITIES INTERMEDIARY AND EACH LENDER, AND EACH RELATED PARTY OF ANY OF THE FOREGOING PERSONS (EACH SUCH PERSON BEING CALLED AN "INDEMNITEE") AGAINST, AND HOLD EACH INDEMNITEE HARMLESS FROM, ANY AND ALL LOSSES, CLAIMS, DAMAGES, LIABILITIES AND RELATED EXPENSES, INCLUDING THE FEES, CHARGES AND DISBURSEMENTS OF ANY COUNSEL FOR ANY INDEMNITEE, INCURRED BY OR ASSERTED AGAINST ANY INDEMNITEE ARISING OUT OF, IN CONNECTION WITH, OR AS A RESULT OF (i) THE EXECUTION OR DELIVERY OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ANY AGREEMENT OR INSTRUMENT CONTEMPLATED HEREBY OR THEREBY, THE PERFORMANCE BY THE PARTIES HERETO OR THE PARTIES TO ANY OTHER LOAN DOCUMENT OF THEIR RESPECTIVE

OBLIGATIONS HEREUNDER OR THEREUNDER OR THE

CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED HEREBY OR BY ANY OTHER LOAN DOCUMENT, (ii) THE FAILURE OF THE BORROWER OR ANY OTHER LOAN PARTY TO COMPLY WITH THE TERMS OF ANY LOAN DOCUMENT, INCLUDING THIS AGREEMENT, OR WITH ANY GOVERNMENTAL REQUIREMENT, (iii) ANY INACCURACY OF ANY REPRESENTATION OR ANY BREACH OF ANY WARRANTY OR COVENANT OF THE BORROWER OR ANY OTHER LOAN PARTY SET FORTH IN ANY OF THE LOAN DOCUMENTS OR ANY INSTRUMENTS, DOCUMENTS OR CERTIFICATIONS DELIVERED IN CONNECTION THEREWITH, (iv) ANY LOAN OR THE USE OF THE PROCEEDS THEREFROM, (v) ANY OTHER ASPECT OF THE LOAN DOCUMENTS, (vi) THE OPERATIONS OF THE BUSINESS OF THE BORROWER AND THE OTHER LOAN PARTIES BY THE BORROWER AND THE OTHER LOAN PARTIES, (vii) ANY ASSERTION THAT THE LENDERS WERE NOT ENTITLED TO RECEIVE THE PROCEEDS RECEIVED PURSUANT TO THE SECURITY INSTRUMENTS, (viii) ANY ENVIRONMENTAL LAW APPLICABLE TO THE BORROWER OR ANY OTHER LOAN PARTY OR ANY OF THEIR PROPERTIES, INCLUDING WITHOUT LIMITATION, THE PRESENCE, GENERATION, STORAGE, RELEASE, THREATENED RELEASE, USE, TRANSPORT, DISPOSAL, ARRANGEMENT OF DISPOSAL OR TREATMENT OF OIL, OIL AND GAS WASTES, SOLID WASTES OR HAZARDOUS SUBSTANCES ON ANY OF THEIR PROPERTIES, (ix) THE BREACH OR NON-COMPLIANCE BY THE BORROWER OR ANY OTHER LOAN PARTY WITH ANY ENVIRONMENTAL LAW APPLICABLE TO THE BORROWER OR ANY OTHER LOAN PARTY, (x) THE PAST OWNERSHIP BY THE BORROWER OR ANY OTHER LOAN PARTY OF ANY OF THEIR PROPERTIES OR PAST ACTIVITY ON ANY OF THEIR PROPERTIES WHICH, THOUGH LAWFUL AND FULLY PERMISSIBLE AT THE TIME, COULD RESULT IN PRESENT LIABILITY, (xi) THE PRESENCE, USE, RELEASE, STORAGE, TREATMENT, DISPOSAL, GENERATION, THREATENED RELEASE, TRANSPORT, ARRANGEMENT FOR TRANSPORT OR ARRANGEMENT FOR DISPOSAL OF OIL, OIL AND GAS WASTES, SOLID WASTES OR HAZARDOUS SUBSTANCES ON OR AT ANY OF THE PROPERTIES OWNED OR OPERATED BY THE BORROWER OR ANY OTHER LOAN PARTY OR ANY ACTUAL OR ALLEGED PRESENCE OR RELEASE OF HAZARDOUS MATERIALS ON OR FROM ANY PROPERTY OWNED OR OPERATED BY THE BORROWER OR ANY OTHER LOAN PARTY, (xii) ANY ENVIRONMENTAL LIABILITY RELATED IN ANY WAY TO THE BORROWER OR ANY OTHER LOAN PARTY, OR (xiii) ANY OTHER ENVIRONMENTAL, HEALTH OR SAFETY CONDITION IN CONNECTION WITH THE LOAN DOCUMENTS, OR (xiv) ANY ACTUAL OR PROSPECTIVE CLAIM, LITIGATION, INVESTIGATION OR PROCEEDING RELATING TO ANY OF THE FOREGOING, WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY AND REGARDLESS OF WHETHER ANY INDEMNITEE IS A PARTY THERETO, AND SUCH INDEMNITY SHALL EXTEND TO EACH INDEMNITEE NOTWITHSTANDING THE SOLE OR CONCURRENT NEGLIGENCE OF EVERY KIND OR CHARACTER WHATSOEVER, WHETHER ACTIVE OR PASSIVE, WHETHER AN AFFIRMATIVE ACT OR AN OMISSION, INCLUDING WITHOUT LIMITATION, ALL TYPES OF NEGLIGENT CONDUCT IDENTIFIED IN THE RESTATEMENT (SECOND) OF TORTS OF ONE OR MORE OF THE INDEMNITEES OR BY REASON OF STRICT LIABILITY IMPOSED WITHOUT FAULT ON ANY ONE OR MORE OF THE INDEMNITEES; PROVIDED THAT

SUCH INDEMNITY SHALL NOT, AS TO ANY INDEMNITEE, BE AVAILABLE TO THE EXTENT THAT SUCH LOSSES, CLAIMS, DAMAGES, LIABILITIES OR RELATED EXPENSES ARE DETERMINED BY A COURT OF COMPETENT JURISDICTION BY FINAL AND NONAPPEALABLE JUDGMENT TO HAVE RESULTED FROM THE GROSS NEGLIGENCE OR WILFUL MISCONDUCT OF SUCH INDEMNITEE.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to any Agent under Section 12.03(a) or (b), each Lender severally agrees to pay to such Agent such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against such Agent in its capacity as such.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the Transactions, any Loan or the use of the proceeds thereof.

(e) All amounts due under this Section 12.03 shall be payable not later than thirty (30) days after written demand therefor.

Section 12.04 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section 12.04. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants (to the extent provided in Section 12.04(c)) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) (i) Subject to the conditions set forth in Section 12.04(b)(ii), any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default has occurred and is continuing, any other assignee; and

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment to an assignee that is a Lender immediately prior to giving effect to such assignment.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than $2,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of $3,500; and

(D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(iii) Subject to Section 12.04(b)(iv) and the acceptance and recording thereof, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Section 5.01, Section 5.02, Section 5.03 and Section 12.03). Any assignment or transfer by a Lender of rights or obligations under this

Agreement that does not comply with this Section 12.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 12.04(c).

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the

terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice. In connection with any changes to the Register, if necessary, the Administrative Agent will reflect the revisions on Annex I and forward a copy of such revised Annex I to the Borrower and each Lender.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in Section 12.04(b) and any written consent to such assignment required by Section 12.04(b), the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this Section 12.04(b).

(c) (i) Any Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loan owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the proviso to Section 12.02 that affects such Participant. In addition such agreement must provide that the Participant be bound by the provisions of Section 12.03. Subject to Section 12.04(c)(ii), the Borrower agrees that each Participant shall be entitled to the benefits of Section 5.01, Section 5.02 and Section 5.03 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 12.04(b). To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 12.08 as though it were a Lender, provided such Participant agrees to be subject to Section 4.01(c) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 5.01 or Section 5.03 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 5.03 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 5.03(e) as though it were a Lender.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including, without limitation, any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section 12.04(d) shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Notwithstanding any other provisions of this Section 12.04, no transfer or assignment of the interests or obligations of any Lender or any grant of participations therein shall be permitted if such transfer, assignment or grant would require the Borrower to file a registration statement with the SEC or to qualify the Loans under the "Blue Sky" laws of any state.

Section 12.05 Survival; Revival; Reinstatement.

(a) All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid and so long as the Commitments have not expired or terminated. The provisions of Section 5.01, Section 5.02, Section 5.03 and Section 12.03 and ARTICLE XI shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Commitments or the termination of this Agreement, any other Loan Document or any provision hereof or thereof.

(b) To the extent that any payments on the Indebtedness or proceeds of any collateral are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver or other Person under any bankruptcy law, common law or equitable cause, then to such extent, the Indebtedness so satisfied shall be revived and continue as if such payment or proceeds had not been received and the Administrative Agent's and the Lenders' Liens, security interests, rights, powers and remedies under this Agreement and each Loan Document shall continue in full force and effect. In such event, each Loan Document shall be automatically reinstated and the Borrower shall take such action as may be reasonably requested by the Administrative Agent and the Lenders to effect such reinstatement.

Section 12.06 Counterparts; Integration; Effectiveness.

(a) This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract.

(b) This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and thereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof and thereof. This Agreement and the other Loan Documents represent the final agreement among the parties hereto and thereto and may not be contradicted by evidence of prior,

contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

(c) Except as provided in Section 6.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 12.07 Severability. Any provision of this Agreement or any other Loan Document held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof or thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 12.08 Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations (of whatsoever kind, including, without limitations obligations under Swap Agreements) at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower or any or its Affiliates against any of and all the obligations of the Borrower or any or any of its Affiliates owed to such Lender now or hereafter existing under this Agreement or any other Loan Document, irrespective of whether or not such Lender shall have made any demand under this Agreement or any other Loan Document and although such obligations may be unmatured. The rights of each Lender under this Section 12.08 are in addition to other rights and remedies (including other rights of setoff) which such Lender or its Affiliates may have.

Section 12.09 GOVERNING LAW; JURISDICTION; CONSENT TO SERVICE OF PROCESS.

(a) THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW

YORK EXCEPT TO THE EXTENT THAT UNITED STATES FEDERAL LAW PERMITS ANY LENDER TO CONTRACT FOR, CHARGE, RECEIVE, RESERVE OR TAKE INTEREST AT THE RATE ALLOWED BY THE LAWS OF THE STATE WHERE SUCH LENDER IS LOCATED.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THE LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK, AND, BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH PARTY HEREBY ACCEPTS FOR ITSELF AND (TO THE EXTENT PERMITTED BY LAW) IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING IN SUCH RESPECTIVE JURISDICTIONS. THIS SUBMISSION TO JURISDICTION IS NON-EXCLUSIVE AND DOES NOT PRECLUDE A PARTY FROM OBTAINING JURISDICTION OVER ANOTHER PARTY IN ANY COURT OTHERWISE HAVING JURISDICTION.

(c) THE BORROWER HEREBY IRREVOCABLY DESIGNATES, APPOINTS AND EMPOWERS AND HEREBY CONFERS AN IRREVOCABLE SPECIAL POWER, AMPLE AND SUFFICIENT, TO CT CORPORATION SYSTEM, WITH OFFICES ON THE DATE HEREOF AT 111 8TH AVENUE, NEW YORK, NEW YORK 10011 AS ITS DESIGNEE, APPOINTEE AND AGENT WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING IN NEW YORK TO RECEIVE AND ACCEPT FOR AND ON ITS BEHALF, AND IN RESPECT OF ITS PROPERTY, SERVICE OF ANY AND ALL LEGAL PROCESS, SUMMONS, NOTICES AND DOCUMENTS WHICH MAY BE SERVED IN ANY SUCH PROCEEDING AND AGREES THAT THE FAILURE OF SUCH AGENT TO GIVE ANY ADVICE OF ANY SUCH SERVICE OF PROCESS TO THE BORROWER SHALL NOT IMPAIR OR AFFECT THE VALIDITY OF SUCH SERVICE OR OF ANY CLAIM BASED THEREON. IF FOR ANY REASON SUCH DESIGNEE, APPOINTEE AND AGENT SHALL

CEASE TO BE AVAILABLE TO ACT AS SUCH, THE BORROWER AGREES TO DESIGNATE A NEW DESIGNEE, APPOINTEE AND AGENT IN NEW YORK CITY REASONABLY SATISFACTORY TO THE ADMINISTRATIVE AGENT ON THE TERMS AND FOR THE PURPOSES OF THIS PROVISION. EACH PARTY IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO IT AT THE ADDRESS SPECIFIED IN SECTION 12.01 OR SUCH OTHER ADDRESS AS IS SPECIFIED PURSUANT TO SECTION 12.01 (OR ITS ASSIGNMENT AND ASSUMPTION), SUCH SERVICE TO BECOME EFFECTIVE THIRTY (30) DAYS AFTER SUCH MAILING. NOTHING HEREIN SHALL AFFECT THE RIGHT OF A PARTY OR ANY HOLDER OF A NOTE TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST ANOTHER PARTY IN ANY OTHER JURISDICTION.

(d) EACH PARTY HEREBY (i) IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN; (ii) IRREVOCABLY WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES, OR DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES; (iii) CERTIFIES THAT NO PARTY HERETO NOR ANY REPRESENTATIVE OR AGENT OF COUNSEL FOR ANY PARTY HERETO HAS REPRESENTED, EXPRESSLY OR OTHERWISE, OR IMPLIED THAT SUCH PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS, AND (iv) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT, THE LOAN DOCUMENTS AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS SECTION 12.09.

Section 12.10 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 12.11 Confidentiality. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and shall agree to be bound by the terms of this Section 12.11), (b) to the extent requested by any regulatory authority having jurisdiction over such Person, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement or any other Loan Document, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section 12.11, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any Swap Agreement relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section 12.11 or (ii) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this Section 12.11, "Information" means all information received from the Borrower or any other Loan Party relating to the Borrower or any other Loan Party and their businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by the Borrower or any other Loan Party; provided that, in the case of information received from the Borrower or other Loan Party after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section 12.11 shall be considered to have complied with its

obligation to do so if such Person has exercised the same degree of care to

maintain the confidentiality of such Information as such Person would accord to its own confidential information. Notwithstanding anything herein to the contrary, "Information" shall not include, and the Borrower, the other Loan Parties, the Administrative Agent, each Lender and the respective Affiliates of each of the foregoing (and the respective partners, directors, officers, employees, agents, advisors and other representatives of the aforementioned Persons), and any other party, may disclose to any and all Persons, without limitation of any kind (a) any information with respect to the U.S. federal and state income tax treatment of the transactions contemplated hereby and any facts that may be relevant to understanding the U.S. federal or state income tax treatment of such transactions ("tax structure"), which facts shall not include for this purpose the names of the parties or any other person named herein, or information that would permit identification of the parties or such other persons, or any pricing terms or other nonpublic business or financial information that is unrelated to such tax treatment or tax structure, and (b) all materials of any kind (including opinions or other tax analyses) that are provided to the Borrower, the Administrative Agent or such Lender relating to such tax treatment or tax structure.

Section 12.12 Interest Rate Limitation. It is the intention of the parties hereto that each Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated hereby would be usurious as to any Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to such Lender notwithstanding the other provisions of this Agreement), then, in that event, notwithstanding anything to the contrary in any of the Loan Documents or any agreement entered into in connection with or as security for the Notes, it is agreed as follows: (i) the aggregate of all consideration which constitutes interest under law applicable to any Lender that is contracted for, taken, reserved, charged or received by such Lender under any of the Loan Documents or agreements or otherwise in connection with the Notes shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be canceled automatically and if theretofore paid shall be credited by such Lender on the principal amount of the Indebtedness (or, to the extent that the principal amount of the Indebtedness shall have been or would thereby be paid in full, refunded by such Lender to the Borrower); and (ii) in the event that the maturity of the Notes is accelerated by reason of an election of the holder thereof resulting from any Event of Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration that constitutes interest under law applicable to any Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in this Agreement or otherwise shall be canceled automatically by such Lender as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited by such Lender on the principal amount of the Indebtedness (or, to the extent that the principal amount of the Indebtedness shall have been or would thereby be paid in full, refunded by such Lender to the Borrower). All sums paid or agreed to be paid to any Lender for the use, forbearance or detention of sums due hereunder shall, to the extent permitted by law applicable to such Lender, be amortized, prorated, allocated and spread throughout the stated term of the Loans evidenced by the Notes until payment in full so that the rate or amount of interest on account of any Loans hereunder does not exceed the maximum amount allowed by such applicable law. If at any time and from time to time (i) the amount of interest payable to any Lender on any date shall be computed at the Highest Lawful Rate applicable to such Lender pursuant to this Section 12.12

and (ii) in respect of any subsequent interest computation period the amount of interest otherwise payable to such Lender would be less than the amount of interest payable to such Lender computed at the Highest Lawful Rate applicable to such Lender, then the amount of interest payable to such Lender in respect of such subsequent interest computation period shall continue to be computed at the Highest Lawful Rate applicable to such Lender until the total amount of interest payable to such Lender shall equal the total amount of interest which would have been payable to such Lender if the total amount of interest had been computed without giving effect to this Section 12.12. To the extent that Chapter 303 of the Texas Finance Code is relevant for the purpose of determining the Highest Lawful Rate applicable to a Lender, such Lender elects to determine the applicable rate ceiling under such Chapter by the weekly ceiling from time to

time in effect. Chapter 346 of the Texas Finance Code does not apply to the Borrower's obligations hereunder.

Section 12.13 EXCULPATION PROVISIONS. EACH OF THE PARTIES HERETO SPECIFICALLY AGREES THAT IT HAS A DUTY TO READ THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND AGREES THAT IT IS CHARGED WITH NOTICE AND KNOWLEDGE OF THE TERMS OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS; THAT IT HAS IN FACT READ THIS AGREEMENT AND IS FULLY INFORMED AND HAS FULL NOTICE AND KNOWLEDGE OF THE TERMS, CONDITIONS AND EFFECTS OF THIS AGREEMENT; THAT IT HAS BEEN REPRESENTED BY INDEPENDENT LEGAL COUNSEL OF ITS CHOICE THROUGHOUT THE NEGOTIATIONS PRECEDING ITS EXECUTION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS; AND HAS RECEIVED THE ADVICE OF ITS ATTORNEY IN ENTERING INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS; AND THAT IT RECOGNIZES THAT CERTAIN OF THE TERMS OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS RESULT IN ONE PARTY ASSUMING THE LIABILITY INHERENT IN SOME ASPECTS OF THE TRANSACTION AND RELIEVING THE OTHER PARTY OF ITS RESPONSIBILITY FOR SUCH LIABILITY. EACH PARTY HERETO AGREES AND COVENANTS THAT IT WILL NOT CONTEST THE VALIDITY OR ENFORCEABILITY OF ANY EXCULPATORY PROVISION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS ON THE BASIS THAT THE PARTY HAD NO NOTICE OR KNOWLEDGE OF SUCH PROVISION OR THAT THE PROVISION IS NOT "CONSPICUOUS."

Section 12.14 Collateral Matters; Swap Agreements. The benefit of the Security Instruments and of the provisions of this Agreement relating to any collateral securing the Indebtedness shall also extend to and be available to those Lenders or their Affiliates which are counterparties to any Secured Swap Agreement with the Borrower, subject to Section 10.02(c), on a pro rata basis in respect of any obligations of the Borrower which arise under any such Secured Swap Agreement while such Person or its Affiliate is a Lender, but only while such Person or its Affiliate is a Lender, including any Secured Swap Agreements between such Persons in existence prior to the date hereof. No Lender or any Affiliate of a Lender shall have any voting rights under any Loan Document as a result of the existence of obligations owed to it under any such Secured Swap Agreements.

Section 12.15 No Third Party Beneficiaries. This Agreement, the other Loan Documents, and the agreement of the Lenders to make Loans hereunder are solely for the benefit

of the Borrower, and no other Person (including, without limitation, any other Loan Party, any obligor, contractor, subcontractor, supplier or materialsman) shall have any rights, claims, remedies or privileges hereunder or under any other Loan Document against the Administrative Agent, any other Agent or any Lender for any reason whatsoever. There are no third party beneficiaries.

[SIGNATURES BEGIN NEXT PAGE]

The parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

BORROWER: MEDUSA SPAR LLC

By:

Name:
Title:

ADMINISTRATIVE AGENT: THE BANK OF NOVA SCOTIA,
as Administrative Agent and a Lender

By:

Name:
Title:

2

SYNDICATION AGENT: BANK ONE, N.A.,
as a Syndication Agent and a Lender

By:

Name:
Title:

3

SYNDICATION AGENT: SUNTRUST BANK,
as a Syndication Agent and a Lender

By:

Name:
Title:

4

LENDERS: SCOTIABANC INC.

By:

Name:
Title:

5

LENDERS: DEN NORSKE BANK ASA

By:

Name:
Title:

6

LENDERS: WHITNEY NATIONAL BANK

By:

Name:
Title:

7

EXHIBIT 10.21

RETIREMENT PACKAGE AND RELEASE AGREEMENT

THIS RETIREMENT PACKAGE AND RELEASE AGREEMENT ("Agreement"), made, entered into and effective March 9, 2004, is between CALLON PETROLEUM COMPANY, a Delaware company having its principal offices at 200 North Canal Street, P.O. Box 1287, Natchez, Mississippi, 39121 AND ALL OF ITS SUBSIDIARIES AND AFFILIATES ("Callon"), and DENNIS W. CHRISTIAN ("Christian"), an individual, residing at 1616 Main St, Natchez, Mississippi.

WITNESSETH:

WHEREAS, Callon and Christian entered into that certain Severance Compensation Agreement dated effective January 1, 2002 ("Change of Control Agreement");

WHEREAS, the parties have agreed upon certain terms relating to the retirement of Christian from Callon and his resignation from the Board of Directors.

NOW, THEREFORE, for and in consideration of the recitals and covenants herein set forth, the parties agree as follows:

1. Employment and Directorship. Christian hereby resigns as an officer and employee of Callon, and resigns as a member of the Board of Directors of Callon. Christian's resignation of employment with Callon and his resignation from the Board of Directors will be effective as of March 9, 2004 ("Retirement Date").

2. Change of Control Agreement. The Change of Control Agreement and Christian's employment thereunder are hereby terminated by Christian's retirement and mutual agreement of the parties, effective as of the Retirement Date. Except for those provisions and the agreements expressly set forth herein, neither party shall have any obligation or responsibility of any kind to the other party after the Retirement Date.

3. Consideration. In consideration of the premises and his 23 years of service to Callon, Christian shall receive, on the terms and conditions stated herein, the following:

a) $1,500,000, payable as set forth below, less maximum additional 401k contribution for 2004 and lawful withholdings of federal and state income and payroll taxes in an amount equal to 33% of the taxable amount;

b) Callon shall assign to Christian the ownership of his company car, laptop computer, cell phone; and

c) Christian shall take certain "memorabilia" as specifically approved by Fred L. Callon.

Items 3 a) through c) shall be hereafter referred to as the "Payment".

The cash portion of the Payment set forth in Section 3(a) shall be made by wire transfer to an account designated in writing by Christian as follows: (i) $1,350,000 (less taxes as provided for

above) no later than noon on the eighth day after Christian signs this Agreement and has not revoked his acceptance of this Agreement ("Initial Payment") and (ii) $150,000 (less taxes as provided for above) plus an amount equal to 6% per annum interest thereon from March 9, 2004 to the date of payment on March 9, 2005 ("Final Payment"). The Final Payment shall be placed in escrow with Simon, Peragine, Smith and Redfearn, L.L.P. contemporaneously with the Initial Payment and shall be released to Christian on March 9, 2005, including 6% per annum interest.

4. Severance Pay. Christian waives, and Callon shall not be required to pay, any severance pay or severance benefits, except as expressly provided for in this Agreement, in connection with Christian's retirement. The consideration and remuneration provided for under this Agreement are in lieu of and take the place of any other severance pay or severance benefit, which Christian forfeits. Christian shall promptly deliver into escrow with Simon, Peragine, Smith and Redfearn, L.L.P. original copies of all option agreements following the payment of the Initial Payment provided for above. Simon, Peragine, Smith and Redfearn,

L.L.P. shall release the option agreements to Callon along with Christian's full release of any rights thereto, upon notification from Christian that the payment set forth in 3 (ii) has been received .

All unvested restricted shares owned by Christian will immediately vest without restriction upon the execution of the Agreement and the stock certificates for those net shares, after lawful withholdings of federal and state income and payroll taxes, will be delivered to Christian concurrent with the Initial Payment.

5. Employee Benefit Plans. Callon agrees to continue health and dental insurance coverage for Christian and his eligible dependents under Callon's group health insurance plan as it may be amended from time to time until the earlier of the date Christian becomes eligible for Medicare benefits or the date Christian obtains new coverage as a result of any future employment, and to pay Christian and his eligible dependents' portion of the premium while such coverage is continued. When requested by Christian, Callon will provide any necessary evidence of continuation of coverage.

6. Release and Indemnity. By execution of this Agreement, Christian for himself, his legal and other representatives, claimants, heirs and beneficiaries, forever waives and releases Callon from all rights, benefits, payments and claims (including but not limited to statutory, tort or contractual claims) of any kind and nature to which Christian is now or in the future may be entitled, and/or arising out of or in connection with Christian's employment with Callon, and resignation of Christian's employment, including but not limited to, claims of race, sex, age, color, disability, religion, national origin, and any other form of discrimination, harassment, or retaliation in violation of Title VII of the Civil Rights Act, the Americans With Disabilities Act, the Age Discrimination in Employment Act ("ADEA"), the Family and Medical Leave Act, the Equal Pay Act, the Employee Retirement Income Security Act of 1974, all as amended, and any other state or federal statute, regulation or the common law (contract, tort or other), except as may be specifically provided for under this Agreement or contained in the plan documents or grants of benefits to which Christian is entitled according to the provisions hereof. It is specifically agreed that this Agreement, and the consideration Christian will receive hereunder, constitute a complete settlement and release, and an absolute bar to any and all claims, known or unknown, Christian has

or may have against Callon or its respective directors, officers, and employees, whether or not the same be presently known or suspected to be arising out of or in any manner connected with Christian's employment thereby or resignation of employment with Callon, except as may be specifically provided for under this Agreement or contained in the plan documents or grants of benefits to which Christian is entitled according to the provisions hereof. THIS SECTION OF THE AGREEMENT APPLIES TO RIGHTS OR CLAIMS PURSUANT TO THE ADEA ONLY IN EXISTENCE ON OR BEFORE THE DATE OF PAYMENT OF CONSIDERATION AND REMUNERATION PROVIDED FOR HEREIN. CHRISTIAN ACKNOWLEDGES AND AGREES, AND REPRESENTS TO CALLON THAT (I) HE UNDERSTANDS THE EFFECT OF THE PROVISIONS OF THIS PARAGRAPH; (II) HE HAS BEEN PROVIDED AT LEAST TWENTY-ONE (21) CALENDAR DAYS IN WHICH TO CONSIDER THE EFFECT OF THE PROVISIONS OF THIS PARAGRAPH; AND (III) HE HAS BEEN ADVISED IN WRITING BY CALLON TO CONSULT AN ATTORNEY PRIOR TO EXECUTING THIS AGREEMENT. CHRISTIAN MAY KNOWINGLY AND VOLUNTARILY WAIVE THE REMAINDER OF THE 21-DAY CONSIDERATION PERIOD, IF ANY, FOLLOWING THE DATE HE SIGNED THIS AGREEMENT. CHRISTIAN ACKNOWLEDGES: 1) HE HAS NOT BEEN ASKED BY CALLON TO SHORTEN HIS PERIOD FOR CONSIDERATION OF WHETHER TO SIGN THIS AGREEMENT; 2) CALLON HAS NOT THREATENED TO WITHDRAW OR ALTER THE BENEFITS DUE PRIOR TO THE EXPIRATION OF THE 21-DAY PERIOD; OR 3) CALLON HAS NOT PROVIDED DIFFERENT TERMS BECAUSE HE HAS DECIDED TO SIGN THE AGREEMENT PRIOR TO THE EXPIRATION OF THE 21-DAY CONSIDERATION PERIOD. CHRISTIAN UNDERSTANDS AND ACKNOWLEDGES THAT HE HAS SEVEN (7) CALENDAR DAYS FOLLOWING HIS EXECUTION OF THIS AGREEMENT TO REVOKE HIS ACCEPTANCE OF THIS AGREEMENT, WHEREUPON THIS AGREEMENT SHALL BE RESCINDED IN ITS ENTIRETY AND BECOME NULL AND VOID. THIS AGREEMENT WILL NOT BECOME EFFECTIVE OR ENFORCEABLE, AND THE PAYMENT WILL NOT BECOME PAYABLE, UNTIL AFTER THIS REVOCATION PERIOD HAS EXPIRED.

In consideration of the payments and promises contained in this Agreement, Callon and all its subsidiaries, affiliates and related companies hereby release, discharge, forever holds harmless and Callon agrees to indemnify and defend Christian from any and all claims, demands or suits, whether civil or criminal, at law or in equity, known or unknown, fixed or contingent, liquidated

or unliquidated, asserted or unasserted, arising or existing on or at any time prior to the Retirement Date. This Release includes, but is not limited to, any claims relating to or arising out of Christian's employment with Callon, its subsidiaries, affiliates and/or related companies and/or his separation and retirement therefrom.

7. Knowingly and Voluntary. Christian understands that it is his choice whether or not to enter into this Agreement and that his decision to do so is voluntary and is made knowingly.

8. Post Employment Obligations.

8.1 Post Employment Confidentiality Obligations. The terms of this Agreement and the content of the discussions pertaining to this Agreement shall be considered and treated as confidential and Christian shall not discuss or otherwise disclose, in any manner, the amount paid under this Agreement, and/or the substance or content of discussions involved in reaching this Agreement to any person other than Christian's attorney, spouse, family and tax/financial advisors and as required by appropriate taxing or other legal authorities. Further, Christian acknowledges and agrees to continue to abide by any and all Callon's confidentiality policies and procedures for a period of two years.

The terms of this Agreement and the content of the discussions pertaining to this Agreement shall be considered and treated as confidential and Callon shall not discuss or otherwise disclose, in any manner, the amount paid under this Agreement, and/or the substance or content of discussions involved in reaching this Agreement to any third party except as required by law.

8.2 Cooperation. Christian agrees that he will promptly return any and all Callon property, including copies thereof, to Callon. Christian agrees that for a period of 60 days he shall cooperate with, and make himself available for, any and all requests by Callon for information regarding his job functions with Callon and events, circumstances, and transactions with which he became familiar during the course of his employment with Callon. With respect to any litigation, charges, investigations, or subpoenas initiated by governmental or private parties, such cooperation shall include, but not be limited to, assisting Callon with preparing responses to subpoenas and other forms of discovery and making himself available to provide testimony for depositions, hearings or trials. Callon agrees to compensate Christian for any significant or lengthy assistance at the rate of $500 per hour and to reimburse him for all reasonable expenses incurred in so doing.

8.3 Recommendations; Malignment. Callon acknowledges that Christian's retirement from the company was in no way related to any improper activities. Callon agrees that it will honestly and freely answer any questions from prospective employers in a manner that would support Christian's efforts to obtain another job either in the oil and gas business or otherwise. Christian and Callon agree that neither party will engage in any behavior nor act in any manner to malign the other party in any way to any third party, the oil and gas community, government agencies, the media or the public.

8.4 Re-Employment. Christian agrees to relinquish and hereby does relinquish any and all rights he may have to re-employment with Callon. Christian further agrees that he will not knowingly seek, accept, or otherwise pursue employment with Callon, except that this paragraph will not apply if Christian's then-current employer becomes part of Callon as a result of a merger or acquisition. Similarly this paragraph will not apply if Christian is part of a consulting team hired by Callon or its partners.

8.5 No Impediment. Callon agrees not to impede the hiring of Dennis Christian by any other entity, including Callon's existing partners, as either an employee or a consultant.

9. Miscellaneous.

9.1 Applicable Law. This contract is entered into under, and shall be governed for all purposes by, the laws of the State of Mississippi.

9.2 No Waiver. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any

condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

9.3 Remedy for Breach of Contract. The parties agree that in the event there is any breach or asserted breach of the terms, covenants or conditions of this Agreement, the remedy of the parties hereto shall be in both law and in equity, including injunctive relief for the enforcement of or relief from any provisions of this Agreement.

9.4 Severability. It is the desire and intent of the parties that the terms, provisions, covenants and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant or remedy of this Agreement or the application thereof to any person or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any person or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect. It is further the desire and intent of the parties that in the event of any breach of any portion of this Agreement, the remainder of this Agreement shall remain in effect as written and enforceable to the fullest extent permitted by law.

9.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

9.6 Withholding of Taxes. Callon may withhold from any benefits or remuneration payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

9.7 Headings. The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

9.8 Assignability.

A. By Callon:

Callon's obligations under this Agreement are not transferable or assignable by Callon and shall be considered a liability of Callon in any sale or transfer of substantially all of its business or assets by any means whether direct or indirect, by purchase, merger, consolidation or otherwise.

B. By Christian:

With respect to Christian's rights and obligations, his rights and obligations hereunder are personal and neither this Agreement, nor any right, benefit or obligation of Christian, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of Callon. This Agreement and all payments hereunder shall inure

to the benefit of and be enforceable by and against Christian's personal or legal representatives, executors, administrators, heirs, distributees, devisees and legatees.

9.9 Entire Agreement: Modification. This Agreement constitutes the entire agreement of the parties with regard to the resignation of employment of Christian, supersedes any and all prior written agreements between the parties, and contains all of the covenants, promises, representations and agreements between the parties with respect to the resignation of employment of Christian with Callon. Each party to this Agreement acknowledges that no representation,

inducement, promise or agreement, oral or written, has been made by either party, which is not embodied herein, or referred to hereby and that no agreement, statement or promise relating to the employment or resignation of employment of Christian with Callon that is not contained or provided for, identified or referred to in this Agreement, shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by both parties.

PLEASE READ THIS DOCUMENT CAREFULLY AS IT INCLUDES A RELEASE OF CLAIMS.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

_____
Dennis W. Christian

Callon Petroleum Company

By: _____
Name: _____
Title: _____

EXHIBIT 10.22

RETIREMENT PACKAGE AND RELEASE AGREEMENT

THIS RETIREMENT PACKAGE AND RELEASE AGREEMENT ("Agreement"), made, entered into and effective March 9, 2004, is between CALLON PETROLEUM COMPANY, a Delaware company having its principal offices at 200 North Canal Street, P.O. Box 1287, Natchez, Mississippi, 39121, AND ALL OF ITS SUBSIDIARIES AND AFFILIATES ("CALLON") and KATHY G. TILLEY ("Tilley"), an individual, residing at P.O. Drawer N, Natchez, Ms. 39121.

WITNESSETH:

WHEREAS, the parties have agreed upon certain terms relating to the retirement of Tilley from Callon.

NOW, THEREFORE, for and in consideration of the recitals and covenants herein set forth, the parties agree as follows:

1. Employment. Tilley hereby resigns as an officer and employee of Callon effective as of March 9, 2004 ("Retirement Date").

2. Change of Control Agreement. Tilley's employment is hereby terminated by Tilley's retirement and mutual agreement of the parties, effective as of the Retirement Date. Except for those provisions and the agreements expressly set forth herein, neither party shall have any obligation or responsibility of any kind to the other party after the Retirement Date.

3. Consideration. In consideration of the premises and her 23 years of service to Callon, Tilley shall receive, on the terms and conditions stated herein, the following:

a) $1,000,000, payable as set forth below, less maximum additional 401k contribution for 2004 and lawful withholdings of federal and state income and payroll taxes in an amount equal to 33% of the taxable amount;

b) Callon shall assign to Tilley the ownership of her company car, laptop computer, cell phone; and

c) Tilley shall take certain "memorabilia" as specifically approved by Fred L. Callon.

Items 3 a) through c) shall be hereafter referred to as the "Payment".

The cash portion of the Payment set forth in Section 3(a) shall be made by wire transfer to an account designated in writing by Tilley as follows: (i) $ 900,000 (Nine Hundred Thousand Dollars) (less taxes as provided for above) no later than noon on the eighth day after Tilley signs this Agreement and has not revoked her acceptance of the Agreement ("Initial Payment"), and (ii) $100,000 (One Hundred Thousand Dollars) (less taxes as provided for above) plus an amount equal to 6% per annum interest thereon from March 9, 2004 to the date of payment on March 9, 2005 ("Final Payment"). The Final Payment shall be placed in escrow with Simon, Peragine, Smith and

Redfearn, L.L.P. contemporaneously with the Initial Payment and shall be released to Tilley on March 9, 2005, including 6% per annum interest.

4. Severance Pay. Tilley waives, and Callon shall not be required to pay any severance pay or severance benefits, except as expressly provided for in this Agreement, in connection with Tilley's retirement. The consideration and remuneration provided for under this Agreement are in lieu of and take the place of any other severance pay or severance benefit, which Tilley forfeits. Tilley shall promptly deliver into escrow with Simon, Peragine, Smith and Redfearn, L.L.P. original copies of all option agreements following the payment of the Initial Payment provided for above. Simon, Peragine, Smith and Redfearn, L.L.P. shall release the option agreements upon notification from Tilley that the payment set forth in 3 (ii) has been received.

All unvested restricted shares owned by Tilley will immediately vest without restriction upon the execution of the Agreement and the stock certificates for

those net shares, after lawful withholdings of federal and state income and payroll taxes will be delivered to Tilley concurrent with the Initial Payment.

5. Employee Benefit Plans. Callon agrees to continue health and dental insurance coverage for Tilley and her eligible dependents under Callon's group health insurance plan as it may be amended from time to time until the earlier of the date Tilley becomes eligible for Medicare benefits or the date Tilley obtains new coverage as a result of any future employment, and to pay Tilley and her eligible dependents' portion of the premium while such coverage is continued. When requested by Tilley, Callon will provide any necessary evidence of continuation of coverage.

6. Release and Indemnity. By execution of this Agreement, Tilley for herself, her legal and other representatives, claimants, heirs and beneficiaries, forever waives and releases Callon from all rights, benefits, payments and claims (including but not limited to statutory, tort or contractual claims) of any kind and nature to which Tilley is now or in the future may be entitled, and/or arising out of or in connection with Tilley's employment with Callon, and resignation of Tilley's employment, including but not limited to, claims of race, sex, age, color, disability, religion, national origin, and any other form of discrimination, harassment, or retaliation in violation of Title VII of the Civil Rights Act, the Americans With Disabilities Act, the Age Discrimination in Employment Act ("ADEA"), the Family and Medical Leave Act, the Equal Pay Act, the Employee Retirement Income Security Act of 1974, all as amended, and any other state or federal statute, regulation or the common law (contract, tort or other), except as may be specifically provided for under this Agreement or contained in the plan documents or grants of benefits to which Tilley is entitled according to the provisions hereof. It is specifically agreed that this Agreement, and the consideration Tilley will receive hereunder, constitute a complete settlement and release, and an absolute bar to any and all claims, known or unknown, Tilley has or may have against Callon or its respective directors, officers, and employees, whether or not the same be presently known or suspected to be arising out of or in any manner connected with Tilley's employment thereby or resignation of employment with Callon, except as may be specifically provided for under this Agreement or contained in the plan documents or grants of benefits to which Tilley is entitled according to the provisions hereof. THIS SECTION OF THE AGREEMENT APPLIES TO RIGHTS OR CLAIMS PURSUANT TO THE ADEA ONLY IN EXISTENCE ON OR BEFORE THE DATE OF PAYMENT OF CONSIDERATION AND REMUNERATION PROVIDED FOR HEREIN. TILLEY ACKNOWLEDGES AND AGREES, AND

REPRESENTS TO CALLON THAT (i) SHE UNDERSTANDS THE EFFECT OF THE PROVISIONS OF THIS PARAGRAPH; (ii) SHE HAS BEEN PROVIDED AT LEAST TWENTY-ONE (21) CALENDAR DAYS IN WHICH TO CONSIDER THE EFFECT OF THE PROVISIONS OF THIS PARAGRAPH; AND (iii) SHE HAS BEEN ADVISED IN WRITING BY CALLON TO CONSULT AN ATTORNEY PRIOR TO EXECUTING THIS AGREEMENT. TILLEY MAY KNOWINGLY AND VOLUNTARILY WAIVE THE REMAINDER OF THE 21-DAY CONSIDERATION PERIOD, IF ANY, FOLLOWING THE DATE SHE SIGNED THIS AGREEMENT. TILLEY ACKNOWLEDGES: 1) SHE HAS NOT BEEN ASKED BY CALLON TO SHORTEN HER PERIOD FOR CONSIDERATION OF WHETHER TO SIGN THIS AGREEMENT; 2) CALLON HAS NOT THREATENED TO WITHDRAW OR ALTER THE BENEFITS DUE PRIOR TO THE EXPIRATION OF THE 21-DAY PERIOD; OR 3) CALLON HAS NOT PROVIDED DIFFERENT TERMS BECAUSE SHE HAS DECIDED TO SIGN THE AGREEMENT PRIOR TO THE EXPIRATION OF THE 21-DAY CONSIDERATION PERIOD. TILLEY UNDERSTANDS AND ACKNOWLEDGES THAT SHE HAS SEVEN (7) CALENDAR DAYS FOLLOWING HER EXECUTION OF THIS AGREEMENT TO REVOKE HER ACCEPTANCE OF THIS AGREEMENT, WHEREUPON THIS AGREEMENT SHALL BE RESCINDED IN ITS ENTIRETY AND BECOME NULL AND VOID. THIS AGREEMENT WILL NOT BECOME EFFECTIVE OR ENFORCEABLE, AND THE PAYMENT WILL NOT BECOME PAYABLE, UNTIL AFTER THIS REVOCATION PERIOD HAS EXPIRED.

In consideration of the payments and promises contained in this Agreement, Callon and all its subsidiaries, affiliates and related companies hereby release, discharge, forever hold harmless and Callon agrees to indemnify and defend Tilley from any and all claims, demands or suits, whether civil or criminal, at law or in equity, known or unknown, fixed or contingent, liquidated or unliquidated, asserted or unasserted, arising or existing on or at any time prior to the Retirement Date. This Release includes, but is not limited to, any claims relating to or arising out of Tilley's employment with Callon, its subsidiaries, affiliates and/or related companies and/or her separation and retirement therefrom.

7. Knowingly and Voluntary. Tilley understands that it is her choice whether or not to enter into this Agreement and that her decision to do so is voluntary and is made knowingly.

8. Post Employment Obligations.

8.1 Post Employment Confidentiality Obligations. The terms of this Agreement and the content of the discussions pertaining to this Agreement shall be considered and treated as confidential and Tilley shall not discuss or otherwise disclose, in any manner, the amount paid under this Agreement, and/or the substance or content of discussions involved in reaching this Agreement to any person other than Tilley's attorney, family, and tax/financial advisors and as required by appropriate taxing or other legal authorities. Further, Tilley acknowledges and agrees to continue to abide by any and all Callon's confidentiality policies and procedures for a period of two years.

The terms of this Agreement and the content of the discussions pertaining to this Agreement shall be considered and treated as confidential and Callon shall not discuss or otherwise disclose, in any manner, the amount paid under this Agreement, and/or the substance or content of discussions involved in reaching this Agreement to any third party except as required by law.

8.2 Cooperation. Tilley agrees that she will promptly return any and all Callon property, including copies thereof, to Callon. Tilley agrees that for a period of 60 days she shall

cooperate with, and make herself available for, any and all requests by Callon for information regarding her job functions with Callon and events, circumstances, and transactions with which she became familiar during the course of her employment. With respect to any litigation, charges, investigations, or subpoenas initiated by governmental or private parties, such cooperation shall include, but not be limited to, assisting Callon with preparing responses to subpoenas and other forms of discovery and making herself available to provide testimony for depositions, hearings or trials. Callon agrees to compensate Tilley for any significant or lengthy assistance at the rate of $250 per hour and to reimburse her for all reasonable expenses incurred in so doing.

8.3 Recommendations; Malignment: Callon acknowledges that Tilley' retirement from the company was in no way related to any improper activities. Callon agrees that it will honestly and freely answer any questions from prospective employers in a manner that would support Tilley's efforts to obtain another job either in the oil and gas business or otherwise. Tilley and Callon agree that neither party will engage in any behavior nor act in any manner to malign the other party in any way to any third party, the oil and gas community, government agencies, the media or the public.

8.4 Re-Employment. Tilley agrees to relinquish and hereby does relinquish any and all rights she may have to re-employment with Callon. Tilley further agrees that she will not knowingly seek, accept, or otherwise pursue employment with Callon, except that this paragraph will not apply if Tilley's then-current employer becomes part of Callon as a result of a merger or acquisition. Similarly this paragraph will not apply if Tilley is part of a consulting team hired by Callon or its partners.

8.5 No Impediment. Callon agrees not to impede the hiring of Tilley by any other entity, including Callon's existing partners, as either an employee or a consultant.

9. Miscellaneous.

9.1 Applicable Law. This contract is entered into under, and shall be governed for all purposes by, the laws of the State of Mississippi.

9.2 No Waiver. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

9.3 Remedy for Breach of Contract. The parties agree that in the event

there is any breach or asserted breach of the terms, covenants or conditions of this Agreement, the remedy of the parties hereto shall be in both law and in equity, including injunctive relief for the enforcement of or relief from any provisions of this Agreement.

9.4 Severability. It is the desire and intent of the parties that the terms, provisions, covenants and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant or remedy of this Agreement or the

application thereof to any person or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any person or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect. It is further the desire and intent of the parties that in the event of any breach of any portion of this Agreement, the remainder of this Agreement shall remain in effect as written and enforceable to the fullest extent permitted by law.

9.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

9.6 Withholding of Taxes. Callon may withhold from any benefits or remuneration payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

9.7 Headings. The paragraph headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

9.8 Assignability.

A. By Callon:

Callon's obligations under this Agreement are not transferable or assignable by Callon and shall be considered a liability of Callon in any sale or transfer of substantially all of its business or assets by any means whether direct or indirect, by purchase, merger, consolidation or otherwise.

B. By Tilley:

With respect to Tilley's rights and obligations, her rights and obligations hereunder are personal and neither this Agreement, nor any right, benefit or obligation of Tilley, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of Callon. This Agreement and all payments hereunder shall inure to the benefit of and be enforceable by and against Tilley's personal or legal representatives, executors, administrators, heirs, distributees, devisees and legatees.

9.9 Entire Agreement: Modification. This Agreement constitutes the entire agreement of the parties with regard to the resignation of employment of Tilley, supersedes any and all prior written agreements between the parties, and contains all of the covenants, promises, representations and agreements between the parties with respect to the resignation of employment of Tilley with Callon. Each party to this Agreement acknowledges that no representation, inducement, promise or agreement, oral or written, has been made by either party, which is not

embodied herein, or referred to hereby and that no agreement, statement or promise relating to the employment or resignation of employment of Tilley with

Callon that is not contained or provided for, identified or referred to in this Agreement, shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by both parties.

PLEASE READ THIS DOCUMENT CAREFULLY AS IT INCLUDES A RELEASE OF CLAIMS.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

_____
Kathy G. Tilley

Callon Petroleum Company

By: _____
Name: _____
Title: _____

EXHIBIT 14.1

ADDENDUM B

CALLON PETROLEUM COMPANY

CODE OF ETHICS FOR THE CHIEF EXECUTIVE OFFICER
AND SENIOR FINANCIAL OFFICERS

The Chief Executive Officer, Chief Financial officer, principal accounting officer or Controller, and other senior financial officers performing similar functions (collectively, the "OFFICERS") of Callon Petroleum Company (the "COMPANY") each have an obligation to the Company, its shareholders, the public investor community, and themselves to maintain the highest standards of ethical conduct. In recognition of this obligation, the Company has adopted the following standards of ethical conduct for the purpose of promoting:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

- Full, fair accurate, timely and understandable disclosure in the reports and documents that the Company files with, or submits to, the Securities and Exchange Commission (the "SEC"), and in other public communications made by the Company;

- Compliance with applicable governmental laws, rules and regulations;

- The prompt internal reporting to an appropriate person or persons identified herein of violations of this Code of Ethics; and

- Accountability for an adherence to this Code of Ethics.

The Company has a Code of Business Conduct and Ethics applicable to all directors and employees of the Company. The Officers are bound by all of the provisions set forth therein, including those relating to ethical conduct, conflicts of interest and compliance with law. In addition to the Code of Business Conduct and Ethics, the Officers are subject to the additional specific policies described below. Adherence to these standards is integral to achieving the objectives of the Company and its shareholders. The Officers shall not commit acts contrary to these standards nor shall they condone the commission of such acts by others within the Company.

COMPETENCE

The Officers have a responsibility to:

- Maintain an appropriate level of professional competence through the ongoing development of their knowledge and skills.

- Perform their professional duties in accordance with relevant laws, regulations, and technical standards.

- Prepare accurate and timely financial statements, reports and recommendations after appropriate analyses of relevant and reliable information.

CONFIDENTIALITY

The Officers have a responsibility to protect the Company by:

- Refraining from disclosing confidential information (regarding the Company or otherwise) acquired in the course of their work except when authorized, unless legally obligated to do so.

- Informing subordinates as appropriate regarding the

confidentiality of information acquired in the course of their work and monitoring their activities to assure the maintenance of that confidentiality.

- Refraining from using or appearing to use confidential information acquired in the course of their work for unethical or illegal advantage either personally or through third parties.

INTEGRITY

The Officers have a responsibility to:

- Comply with laws, rules and regulations of federal, state and local governments, and appropriate private and public regulatory agencies or organizations, including insider trading laws.

- Act in good faith, responsibility, without misrepresenting material facts or allowing their independent judgment to be subordinated.

- Protect the Company's assets and insure their efficient use.

- Avoid actual or apparent conflicts of interest with respect to suppliers, customers and competitors and reports potential conflicts as required in the Company's Conflict of Interest Policy.

- Refrain from engaging in any activity that would prejudice their ability to carry out their duties ethically.

- Refrain from either actively or passively subverting the attainment of the organization's legitimate and ethical objectives.

- Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.

- Report to senior management and the Audit Committee any significant information they may have regarding judgments, deficiencies, discrepancies, errors, lapses or any similar matters relating to the Company's or its subsidiaries' accounting, auditing or system of internal controls. The officers must communicate unfavorable as well as favorable information and professional judgments or opinions.

- Refrain from engaging in or supporting any activity that would discredit their profession or the Company and proactively promote ethical behavior within the Company.

OBJECTIVITY

The Officers have a responsibility to:

- Communicate information fairly and objectively.

- Disclose all material information that could reasonably be expected to influence intended user's understanding of the reports, comments and recommendations presented.

OVERSIGHT AND DISCLOSURE

The Officers have a responsibility to:

- Ensure the preparation of full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Company with the SEC. Accordingly, it is the responsibility of the Officers to promptly bring to the

attention of the Audit Committee any material information of which he or she may become aware that affects the disclosures made by the Company in its public filings or otherwise assist the Audit Committee in fulfilling its responsibilities of overseeing the Company's financial statements and disclosures and internal control systems.

- Promptly bring to the attention of the Audit Committee any information he or she may have concerning (1) significant deficiencies in the design or operation of internal controls which could aversely affect the Company's ability to record, process, summarize and report financial data or (2) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.

- Promptly bring to the attention of the CEO or internal legal counsel, if any, and to the Audit Committee any information he or she may have concerning any violation of the Company's Code of Business Conduct and Ethics, including any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who has a significant role in the Company's financial reporting, disclosures or internal controls.

- Promptly bring to the attention of the CEO or internal legal counsel, if any, and to the Audit Committee any information he or she may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Company and the operation of its business, by the Company or any agent thereof, or of violation of the Code of Business Conduct and Ethics or of these additional procedures.

ENFORCEMENT

The Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of violations of the Code of Business Conduct and Ethics or of these additional procedures by the Officers. Such actions shall be reasonably designed to deter wrongdoing and to promote accountability for adherence to the Code of Business Conduct and Ethics and to these additional procedures, and shall include written notices to the individual involved that the Board has determined that there has been a violation, censure by the Board, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board) and termination of the individual's employment. In determining what action is appropriate in a particular case, the Board of Directors or such designee shall take into account all relevant information, including the nature and severity of the violation, whether the violation was a single occurrence or repeated occurrences, whether the violation appears to have been intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action and whether or not the individual in question had committed other violations in the past.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (File Nos. 333-100646, 333-87945, 333-60606, 333-47784, 333-29537, 333-29529, 333-90410 and 333-109744) of Callon Petroleum Company of our report dated March 3, 2004, with respect to the 2003 and 2002 consolidated financial statements of Callon Petroleum Company included in this Form 10-K for the year ended December 31, 2003.

Ernst & Young LLP

New Orleans, Louisiana
March 15, 2004

EXHIBIT 31.1

CERTIFICATIONS

I, Fred L. Callon, certify that:

1. I have reviewed this annual report on Form 10-K of Callon Petroleum Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting;

Date: March 15, 2004

By: /s/ Fred L. Callon
- ----------
Fred L. Callon, President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, John S. Weatherly, certify that:

1. I have reviewed this annual report on Form 10-K of Callon Petroleum Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: March 15, 2004

By: /s/ John S. Weatherly
- ----------
John S. Weatherly, Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Annual Report of Callon Petroleum Company (the "COMPANY") on Form 10-K for the fiscal year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "REPORT"), I, Fred L. Callon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Dated: March 15, 2004

/s/ Fred L. Callon

Fred L. Callon, Chief Executive Officer

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Annual Report of Callon Petroleum Company (the "COMPANY") on Form 10-K for the fiscal year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "REPORT"), I, John S. Weatherly, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Dated: March 15, 2004

/s/ John S. Weatherly

John S. Weatherly, Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.