

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED JUNE 30, 2001

COMMISSION FILE NUMBER 0-25192

CALLON PETROLEUM COMPANY

-----  
(Exact name of Registrant as specified in its charter)

DELAWARE

64-0844345

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

200 NORTH CANAL STREET  
NATCHEZ, MISSISSIPPI 39120

-----  
(Address of principal executive offices)(Zip code)

(601) 442-1601

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

As of August 6, 2001, there were 13,379,587 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

CALLON PETROLEUM COMPANY

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

<Table>  
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	JUNE 30, 2001	DECEMBER 31, 2000	
	(UNAUDITED)		
	<C>	<C>	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 7,933	\$ 11,876	
Accounts receivable	7,924	9,244	
Advance to operators	1,452	1,131	
Other current assets	5,379	207	
	-----	-----	
Total current assets	22,688	22,458	
	-----	-----	
Oil and gas properties, full cost accounting method:			
Evaluated properties	635,233	589,549	
Less accumulated depreciation, depletion and amortization		(388,478)	(378,589)
	-----	-----	
	246,755	210,960	
Unevaluated properties excluded from amortization		54,257	47,653
	-----	-----	
Total oil and gas properties	301,012	258,613	
	-----	-----	
Pipeline and other facilities	5,533	5,537	
Other property and equipment, net	2,554	1,790	
Deferred tax asset	920	8,573	
Other assets, net	7,158	4,598	
	-----	-----	
Total assets	\$ 339,865	\$ 301,569	
	=====	=====	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable and accrued liabilities	\$ 13,384	\$ 17,842	
Undistributed oil and gas revenues	3,892	3,557	
	-----	-----	
Total current liabilities	17,276	21,399	
	-----	-----	

Accounts payable and accrued liabilities to be refinanced		8,900	0
Long-term debt	155,000	134,000	
Deferred revenue on sale of production payment interest		4,841	7,236
Other long-term liabilities	3,291	2,606	
	-----	-----	
Total liabilities	189,308	165,241	
	-----	-----	
Stockholders' equity:			
Preferred stock, \$0.01 par value, 2,500,000 shares authorized; 600,861 shares of Convertible Exchangeable Preferred Stock, Series A, issued and outstanding with a liquidation preference of \$15,021,525		6	6
Common stock, \$0.01 par value, 20,000,000 shares authorized; 13,359,551 and 13,327,675 shares outstanding at June 30, 2001 and at December 31, 2000, respectively	133	133	
Treasury stock (99,078 shares at cost)		(1,183)	(1,183)
Capital in excess of par value	151,876	151,223	
Other comprehensive income (loss)		4,586	0
Retained earnings (deficit)	(4,861)	(13,851)	
	-----	-----	
Total stockholders' equity	150,557	136,328	
	-----	-----	
Total liabilities and stockholders' equity	\$ 339,865	\$ 301,569	
	=====	=====	

</Table>

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

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CALLON PETROLEUM COMPANY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<Table>  
<Caption>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
	<C>	<C>	<C>	<C>
Revenues:				
Oil and gas sales	\$ 17,066	\$ 14,312	\$ 37,243	\$ 23,760
Interest and other	646	404	1,281	1,074
	-----	-----	-----	-----
Total revenues	17,712	14,716	38,524	24,834
	-----	-----	-----	-----
Costs and expenses:				
Lease operating expenses	3,052	2,334	5,725	4,154
Depreciation, depletion and amortization	5,154	4,600	10,051	8,317
General and administrative	1,579	930	2,702	1,972
Interest	2,613	2,071	5,234	3,846
	-----	-----	-----	-----
Total costs and expenses	12,398	9,935	23,712	18,289
	-----	-----	-----	-----
Income from operations	5,314	4,781	14,812	6,545
Income tax expense	1,860	1,626	5,184	2,226
	-----	-----	-----	-----
Net income	3,454	3,155	9,628	4,319
Preferred stock dividends	319	552	638	1,105

Net income available to common shares	\$	3,135	\$	2,603	\$	8,990	\$	3,214
Net income per common share:								
Basic	\$	0.24	\$	0.21	\$	0.68	\$	0.26
Diluted	\$	0.23	\$	0.21	\$	0.65	\$	0.26
Shares used in computing net income per common share:								
Basic		13,258		12,171		13,255		12,163
Diluted		13,427		12,445		14,853		12,398

</Table>

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

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CALLON PETROLEUM COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(IN THOUSANDS)

<Table>  
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	SIX MONTHS ENDED	
	JUNE 30, 2001	JUNE 30, 2000
	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 9,628	\$ 4,319
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	10,341	8,532
Amortization of deferred costs	814	463
Amortization of deferred production payment revenue	(2,395)	(2,409)
Non-cash derivative income	(446)	--
Deferred income tax expense	5,184	2,223
Non-cash charge related to compensation plans	474	260
Changes in current assets and liabilities:		
Accounts receivable	1,320	(2,333)
Advance to operators	(321)	--
Other current assets	(21)	55
Current liabilities	(4,123)	(1,773)
Change in gas balancing receivable	15	(100)
Change in gas balancing payable	686	58
Change in other long-term liabilities	(1)	(111)
Change in other assets, net	(1,039)	(234)
Cash provided (used) by operating activities	20,116	8,950
Cash flows from investing activities:		
Capital expenditures	(54,427)	(55,684)
Cash proceeds from sale of mineral interests	927	366
Cash provided (used) by investing activities	(53,500)	(55,318)
Cash flows from financing activities:		

Increase in accounts payable and accrued liabilities to be refinanced		8,900	--
Increase in debt	21,000	22,000	
Equity issued related to employee stock plans		179	132
Cash dividends on preferred stock	(638)	(1,105)	
	-----	-----	
Cash provided (used) by financing activities		29,441	21,027
	-----	-----	
Net increase (decrease) in cash and cash equivalents		(3,943)	(25,341)
Cash and cash equivalents:			
Balance, beginning of period		11,876	34,671
	-----	-----	
Balance, end of period	\$	7,933	\$ 9,930
	=====	=====	=====

</Table>

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

CALLON PETROLEUM COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2001

1. BASIS OF PRESENTATION

The financial information presented as of any date other than December 31, has been prepared from the Company's books and records without audit. Financial information as of December 31, has been derived from the audited financial statements of the Company, but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the financial information for the period indicated, have been included. For further information regarding the Company's accounting policies, refer to the Consolidated Financial Statements and related notes for the year ended December 31, 2000 included in the Company's Annual Report on Form 10-K dated March 30, 2001.

Effective January 1, 2001, the Company adopted Statement of Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS 133"). SFAS 133 establishes accounting and reporting standards requiring that derivative instruments, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or a liability measured at its fair value. Changes in the value of derivatives that qualify as cash flow hedges, to the extent effective, are reported in other comprehensive income, a component of stockholders' equity, until realized. See Note 3.

In July 2001, the Financial Accounting Standards Board approved Statement of Accounting Standards No. 143, Asset Retirement Obligations ("SFAS 143"). SFAS 143 will require that the fair value of abandonment obligations be reflected as a liability, resulting in a corresponding increase to the historical cost of the related assets and potentially an adjustment for the cumulative effect of a change in accounting principle. This standard will be effective for the Company beginning January 1, 2003. The Company has not yet determined the impact of the adoption of SFAS 143.

2. PER SHARE AMOUNTS

Basic earnings per common share were computed by dividing net income by the weighted average number of shares of common stock outstanding during the

quarter. Diluted earnings or loss per common share were 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 earnings per share computation for the six-month period ended June 30, 2001 includes the conversion of preferred stock in the computation of diluted income per share because the preferred stock was dilutive. The conversion of the preferred stock was not included in the calculation for the quarter ended June 30, 2001 and for the quarter and the six months ended June 30, 2000 due to the preferred stock's antidilutive effect on diluted income or loss per share.

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

<Table>  
<Caption>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
(a) Net income available for common stock	\$ 3,135	\$ 2,603	\$ 8,990	\$ 3,214
Preferred dividends assuming conversion of preferred stock (if dilutive)	\$ --	\$ --	\$ 638	\$ --
(b) Income available for common stock assuming conversion of preferred stock (if dilutive)	\$ 3,135	\$ 2,603	\$ 9,628	\$ 3,214
(c) Weighted average shares outstanding		13,258	12,171	13,255
Dilutive impact of stock options		169	274	232
Convertible preferred stock (if dilutive)	--	--	1,366	--
(d) Total diluted shares		13,427	12,445	14,853
Basic income per share (a/c)	\$ 0.24	\$ 0.21	\$ 0.68	\$ 0.26
Diluted income per share (b/d)	\$ 0.23	\$ 0.21	\$ 0.65	\$ 0.26

</Table>

### 3. DERIVATIVES

The Company uses derivative financial instruments to manage oil and gas price risks. Settlements of gains and losses on commodity price swap contracts are generally based upon the difference between the contract price or prices specified in the derivative instrument and a NYMEX price and are reported as a component of oil and gas revenues. Approximately \$1,394,000 related to these financial instruments was recognized as a reduction of oil and gas revenue in the first six months of 2001 and \$886,000 was recognized as a reduction in the first half of 2000.

These 2001 contracts, in effect at June 30, 2001, are for average gas volumes of 400,000 Mcf per month from July 2001 through October 2001 at (on average) a ceiling price of \$5.50 and floor price of \$4.44. The Company had no open crude oil contracts at June 30, 2001.

The Company also has natural gas collar contracts, in effect, for January 2002 through December 2002. These agreements are for average gas volumes of 600,000 Mcf per month with a weighted average ceiling price of \$6.09 and floor price of \$4.11.

As discussed in Note 1, 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 \$3,764,000. In the first six months of 2001, this amount was offset by an increase in the fair value of derivatives recorded as other comprehensive income, net of tax, of \$8,350,000. As a result of SFAS 133, the Company recorded \$4,586,000 as other comprehensive income and \$446,000 as an increase in revenue for the six months ended June 30, 2001. Recorded in the balance sheet is \$7.5 million in assets representing the fair market value of the derivative financial instruments at June 30, 2001, of which approximately \$5.2 million is classified as a current asset. Included in other

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comprehensive income at June 30, 2001 is \$270,000, net of tax, which will be recorded as a reduction in revenue in the second half of 2001.

#### 4. LONG-TERM DEBT

In July 2001, the Company entered into a \$95 million multiple advance term loan with a private lender. The company issued \$45 million of 12% senior notes upon closing of the loan and will issue the remaining \$50 million of senior notes prior to June 30, 2002. Under the terms of the agreement Callon also issued warrants to purchase, at a nominal exercise price, 265,210 shares of its common stock and conveyed an overriding royalty interest equal to 2% of the company's net interest in four deepwater discoveries. The senior notes will mature March 31, 2005 and contain restrictions on certain types of future indebtedness.

#### 5. COMPREHENSIVE INCOME

The first six months of 2000 did not include any items of other comprehensive income. A recap of the Company's 2001 comprehensive income is shown below (in thousands):

<Table>

<Caption>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2001		JUNE 30, 2001	
	<C>	<C>	<C>	<C>
Net Income	\$	3,454	\$	9,628
Other comprehensive income (loss):				
Cumulative effect of change in accounting principle		--		(3,764)
Change in unrealized derivatives' fair value		5,151		8,350
		5,151		4,586
Total Comprehensive Income	\$	8,605	\$	14,214

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts included in this report, including statements regarding the Company's financial position, adequacy of resources, estimated reserve quantities, business strategies, plans, objectives and expectations for future operations and covenant compliance, are forward-looking statements. The Company can give no assurances that the assumptions upon which such forward-looking statements are based will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are disclosed below, in the section "Risk Factors" included in the Company's Form 10-K, elsewhere in this report and from time to time in other filings made by the Company with the Securities and Exchange Commission. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Cautionary Statements.

## GENERAL

The Company's revenues, profitability, future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas and its ability to find, develop and acquire additional oil and gas reserves that are economically recoverable. The Company's ability to maintain or increase its borrowing capacity and to obtain additional capital on attractive terms is also influenced by oil and gas prices. 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 the control of the Company. 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 regulations, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternate fuel sources. Any substantial and extended decline in the price of oil or gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. The Company uses derivative financial instruments for price protection purposes on a limited amount of its future production but, does not use derivative financial instruments for trading purposes.

The following discussion is intended to assist in an understanding of the Company's historical financial positions and results of operations. The Company's historical financial statements and notes thereto included elsewhere in this quarterly report contains detailed information that should be referred to in conjunction with the following discussion.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of capital are its cash flows from operations, borrowings from financial institutions and the sale of debt and equity securities. Net cash and cash equivalents during the six months ended June 30, 2001 decreased by \$3.9 million and net cash flows from operations before working capital changes totaled \$26.0 million. Net capital expenditures from the cash flow statement for the period totaled \$53.5 million. These funds were primarily expended in exploration, drilling and completion of oil and gas properties.

At June 30, 2001, the Company had working capital of \$5.4 million.

In May 2001, the Company initiated a combination of offerings of equity and senior notes to investors with proceeds to be used to call certain of the Company's subordinated debt, repay borrowings under its senior secured credit facility and to finance capital expenditures. Subsequently, the Company withdrew its offer to sell the senior notes and the equity sale was terminated. Approximately \$358,000 of costs associated with the withdrawn offering were expensed during the quarter.

In early July of 2001, the Company closed a \$95 million multiple advance term loan with a private lender. The Company drew \$45 million on July 3, 2001 and paid down its revolving Credit Facility. The Company plans to draw the remaining \$50 million as capital expenditures (primarily on the deepwater Medusa construction and completion project) are incurred. Under the terms of the



agreement, Callon also issued warrants for the purchase, at a nominal exercise price, of 265,210 shares of its common stock to the lender and conveyed an overriding royalty interest equal to 2% of the company's net interest in four of its deepwater discoveries. All amounts under the loan must be drawn before June 30, 2002. This senior debt will mature March 31, 2005 and contains restrictions on certain types of future indebtedness and dividends on common stock.

The proceeds from this financing, when combined with cash flow and current availability under the senior secured credit facility, is anticipated to fund our capital budgets for the balance of this year, and into next year. This would include completion of the Medusa deepwater discovery, currently scheduled to begin production in the fourth quarter of 2002. It also includes ongoing delineation and development drilling programs at three additional deepwater discoveries, and an ongoing exploration program in both the shelf and deepwater regions of the Gulf of Mexico. However, additional capital requirements may result from greater than anticipated success rates from the Company's ongoing shelf and deepwater exploration programs and the refinancing of our senior subordinated notes due 2002.

## CAPITAL EXPENDITURES

Capital expenditures for exploration and development costs related to oil and gas properties totaled approximately \$53.5 million in the first six months of 2001. The Company incurred approximately \$36.1 million in the Gulf of Mexico Shelf area. These expenditures included exploration costs of approximately \$24.6 million related to four successful and five unsuccessful Gulf of Mexico Shelf prospects evaluated during the first half of 2001. Three successful development wells and other production facility costs accounted for the remainder of the expenditures in the Gulf of Mexico Shelf area in the first six months of 2001. The Gulf of Mexico Deepwater area expenditures and other capitalized costs accounted for the remainder of the total capital expended. The Company had one unsuccessful deepwater exploration project in the first quarter of 2001 and the balance totaling \$6.0 million for additional development costs for production facilities at the Company's Medusa discovery. Interest and general and administrative costs allocable directly to exploration and development projects were approximately \$6.0 million for the first six months of 2001.

For the remainder of the year, the Company will continue evaluating property acquisitions and drilling opportunities. The Company has budgeted up to \$41.0 million in capital expenditures for the remainder of 2001. The major portion of the capital expenditure budget will be used to drill development and exploratory wells to increase total proved reserves and increase production for the Company. The capital budget includes \$10.7 million of additional development costs for production facilities at the Company's Medusa discovery.

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## RESULTS OF OPERATIONS

The following table sets forth certain unaudited operating information with respect to the Company's oil and gas operations for the periods indicated.

<Table>  
<Caption>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2001	2000	2001	2000
	<C>	<C>	<C>	<C>
Production volumes: (b)				
Oil (MBbls)	69	70	120	130
Gas (MMcf)	3,536	3,899	6,980	7,005
Total production (MMcfe)	3,950	4,316	7,701	7,788
Average daily production (MMcfe)	43.4	47.4	42.5	42.8
Average sales price: (a)(b)				
Oil (Bbls)	\$ 24.70	\$ 26.74	\$ 25.52	\$ 26.58
Gas (Mcf)	4.34	3.19	4.90	2.90
Total (Mcf)	4.32	3.32	4.84	3.05

Average costs (per Mcfe):

Lease operating (excluding severance taxes)	\$	0.70	\$	0.49	\$	0.67	\$	0.47
Severance taxes		0.08		0.05		0.08		0.06
Depletion		1.28		1.05		1.28		1.05
General and administrative (net of management fees)				0.40		0.22		0.35
								0.25

(a) Includes hedging gains and losses.

(b) Includes volumes of 580 MMcf for both three month periods ended June 30, 2001 and 2000 and 1,160 MMcf and 1,154 MMcf for the six month periods ended June 30, 2001 and 2000, respectively, at an average price of \$2.08 per Mcf associated with a volumetric production payment.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2001 AND THE THREE MONTHS ENDED JUNE 30, 2000.

Oil and Gas Production and Revenues

Total oil and gas revenues increased 19% from \$14.3 million in the second quarter of 2000 to \$17.1 million in the second quarter of 2001. Gas prices were higher while oil prices declined slightly when compared to the same period in 2000. Total production for the second quarter of 2001 decreased by 8% versus the second quarter of 2000.

Gas production during the second quarter of 2001 totaled 3.5 billion cubic feet and generated \$15.3 million in revenues compared to 3.9 billion cubic feet and \$12.5 million in revenues during the same period in 2000. The average sales price for the second quarter of 2001 averaged \$4.34 per thousand cubic feet compared to \$3.19 per thousand cubic feet at this time last year. The Company's gas production decreased when compared to the same quarter last year as a result of production declines at East Cameron 275 and South Marsh Island 261, offset by increases in production at Mobile Block 864. The production declines at East Cameron 275 and South Marsh Island 261 were normal and expected as the 2000 rates were indicative of higher initial production. Mobile Block 864 Area increased production due to a well stimulation program as well as additions to production through exploratory and developmental drilling on the property.

Oil production during the second quarter of 2001 totaled 69,000 barrels and generated \$1.7 million in revenues compared to 70,000 barrels and \$1.9 million in revenues for the same period in 2000. Average oil prices received in the second quarter of 2001 were \$24.70 compared to \$26.74 in 2000. The decline in production was primarily due to expected production declines in some of the Company's older producing properties.

Lease Operating Expenses

Lease operating expenses, including severance taxes, for the three-month period ending June 30, 2001 were \$3.1 million compared to \$2.3 million for the same period in 2000. Part of the increase was due to South Marsh Island 261 initial production beginning in May 2000, whereas 2001 incurred a full quarter of lease operating expenses. Also, production declines related to older properties that have relatively fixed operating costs contributed to the higher per Mcf costs with lower production levels for those properties in the three months ended June 30, 2001.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the three months ending June 30, 2001 and 2000 were \$5.2 million and \$4.6 million, respectively. This increase is primarily due to a higher average rate in the second quarter of 2001.

#### General and Administrative

General and administrative expense increased to \$1.6 million for the three months ended June 30, 2001 as compared to \$0.9 million for the three months ended June 30, 2000. This increase was due primarily to costs incurred related to the Company's withdrawn debt and equity offering in May of 2001.

#### Interest Expense

Interest expense increased from \$2.1 million during the three months ended June 30, 2000 to \$2.6 million during the three months ended June 30, 2001. An increase in the Company's long-term debt contributed to the greater interest expense.

### COMPARISON OF RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND THE SIX MONTHS ENDED JUNE 30, 2000.

#### Oil and Gas Production and Revenues

Total oil and gas revenues increased 57% from \$23.8 million in the first six months of 2000 to \$37.2 million in the first six months of 2001. Gas prices were substantially higher while oil prices declined when compared to the same period in 2000. Total production for the first six months of 2001 decreased by 1% versus the first six months of 2000.

Gas production during the first six months of 2001 totaled 7.0 billion cubic feet and generated \$34.2 million in revenues compared to 7.0 billion cubic feet and \$20.3 million in revenues during the same period in 2000. The average sales price for the first six months of 2001 averaged \$4.90 per thousand cubic feet compared to \$2.90 per thousand cubic feet at this time last year. The Company's gas production remained constant when compared to the same period last year as a result of expected and normal declines in maturing properties along with increased production in the Mobile Block 864 Area due to a well stimulation program as well as additions to production through exploratory and developmental drilling on the property.

Oil production during the first six months of 2001 totaled 120,000 barrels and generated \$3.1 million in revenues compared to 130,000 barrels and \$3.5 million in revenues for the same period in 2000. Average oil prices received in the first six months of 2001 were \$25.52 compared to \$26.58 in 2000. The decline in production was primarily due to expected production declines in some of the Company's older producing properties.

#### Lease Operating Expenses

Lease operating expenses, including severance taxes, for the six months period ending June 30, 2001 were \$5.7 million compared to \$4.2 million for the same period in 2000. The increase was due primarily to South Marsh Island 261 initial production beginning in May 2000, whereas 2001 incurred a full six months of lease operating expenses. Also, production declines related to older properties that have relatively fixed operating costs contributed to the higher per Mcf costs with lower production levels for those properties in the six months ended June 30, 2001.

#### Depreciation, Depletion and Amortization

Depreciation, depletion and amortization for the six months ending June 30, 2001 and 2000 were \$10.1 million and \$8.3 million, respectively. This increase is primarily due to a higher average rate in the first six months of 2001.

#### General and Administrative

General and administrative expense increased to \$2.7 million for the six months ended June 30, 2001 as compared to \$2.0 million for the six months ended June 30, 2000. This increase was, in part, due to the cost incurred in May 2001 related to the Company's withdrawn debt and equity offering.

Interest Expense

Interest expense increased from \$3.8 million during the six months ended June 30, 2000 to \$5.2 million during the six months ended June 30, 2001. An increase in the Company's long-term debt contributed to the greater interest expense.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 decreased; 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 3 to the Consolidated Financial Statements for a description of the Company's hedged position at June 30, 2001. There have been no significant changes in market risks faced by the Company since the end of 2000.

CALLON PETROLEUM COMPANY

PART II. OTHER INFORMATION

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

The Company held its annual meeting on May 4, 2001. At the annual meeting, the Class I directors of the board of directors of the Company were elected. The votes cast for each of the directors proposed by the Company's definitive proxy statement on Schedule 14A, out of a total of 13,353,223 shares outstanding, were as follows:

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	FOR	AGAINST or WITHHELD	ABSTAIN
	-----	-----	-----
<S>	<C>	<C>	<C>
Robert A Stanger	10,843,137	36,964	--
John C. Wallace	10,843,119	36,982	--
Richard O. Wilson	10,843,270	36,831	--

The shareholders of the Company also approved the appointment of Arthur

Andersen, LLP as the Company's independent accountants for 2001. There were 10,862,439 votes in favor of approving the appointment of Arthur Andersen, LLP as the Company's independent accountants, 11,732 votes against or withheld, and 5,930 abstentions.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a.) Exhibits

2. Plan of acquisition, reorganization, arrangement, liquidation or succession\*
3. Articles of Incorporation and By-Laws
  - 3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 of the Company's Registration Statement on Form S-4, filed August 4, 1994, Reg. No. 33-82408)
  - 3.2 Certificate of Merger of Callon Consolidated Partners, L. P. with and into the Company dated September 16, 1994 (incorporated by reference from Exhibit 3.2 of the Company's Annual Report on Form 10-K for the period ended December 31, 1994, File No. 001-14039)
  - 3.3 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)
4. Instruments defining the rights of security holders, including indentures
  - 4.1 Specimen 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, Reg. No. 33-96700)
  - 4.3 Designation for Convertible Exchangeable Preferred Stock, Series A (incorporated by reference from Exhibit 4.3 of the Company's Registration Statement on Form S-1/A, filed November 13, 1995, Reg. No. 33-96700)

- 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 Certificate of Correction on Designation of Series A Preferred Stock (incorporated by reference from Exhibit 4.4 of the Company's Registration Statement on Form S-1, filed November 22, 1996, Reg. No. 333-15501)
- 4.6 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)

- 4.7 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)
  - 4.8 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)
  - 4.9 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)
  - 4.10 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)
  - 4.11 Warrant dated as of June 29, 2001 entitling Duke Capital Partners, LLC to purchase common stock from the Company.
10. Material contracts
- 10.1 Credit Agreement dated as of June 29, 2001 between the Company and Duke Capital Partners, LLC, as Administrative Agent
  - 10.2 Second Amendment to Credit Agreement by and among the Company and First Union National Bank, as Administrative Agent, effective as of June 29, 2001
  - 10.3 Conveyance of Overriding Royalty Interest from the Company to Duke Capital Partners, LLC, dated June 29, 2001

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- 11. Statement re computation of per share earnings\*
- 15. Letter re unaudited interim financial information\*
- 18. Letter re change in accounting principles\*
- 19. Report furnished to security holders\*
- 22. Published report regarding matters submitted to vote of security holders\*
- 23. Consents of experts and counsel\*
- 24. Power of attorney\*
- 99. Additional exhibits\*

\*Inapplicable to this filing

- (b) Reports on Form 8-K
  - Current Report dated July 5, 2001, reporting Item 5. Other Events
  - Current Report dated May 15, 2001, reporting Item 5. Other Events
  - Current Report dated April 23, 2001, reporting Item 9. Regulation FD Disclosure
  - Current Report dated April 23, 2001, reporting Item 5. Other Events

SIGNATURES

Pursuant to the requirements 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: August 9, 2001      By: /s/ John S. Weatherly

-----  
John S. Weatherly, Senior Vice President and  
Chief Financial Officer  
(on behalf of the registrant and as the  
principal financial officer)

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19. Report furnished to security holders\*

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

23. Consents of experts and counsel\*

24. Power of attorney\*

99. Additional exhibits\*

</Table>

\*Inapplicable to this filing



EXHIBIT 4.11

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), NOR HAS IT BEEN APPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITY OF ANY STATE. THIS WARRANT HAS BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO DISTRIBUTION OR RESALE AND MAY NOT BE OFFERED FOR SALE, SOLD, MORTGAGED, PLEDGED, HYPPOTHCATED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH WARRANT UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS.

WARRANT

to Purchase up to an Aggregate of 265,210

Shares of Common Stock

CALLON PETROLEUM COMPANY  
(265,210 shares at \$0.01 per share)

VOID AFTER 3:00 p.m. (prevailing New York time)  
ON June 29, 2006

This is to certify that, for value received, Duke Capital Partners, LLC (together with its permitted assigns, "Holder") is entitled to purchase, subject to the provisions of this Warrant, from CALLON PETROLEUM COMPANY, a Delaware corporation (the "Corporation"), at any time on or after the date hereof for a period ending June 29, 2006, an aggregate of up to 265,210 fully paid and nonassessable shares (the "Warrant Shares") of common stock, par value \$0.01 per share (the "Common Stock"), of the Corporation at a price of \$0.01 per share, as adjusted from time to time pursuant to the terms hereof (the "Exercise Price").

1. Exercise of Warrant. Subject to the provisions hereof, this Warrant may be exercised in whole or in part (in multiples of at least 1,000 shares), at any time or from time to time on or after the date hereof for a period ending June 29, 2006. This Warrant shall be exercised by presentation and surrender hereof to the Corporation at the principal office of the Corporation, accompanied by (a) a written notice of exercise and (b) payment to the Corporation, for the account of the Corporation, of the Exercise Price for the number of shares of Common Stock specified in such notice. The Exercise Price for the number of shares of Common Stock specified in the notice shall be payable in immediately available funds.

Notwithstanding anything herein to the contrary, in lieu of payment of the applicable Exercise Price, the Holder may elect to receive upon exercise of this Warrant, the number of Warrant Shares reduced by a number of shares of Common Stock having the aggregate Fair Market Value (as hereinafter defined) on the date of exercise equal to the aggregate Exercise Price for the Warrant Shares.

As soon as practicable after such presentation and surrender, but in no event later than five business days following such date, the Corporation shall issue and deliver to the Holder the shares

of Common Stock to which the Holder is entitled hereunder. Unless at the time of such exercise there is in existence an effective registration statement under the Securities Act of 1933, as amended, concerning the shares of Common Stock issuable upon exercise of this Warrant, the certificates representing the shares purchased pursuant to the exercise of this Warrant shall be legended substantially as follows:

"The securities represented by this Certificate have not been registered under the Securities Act of 1933, as amended (the "Act") or under any state securities laws, and are "restricted securities" as that term is defined in Rule 144 under the Act. The securities may not be offered for sale, sold or otherwise transferred without an effective registration statement for such securities under the Act and applicable state securities laws, or an opinion of counsel satisfactory to the Corporation that registration is not required under such Act and applicable state securities laws."

This Warrant may be exercised in part, provided that the shares of the Corporation's common stock to be purchased upon any such partial exercise must be for at least 1,000 shares or for any multiple thereof. If this Warrant should be exercised in part, then the Corporation shall, upon surrender of this Warrant for cancellation, execute and deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the shares of Common Stock purchasable hereunder. Upon receipt by the Corporation of this Warrant, in proper form for exercise, the Holder shall be deemed to be the holder of record of the shares of Common Stock issuable upon such exercise, notwithstanding that the stock transfer books of the Corporation shall then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to the Holder. The Corporation shall pay any and all expenses, documentary, stamp or similar issue or transfer taxes and other charges payable in connection with the preparation, issuance and delivery of Warrant Shares pursuant to this Paragraph 1 in the name of the Holder.

No fractional shares of Common Stock shall be issued in connection with the exercise of this Warrant, but the Corporation shall pay a cash adjustment in respect of any fraction of a share which would otherwise be issuable in an amount equal to such fraction multiplied by the Fair Market Value on the date of exercise. Fair Market Value at any date shall mean the highest market price per share of Common Stock on such date, as determined by the highest sale price, regular way, or, if there shall have been no sale on such day, the average of the highest reported bid and lowest reported asked price, in each case as officially reported on the principal securities exchange on which the Common Stock is listed or admitted to trading, or if not listed or admitted to trading on any securities exchange, the average of the highest reported bid and lowest reported asked price as furnished by the National Quotation Bureau Incorporated; provided, however, that if the Common Stock is not traded in such manner that the quotations referred to herein are available, the Fair Market Value shall be deemed to be the fair market value of such Common Stock as determined by the Board of Directors of the Corporation in good faith.

2. Reservation of Shares: Preservation of Rights of Holder. (a) The Corporation hereby agrees that at all times it will maintain and reserve, free from preemptive rights, such number of authorized but unissued shares of Common Stock so that this Warrant may be exercised without additional authorization of Common Stock after giving effect to all other options, warrants, convertible securities and other rights to acquire shares of Common Stock. The Corporation further agrees that it will not, by charter amendment or through reorganization,

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consolidation, merger, dissolution or sale of assets, or by any other voluntary act, avoid or seek to avoid the observance or performance of any of the covenants, stipulations or conditions to be observed or performed hereunder by the Corporation.

(b) All shares of Common Stock delivered upon the exercise of the Warrant shall be validly issued, fully paid and nonassessable.

(c) As soon as practicable (but no later than 30 days) after the date hereof, the Corporation shall list the Common Stock issuable upon exercise of the Warrant on any securities exchange upon which any securities of the Corporation are then listed, if the listing of such securities is then permitted under the rules of such exchange.

3. Exchange or Loss of Warrant. This Warrant is exchangeable, upon presentation and surrender hereof at the principal office of the Corporation, only in connection with a partial exercise hereof. The Corporation shall be under no obligation to issue replacement warrants for the aggregate number of shares covered hereby except as described herein. The term "Warrant" as used herein includes any Warrant or Warrants for which this Warrant may be exchanged. Upon receipt by the Corporation of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Warrant, if mutilated, the Corporation will execute and deliver a new Warrant of like tenor and date.

4. Restricted Transferability and Registration Rights. This Warrant and Common Stock issuable upon exercise of this Warrant are subject to the restrictions on transfer, and the Holder is entitled to the registration rights,

set forth in the Registration Rights Agreement of even date herewith.

5. Adjustment. The number of shares of Common Stock purchasable upon the exercise of this Warrant and the Exercise Price shall be subject to adjustment from time to time as provided in this paragraph 5.

A. (1) If, during the term of this Warrant, the Corporation shall pay or make a dividend or other distribution on any class of capital stock of the Corporation in Common Stock, then the number of shares of Common Stock purchasable upon exercise of this Warrant shall be increased by multiplying such number of shares by a fraction, of which the denominator shall be the number of shares of Common Stock outstanding at the close of business on the day immediately preceding the date of such distribution and the numerator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such increase to become effective immediately after the opening of business on the date following such distribution.

(2) If, during the term of this Warrant, the outstanding shares of Common Stock shall be, pursuant to a recapitalization or other change in capital structure, subdivided into a greater number of shares of Common Stock, then the number of shares of Common Stock purchasable upon exercise of this Warrant at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately increased and, conversely, if outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, then the number of shares of Common Stock purchasable upon exercise of this Warrant at the opening of business on the day following the day upon which such combination becomes effective

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shall be proportionately decreased, such increase or decrease, 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.

(3) The reclassification of Common Stock into securities (other than Common Stock) and/or cash and/or other consideration shall be deemed to involve a subdivision or combination, as the case may be, of the number of shares of Common Stock outstanding immediately prior to such reclassification into the number or amount of securities and/or cash and/or other consideration outstanding immediately thereafter and the effective date of such reclassification shall be deemed to be "the day upon which such subdivision becomes effective" or "the day upon which such combination becomes effective", as the case may be, within the meaning of clause (2) above.

(4) The Corporation may in its sole discretion make such increases in the number of shares of Common Stock purchasable upon exercise of this Warrant, in addition to those required by this subparagraph (A), as shall be determined by its Board of Directors to be advisable in order to avoid taxation so far as practicable of any dividend of stock or stock rights or any event treated as such for federal income tax purposes to the recipients.

B. Whenever the number of shares of Common Stock purchasable upon exercise of this Warrant is adjusted as herein provided, the Exercise Price shall be adjusted by multiplying it by a fraction, of which the numerator is equal to the number of shares of Common Stock purchasable prior to the adjustment and the denominator is equal to the number of shares of Common Stock purchasable after the adjustment.

C. If any consolidation or merger of the Corporation with another entity, or the sale of all or substantially all of its assets to another entity, shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such consolidation, merger or sale, lawful and adequate provisions shall be made whereby the Holder shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions

specified in this Warrant and in lieu of the shares of the Common Stock of the Corporation immediately theretofore purchasable and receivable upon the exercise of the rights set forth herein, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights set forth herein had such consolidation, merger or sale not taken place, and in any such case, appropriate provisions shall be made with respect to the rights and interests of the Holder to the end that the provisions hereof (including without limitation provisions for adjustments of the exercise price and of the number of shares purchasable and receivable upon the exercise of the Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. If a purchase, tender or exchange offer is made to and accepted by the holders of more than 50% of the outstanding shares of Common Stock of the Corporation, the Corporation shall not effect any consolidation, merger or sale with the person having made such offer or with any affiliate of such person, unless prior to the consummation of such consolidation, merger or sale the Holder shall have been given a reasonable opportunity to then elect to receive

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upon the exercise of the Warrant either the stock, securities or assets then issuable with respect to the Common Stock of the Corporation or the stock, securities or assets, or the equivalent issued to previous holders of the Common Stock in accordance with such offer.

D. In the event of (i) any taking by the Corporation 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 any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or assets, or to receive any other right, (ii) any reorganization of the Corporation, or any reclassification or recapitalization of the capital stock of the Corporation, or any transfer of all or substantially all of the assets of the Corporation to, or consolidation or merger of the Corporation with any other person or (iii) any voluntary or involuntary dissolution or liquidation of the Corporation, then and in each such event the Corporation will mail or cause to be mailed to the Holder a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, the amount and character of such dividend, distribution or right, the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any, as of which the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up. Such notice shall be mailed at least 20 days prior to the proposed record date therein specified.

For the purpose of this Paragraph 5, the term "Common Stock" shall include any shares of the Corporation of any class or series which has no preference or priority in the payment of dividends or in the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation and which is not subject to redemption by the Corporation.

6. Notice. Whenever the number of shares of Common Stock for which this Warrant is exercisable is adjusted as provided in paragraph 5 hereof, the Corporation shall promptly compute such adjustment and mail to the Holder a certificate, signed by the chief financial officer of the Corporation, setting forth the number of shares of Common Stock for which this Warrant is exercisable and the exercise price as a result of such adjustment, a brief statement of the facts requiring such adjustment, the computation thereof and when such adjustment will become effective.

7. Rights of the Holder. Prior to the exercise of this Warrant, the Holder shall not, by virtue hereof, be entitled to any rights of a shareholder in the Corporation.

8. Termination. This Warrant and the rights conferred hereby shall terminate at the aforementioned time on June 29, 2006.

9. Governing Law. This Warrant shall be governed by, and interpreted in accordance with, the laws of the State of Delaware without regard to conflict of laws principles.

10. Remedies. The Corporation stipulates that the remedies at law of the Holder in the event of any default or threatened default by the Corporation in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate and that such terms may be

-5-

specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or thereof or otherwise.

DATED: January 29, 2001

ATTEST: CALLON PETROLEUM COMPANY

By: /s/ Robert A. Mayfield

By: /s/ John S. Weatherly

-----  
Robert A. Mayfield, Secretary

-----  
Name: John S. Weatherly

-----  
Title: Senior Vice President and CFO  
-----

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EXHIBIT 10.1

CREDIT AGREEMENT

DATED AS OF JUNE 29, 2001

AMONG

CALLON PETROLEUM COMPANY,  
AS BORROWER,

DUKE CAPITAL PARTNERS, LLC,  
AS ADMINISTRATIVE AGENT,

AND

THE LENDERS SIGNATORY HERETO

\$95,000,000.00 Multiple Advance Term Loan

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THIS CREDIT AGREEMENT, dated as of June 29, 2001, is among CALLON PETROLEUM COMPANY, a corporation formed under the laws of the State of Delaware (the "Borrower"); each of the 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 "Lender" and, collectively, the "Lenders"); and DUKE CAPITAL PARTNERS, LLC, a Delaware limited liability company (in its individual capacity, "DCP"), as administrative agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent").

RECITALS

- A. Borrower has requested that the Lenders provide certain loans to Borrower; and
  
- B. The Lenders have agreed to make such loans subject to the terms and conditions of this Agreement.
  
- C. In consideration of the mutual covenants and agreements herein contained and of the loans 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, the terms "Administrative Agent," "Borrower," "DCP," "Lender" and "Lenders" shall have the meanings indicated above.

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):

"Adjusted Consolidated Net Tangible Assets" shall mean (without duplication), as of the date of determination, the remainder of:

(a) the sum of:

(i) 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 during the preceding year 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 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, 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;

(ii) 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;

(iii) 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

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(iv) 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:

(i) minority interests;

(ii) to the extent included in (a)(i) above, any net gas balancing liabilities of Borrower and its Restricted Subsidiaries reflected in Borrower's latest audited financial statements;

(iii) to the extent included in (a)(i) 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

(iv) 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)(i) above, would be necessary to fully satisfy the payment obligations of Borrower and its 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 10% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or 10% 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

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"control" (including, with its correlative meanings, "controlled by" and "under common control with") such corporation or other Person.

"Agreement" shall mean this Credit Agreement, as the same may

from time to time be amended or supplemented.

"Aggregate Commitments" at any time shall equal the sum of the Commitments of the Lenders.

"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:

(1) a disposition by a Restricted Subsidiary to Borrower or by Borrower or a Restricted Subsidiary to a Wholly-Owned Subsidiary;

(2) the sale of Cash Equivalents in the ordinary course of business;

(3) a disposition of Hydrocarbons in the ordinary course of business;

(4) 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;

(5) transactions permitted under Section 9.08;

(6) an issuance of capital stock by a Restricted Subsidiary of Borrower to Borrower or to a Wholly-Owned Subsidiary;

(7) for purposes of this definition only, the making of a Permitted Investment or a disposition subject to Section 9.04;

(8) dispositions of assets selected by the board of directors of Borrower as not constituting an Asset Disposition with an aggregate fair market value since the Closing Date of less than \$2,500,000.00;

(9) dispositions in connection with Liens permitted under Section 9.02;

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(10) 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;

(11) foreclosure on assets;

(12) 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;

(13) the abandonment, farm-out, lease or sublease of developed or undeveloped Oil and Gas Properties in the ordinary course of business;

(14) 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 9.12, 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 9.12(b).

"Asset Disposition Offer Amount" shall have the meaning assigned such term in Section 9.12(b).

"Asset Disposition Offer Period" shall have the meaning assigned such term in Section 9.12(b).

"Asset Disposition Purchase Date" shall have the meaning assigned such term in Section 9.12(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 New York.

"Cash Equivalents" shall mean:

(1) 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

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pledged in support thereof), having maturities of not more than one year from the date of acquisition;

(2) 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.;

(3) 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 \$500,000,000.00;

(4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (1), (2) and (3) above entered into with any bank meeting the qualifications specified in clause (3) above;

(5) 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

(6) interests in any investment company or money market fund which invests solely in instruments of the type specified in clauses (1) through (5) above.

"Change in Control" means (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 June 29, 2001.

"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, its obligation to make Loans up to the amount set forth opposite such Lender's name on Annex I.

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"Commitment Letter" shall mean that certain letter agreement from DCP to Borrower, dated June 21, 2001, Re: Commitment and Engagement Letter Senior Unsecured Credit Facility for Callon Petroleum Borrower, including the Summary of Terms and Conditions attached thereto on Exhibit A.

"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 restricted basis in accordance with GAAP; provided that there shall be excluded from such net income (to the extent otherwise included therein) 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) the net income (or loss) of any Person acquired in a pooling-of-interests transaction for any period prior to the date of such transaction; (iv) any extraordinary gains or losses, including gains or losses attributable to Property sales not in the ordinary course of business; (v) the cumulative effect of a change in accounting principles; and (viii) any gains or losses attributable to writeups 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.

"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. "Controlling" and "Controlled" have meanings correlative thereto.

"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

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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 Indebtedness; (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.

"Deepwater Oil and Gas Properties" shall mean the Oil and Gas properties described on Schedule 1.1.

"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:

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

(2) 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

(3) 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 91 days after the date (a) on which the Notes mature or (b) on which there are no Notes and no Indebtedness outstanding; 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

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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 2.07(b), 9.04 and 9.12.

"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.

"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 and amortization; provided, with respect to Consolidated Net Income flowing from each Deepwater Oil and Gas Property that Borrower has on production for one month or more (but less than the full pro forma period), EBITDA shall include the results of operations of such Deepwater Oil and Gas Property as follows:

(a) If producing longer than one month but less than three months, EBITDA shall be calculated as if such well were producing for three months during such period;

(b) If producing longer than three months but less than six months, EBITDA shall be calculated as if such well were producing for six months during such period; and

(c) If producing longer than six months, EBITDA shall be calculated as if such well were producing for the entire pro forma period.

EBITDA for such Deepwater Oil and Gas Properties shall be calculated using the average EBITDA per day that the Deepwater Oil and Gas Property was on production.

For the purposes of this definition (when used in the calculation of the Interest 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.

"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 9.12(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 2002 Subordinated Notes, the 2004 Subordinated Notes and the 2005 Subordinated Notes.

"Federal Funds Rate" shall mean, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight federal funds transactions with a member of the Federal Reserve System arranged by

federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (i) if the date for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the

immediately preceding Business Day as so published on the next succeeding Business Day, and (ii) if such rate is not so published for any day, the Federal Funds Rate for such day shall be the average rate charged to the Administrative Agent on such day on such transactions as determined by the Administrative Agent.

"Fee Letter" shall mean that certain letter agreement from DCP to Borrower dated June 21, 2001, concerning certain fees in connection with this Agreement and any agreements or instruments executed in connection therewith, as the same may be amended, restated, modified or replaced from time to time.

"Final Maturity Date" shall mean the earlier to occur of (i) March 31, 2005; provided, however, if the 2004 Subordinated Notes are not redeemed prior to August 1, 2004, maturity will be September 1, 2004; and (ii) the date that the Notes are prepaid in full pursuant to Section 2.07.

"Financial Statements" shall have the meaning assigned such term in Section 7.02.

"Form 1001 Certification" shall have the meaning assigned such term in Section 4.06(d)(i).

"Form 4224 Certification" shall have the meaning assigned such term in Section 4.06(d)(i).

"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 2.03, 9.01 and 9.04 and (ii) otherwise as in effect from time to time.

"Governmental Authority" shall include 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.

"Guarantor" shall mean any Subsidiary or other Person that executes a Guaranty Agreement, which as of the Closing Date are all of the Restricted Subsidiaries of Borrower.

"Guarantor Subordinated Obligation" means, with respect to a Guarantor, any Debt of such Guarantor (whether outstanding on the Closing Date or thereafter incurred) which is expressly subordinate in right of payment to the obligations of such Guarantor under its Guaranty Agreement pursuant to a written agreement.

"Guaranty Agreement" shall mean an agreement executed by a Guarantor in form and substance satisfactory to the Administrative Agent guarantying, unconditionally, payment of the Indebtedness, as the same may be amended, modified or supplemented from time to time.

"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 or on other Indebtedness 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.

"Indebtedness" shall mean any and all amounts owing or to be owing by Borrower to the Administrative Agent and/or the Lenders in connection with the Loan Documents and any Hedging Agreements now or hereafter arising between Borrower and any Lender or any Affiliate of any Lender and permitted by the terms of this Agreement and all renewals, extensions and/or rearrangements of any of the foregoing.

"Indemnified Parties" shall have the meaning assigned such term in Section 12.03(a)(ii).

"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.

"Initial Funding" shall mean the funding of the initial Loans upon satisfaction of the conditions set forth in Section 6.01.

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"Interest Coverage Ratio" means 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:

(1) if Borrower or any Restricted Subsidiary:

(a) 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 2.03, 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

(b) 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 2.03, 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;

(2) 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:

(a) 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

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(b) 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);

(3) 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

(4) 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 (2) or (3) 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" means, 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):

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(1) 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;

(2) imputed interest expense attributable to any production payment, project financing by vendors and other non-recourse debt;

(3) interest actually paid by Borrower or any Restricted Subsidiary under any guarantee of Debt or other obligation of any other person;

(4) 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);

(5) the consolidated cash interest expense of Borrower and its Restricted Subsidiaries that was capitalized during such period; and

(6) 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" means, 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:

(1) Hedging Agreements entered into in the ordinary course of business and in compliance herewith;

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(2) endorsements of negotiable instruments and documents in the ordinary course of business; and

(3) 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:

(1) "Investment" will include 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

(2) any Property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the board of directors of Borrower.

"Lender Termination Date" shall have the meaning assigned such term in Section 5.02(c).

"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 Documents" shall mean the Fee Letter, the Commitment Letter, this Agreement, the Notes, the Guaranty Agreements, any Assignment and any other agreements or documents executed in connection herewith.

"Loans" shall mean the loans as provided for by Sections 2.01 and 2.02.

"Majority Lenders" shall mean, at any time while no Loans are outstanding, Lenders having at least 50% of the Aggregate Commitments and, at any time while Loans are outstanding, Lenders holding at least 50% 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 12.06(c)).

"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 means 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:

(1) 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;

(2) 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;

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

(4) the deduction of appropriate amounts 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, means 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 2.06, together with any and all renewals, extensions for any period,

increases, rearrangements, substitutions or modifications thereof.

"Notice of Termination" shall have the meaning assigned such term in Section 5.02(a).

"Oil and Gas Assets" means:

(1) any property or assets (other than Debt and capital stock) used or to be used by Borrower or a Restricted Subsidiary in a Related Business;

(2) the capital stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such capital stock by Borrower or a Restricted Subsidiary of Borrower; or

(3) capital stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary of Borrower;

provided, however, that, in the case of clauses (2) and (3), such Restricted Subsidiary is primarily engaged in a Related Business.

"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,

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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 4.06(b).

"Override" shall mean that certain Conveyance of Overriding Royalty Interest between Borrower and DCP dated as of the date hereof.

"Pari Passu Notes" shall have the meaning assigned such term in Section 9.12(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 Commitments 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 9.12.

"Permitted Indebtedness" shall mean:

- (a) the Notes or other Indebtedness or any guaranty of or suretyship arrangement for the Notes or other Indebtedness;
  - (b) Debt (other than that associated with the Senior Secured Credit Facility) of Borrower existing on the Closing Date which is reflected in the Financial Statements or is disclosed in Schedule 9.01, and any renewals or extensions (but not increases) thereof;
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- (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 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 9.07;
  - (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 Guarantor; 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 Guarantors for each individual period covered by the Hedging Agreements and (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 (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 amount outstanding not greater than \$75,000,000.00; and

(i) any Debt that is unsecured and subordinate in right of payment to the Indebtedness;

(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 (a) 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 (b) 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 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

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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 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 \$10,000,000.00 in the aggregate at any one time outstanding; and

(p) in addition to the items referred to in clauses (a) through (o) 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 (p) and then outstanding, will not exceed \$10,000,000.00.

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

(1) 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;

(2) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, Borrower or a

Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business;

(3) cash and Cash Equivalents;

(4) 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;

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

(6) loans or advances to employees made in the ordinary course of business consistent with past practices of Borrower or such Restricted Subsidiary;

(7) 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;

(8) 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 9.12;

(9) Investments in existence on the date hereof;

(10) Hedging Agreements which transactions or obligations are incurred in compliance with Section 9.01;

(11) Investments by Borrower or any of its Restricted Subsidiaries, together with all other Investments pursuant to this clause (11), in an aggregate amount at the time of such Investment not to exceed \$10,000,000.00 outstanding at any one time;

(12) guarantees issued in accordance with Section 9.01;

(13) Investments representing deferred compensation of employees and earnings thereon under Borrower's KEYSOP plan; and

(14) Permitted Business Investments.

"Permitted Lien" shall mean with respect to any Person:

(1) Liens securing Indebtedness hereunder and the Debt and other obligations of Borrower under the Senior Secured Credit Facility and related Hedging Agreements and liens on assets of Restricted Subsidiaries securing Guarantees of Indebtedness hereunder and the Debt and other obligations of Borrower under the Senior Secured Credit Facility;

(2) 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 (other than for the payment of Indebtedness) 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;

(3) 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;

(4) 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;

(5) 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;

(6) 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;

(7) 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;

(8) 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;

(9) 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;

(10) 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:

(a) 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

(b) such Liens are created within 180 days of construction or acquisition of such Property and do not encumber any other Property of Borrower

or appurtenant thereto;

(11) 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 depository institution; provided that:

(a) 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

(b) such deposit account is not intended by Borrower or any Restricted Subsidiary to provide collateral to the depository institution;

(12) 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;

(13) Liens existing on the Closing Date;

(14) 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;

(15) 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;

(16) Liens securing Debt or other obligations of a Restricted Subsidiary owing to Borrower or a Wholly Owned Subsidiary;

(17) Liens securing the Notes and Guaranty Agreement;

(18) 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;

(19) 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;

(20) Liens in respect of production payments and reserve sales; and

(21) 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.

"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 14% per annum, but in no event to exceed the Highest Lawful Rate.

"Preferred Stock," as applied to the capital stock of any corporation, means 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 corporation, over shares of capital stock of any other class of such corporation.

"Principal Office" shall mean the principal office of the Administrative Agent, currently located at 128 South Tryon Street, Suite 1100, Charlotte, NC 28202.

"Property" shall mean any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Quarterly Dates" shall mean the last day of each March, June, September, and December, in each year, the first of which shall be September 30, 2001; provided, however, that if any such day is not a Business Day, such Quarterly Date shall be the next succeeding Business Day.

"Related Business" means 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.

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"Replacement Lenders" shall have the meaning assigned such term in Section 5.02.

"Required Payment" shall have the meaning assigned such term in Section 4.04.

"Reserve Report" shall mean a report, in form and substance satisfactory to the Administrative Agent, setting forth, as of each January 1 or July 1, as the case may be (or such other date in the event of an unscheduled redetermination): (i) the oil and gas reserves attributable to Borrower's Oil and Gas Properties together with a projection of the rate of production and future net income, taxes, operating expenses and capital expenditures with respect thereto as of such date, based upon the pricing assumptions consistent with SEC reporting requirements at the time and (ii) such other information as the Administrative Agent may reasonably request. The term "Reserve Report" shall also include the information to be provided by Borrower each year pursuant to Section 8.07.

"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" means any Investment other than a Permitted Investment.

"Restricted Payment" shall have the meaning assigned such term in Section 9.04(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.

"Risk Adjusted PV-10" shall mean as of any date, the most recently calculated pre-tax present value, discounted at 10%, of future net cash flows, of Borrower's consolidated estimated net proved reserves including Volumetric Production Payments owed to other Persons, using NYMEX strip prices (adjusted for quality and basis differential) as of the date of calculation for three years and held constant at the average third year price thereafter and costs held constant. The following risk adjustments shall be applied to the discounted present value of each category of reserves:

- (a) Proved developed producing 100%
- (b) Proved developed non-producing 80%
- (c) Proved undeveloped 50%

Risk Adjusted PV-10 shall be calculated each March 31 and September 30, using reserve reports as of the preceding January 1 and July 1. Reserve quantities as of January 1 of each year shall be estimated by Borrower's independent reserve engineers, who shall be Huddleston & Co., Inc. or another firm acceptable to the Administrative Agent, acting reasonably, using definitions approved by the Society of Petroleum Engineers. Reserve quantities as of July 1 of each year shall be rolled forwards of January 1 reserve reports prepared internally by Borrower's

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engineers. The Administrative Agent shall have the right to request a documented redetermination of rolled forward reserve reports prepared by Borrower's independent engineers; the redetermination shall be prepared by Borrower's independent reserve engineers, as designated above, for which the reserve reports are used in the calculation of the Risk Adjusted PV-10 in accordance with a debt incurrence test under Section 9.01(b). Borrower shall have the right to prepare one additional Risk Adjusted PV-10 calculation at any time between January 1, 2002 and June 30, 2002. Risk Adjusted PV-10 shall be appropriately adjusted for material purchases, sales and discoveries of oil and gas reserves which have occurred since the date of the applicable reserve report.

"Risk Adjusted PV-10 Ratio" shall mean the ratio of Risk Adjusted PV-10 to total Senior Indebtedness including the maximum amount of any proposed Senior Indebtedness.

"Scheduled Redetermination Date" shall mean, so long as any of the Commitments are in effect and until payment in full of all Indebtedness hereunder, the first Business Day of each April and October, commencing October 2001.

"SEC" shall mean the Securities and Exchange Commission or any successor Governmental Authority.

"Senior Indebtedness" means, whether outstanding on the date hereof or thereafter issued, created, incurred or assumed, the Senior Secured 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:

(1) 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 not superior in right of, or are subordinate to, payment of the Notes and the Guaranty Agreement(s);

(2) any obligation of Borrower to any Subsidiary;

(3) any liability for federal, state, foreign, local or other taxes owed or owing by Borrower;

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

(5) 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

(6) any capital stock.

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For purposes of calculating the Risk Adjusted PV-10 Ratio, Senior Indebtedness shall include production payments, project financing by vendors and other non-recourse debt.

"Senior Secured Credit Facility" means, with respect to Borrower, its 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 \$75,000,000.00 Senior Secured Credit Facility among Borrower, First Union National Bank, as Administrative Agent and the other lenders thereto.

"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 Indebtedness, 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" means 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 4.06(a).

"Terminated Lender" shall have the meaning assigned such term in Section 5.02(a).

"Unrestricted Subsidiary" shall mean any Subsidiary of Borrower that is not a Restricted Subsidiary.

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"Volumetric Production Payments" means 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.

"2002 Subordinated Notes" shall mean the 10.125% Senior Subordinated Notes due September 15, 2002, issued by Borrower pursuant to that certain Indenture dated July 31, 1997 between Callon Petroleum Company and American Stock Transfer & Trust Company.

"2004 Subordinated Notes" shall mean the 10.25% Senior Subordinated Notes due September 15, 2004, issued by Borrower pursuant to that certain Indenture dated July 20, 1999, between Borrower and American Stock Transfer & Trust Company.

"2005 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. Each Lender severally agrees, subject to the terms and conditions of this Agreement, to make Loans to Borrower during the period from and including (i) the Closing Date or (ii) such later date that such Lender becomes a party to this Agreement as provided in Section 12.06(b), to and up to, but excluding, June 30, 2002, not to exceed such Lender's Commitment. Borrower may borrow hereunder on multiple occasions as provided in Section 2.02.

#### Section 2.02 Borrowings.

(a) Borrowings. Up to June 30, 2002, Borrower shall give the Lenders advance written notice as hereinafter provided of each borrowing hereunder, which shall specify the aggregate amount of such borrowing and the date (which shall be a Business Day) of the Loans to be borrowed. The initial borrowing hereunder shall be in the aggregate principal

amount of \$45,000,000.00 and, subject to the terms and conditions of this Agreement, will be made to Borrower on the Closing Date and, from time to time thereafter, but prior to June 30, 2002, Borrower will draw additional Loans up to the unused amount of the Aggregate Commitments in increments of \$10,000,000.00 until all of the Commitments have been borrowed upon in full.

(b) Notices. All borrowings shall require advance written notice to the Administrative Agent (which shall promptly notify the Lenders) in the form of Exhibit B (or telephonic notice promptly confirmed by such a written notice), which in each case shall be irrevocable, from Borrower to be received by the Administrative Agent not later than 11:00 a.m. New York, New York time at least one Business Day prior to the Closing Date, with respect to the initial borrowing, and 45 days prior to the date of each subsequent borrowing. Without in any way limiting Borrower's obligation to confirm in writing any telephonic notice, the Administrative Agent may act without liability upon the basis of telephonic notice believed by the Administrative Agent in good faith to be from Borrower prior to receipt of written confirmation. In each such case, Borrower hereby waives the right to dispute the Administrative Agent's record of the terms of such telephonic notice except in the case of gross negligence or willful misconduct by the Administrative Agent.

(c) Advances. Not later than 11:00 a.m. New York, New York time on the date specified for each borrowing hereunder, each Lender shall make available the amount of the Loan to be made by it on such date to the Administrative Agent, to an account which the Administrative Agent shall specify, in immediately available funds, for the account of Borrower. The amounts so received by the Administrative Agent shall, subject to the terms and conditions of this Agreement, be made available to Borrower by depositing the same, in immediately available funds, in an account of Borrower, designated by Borrower and maintained at the Principal Office.

Section 2.03 Ratio Test. Borrower shall not be permitted to borrow on the Commitments hereunder unless on the date of each borrowing (i) the Interest Coverage Ratio is at least 2.0 to 1.0 and (ii) the Risk Adjusted PV-10 Ratio is 1.25 to 1.0 or more.

Section 2.04 Fees. Borrower shall pay, assign or issue to the Administrative Agent for its account such fees as are set forth in the Fee Letter on the dates specified therein to the extent not paid prior to the Closing Date.

Section 2.05 Several Obligations. The failure of any Lender to make any Loan to be made by it on the date specified therefor shall not relieve any other Lender of its obligation to make its Loan on such date, but no Lender shall be responsible for the failure of any other Lender to make a Loan to be made by such other Lender.

Section 2.06 Notes. The Loans made by each Lender shall be evidenced by a single promissory note (a "Note") of Borrower in substantially the form of Exhibit A, dated the date of the first still outstanding Loan, payable to the order of such Lender for the principal amount of all Loans outstanding and due such Lender, and otherwise duly completed. The date and amount of each 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 the 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 Borrower's rights or obligations in respect of such Loans or affect the validity of such transfer by any Lender of its Note.

Section 2.07 Prepayments.

(a) Voluntary Prepayments. (i) Subject to the prepayment premiums provided for in clause (ii) of this Section 2.07(a), at any time after July 1, 2002, Borrower may prepay the Loans 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 \$1,000,000.00 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.

(ii) Voluntary prepayments made by Borrower pursuant to Section 2.07(a)(i) shall be subject to the following prepayment premiums:

(x) For any voluntary prepayment made after July 1, 2002, but before July 1, 2003, Borrower shall pay a prepayment premium equal to 2% of the amount prepaid;

(y) For any voluntary prepayment made after July 1, 2003, but before July 1, 2004, Borrower shall pay a prepayment premium equal to 1% of the amount prepaid; and

(z) Any prepayment made after July 1, 2004 shall be without premium or penalty.

(b) Mandatory Prepayments. Upon the occurrence of a Change in Control, the Majority Lenders shall have the right to require Borrower to prepay the aggregate principal amount of Loans 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 the Majority Lenders elect to require such prepayment, the Majority Lenders 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 days following receipt of such notice) specified in such written notice.

(c) Generally. Any prepayment made pursuant to this Section 2.07 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 Rate. Borrower will pay to the Administrative Agent, for the account of each Lender, interest on the unpaid principal amount of each Loan made by such Lender for the period commencing on the date such Loan is made to, but excluding, the date such Loan shall be paid in full, at the simple rate per annum equal to 12%, 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 any Loan made by such Lender to the extent such principal is past due and owing, and (to the fullest extent permitted by law) on any other amount payable by Borrower hereunder or under any Note held by such Lender to or for account of such Lender, 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 September 30, 2001, 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 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.

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Section 4.02 Pro Rata Treatment. Except to the extent otherwise provided herein each Lender agrees that: (i) each borrowing from the Lenders hereunder shall be made from the Lenders pro rata in accordance with their Percentage Share; (ii) each payment of principal of Loans by Borrower shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amount of the Loans held by the Lenders; and (iii) each payment of interest on Loans 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 Non-receipt of Funds by the Administrative Agent. Unless the Administrative Agent shall have been notified by a Lender or Borrower prior to the date on which such notifying party is scheduled to make payment to the Administrative Agent (in the case of a Lender) of the proceeds of a Loan to be made by it hereunder or (in the case of Borrower) a payment to the Administrative Agent for account of one or more of the Lenders hereunder (such payment being herein called the "Required Payment"), which notice shall be effective upon receipt, that it does not intend to make the Required Payment to the Administrative Agent, the Administrative Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient(s) on such date and, if such Lender or Borrower (as the case may be) has not in fact made the Required Payment to the Administrative Agent, the recipient(s) of such payment shall, on demand, repay to the Administrative Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Administrative Agent until, but excluding, the date the Administrative Agent recovers such amount at a rate per annum which, for any Lender as recipient, will be equal to the Federal Funds Rate, and for Borrower as recipient, will be equal to 12% per annum.

##### Section 4.05 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 (after consultation with the Administrative Agent), 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 Loans, 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 any 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 (i)

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notify the Administrative Agent and each other Lender thereof and (ii) 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 Loans 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 Loans 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 4.05 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 4.05 to share the benefits of any recovery on such secured claim.

#### Section 4.06 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 (i) 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, (ii) the jurisdiction (or any political subdivision thereof) in which the Administrative Agent or such Lender is organized, or (iii) 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 4.06) 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

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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 4.06) 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 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 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.

(i) Each Lender represents that it is either (1) a banking association or corporation organized under the laws of the United States of America or any state thereof or (2) 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 (A) under an applicable provision of a tax convention to which the United States of America is a party or (B) 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 Closing 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 4224 (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 4224 Certification") or (B) Internal Revenue Service Form 1001 (or successor form) certifying that it is entitled to the benefit of a

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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 1001 Certification"). In addition, each Lender agrees that if it previously filed a Form 4224 Certification, it will deliver to Borrower and the Administrative Agent a new Form 4224 Certification prior to the first payment date occurring in each of its subsequent taxable years; and if it previously filed a Form 1001 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 4.06, 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 1001 Certification or Form 4224 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 4.06 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 4.06.

(ii) For any period with respect to which a Lender has failed to provide Borrower with the form required pursuant to this Section 4.06, 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 4.06 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.

(iii) Any Lender claiming any additional amounts payable pursuant to this Section 4.06 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

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Lender claiming such additional amounts. No Lender may claim reimbursement for incurred costs more than 90 days from the date of written request to Borrower.

## ARTICLE V

### CAPITAL ADEQUACY

#### Section 5.01 Capital Adequacy.

(a) Borrower shall pay directly to each Lender that is any

regulated banking institution from time to time on request such amounts as such Lender may determine to be necessary to compensate such Lender or its parent or holding company for any costs which it determines are attributable to the maintenance by such Lender or its parent or holding company, pursuant to any Governmental Requirement, of capital in respect of its Commitment or making, funding or maintaining any Loans (such compensation to include, without limitation, an amount equal to any reduction of the rate of return on assets or equity of such Lender or its parent or holding company to a level below that which such Lender or its parent or holding company could have achieved but for such Governmental Requirement). Each such Lender will notify Borrower that it is entitled to compensation pursuant to this Section 5.01(a) as promptly as practicable after it determines to request such compensation.

(b) Determinations and allocations by any Lender for purposes of this Article V shall be conclusive, provided that such determinations and allocations are made on a reasonable basis.

(c) Any Lender notifying Borrower of the incurrence of additional costs under this Section 5.01 shall in such notice to Borrower and the Administrative Agent set forth in reasonable detail the basis and amount of its request for compensation. Determinations and allocations by each Lender for purposes of this Section 5.01 of the effect of any regulatory change pursuant to 5.01(a), or of the effect of capital required to be maintained on its costs or rate of return of maintaining Loans or its obligation to make Loans, or on amounts receivable by it in respect of Loans, and of the amounts required to compensate such Lender under this Section 5.01, shall be conclusive and binding for all purposes, provided that such determinations and allocations are made on a reasonable basis. Any request for additional compensation under this Section 5.01 shall be paid by Borrower within 30 days of the receipt by Borrower of the notice described in this Section 5.01(c).

#### Section 5.02 Replacement Lenders.

(a) If any Lender has notified Borrower and the Administrative Agent of its incurring additional costs under Section 5.01 or has required Borrower to make payments for Taxes under Section 4.06, then Borrower may, unless such Lender has notified Borrower and the Administrative Agent that the circumstances giving rise to such notice no longer apply, terminate, in whole but not in part, the Commitment of such Lender (other than the Administrative Agent) (the "Terminated Lender") at any time upon five Business Days' prior

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written notice to the Terminated Lender and the Administrative Agent (such notice referred to herein as a "Notice of Termination").

(b) In order to effect the termination of the Commitment of the Terminated Lender, Borrower shall: (i) obtain an agreement with one or more Lenders to increase their Commitment or Commitments and/or (ii) request any one or more other Persons to become parties to this Agreement in place and instead of such Terminated Lender and agree to accept a Commitment or Commitments; provided, however, that such one or more other Persons are reasonably acceptable to the Administrative Agent and become parties by executing an Assignment (the Lenders or other banking institutions that agree to accept in whole or in part the Commitment of the Terminated Lender being referred to herein as the "Replacement Lenders"), such that the aggregate increased and/or accepted Commitments of the Replacement Lenders under clauses (i) and (ii) above equal the Commitment of the Terminated Lender.

(c) The Notice of Termination shall include the name of the Terminated Lender, the date the termination will occur (the "Lender Termination Date"), and the Replacement Lender or Replacement Lenders to which the Terminated Lender will assign its Commitment and, if there will be more than one Replacement Lender, the portion of the Terminated Lender's Commitment to be assigned to each Replacement Lender.

(d) On the Lender Termination Date, (i) the Terminated Lender shall by execution and delivery of an Assignment assign its Commitment to the Replacement Lender or Replacement Lenders (pro rata, if there is more than one Replacement Lender, in proportion to the portion of the Terminated Lender's



Commitment to be assigned to each Replacement Lender) indicated in the Notice of Termination and shall assign to the Replacement Lender or Replacement Lenders each of its Loans (if any) then outstanding pro rata as aforesaid), (ii) the Terminated Lender shall endorse its Note, payable without recourse, representation or warranty to the order of the Replacement Lender or Replacement Lenders (pro rata as aforesaid), (iii) the Replacement Lender or Replacement Lenders shall purchase the Note held by the Terminated Lender (pro rata as aforesaid) at a price equal to the unpaid principal amount thereof plus interest and facility and other fees accrued and unpaid to the Lender Termination Date, and (iv) the Replacement Lender or Replacement Lenders will thereupon (pro rata as aforesaid) succeed to and be substituted in all respects for the Terminated Lender with like effect as if becoming a Lender pursuant to the terms of Section 12.06(b), and the Terminated Lender will have the rights and benefits of an assignor under Section 12.06(b). To the extent not in conflict, the terms of Section 12.06(b) shall supplement the provisions of this Section 5.02(d). For each assignment made under this Section 5.02, the Replacement Lender shall pay to the Administrative Agent the processing fee provided for in Section 12.06(b).

## ARTICLE VI

### CONDITIONS PRECEDENT

Section 6.01 Initial Funding. The obligation of the Lenders to make the Initial Funding is subject to the receipt by the Administrative Agent and the Lenders of all fees payable pursuant to Section 2.04 on or before the Closing Date and the receipt by the

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Administrative Agent of the following documents and satisfaction of the other conditions provided for in 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 the Loan Documents to which it is a party and to enter into the transactions contemplated in those documents, (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) A certificate of the Secretary or an Assistant Secretary of the Guarantors setting forth (i) resolutions of its board of directors with respect to the authorization of the Guarantor 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 the Guarantor (y) who are authorized to sign the Loan Documents to which Guarantor 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 the Guarantor, certified as being true and complete. The Administrative Agent and the Lenders may conclusively rely on such certificate until they receive notice in writing from the Guarantor to the contrary.

(c) Certificates of the appropriate state agencies with respect to the existence, qualification and good standing of Borrower and each Guarantor.

(d) 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 the Closing Date.

(e) The Notes, duly completed and executed.

(f) The Guaranty Agreement(s) duly completed and executed by the Guarantors.

(g) An opinion of Haynes and Boone, LLP, counsel to Borrower and the Guarantors and an opinion of Brent Bourland, Esq., special Mississippi counsel to Borrower, both in form and substance satisfactory to the Administrative Agent and both, as to such matters incident to the transactions herein contemplated, as the Administrative Agent may reasonably request.

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(h) A certificate of insurance coverage of Borrower evidencing that Borrower is carrying insurance in accordance with Section 7.19.

(i) Title information for the Oil and Gas Properties referred to as Boomslang, Entrada, Habanero and Medusa shall have been furnished to the Administrative Agent and either all leases, assignments of record title and any other documents in the chain of title shall have been properly filed and recorded in the appropriate Texas county and/or Louisiana parish offices or original copies of all leases, assignments of record title and any other documents in the chain of title shall have been delivered to the Administrative Agent for filing and recording in the appropriate Texas county and/or Louisiana parish offices.

(j) Full releases of Liens from First Union National Bank, as Administrative Agent, releasing all Liens in favor of First Union National Bank, as Administrative Agent, on Borrower's Oil and Gas Properties conveyed to DCP pursuant to the Override.

(k) Second Amendment to Senior Secured Credit Facility by First Union National Bank, as Administrative Agent, consenting to the transactions contemplated by this Agreement.

(l) Such other documents as the Administrative Agent or any Lender or special counsel to the Administrative Agent may reasonably request.

Section 6.02 Initial and Subsequent Loans. The obligation of the Lenders to make Loans to Borrower upon the occasion of each borrowing hereunder (including the Initial Funding) 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 Sections 7.01(a), 7.05, 7.06, 7.07, 7.11, 7.12 and 7.13 shall be true on and as of the date of the making of such Loans with the same force and effect as if made on and as of such date and following such new borrowing, except to the extent such representations and warranties are expressly limited to an earlier date or the Majority Lenders may expressly consent in writing to the contrary.

Each request for a borrowing by Borrower hereunder shall constitute a certification by Borrower to the effect set forth in Sections 2.03 and 6.02(b) both as of the date of such notice and, unless Borrower otherwise notifies the Administrative Agent, prior to the date of and immediately following such borrowing.

Section 6.03 Conditions Precedent for the Benefit of Lenders. All conditions precedent to the obligations of the Lenders to make any Loan 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 any Loan 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 requiring such condition to be met prior

to making any subsequent Loan or preclude 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 that (each representation and warranty herein is given as of the Closing Date and shall be deemed repeated and reaffirmed on the dates of each borrowing as provided in Section 6.02):

#### Section 7.01 Corporate Existence; Capitalization.

(a) Each of Borrower and each 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 Closing 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 13,260,473 shares are issued and outstanding and 99,078 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 Closing 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 Closing 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, 2000 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 Arthur Andersen

LLP heretofore furnished to each of the Lenders and the unaudited consolidated balance sheet of Borrower and its Consolidated Subsidiaries as at March 31, 2001 and their related consolidated statements of income, stockholders' equity and

cash flow of Borrower and its Consolidated Subsidiaries for the three 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 Closing 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 December 31, 2000, 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 Closing 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 Closing Date under, the respective charter or by-laws of Borrower or any Subsidiary, or any Governmental Requirement or any agreement or instrument to which Borrower or any 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 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 and each Subsidiary have 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 and each Subsidiary 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 and each Subsidiary, 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 or any Subsidiary of the Loan Documents or for the validity or enforceability thereof.

Section 7.07 Use of Loans. The proceeds of the Loans shall be used (a) to fund capital expenditures (including expenditures to develop deepwater Oil and Gas Properties), and (b) for general corporate purposes. Furthermore, proceeds of the Loan may be used to repay Debt of Borrower under the Senior Secured Credit Facility. 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 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 recently delivered Reserve Report, 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 set forth in the most recently delivered Reserve Report.

(b) All leases and agreements necessary for the conduct of the business of Borrower and its 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 Subsidiaries.

(c) The rights, Properties and other assets presently owned, leased or licensed by Borrower and its Subsidiaries including, without limitation, all easements and rights of way, include all rights, Properties and other assets necessary to permit Borrower and its Subsidiaries

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to conduct their business in all material respects in the same manner as its business has been conducted prior to the Closing Date.

(d) All of the assets and Properties of Borrower and its 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 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 Closing 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 Closing 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.

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Section 7.14 Subsidiaries.

(a) Except as set forth on Schedule 7.14, Borrower has no Subsidiaries or Unrestricted Subsidiaries.

(b) With respect to each Subsidiary of Borrower, Schedule 7.14 sets forth the following information:

(i) the jurisdiction of formation and headquarters of such Subsidiary;

(ii) the identity of each other jurisdiction wherein such Subsidiary is qualified to do business;

(iii) the identity of each class of authorized capital stock of such Subsidiary;

(iv) the amount and ownership of the capital stock of such Subsidiary that is issued and outstanding (collectively, the "Subsidiary Securities"); and

(v) 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) 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. There are no contracts obligating any Subsidiary to make any dividend or distribution of any kind.

(d) 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, 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. Borrower's principal place of business and chief executive offices are located at the address stated on the signature page of this Agreement. 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 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 Subsidiary is a party or by which Borrower or any 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 Subsidiary has violated any Governmental Requirement or failed to obtain any license, permit, franchise or other governmental authorization 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. All such policies are in full force and effect, all premiums with respect thereto covering all periods up to and including the Closing 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 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 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. Neither Borrower nor any 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 Closing 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 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 Closing 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 \$5,000,000.00, 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 \$5,000,000.00 (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 Closing 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 Closing Date, except for the Override and 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 (i) 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, (ii) 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 (iii) 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

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, so long as any of the Commitments are in effect and 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 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 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 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 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).

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(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 or any successor agency.

(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 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 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 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 (i) 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 (ii) setting forth in reasonable detail the computations necessary

to determine whether Borrower is in compliance with Section 9.01 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 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 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 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 Subsidiary if the value of the claim, judgment, Lien, or other encumbrance affecting such Property shall exceed \$500,000.00.

#### Section 8.03 Maintenance, Etc.

(a) Generally. Borrower shall and shall cause each 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 9.17, Borrower will, and will cause each 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) Proof of Insurance. Contemporaneously with the delivery of the financial statements required by Section 8.01(a) to be delivered for each year, Borrower will furnish or cause to be furnished to the Administrative Agent and the Lenders a certificate of insurance coverage from the insurer in form and substance satisfactory to the Administrative Agent and, if

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requested, will furnish the Administrative Agent and the Lenders copies of the applicable policies.

(c) Oil and Gas Properties. Borrower will and will cause each Subsidiary to maintain all of its Oil and Gas Properties as a reasonably prudent operator. Borrower will and will cause each 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 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 Administrative Agent and the Lenders (or as otherwise required to be obtained by the Administrative Agent or the Lenders by any Governmental Authority) in connection with any future acquisitions of Oil and Gas Properties.

Section 8.05 Further Assurances. Borrower will and will cause each Guarantor to cure promptly any defects in the creation and issuance of the Notes and the execution and delivery of the Guaranty Agreements and this Agreement. Borrower at its expense will and will cause each Guarantor to 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 or any Guarantor, as the case may be, in the Guaranty Agreements and this Agreement, or to correct any omissions in the Guaranty Agreements, or to state more fully the obligations set out herein or in any of the Guaranty Agreements 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 all other Indebtedness; and Borrower will and will cause each Guarantor to do and perform every act and discharge all of the obligations to be performed and discharged by them under the Guaranty Agreements and this Agreement, at the time or times and in the manner specified.

## Section 8.07 Reserve and Engineering Reports.

(a) Not less than 30 days prior to each Scheduled Redetermination Date, Borrower shall furnish to the Administrative Agent and the Lenders a Reserve Report. The January 1 Reserve Report of each year shall be prepared by certified independent petroleum engineers or other independent petroleum consultant(s) acceptable to the Administrative Agent and the July 1 Reserve Report of each year shall be prepared by or under the supervision of the chief engineer of Borrower who shall certify such Reserve Report to have been prepared in all material respects in accordance with industry standards and the procedures (other than forecasted product prices) used in the immediately preceding January 1 Reserve Report.

(b) In the event of an unscheduled redetermination, Borrower shall furnish to the Administrative Agent and the Lenders a Reserve Report prepared by or under the supervision of the chief engineer of Borrower who shall certify such Reserve Report to have been prepared in all material respects in accordance with industry standards and the procedures (other than forecasted product prices) used in the immediately preceding Reserve Report. For any unscheduled redetermination requested by Borrower pursuant to this Agreement, Borrower shall provide such Reserve Report with an "as of" date as required by the Majority Lenders as soon as possible, but in any event no later than 30 days following the receipt of the request by the Administrative Agent.

Section 8.08 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 8.09 Restricted Subsidiaries. Borrower shall ensure that each Restricted Subsidiary is at all times (i) a Guarantor of Indebtedness hereunder and (ii) a Consolidated Subsidiary.

## ARTICLE IX

## NEGATIVE COVENANTS

Borrower covenants and agrees that, so long as any of the Commitments are in effect and 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.

(a) Borrower will not, and will not permit any Restricted Subsidiary to, incur, create or assume any Debt, other than Permitted Indebtedness, if the Interest Coverage Ratio after giving effect to the incurrence, creation or assumption of such Debt is less than 2.0 to 1.0.

(b) Borrower will not, and will not permit any Restricted Subsidiary to, incur, create or assume any Senior Indebtedness, other than Permitted Indebtedness, if the most recent Risk Adjusted PV-10 Ratio, after giving effect to such incurrence, creation or assumption and any related acquisition of reserves, is less than 1.50 to 1.0.

Section 9.02 Liens. Unless the Indebtedness is 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 any Indebtedness;

(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.

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Section 9.03 [Intentionally Left Blank]

Section 9.04 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 or Guarantor Subordinated Obligations (other than the purchase, repurchase or other acquisition of Subordinated Debt or Guarantor Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of purchase, repurchase or acquisition);

(4) make any Restricted Investment in any Person; or

(5) purchase, repurchase, redeem, defease, pre-pay or otherwise acquire for value the 2005 Subordinated Notes;

(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

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(b) Borrower is not able to incur an additional \$1.00 of Debt pursuant to Section 9.01 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

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(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 (except the 2005 Subordinated Notes) 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 March 31, 2005; 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 9.12 below; provided, however, that such purchase or redemption will be excluded in subsequent calculations of the amount of Restricted Payments;

(4) dividends paid within 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,

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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 \$2,000,000.00 in the aggregate during any calendar year and \$10,000,000.00 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 \$2,000,000.00 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;

(7) repurchase or redemption of the 2002 Subordinated Notes and 2004 Subordinated Notes with the proceeds of a concurrent issuance of capital stock, a sale of subordinated notes with a maturity after March 31, 2005, or, in the case of the 2002 Subordinated Notes only, a sale of Property; provided, however, that Borrower will in no event whatsoever prepay or redeem the 2005 Subordinated Notes; provided, further, that such repurchase or redemption will be excluded in subsequent calculations of the amount of Restricted Payments; and

(8) Restricted Payments in an amount not to exceed \$15,000,000.00; provided that the amount of such Restricted Payments (except for those in paragraph 7) will be included in the calculation of the amount of Restricted Payments pursuant to Section 9.04(a)(5)(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.

(b) 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:

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(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:

(i) any encumbrance or restriction pursuant to this Agreement, the Senior Secured Credit Facility or an agreement in effect at the date hereof;

(ii) 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;

(iii) 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 (i) or (ii) of this paragraph or this clause (iii) or contained in any amendment to an agreement referred to in clause (i) or (ii) of this paragraph or this clause (iii); 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 (i) or (ii) of this paragraph on the date hereof or the date such Restricted Subsidiary became a Restricted Subsidiary, whichever is applicable;

(iv) in the case of clause (3) of this covenant, any encumbrance or restriction:

(a) 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;

(b) 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

(c) 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;

(v) 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;

(vi) 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;

(vii) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order;

(viii) any encumbrance or restriction arising out of any Permitted Lien; and

(ix) customary provisions with respect to the distribution of assets or property in joint venture agreements.

Section 9.05 Sales and Leasebacks. 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 9.06 Nature of Business. Neither Borrower nor any Restricted Subsidiary will allow any material change to be made in the character of its business.

Section 9.07 Limitation on Leases. 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 are non-cancelable by Borrower or such Subsidiary within, twelve months which would cause the aggregate amount of all payments made by Borrower and its Restricted Subsidiaries pursuant to all such leases or lease agreements to exceed \$1,000,000.00 in any period of twelve consecutive calendar months during the life of such leases.

Section 9.08 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 (i) Borrower survives, or (ii) survivor is an entity organized under United States law or any state thereof or the District of Columbia and assumes, in writing, the

Indebtedness; (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; (d) Borrower could incur \$1.00 of additional Debt (excluding Permitted Indebtedness) under Section 9.01; 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 9.09 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 9.10 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;

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(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 9.11 Sale or Discount of Receivables. Neither Borrower nor any 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 9.12 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 shall be permitted to receive any Property other than Permitted Consideration, so long as the aggregate fair market value of such Property at any one time shall not exceed 10.0% of Adjusted Consolidated Net Tangible Assets.

(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:

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(i) to apply all or any of the Net Available Cash therefrom to (A) repay indebtedness under the Senior Secured Credit Facility or (B) repay or purchase the 2002 Subordinated Notes, or (ii) 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 2.07 (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 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 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,

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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 five Business Days after termination of the Asset Disposition Offer Period) 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 Guarantor Subordinated Obligations or 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 9.12(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 9.13 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 9.14 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

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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.

Section 9.15 [Intentionally Left Blank]

Section 9.16 [Intentionally Left Blank]

Section 9.17 Subordinated Debt. If a Default exists or would result therefrom, neither Borrower nor any Guarantor shall 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 9.18 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 (i) directors' qualifying shares, (ii) 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, (iii) 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 9.12, and (iv) 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 9.04, if the amount of such capital stock represents less than a majority of the voting stock of such Restricted Subsidiary.

Section 9.19 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 9.20 Guarantees. Borrower shall not, and shall not permit any Restricted Subsidiary to, guarantee, directly or indirectly, any Debt of any Unrestricted Subsidiary.

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## 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 or other Indebtedness 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 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 \$10,000,000.00 or more (\$15,000,000.00 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 or in any Guaranty Agreement by Borrower or any Guarantor, or any certificate furnished to any Lender or the Administrative Agent pursuant to the provisions hereof, any Loan Document or any Guaranty Agreement, shall prove to have been false or misleading as of the time made or furnished in any material respect; or

(d) (i) Borrower shall default in the performance of any of its obligations under Section 9.08 of this Agreement; (ii) Borrower shall default in the performance of any of its obligations under Section 2.07(b), Article VIII or Article IX (other than the payment of amounts due which shall be governed by Section 10.01(a) or Section 9.08 which shall be governed by Section 10.01(d)(i)) and such default shall continue unremedied for a period of 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 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 60 days; or (iv) an order for relief against such Person shall be entered in an involuntary case under the Federal Bankruptcy Code; or

(h) a judgment or judgments for the payment of money in excess of \$10,000,000.00 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 60 days from the date of entry thereof and Borrower or such Subsidiary shall not, within said period of 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 Guaranty Agreement 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, or if any Guarantor shall so state in writing; or

(j) any Subsidiary takes, suffers or permits to exist any of the events or conditions referred to in paragraphs (e), (f), (g) or (h).

#### 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 (j) 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, cancel the Commitments and/or 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 (j) to the extent it relates to clauses (e), (f) or (g), the

Commitments shall be automatically canceled and 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 other Indebtedness; 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 11.05 and the first sentence of Section 11.06 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 11.07 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 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 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 notice thereof to the Lenders. In the event of a payment Default, the Administrative Agent shall give each Lender prompt notice of each such payment Default.

Section 11.04 Rights as a Lender. With respect to its Commitments and the Loans made by DCP (and any successor acting as Administrative Agent) in its capacity as a Lender hereunder, DCP shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Administrative Agent, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include the Administrative Agent in its individual capacity. DCP (and any successor acting as Administrative Agent) and its Affiliates may (without having to account therefor to any Lender) accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with Borrower (and any of its Affiliates) as if it were not acting as the Administrative Agent, and DCP and its Affiliates may accept fees and other consideration from Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Lenders.

SECTION 11.05 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 GUARANTY AGREEMENTS, 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

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TERMS OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENTS; WHETHER OR NOT ANY OF THE FOREGOING SPECIFIED IN THIS SECTION 11.05 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 11.06 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. 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. Each Lender 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 11.07 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) described in this Section 11.07, 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 or applicable law.

Section 11.08 Resignation or Removal of Administrative Agent. Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the

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Administrative Agent may resign at any time by giving at least 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 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 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:

(i) whether or not the transactions hereby contemplated are consummated, to pay one-half of the reasonable fees and disbursements of counsel in connection with this Agreement and related matters, (with Borrower's share not to exceed \$75,000.00) together with all of the Administrative Agents' 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;

(ii) 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 ANY GUARANTY AGREEMENT OR THIS AGREEMENT, OR WITH ANY GOVERNMENTAL REQUIREMENT, (V) ANY INACCURACY OF ANY REPRESENTATION OR ANY BREACH OF ANY WARRANTY OF BORROWER OR ANY GUARANTOR SET FORTH IN ANY OF THE LOAN DOCUMENTS, (VI) ANY ASSERTION THAT THE LENDERS WERE NOT ENTITLED TO RECEIVE THE PROCEEDS RECEIVED PURSUANT TO THE GUARANTY AGREEMENTS OR (VII) 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

(iii) 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)(iii) 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 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, increases the Aggregate Commitments, forgives the principal amount of any Indebtedness outstanding under this Agreement, releases any guarantor of the Indebtedness or reduces the interest rate applicable to the Loans or the fees payable to the Lenders generally, affects this Section 12.04 or Section 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 increases the Commitment of any Lender shall be effective without the consent of such Lender; and (iii) 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 \$5,000,000.00 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

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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 4.06, 5.01 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) Each Lender may transfer, grant or assign participations



in all or any part of such Lender's interests hereunder pursuant to this Section 12.06(c) to any Person, provided that: (i) such Lender shall remain a "Lender" for all purposes of this Agreement and the transferee of such participation shall not constitute a "Lender" hereunder; and (ii) no participant under any such participation shall have rights to approve any amendment to or waiver of any of the Loan Documents except to the extent such amendment or waiver would (x) forgive any principal owing on any Indebtedness or extend the final maturity of the Loans, (y) reduce the interest rate (other than as a result of waiving the applicability of any post-default increases in interest rates) or fees applicable to any of the Commitments or Loans in which such participant is participating, or postpone the payment of any thereof, or (z) release any guarantor of the Indebtedness or release all or substantially all of the collateral (except as provided in the Loan Documents) supporting any of the Commitments or Loans in which such participant is participating. In the case of any such participation, the participant shall not have any rights under this Agreement or any of the other Loan Documents (the participant's rights against the granting Lender in respect of such participation to be those set forth in the agreement with such Lender creating such participation), and all amounts payable by Borrower hereunder shall be determined as if such Lender had not sold such participation, provided that such participant shall be entitled to receive additional amounts under Article V on the same basis as if it were a Lender and be indemnified under Section 12.03 as if it were a Lender. In addition, each agreement creating any participation must include an agreement by the participant to be bound by the provisions of Section 12.15.

(d) 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.

(e) 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.

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(f) 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 4.06, Article V, and Sections 11.05 and 12.03 shall survive the repayment of the Indebtedness and the termination of the Commitments. 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 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.

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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 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

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 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 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 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. To the extent that Chapter 303 of the Texas Finance Code is relevant for the purpose of determining the Highest Lawful Rate, such Lender may elect to determine the applicable rate ceiling under such Chapter by the indicated weekly rate ceiling from time to time in effect.

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 petroleum engineers or consultants, 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 Indebtedness is paid in full, unless Borrower requests in writing at least 30 days prior to the expiration of such three 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 and in the Commitment Letter.

Section 12.16 Effectiveness. This Agreement shall be effective on the Closing 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

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: /s/ John S. Weatherly  
-----

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) 446-1410  
Telephone No.: (601) 442-1601  
Attention: Fred L. Callon

- SIGNATURE PAGE -  
CREDIT AGREEMENT, DATED AS OF JUNE 29, 2001, AMONG  
CALLON PETROLEUM COMPANY, AS BORROWER,  
DUKE CAPITAL PARTNERS, LLC, AS ADMINISTRATIVE AGENT,  
AND THE LENDERS SIGNATORY HERETO

LENDER AND  
ADMINISTRATIVE AGENT: DUKE CAPITAL PARTNERS, LLC, individually  
and as Administrative Agent

By: /s/ F. T. Webster  
-----

F.T. Webster  
Executive Vice President

Address for Notices:

128 South Tryon Street, Suite 1100  
Charlotte, NC 28202

Telecopier No.: (704) 373-4242  
Telephone No.: (704) 373-4191  
Attention: Donald P. Smith

With copy to:

Through July 12, 2001:  
5718 Westheimer, Suite 1040  
Houston, Texas 77057

After July 12, 2001:  
5151 San Felipe, Suite 1200  
Houston, Texas 77056

Telecopier No.: (713) 989-3332  
Telephone No.: (713) 989-3329  
Attention: F.T. Webster and Todd Overbergen

- SIGNATURE PAGE -  
CREDIT AGREEMENT, DATED AS OF JUNE 29, 2001, AMONG  
CALLON PETROLEUM COMPANY, AS BORROWER,  
DUKE CAPITAL PARTNERS, LLC, AS ADMINISTRATIVE AGENT,  
AND THE LENDERS SIGNATORY HERETO

LENDERS:

-----

By:

-----

Name:

Title:

Address for Notices:

-----

-----

-----

Telecopier No.:

-----

Telephone No.:

-----

Attention:

-----

[With copy to:]

- SIGNATURE PAGE -  
CREDIT AGREEMENT, DATED AS OF JUNE 29, 2001, AMONG  
CALLON PETROLEUM COMPANY, AS BORROWER,  
DUKE CAPITAL PARTNERS, LLC, AS ADMINISTRATIVE AGENT,  
AND THE LENDERS SIGNATORY HERETO

ANNEX I

LIST OF COMMITMENTS

<Table>

<Caption>

LENDER

COMMITMENTS

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<C>

Duke Capital Partners, LLC..... U.S.\$95,000,000.00

</Table>

EXHIBIT A

FORM OF  
NOTE

\$45,000,000.00

June 29, 2001

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 DUKE CAPITAL PARTNERS, LLC, as Administrative Agent, maintained at The Chase Manhattan Bank, One Chase Manhattan Plaza, New York, New York 10081, USA, Account No. 323198570, ABA No. 021000021, or such other account as the Administrative Agent may from time to time specify by written notice to Borrower, the principal sum of FORTY-FIVE MILLION AND NO/100 DOLLARS (\$45,000,000.00), 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 12% 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 Credit Agreement.

This note evidences the Loans owed to the Lender under that certain Credit Agreement dated as of June 29, 2001, by and among Borrower, Duke Capital Partners, LLC, individually and 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

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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: \_\_\_\_\_

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EXHIBIT B  
FORM OF  
BORROWING NOTICE  
[DATE]

Duke Capital Partners, LLC,  
as Administrative Agent

-----  
-----  
-----

Ladies and Gentlemen:

This borrowing notice is delivered to you by Callon Petroleum Company (the "Borrower"), a Delaware corporation, under Section 2.02 of the Credit Agreement dated as of June 29, 2001 (as restated, amended, modified, supplemented and in effect, the "Credit Agreement"), by and among Borrower, the Lenders party thereto, and Duke Capital Partners, LLC, as Administrative Agent.

1. Borrower hereby requests that the Lenders make a Loan or Loans in the aggregate principal amount of \$ \_\_\_\_\_ (the "Loan" or the "Loans").
2. Borrower hereby requests that the Loan or Loans be made on the following Business Day: \_\_\_\_\_.
3. Borrower hereby requests that the funds from the Loan or Loans be disbursed to the following bank account: \_\_\_\_\_
4. After giving effect to the requested Loan, the sum of all outstanding Loans does not exceed the maximum amount permitted to be outstanding pursuant to the terms of the Credit Agreement.
5. All of the conditions precedent applicable to the Loans requested herein as set forth in Article VI of the Credit Agreement have been satisfied as of the date hereof and will remain satisfied to the date of such Loans.
6. Borrower hereby certifies that, for the four full calendar quarters preceding the date hereof for which financial statements are available, its Interest Coverage Ratio is at least 2.0 to 1.0, and its Risk Adjusted PV-10 Ratio is 1.25 to



1.0 or more.

- 7. All capitalized undefined terms used herein have the meanings assigned thereto in the Credit Agreement.

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IN WITNESS WHEREOF, the undersigned have executed this borrowing request this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

CALLON PETROLEUM COMPANY

By: \_\_\_\_\_  
 Name: \_\_\_\_\_  
 Title: \_\_\_\_\_

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EXHIBIT C  
 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 Credit Agreement dated as of June 29, 2001 (as restated, amended, modified, supplemented and in effect from time to time, the "Agreement"), among Borrower, the Lenders signatory thereto, and Duke Capital Partners, LLC, 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) Attached hereto are the reasonably detailed computations necessary to determine whether Borrower is in compliance with Section 2.03 of the Agreement as of the end of the [calendar quarter][fiscal year] ending \_\_\_\_\_.

(c) [The following shall be provided with respect to the Initial Funding only: 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 D

FORM OF  
ASSIGNMENT AGREEMENT

This Assignment Agreement ("Assignment") between Assignor and Assignee is executed and delivered pursuant to that certain Credit Agreement dated as of June 29, 2001 (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 Duke Capital Partners, LLC, 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 the interests set forth herein (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the Commitment of the Assignor on the Assignment Date and Loans and all Indebtedness owing to the Assignor 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 and Acceptance 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 4.06(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>

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)

Facility

Principal Amount Assigned

thereunder)

-----



SECOND AMENDMENT TO CREDIT AGREEMENT

BY AND AMONG

CALLON PETROLEUM COMPANY  
AS BORROWER,

FIRST UNION NATIONAL BANK,  
AS ADMINISTRATIVE AGENT,

UNION BANK OF CALIFORNIA, N.A.,  
AS DOCUMENTATION AGENT,

THE LENDERS AND

SIGNATORY HERETO

EFFECTIVE AS OF JUNE 29, 2001

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This SECOND AMENDMENT TO CREDIT AGREEMENT (this "Second Amendment") executed effective as of June 29, 2001 (the "Effective Date"), is by and among CALLON PETROLEUM COMPANY, a corporation formed under the laws of the State of Delaware (the "Borrower"); each of the lenders that is a signatory hereto or which becomes a signatory hereto and to the hereinafter described Credit Agreement as provided in Section 12.06 of the Credit Agreement (individually, together with its successors and assigns, a "Lender" and, collectively, the "Lenders"); FIRST UNION NATIONAL BANK, a national banking association (in its individual capacity, "First Union"), as administrative agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent") and UNION BANK OF CALIFORNIA, N.A., as documentation agent.

#### RECITALS:

A. The Borrower, Administrative Agent and Lenders are parties to that certain Credit Agreement dated as of October 30, 2000 (as amended by the First Amendment to Credit Agreement dated as of May 7, 2001, the "Credit Agreement"), pursuant to which the Lenders agreed to make loans to and extensions of credit on behalf of the Borrower.

B. The Borrower, and the Lenders desire to amend the Credit Agreement in the particulars hereinafter provided.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

#### ARTICLE I. DEFINITIONS

Section 1.01 Terms Defined Above. As used in this Second Amendment, each of the terms defined in the first paragraph and the Recitals above shall have the meanings assigned to such terms therein.

Section 1.02 Terms Defined in Credit Agreement. Each term defined in the Credit Agreement and used herein without definition shall have the meaning assigned to such term in the Credit Agreement, unless expressly provided to the contrary.

#### Section 1.03 Other Definitional Provisions.

(a) The words "hereby", "herein", "hereinafter", "hereof", "hereto" and "hereunder" when used in this Second Amendment shall refer to this Second Amendment as a whole and not to any particular Article, Section, subsection or provision of this Second Amendment.

(b) Section, subsection and Exhibit references herein are to such Sections, subsections and Exhibits to this Second Amendment unless otherwise specified.

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(c) As used herein, "Duke Transaction" shall mean the transaction whereby the Borrower will incur up to \$95,000,000 of Debt and grant overriding royalty interests to Duke Capital Partners, LLC in certain of its Oil and Gas Properties pursuant to that certain Conveyance of Overriding Royalty attached hereto as Exhibit A, all as contemplated pursuant to that certain Credit Agreement dated as of June 29, 2001 among Callon Petroleum Company, Duke Capital Partners, LLC, as administrative agent and the Lenders signatory thereto.

#### ARTICLE II. AMENDMENTS TO CREDIT AGREEMENT

The Borrower, the Administrative Agent, and the Lenders agree that the Credit Agreement is hereby amended, effective as of the Effective Date, in the following particulars.

#### Section 2.01 Amendments and Supplements to Definitions.

(a) The following term, which is defined in Section 1.02 of the Credit Agreement, is hereby amended in its entirety to read as follows:

"Agreement" shall mean this Credit Agreement, as amended and supplemented by the First Amendment, the Second Amendment and as the same may from time to time be further amended or supplemented.

(b) Section 1.02 of the Credit Agreement is hereby further amended by adding the following new definitions where alphabetically appropriate, which read in their entirety as follows:

"Duke Credit Agreement" shall mean that certain Credit Agreement dated as of June 29, 2001 among Callon Petroleum Company, Duke Capital Partners, LLC, as administrative agent and the lenders signatory thereto.

"Second Amendment" shall mean that certain Second Amendment to Credit Agreement dated as of June 29, 2001, by and among the Borrower, the Administrative Agent, the Documentation Agent and the Lenders.

Section 2.02 Amendments to Article VIII.. Section 8.09(a) of the Credit Agreement is hereby amended in its entirety to read as follows:

"(a) Collateral. The Obligations shall be secured by a perfected first priority Lien (subject only to Liens permitted under Section 9.02 entitled to priority under applicable law or under Section 9.02) granted to the Administrative Agent for the benefit of the Beneficiaries in (i) the Oil and Gas Properties of the Borrower and the Guarantors, whether now owned or hereafter acquired, pursuant to the terms of the Security Instruments to which they are parties, and which compose at least 95% of the value of the Oil and Gas Properties described in the most recent Reserve Report and (ii) all of the accounts receivable, inventory, equipment, contract rights and general intangibles of the Borrower and each

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Guarantor pursuant to the terms of the Security Instruments to which they are parties."

Section 2.03 Amendments to Article IX.

(a) Section 9.01(k) of the Credit Agreement is hereby amended in its entirety to read as follows:

"(k) Debt under the Duke Credit Agreement, guarantys of such Debt by any Subsidiaries and any refinancings, renewals or extensions, but not increases, thereof. "

(b) Section 9.16 of the Credit Agreement is hereby amended by adding thereto clause (v) as follows:

"and (v) the conveyance of an overriding royalty interest to Duke Capital Partners, LLC pursuant to that certain Conveyance of Overriding Royalty attached as Exhibit A to the Second Amendment."

(c) Article IX is hereby amended by adding thereto new Section 9.24 as follows:

"Section 9.24 Duke Credit Agreement. Without the prior written consent of the Lenders, the Borrower will not, and will not permit any Subsidiary to, amend, supplement, restate or otherwise modify the Duke Credit Agreement or any other document executed in connection therewith that could adversely affect in any material respect the Lenders and their rights and remedies under any Loan Document."

Section 2.04 Amendments to Article X. Section 10.01 is hereby amended by adding thereto a new subsection (l) as follows:

"(l) a default or event of default (as defined thereunder) shall occur under the Duke Credit Agreement."

Section 2.05 Consents and Waivers. The Lenders hereby consent to the Duke Transaction and waive any non-compliance with any provisions of the Credit

Agreement or any other Loan Document resulting solely therefrom and agree that the Borrower shall not be deemed in Default solely by reason of such non-compliance. Such consent and waiver shall not be deemed to be a consent or waiver by the Lenders of any covenant, condition or obligation on the part of the Borrower or any Guarantor under the Credit Agreement or any other Loan Document, except as set forth in this Section 2.05. In addition, the foregoing consent and waiver shall in no respect evidence any commitment by the Lenders to grant any future consents or waivers of any covenant, condition or obligation on the part of the Borrower or any Guarantor under the Credit Agreement or any other Loan Document. Any further consents or waivers must be specifically agreed to in writing in accordance with Section 12.04 of the Credit Agreement.

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### ARTICLE III. CONDITIONS

The enforceability of this Second Amendment against the Administrative Agent and the Lenders is subject to the satisfaction of the following conditions precedent:

Section 3.01 Loan Documents. The Administrative Agent shall have received multiple original counterparts, as requested by the Administrative Agent, of this Second Amendment executed and delivered by a duly authorized officer of the Borrower, the Administrative Agent, and each Lender.

Section 3.02 Representations and Warranties. Except as affected by the transactions contemplated in the Credit Agreement and this Second Amendment, each of the representations and warranties made by the Borrower and the Guarantors in or pursuant to the Loan Documents shall be true and correct in all material respects as of the Effective Date, as if made on and as of such date.

Section 3.03 No Default. No Default or Event of Default shall have occurred and be continuing as of the Effective Date.

Section 3.04 No Change. No event shall have occurred since December 31, 2000, which, in the reasonable opinion of the Lenders, could have a Material Adverse Effect.

Section 3.05 Security Instruments. All of the Security Instruments shall be in full force and effect and provide to the Administrative Agent the security intended thereby to secure the Obligations, as amended and supplemented hereby.

Section 3.06 Fees. The Borrower shall have paid to the Administrative Agent for the benefit of the Lenders an amendment fee of \$25,000.00.

Section 3.07 Other Instruments or Documents. The Administrative Agent or any Lender or counsel to the Administrative Agent shall received such other instruments or documents as they may reasonably request.

### ARTICLE IV. MISCELLANEOUS

Section 4.01 Adoption, Ratification and Confirmation of Credit Agreement. Each of the Borrower, the Guarantors, the Administrative Agent, and the Lenders does hereby adopt, ratify and confirm the Credit Agreement, as amended hereby, and acknowledges and agrees that the Credit Agreement, as amended hereby, is and remains in full force and effect.

Section 4.02 Ratification and Affirmation of Guaranty. Each Guarantor hereby expressly (i) acknowledges the terms of this Second Amendment, (ii) ratifies and affirms its obligations under its Guaranty Agreement dated as of October 30, 2000, in favor of the Administrative Agent and the Lenders, as amended, supplemented or otherwise modified (the "Guaranty Agreement"), (iii) acknowledges, renews and extends its continued liability under the

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Guaranty Agreement and agrees that the Guaranty Agreement remains in full force and effect; and (iv) guarantees to the Administrative Agent and each Lender to

promptly pay when due all amounts owing or to be owing by it under the Guaranty Agreement pursuant to the terms and conditions thereof.

Section 4.03 Successors and Assigns. This Second Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted pursuant to the Credit Agreement.

Section 4.04 Counterparts. This Second Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument and shall be enforceable as of the Effective Date upon the execution of one or more counterparts hereof by the Borrower, the Guarantor, the Administrative Agent and the Lenders. In this regard, each of the parties hereto acknowledges that a counterpart of this Second Amendment containing a set of counterpart execution pages reflecting the execution of each party hereto shall be sufficient to reflect the execution of this Second Amendment by each necessary party hereto and shall constitute one instrument.

Section 4.05 Number and Gender. Whenever the context requires, reference herein made to the single number shall be understood to include the plural; and likewise, the plural shall be understood to include the singular. Words denoting sex shall be construed to include the masculine, feminine and neuter, when such construction is appropriate; and specific enumeration shall not exclude the general but shall be construed as cumulative. Definitions of terms defined in the singular or plural shall be equally applicable to the plural or singular, as the case may be, unless otherwise indicated.

Section 4.06 Entire Agreement. This Second Amendment constitutes the entire agreement among the parties hereto with respect to the subject hereof. All prior understandings, statements and agreements, whether written or oral, relating to the subject hereof are superseded by this Second Amendment.

Section 4.07 Invalidity. In the event that any one or more of the provisions contained in this Second Amendment 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 this Second Amendment.

Section 4.08 Titles of Articles, Sections and Subsections. All titles or headings to Articles, Sections, subsections or other divisions of this Second Amendment or the exhibits hereto, if any, are only for the convenience of the parties and shall not be construed to have any effect or meaning with respect to the other content of such Articles, Sections, subsections, other divisions or exhibits, such other content being controlling as the agreement among the parties hereto.

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Section 4.09 Governing Law. This Second Amendment shall be deemed to be a contract made under and shall be governed by and construed in accordance with the internal laws of the State of Texas.

THIS SECOND AMENDMENT, THE CREDIT AGREEMENT, AS AMENDED HEREBY, THE NOTES, AND THE OTHER 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.

[SIGNATURES BEGIN ON NEXT PAGE]

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IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be duly executed and delivered by their proper and duly authorized officers as of the Effective Date.

BORROWER: CALLON PETROLEUM COMPANY



By: /s/ John S. Weatherly

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

GUARANTORS:                   CALLON PETROLEUM OPERATING COMPANY

By: /s/ John S. Weatherly

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

CALLON OFFSHORE PRODUCTION, INC.

By: /s/ John S. Weatherly

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

LENDER AND  
ADMINISTRATIVE AGENT:       FIRST UNION NATIONAL BANK, individually  
and as Administrative Agent

By: /s/ Russell T. Clingman

-----  
Russell T. Clingman  
Vice President

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LENDERS:                   UNION BANK OF CALIFORNIA, N.A.

By: /s/ Ali Ahmed

-----  
Name: Ali Ahmed  
Title: Assistant Vice President

By: /s/ Damien Meiburger

-----  
Name: Damien Meiburger  
Title: Senior Vice President

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EXHIBIT 10.3

CONVEYANCE OF OVERRIDING ROYALTY INTEREST

FROM

CALLON PETROLEUM OPERATING COMPANY

"GRANTOR"

TO

DUKE CAPITAL PARTNERS, LLC

"GRANTEE"

DATED

JUNE 29, 2001

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CONVEYANCE OF  
OVERRIDING ROYALTY INTEREST

This Conveyance of Overriding Royalty Interest (this "Conveyance"), made effective as of the Effective Time, is from Callon Petroleum Operating Company, a Delaware corporation whose address is 200 North Canal Street, Natchez, Mississippi 39121-1297, and whose Federal Tax I.D. Number is 94-0744280 ("Grantor"), to Duke Capital Partners, LLC, a Delaware limited liability company, whose mailing address is 128 South Tryon Street, Suite 1100, Charlotte, North Carolina, 28202, and whose Federal Tax I.D. Number is 56-2186625 ("Grantee").

WHEREAS, Grantor is the owner of an interest in the oil and gas leases described in Exhibit A hereto, and Grantor has agreed to convey to Grantee the Overriding Royalty Interest as defined in Section 1.1 below, as a condition of that certain Credit Agreement dated June 29, 2001, by and among Callon Petroleum Company, as Borrower thereunder, the lenders signatory thereto and Grantee, as Administrative Agent thereunder (the "Credit Agreement"), pursuant to that certain letter agreement dated the date hereof between Callon Petroleum Company and Grantee; and

WHEREAS, capitalized terms as used herein shall have the meanings given to them in Article II hereof unless otherwise defined herein.

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS:

ARTICLE 1  
CONVEYANCE

SECTION 1.1 CONVEYANCE. For and in consideration of \$1,000.00 and other good and valuable consideration to Grantor cash in hand paid by Grantee, the receipt and sufficiency of which is hereby acknowledged, Grantor hereby GRANTS, BARGAINS, SELLS, CONVEYS, ASSIGNS, SETS OVER, AND DELIVERS unto Grantee, its successors and assigns, effective as of the Effective Time, an overriding royalty interest in and to each of the Leases equal to the Overriding Royalty Percentage of all Hydrocarbons produced and saved from each of the Leases, together with all and singular the rights and appurtenances thereto in anywise belonging (the "Overriding Royalty Interest").

TO HAVE AND TO HOLD the Overriding Royalty Interest unto Grantee, its successors and assigns forever, subject to the following terms, reservations, rights of first refusal, provisions and conditions.

SECTION 1.2 REPURCHASE OPTION AND RIGHT OF FIRST REFUSAL. (a) Grantor hereby RETAINS and RESERVES unto itself, its successors and assigns, an option ("Repurchase Option") to repurchase this Overriding Royalty Interest in all or any Property in the event that Grantor has a binding contract to sell its interest in such Property to a bona-fide third party purchaser. The repurchase price to be paid to Grantee by Grantor shall be proportional to such bona-fide third party purchaser's purchase price attributable to such Property. Grantee hereby accepts this Conveyance subject to and acknowledges that the Overriding Royalty Interest is burdened by such Repurchase Option. In connection with a sale of all or substantially all of Grantor's interest in any Property to a bona-fide third party purchaser,

Grantor may give Grantee written notice stating the terms and conditions of such offer ("Grantor's Offer Notice") and Grantee shall agree to sell its Overriding Royalty Interest to Grantor on or before the same day Grantor's interest is sold at the price described above on an "as is-where is" basis without representation or warranty or indemnity of any kind except as to title with respect to any claims by, through and under Grantee.

(b) If Grantee desires to sell, assign, convey or transfer all or any portion of its Overriding Royalty Interest in any Property (the "Interest"), Grantee shall give written notice ("Grantee's Offer Notice") to Grantor stating that Grantee desires to effect such transfer and setting forth the material terms thereof. The giving of the Grantee's Offer Notice by Grantee to Grantor shall constitute an offer by Grantee to sell the Interest to Grantor pursuant to the terms set forth in the Grantee's Offer Notice. Grantor shall have 15 days after its

receipt of the Grantee's Offer Notice in which to accept such offer by giving written notice of acceptance to Grantee prior to the expiration of such 15-day period. If Grantor accepts such offer, Grantee and Grantor shall exercise their commercially reasonable efforts to effectuate the transfer as between them as soon as practicable. If Grantor rejects in writing the offer set forth in the Grantee's Offer Notice, or fails to respond within 15 days after its receipt of the Grantee's Offer Notice, Grantee may consummate the sale to any bona-fide third party purchaser, but only on terms equal to or better than those set forth in the Grantee's Offer Notice. If Grantee does not consummate the sale within 90 days after receipt of written refusal by Grantee or expiration of the 15-day period, as applicable, Grantee's right to effectuate the sale shall lapse, and Grantee shall be required to again provide Grantor with a Grantee's Offer Notice, provided, however, no such conveyance shall be valid until Grantor has received a certified copy of such conveyance. This Section 1.2 shall not apply with regard to conveyances of Interests in connection with Grantee's initial syndication of the Facility (as such term is defined in the Credit Agreement).

**SECTION 1.3 NON-OPERATING, NON-EXPENSE BEARING INTEREST.** The Overriding Royalty Interest conveyed hereby is a non-operating, non-expense-bearing overriding royalty interest in the nature of an interest in real property, free of all costs, risks and expenses, except to the extent (i) any such costs and expenses are properly deductible in calculating the lessor's royalties payable under the Leases to the United States Minerals Management Service ("MMS") and/or (ii) any such costs and expenses are paid to unaffiliated third parties in arms-length transactions (or affiliated entities at market rates) and directly attributable to marketing, gathering, and delivering the Hydrocarbons to the initial sales points, provided, however, that in no event shall such costs and expenses be greater than proportionately equal to the costs and expenses that are paid or payable by Grantor with respect to its interest in Hydrocarbons produced from the Subject Interests ("Deductible Costs"). In no event shall Grantee ever be liable or responsible in any way for the payment of any costs, expenses, or liabilities attributable to the Subject Interests (or any part thereof) or incurred in connection with the exploration, production, operations or delivery of Overriding Royalty Hydrocarbons to the initial sales points except as provided in the preceding sentence.

**SECTION 1.4 MARKETING OF OVERRIDING ROYALTY HYDROCARBONS.** Grantor shall market or cause to be marketed the Overriding Royalty Hydrocarbons in the same manner as Grantor markets or causes to be marketed Hydrocarbons attributable to its Net Revenue Interest, as a reasonable and prudent operator. Grantor shall pay, or cause to be paid, to Grantee the amount due in respect of the Overriding Royalty Hydrocarbons that are produced and sold in

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any month no later than 26 days following the month in which the revenues attributable to the sale of such Overriding Royalty Hydrocarbons are received by Grantor.

**SECTION 1.5 CERTAIN LIMITATIONS.** Grantee shall look solely to the Overriding Royalty Hydrocarbons for satisfaction and discharge of the Overriding Royalty Interest, and Grantor shall not be personally liable for the payment and discharge thereof.

**SECTION 1.6 ROYALTIES; TAXES.** The Overriding Royalty Hydrocarbons shall be calculated as two percent (2%) of Grantor's Net Revenue Interests in the Leases, with the result that the Overriding Royalty Hydrocarbons shall be determined net of all Hydrocarbons allocable or otherwise attributable to all royalties, overriding royalties (other than the Overriding Royalty Interest), and other burdens on production allocable or otherwise attributable to the Subject Interests that are reflected of record as of the Effective Time. Grantor shall be responsible for the timely payment of all such royalties, overriding royalties, and other burdens on production, and Grantor shall defend, indemnify, and hold Grantee harmless from and against any loss or claim with respect to any such royalties, overriding royalties, or other burdens on production or any claim by the owners or holders of such royalties, overriding royalties, or other burdens on production by, through or under Grantor, but not otherwise. Grantee shall bear and pay all Taxes, income and franchise taxes attributable to the Overriding Royalty Interest and the Overriding Royalty Hydrocarbons or attributable to Grantee.

SECTION 1.7 TITLE. Grantor warrants and represents that the Leases are valid and subsisting oil and gas leases covering the lands or waterbottoms described in Exhibit A; subject to the Leases and Permitted Encumbrances, Grantor's ownership of the Subject Interests entitles Grantor to a share of all Hydrocarbons produced from or attributable to each Lease, and of the proceeds of such production, after giving effect to and/or deducting all applicable royalties, overriding royalties, and other burdens or payments out of production (except the Overriding Royalty Interest), which is not less than the Net Revenue Interest applicable to the relevant Lease, as set forth in Exhibit A associated therewith. Grantor hereby binds Grantor and Grantor's legal representatives, successors, and assigns to warrant and forever defend all and singular title to the Overriding Royalty Interest and the Overriding Royalty Hydrocarbons unto Grantee, its successors and assigns, against every person whomsoever lawfully claiming or to claim the same or any part thereof by, through or under Grantor, but not otherwise; provided however, the foregoing warranty shall not be breached in any manner by the existence of the Permitted Encumbrances.

SECTION 1.8 MORTGAGE OR ASSIGNMENT BY GRANTOR. Except for Permitted Encumbrances which do not create a lien to secure an obligation for borrowed money, Grantor shall not mortgage, pledge, or hypothecate the Overriding Royalty Interest or create or allow to remain thereon any lien or security interest on any Overriding Royalty Hydrocarbons produced therefrom. Any purported mortgage, pledge, hypothecation, lien, security interest, assignment, sale, conveyance, or other transfer in contravention of the foregoing terms shall be null and void.

SECTION 1.9 POOLING OR UNITIZATION. This Conveyance is subject to all applicable valid pooling or unitization orders, declarations or agreements affecting any of the Leases or any part thereof, currently or in the future. Further, in the event that the owners of the Leases, or the applicable regulatory authorities, shall hereafter at any time or times create, amend, terminate or declare a pool or unit for the development or production of Oil and/or Gas

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that includes all or any part of any of the Leases, then in each such event such pooling or unitization shall be binding upon and effective with regard to the Overriding Royalty Interest insofar as it applies to the Leases included in such pool or unit, without the necessity of Grantee's further consent to or approval of such pool or unit.

SECTION 1.10 OPERATIONS. Grantor is under no obligation or duty, insofar as Grantee is concerned, to pay any delay rentals or minimum royalties becoming due under any of the Leases or otherwise to maintain any of the Leases in force or effect by extending same or by operations thereon or production of Oil, Gas, or other minerals, in any quantity therefrom, and the payment of any such delay rentals, minimum royalties, taking of extensions or conduct or cessation of operations or production of Oil, Gas, or other minerals under the Leases shall be, as between the parties, at the sole discretion of Grantor. Furthermore, this Conveyance shall not give rise to or create any obligation for Grantor to obtain Grantee's consent or joinder or comply with any demand of Grantee, with respect to the maintenance, operation (e.g. the decision to drill, complete, rework or abandon wells), or abandonment of any platform or other exploration, production, handling or treating facility, or the Leases, and the execution of contracts related thereto.

SECTION 1.11 SCOPE OF THE OVERRIDING ROYALTY INTEREST. The Overriding Royalty Interest shall not apply to Hydrocarbons lost, flared, vented or used in support of producing, handling, transporting and processing Hydrocarbons derived from or attributable to the Leases. The Overriding Royalty Interest shall not apply to any Hydrocarbons attributable to Grantor's Net Revenue Interest that are subject to a right of recoupment, forfeiture or relinquishment under the applicable joint operating agreements; provided, however, the Overriding Royalty Interest shall apply to any such Hydrocarbons if and when the Hydrocarbons are no longer subject to such right of recoupment, forfeiture or relinquishment.

SECTION 1.12 SETTLEMENT. Grantee shall participate proportionately in any in-kind or cash settlements received by Grantor for underproduction of Hydrocarbons attributable to the Overriding Royalty Interest. Likewise, Grantee shall have the obligation to participate in or reimburse Grantor as to Grantee's proportionate share of any in-kind or cash settlements made or paid by Grantor

for overproduction of Hydrocarbons attributable to the Overriding Royalty Interest.

SECTION 1.13 PRUDENT STANDARD. Grantor (subject to the terms and provisions of any applicable operating agreements and subject to the other provisions of this Conveyance and the Credit Agreement) shall take any and all actions which a reasonably prudent non-operator would deem necessary or advisable in the management, operation and control of the Subject Interests, including, without limitation, the plugging and abandonment of any Hydrocarbon well located on the Leases in accordance with good oil field practices without regard to the existence of the Overriding Royalty Interest or any other royalty, overriding royalty, or other interest created after the Effective Time.

SECTION 1.14 ROYALTY RELIEF. To the extent any of the Leases are entitled to royalty relief pursuant to the regulations of the MMS, Grantee as the owner of the Overriding Royalty Interest shall be entitled to two percent (2%) of such royalty relief that is attributable to Grantor's Net Revenue Interest shown on Exhibit A.

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SECTION 1.15 RESTRICTIONS ON SUBSEQUENTLY CREATED INTERESTS. To the extent required by the express terms and provisions of any of the Permitted Encumbrances identified in Exhibit B to this Conveyance, Grantor and Grantee acknowledge and agree that this Conveyance is inferior to and is made expressly subject to such Permitted Encumbrances, and Grantor acknowledges and agrees that it shall indemnify and hold all of the parties to such Permitted Encumbrances, other than itself, harmless from any and all claims and demands for payment that may be asserted by Grantee as the owner of the Overriding Royalty Interest.

## ARTICLE 2 DEFINITIONS

As used herein and in the exhibits hereto, the following terms shall have the respective meanings ascribed to them below:

"Central Time" means Central Standard Time or Central Daylight Savings Time in effect on the date in question.

"Business Day" shall mean any day other than a day on which commercial banks are authorized or required to close in New York.

"Conveyance" shall have the meaning given to such term in the preamble hereof.

"Credit Agreement" shall have the meaning given to such term in the preamble hereof.

"Deductible Costs" shall have the meaning given to such term in Section 1.3 hereof.

"Effective Time" means 7:00 a.m., Central Time, on June 29, 2001.

"Gas" means natural gas and other gaseous hydrocarbons.

"Grantee" shall have the meaning given such term in the preamble hereof.

"Grantor" shall have the meaning given such term in the preamble hereof.

"Grantor's Offer Notice" and "Grantee's Offer Notice" shall have the meaning given such terms in Section 1.2 hereof.

"Gross Working Interest" means, for each Lease or group of Leases, the interest identified as "Working Interest" on Exhibit A.

"Hydrocarbons" means Oil and Gas.

"Interest" shall have the meaning given such term in Section 1.2 hereof.

"Lease" means each oil and gas lease described, referred to, or identified in Exhibit A, insofar and only insofar as to the areas and/or depths specified in Exhibit A, together with any renewal or extension of such lease (as to all or any part or portion thereof), and any replacement lease taken upon or in anticipation of expiration or termination of such lease (if executed and delivered during the term of or within one year after expiration of the predecessor lease), insofar

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only as any such replacement lease covers areas and/or depths specified in Exhibit A as to the original lease; and "Leases" means all such leases, insofar only as such leases cover such areas and/or depths, and all such renewals and extensions and replacement leases.

"Legal Requirement" means any requirement imposed pursuant to any statute, rule, regulation, order, permit or license of or Lease from any applicable governmental body or by any applicable court order.

"MMS" shall have the meaning given such term in Section 1.3 hereof.

"Net Revenue Interest" means, for each Lease or group of Leases, the interest identified as "Net Revenue Interest" on Exhibit A, as such interest may be decreased pursuant to provisions of the applicable joint operating agreement.

"Oil" means crude oil, condensate and other liquid hydrocarbons.

"Overriding Royalty Hydrocarbons" shall mean the Hydrocarbons conveyed to Grantee pursuant to Section 1.1 hereof.

"Overriding Royalty Interest" shall have the meaning given such term in Section 1.1 hereof.

"Overriding Royalty Percentage" means, with respect to each Lease or group of Leases, 2.00000% of the Net Revenue Interest.

"Permitted Encumbrance" means the following:

(a) the agreements, contracts and other documents described in Exhibit B (to the extent the same are valid and enforceable and burden the Subject Interests), and any instrument executed subsequent to the date of this Conveyance pursuant to the express provisions of the applicable joint operating agreements including, without limitation, the non-consent provisions and the rights of recoupment, forfeiture or relinquishment provisions, as set forth in the applicable joint operating agreements and the provisions thereof relative to subsequently created interests which affect the Subject Interests;

(b) division orders and sales contracts;

(c) liens for taxes or assessments not yet delinquent;

(d) materialman's, mechanic's, repairman's, employee's, contractor's, operator's, and other similar liens or charges arising in the ordinary course of business, to the extent the same secure amounts not yet due and payable or that are being contested in good faith by appropriate proceedings diligently conducted;

(e) easements, rights-of-way, servitudes, permits, surface leases, and other rights in respect of surface operations, to the extent the same do not materially interfere with operations on, or the operation, value, or use of, any Subject Interest; and

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(f) other valid and enforceable liens, charges, encumbrances, contracts, agreements, obligations, defects, and irregularities affecting the Subject Interests which, taken in the aggregate: (i) do not materially interfere with operations on, or the operation, value, or use of, any Lease or any Subject

Interest; (ii) do not prevent Grantor from receiving any proceeds of production from any Lease or Grantee from receiving proceeds of production attributable to the Overriding Royalty Hydrocarbons from any Lease; and (iii) do not reduce Grantor's net revenue interest in Hydrocarbons produced from any Lease to less than the Net Revenue Interest applicable to the relevant Lease, other than as the result of Grantor's election not to consent in proposed operations.

"Property" means any Subject Interest or group of Subject Interests identified on Exhibit A.

"Repurchase Option" shall have the meaning given such term in Section 1.2 hereof.

"Subject Interests" or "Subject Interest" means the respective Gross Working Interests and Net Revenue Interests of Grantor in and to the Leases, and all lands now or hereafter pooled, communitized, or unitized therewith, even though Grantor's interest be incorrectly or incompletely described in Exhibit A, all as the same shall be enlarged by the discharge of any burdens, by the reversion of any interest, or by the removal of any charges or encumbrances to which any of the same may be subject, and any and all renewals and extensions of any of the same.

"Taxes" means all ad valorem, property, occupation, gathering, pipeline regulating, windfall profit, severance, gross production, Btu, energy, excise and other taxes and governmental charges and assessments imposed on the Subject Interests or the Overriding Royalty Interest, including the Overriding Royalty Hydrocarbons, other than income taxes and franchise taxes.

### ARTICLE 3 MISCELLANEOUS

SECTION 3.1 GOVERNING LAW. THIS CONVEYANCE AS TO EACH LEASE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE IN WHICH THE PROPERTY DESCRIBED IN THE LEASE IS SITUATED IN OR IN FEDERAL WATERS ADJACENT THERETO, EXCLUDING ANY CONFLICTS OF LAW RULE OR PRINCIPLE THAT MIGHT REFER CONSTRUCTION OF SUCH PROVISIONS TO THE LAWS OF ANOTHER JURISDICTION, EXCEPT TO THE EXTENT THE LAWS OF ANY OTHER JURISDICTION ARE MANDATORILY APPLICABLE AND EXCEPT THE PARTIES HERETO HAVE ELECTED TO HAVE THIS CONVEYANCE FOR USURY LAW PURPOSES GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. GRANTOR'S OBLIGATIONS HEREUNDER WITH RESPECT TO THE OVERRIDING ROYALTY INTEREST ARE SUBJECT TO ALL APPLICABLE LEGAL REQUIREMENTS.

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SECTION 3.2 SUCCESSORS AND ASSIGNS. The provisions and conditions contained in this Conveyance shall run with the land and the respective interests of Grantor and Grantee and shall be binding upon and inure to the benefit of Grantor and Grantee and their respective successors and assigns. All references herein to either Grantor or Grantee shall include their respective successors and assigns.

SECTION 3.3 MULTIPLE ORIGINALS. This Conveyance may be executed in multiple originals all of which shall constitute one and the same Conveyance.

SECTION 3.4 PERPETUITIES. It is not the intent of Grantor or Grantee that any provision herein violate any applicable law regarding the rule against perpetuities, the suspension of the absolute power of alienation, or other rules regarding the vesting or duration of estates, and this Conveyance shall be construed as not violating such rule to the extent the same can be so construed consistent with the intent of the parties. In the event, however, that any provision hereof is determined to violate any such rule, then such provision shall nevertheless be effective for the maximum period (but not longer than the maximum period) permitted by such rule that will result in no violation. To the extent the maximum period is permitted to be determined by reference to "lives in being," Grantor and Grantee agree that "lives in being" shall refer to lifetime of the last to die of the living lineal descendants of the late Joseph P. Kennedy (father of the late President of the United States of America).

SECTION 3.5 PARTIAL INVALIDITY. Except as otherwise expressly stated herein, in the event any provision contained in this Conveyance shall for any reason be held invalid, illegal or unenforceable by a court or regulatory agency



of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any of the remaining provisions of this Conveyance which shall remain in full force and effect.

SECTION 3.6 NOTICES. Notices required or otherwise given pursuant to or in connection with this Conveyance shall be in writing and addressed to the addresses set forth in the Credit Agreement.

[SIGNATURE PAGE FOLLOWS]

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EXECUTED and effective as of the Effective Time.

WITNESSES:	GRANTOR:
/s/ Dianna J. Rosses ----- Printed Name: Dianna J. Rosses -----	CALLON PETROLEUM OPERATING COMPANY

By: /s/ John S. Weatherly  
-----

/s/ Brian R. Howard ----- Printed Name: /s/ Brian R. Howard -----	John S. Weatherly Senior Vice President and Chief Financial Officer
--	---

WITNESSES:	GRANTEE:
/s/ Dianna J. Rosses ----- Printed Name: Dianna J. Rosses -----	DUKE CAPITAL PARTNERS, LLC

By: /s/ F. T. Webster  
-----

/s/ Brian R. Howard ----- Printed Name: /s/ Brian R. Howard -----	F.T. Webster Executive Vice President
--	--

[Signature Page to Conveyance of Overriding Royalty Interest]  
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THE STATE OF TEXAS    )  
                                  )  
COUNTY OF HARRIS    )

TEXAS

THIS INSTRUMENT was acknowledged before me on this 29 day of June, 2001, by John S. Weatherly, Senior Vice President and Chief Financial Officer of Callon Petroleum Operating Company, a Delaware corporation, who is duly authorized to execute the foregoing on behalf of said corporation.

LOUISIANA

On this 29th day of June, 2001, before me appeared John S. Weatherly, to me personally known, who, being by me duly sworn did say that he is the Senior Vice President and Chief Financial Officer of Callon Petroleum Operating Company, a Delaware corporation, and that the seal affixed to said instrument is

the corporate seal of said corporation by authority of its Board of Directors and that he acknowledged the instrument to be the free act and deed of the corporation.

/s/ Valerie W. Vaclavik

-----  
Notary Public in and for the  
State of Texas

[Signature Page to Conveyance of Overriding Royalty Interest]  
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THE STATE OF TEXAS     )  
                                  )  
COUNTY OF HARRIS     )

TEXAS

THIS INSTRUMENT was acknowledged before me on this 29th day of June, 2001, by F.T. Webster, Executive Vice President of Duke Capital Partners, LLC, a Delaware limited liability company, who is duly authorized to execute the foregoing on behalf of the said limited liability company.

LOUISIANA

On this 29th day of June, 2001, before me appeared F.T. Webster, to me personally known, who, being by me duly sworn did say that he is the Executive Vice President of Duke Capital Partners, LLC, a Delaware limited liability company, and that the seal affixed to said instrument is the corporate seal of said limited liability company by authority of its Board of Directors and that he acknowledged the instrument to be the free act and deed of the limited liability company.

/s/ Valerie W. Vaclavik

-----  
Notary Public in and for the  
State of Texas

[Signature Page to Conveyance of Overriding Royalty Interest]  
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EXHIBIT A  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST

PROPERTY EXHIBITS

MEDUSA PROJECT

OCS-G 16614

Dated:                 June 1, 1996  
  
Lessor:                United States of America  
  
Lessee:                Callon Petroleum Operating Company, et al.

Grantor's  
Working Interest:     15.00000%

Grantor's

Net Revenue Interest: 13.12500%

Description: The above referenced oil and gas lease covering Block 538, Mississippi Canyon, OCS Official Protraction Diagram, NH16-10, INsofar AND ONLY INsofar: (i) as to those depths from the surface to a depth limited to 100 feet below the stratigraphic equivalent of the T4B productive interval located between 14,172'-14,250' MD (13,318'-13,382' TVD) in the Mississippi Canyon 582 OCS-G 16623 #1 well on the Array Induction-Dipole Sonic log dated 9/27/99, and (ii) as to the following portion of said block: Starting at the Southeast corner of Mississippi Canyon Block 538, proceed in a northerly direction along the block boundary 11,200 feet; thence in a westerly direction parallel to the north block boundary of Block 538 a distance of 13,300 feet; thence in a southerly direction parallel with the western boundary of Block 538 a distance of 5,100 feet; thence turning 150.75 degrees East a distance of 7,000 feet to the South boundary of Block 538, then easterly along the south boundary of Block 538 a distance of 9,700 feet to the point of beginning.

Exhibit A-1

EXHIBIT A  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST

PROPERTY EXHIBITS

MEDUSA PROJECT

OCS-G 16623

Dated: June 1, 1996

Lessor: United States of America

Lessee: Callon Petroleum Operating Company, et al.

Grantor's

Working Interest: 15.00000%

Grantor's

Net Revenue Interest: 13.12500%

Description: The above referenced oil and gas lease covering Block 582, Mississippi Canyon, OCS Official Protraction Diagram, NH16-10, INsofar AND ONLY INsofar: (i) as to those depths from the surface to a depth limited to 100 feet below the stratigraphic equivalent of the T4B productive interval located between 14,172'-14,250' MD (13,318'-13,382' TVD) in the Mississippi Canyon 582 OCS-G 16623 #1 well on the Array Induction-Dipole Sonic log dated 9/27/99, and (ii) as to the following portion of said block: Starting at the Northeast corner of Mississippi Canyon Block 582, proceed in a westerly direction along the north boundary of Block 582 a distance of 9,700 feet; thence turning 60.75 degrees in a southerly direction a distance of 13,100 feet; thence in an easterly direction parallel to the south boundary of Block 582 a distance of 3,500 feet to the East boundary; thence in a northerly direction along the eastern boundary of Block 582, 11,400 feet to the point of beginning.

Exhibit A-2

EXHIBIT A  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST

PROPERTY EXHIBITS

ENTRADA PROJECT

OCS-G 20797

Dated: January 1, 1999  
Lessor: United States of America  
Lessee: Callon Petroleum Operating Company, et al.  
Grantor's  
Working Interest: 20.00000%  
Grantor's  
Net Revenue Interest: 17.50000%

Description: The above referenced oil and gas lease covering Block 782, Garden Banks, OCS Official Protraction Diagram, NG15-2, INSO FAR AND ONLY INSO FAR: (i) as to those depths from the surface to a depth limited to 100 feet below the stratigraphic equivalent of the 5800 ms productive interval located between 19,875'-20,262' MD (19,864'-20,254' TVD) in the Garden Banks 782 OCS-G 20797 #2 ST1 well on the composite DGR-EWR logs, and (ii) as to all of said Block 782, Garden Banks, LESS AND EXCEPT the Northeast Quarter (NE/4).

OCS-G 22336

Dated: October 1, 2000  
Lessor: United States of America  
Lessee: Callon Petroleum Operating Company, et al.  
Grantor's  
Working Interest: 20.00000%  
Grantor's  
Net Revenue Interest: 17.50000%

Description: The above referenced oil and gas lease covering Block 738, Garden Banks, OCS Official Protraction Diagram, NG15-02, INSO FAR AND ONLY INSO FAR: (i) as to those depths from the surface to a depth limited to 100 feet below the stratigraphic equivalent of the 5800 ms productive interval located between 19,875'-20,262' MD (19,864'-20,254' TVD) in the Garden Banks 782 OCS-G 20797 #2 ST1 well on the composite DGR-EWR logs, and (ii) as to the Southwest Quarter (SW/4) of said Block 738, Garden Banks.

Exhibit A-3

EXHIBIT A  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST

PROPERTY EXHIBITS

HABANERO PROJECT

OCS-G 15879

Dated: February 1, 1996  
Lessor: United States of America  
Lessee: Callon Petroleum Operating Company, et al.  
Grantor's  
Working Interest: 11.25000%

Grantor's  
Net Revenue Interest: 9.84375%

Description: The above referenced oil and gas lease covering Block 341, Garden Banks, OCS Official Protraction Diagram, NG15-02, INSO FAR AND ONLY INSO FAR: (i) as to those depths from the surface to a depth limited to 100 feet below the stratigraphic equivalent of the Hab 55 productive interval located between 20,172'-20,248' MD (19,413'-19,475' TVD) in the Garden Banks 341 OCS-G 15879 #1 well on the Array Induction-Long Spaced Sonic log dated 1/29/99, and (ii) as to the following portion of said block: Starting from the Southeast corner of Garden Banks Block 341, proceed in a northerly direction along the east boundary of Block 341 a distance of 2,200 feet to the point of beginning; thence in a westerly direction parallel to the south boundary of Block 341 a distance of 7,300 feet; thence in a northerly direction parallel to the east boundary of Block 341 a distance of 8,300 feet; thence in an easterly direction parallel to the southern boundary of Block 341 a distance of 7,300 feet; thence in a southerly direction along the east boundary of Block 341 a distance of 8,300 feet to the point of beginning.

Exhibit A-4

EXHIBIT A  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST

PROPERTY EXHIBITS

BOOMSLANG

OCS-G 18186

Dated: August 1, 1997  
Lessor: United States of America  
Lessee: Callon Petroleum Operating Company, et al.

Grantor's  
Working Interest: 55.00000%

Grantor's  
Net Revenue Interest: 45.83330%

Description: The above referenced oil and gas lease covering Block 994, Ewing Bank, OCS Official Protraction Diagram, NH15-12, INSO FAR AND ONLY INSO FAR: (i) as to those depths from the surface to a depth limited to 100 feet below the stratigraphic equivalent of the Bul 1 productive interval located between 12,472'-12,884' MD (11,435'-11,780' TVD) in Ewing Bank 994 OCS-G 18186 #1 well on the LWD logs, and (ii) as to the following portion of said block: Starting at the Southeast corner of Ewing Bank Block 994, proceed in a northerly direction along the east boundary of Block 994 a distance of 12,500 feet; thence in a westerly direction parallel to the north boundary of Block 994 a distance of 9,000 feet; thence in a southerly direction parallel to the west boundary of Block 994 a distance of 12,500 feet; thence in an easterly direction along the south boundary of Block 994 a distance of 9,000 feet to the point of beginning.

Exhibit A-5

EXHIBIT "B"  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST DATED JUNE 29, 2001  
PERMITTED ENCUMBRANCES

Corporate Mortgage:

Act of Amended, Restated and Consolidated Mortgage, Assignment of Production, Security Agreement and Fixture Filing and Financing Statement Dated effective as of October 30, 2000 from Callon Petroleum Operating Company, Mortgagor to First Union National Bank, as Administrative Agent, Mortgagee filed in Plaquemines Parish, La, MOB 309, Folio 1072; Terrebonne Parish, La, #1083092, Mtg. Book 1323; Cameron Parish, La #267356, Mtg. Book 255; Iberia Parish, La, MOB 816, Entry No. 00-1351; St. Mary Parish, La, #242,411, MOB 856, Folio 180; Minerals Management Service, OCS-G No. 16614, 16623, 18186, 15879.

UCC Financing Statement relating to the security agreement cited above, filed in Plaquemines Parish, La #38-00-1625 and Delaware Secretary of State #0079363.

UCC-1 Financing Statement (Security Agreement) between Callon Petroleum Operating Company, Debtor, and First Union National Bank as Administrative Agent, Secured Party, filed in Plaquemines Parish, La #38-00-1692 and Delaware Secretary of State #0080096.

UCC-3 Financing Statement (Assignment) Callon Petroleum Operating Company from the Chase Manhattan Bank to First Union National Bank, as Administrative Agent filed in Plaquemines Parish, La #38-00-1699 and #38-00-1698 and Terrebonne Parish, La #55-1083750.

Act of Supplement and Amendment to Act of Amended, Restated and Consolidated Mortgage, Assignment of Production, Security Agreement, Fixture Filing and Financing Statement by Callon Petroleum Operating Company to First Union National Bank adding Garden Banks Area, Block 782 and 738 effective June 29, 2001 and filed in the following parishes and jurisdictions: Cameron, Iberia, Plaquemines, St. Mary and Terrebonne Parishes La. And Minerals Management Service.

Non-Conforming UCC-3 Amendment between Callon Petroleum Operating Company as Debtor and First Union National Bank, as Administrative Agent, as Secured party, referring to Original Financing Statement No. 38-00-1625, filed November 9, 2000, in Plaquemines Parish, La, amended to add Garden Banks Area, Block 782 and 738.

Exhibit B-1

EXHIBIT "B"  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST DATED JUNE 29, 2001  
PERMITTED ENCUMBRANCES

Non-Conforming UCC-3 Partial Release between Callon Petroleum Operating Company as Debtor and First Union National Bank, as Administrative Agent, as Secured party, referring to Original Financing Statement No. 38-00-1625, filed November 9, 2000, in

Plaquemines Parish, La, releasing from the Original Financing Statement the following collateral: Garden Banks Area, Block 782 and 738.

#### MEDUSA

Leases: OCS-G 16623 dated effective June 1, 1996 between the United States of America as Lessor and Callon Petroleum Operating Company et al as Lessees covering All of Block 582 Mississippi Canyon, OCS Official Protraction Diagram, NH 16-10, containing 5,760 acres.

OCS-G 16614 dated effective June 1, 1996 between the United States of America as Lessor and Callon Petroleum Operating Company et al, as Lessees covering All of Block 538, Mississippi Canyon, OCS Official Protraction Diagram, NH 16-10, containing 5,760 acres.

#### Joint Operating Agreement:

Dated effective February 1, 1999, between Murphy Exploration & Production Company as Operator, Callon Petroleum Operating Company, and British-Borneo Petroleum, Inc., covering Mississippi Canyon Blocks 538, 539, 581 and 582 and all exhibits thereto.

#### Well Participation Agreement:

Dated June 21, 1999 between Murphy Exploration & Production Company, British-Borneo Petroleum, Inc. and Callon Petroleum Operating Company, covering Mississippi Canyon Blocks 538, 582, 581, and 539.

#### Assignment of Record Title:

Dated effective October 15, 1999 between Murphy Exploration & Production Company and Callon Petroleum Operating Company, as Assignors and British-Borneo Petroleum, Inc., as Assignee covering Mississippi Canyon Blocks 538, 539, 581, and 582.

Exhibit B-2

EXHIBIT "B"  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST DATED JUNE 29, 2001  
PERMITTED ENCUMBRANCES

#### HABANERO

Lease: OCS-G 15879 dated effective February 1, 1996 between the United States of America as Lessor and Shell Offshore, Inc., as Lessee, covering All of Block 341, Garden Banks, OCS Official Protraction Diagram, NG 15-2, containing 5,760 acres.

#### Joint Operating Agreement:

Dated effective November 1, 1998, between Shell Deepwater Development Inc., Murphy Exploration & Production Company, and Callon Petroleum Operating Company, covering Garden Banks Block 341 and all exhibits thereto.

#### Exchange of Interest Agreement:

Letter dated February 2, 1998 between Shell Deepwater Development, Inc., Murphy Exploration & Production Company and Callon Petroleum Operating Company covering Garden Banks

Blocks 341, 253, 297, and 298.

Assignment of Record Title Interest:

Dated effective February 1, 1998, Shell Deepwater Development Inc., Assignor to Murphy Exploration & Production Company and Callon Petroleum Operating Company as Assignees cover Garden Banks Block 341.

Reserve Commitment Agreement:

Dated March 20, 1997 between Garden Banks Gas Pipeline, LLC and Shell Offshore, Inc., covering Garden Banks Block 341.

Auger Production Handling Term Letter:

Dated November 12, 1998 between Shell Deepwater Production Inc., Murphy Exploration & Production Company, and Callon Petroleum Operating Company.

Exhibit B-3

EXHIBIT "B"  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST DATED JUNE 29, 2001  
PERMITTED ENCUMBRANCES

ENTRADA

Leases: OCS-G 20797 dated effective January 1, 1999 between The United States of America as Lessor, and Vastar Resources Inc. as Lessee, covering All of Block 782, Garden Banks, OCS Official Protraction Diagram, NG 15-2, containing 5,760 acres.

OCS-G 22336 dated effective October 1, 2000 between The United States of America as Lessor, and Callon Petroleum Operating Company and Vastar Resources, Inc., as Lessees, covering All of Block 738, Garden Banks, OCS Official Protraction Diagram, NG 15-02.

Participation Agreement:

Dated effective December 6, 1999 between Vastar Resources, Inc. and Callon Petroleum Operating Company, covering Garden Banks, Blocks 782, 826, 827, 785 and all exhibits thereto including the joint operating agreement.

Assignment of Record Title:

Dated March 23, 2000 between Vastar Resources, Inc as Assignor and Callon Petroleum Operating Company as Assignee, covering Garden Banks Block 782.

Letter Agreement:

Dated May 11, 2000 between Vastar Resources, Inc., and Callon Petroleum Operating Company. Amendment to Participation Agreement dated December 6, 1999 to add Garden Banks 738 to Exhibits "E" and "F".

BOOMSLANG

Lease: OCS-G 18186 dated effective August 1, 1997 between the United States of America as Lessor, and Callon Petroleum Operating Company, et al as Lessees, covering All of Block 994, Ewing Bank, OCS Official Protraction Diagram, NH 15-12, containing



5,760 acres.

Exhibit B-4

EXHIBIT "B"  
TO THE  
CONVEYANCE OF OVERRIDING ROYALTY INTEREST DATED JUNE 29, 2001  
PERMITTED ENCUMBRANCES

Operating Agreement:

Dated effective August 1, 1997 between Murphy Exploration & Production Company, as Operator and Callon Petroleum Operating Company, covering Ewing Bank Block 994.

Well Participation Agreement:

Dated June 26, 1998 between Murphy Exploration & Production Company, Callon Petroleum Operating Company, and Santos USA Corp., covering Ewing Bank Block 994.

Assignment of Oil and Gas Lease:

Dated effective June 1, 1998 between Murphy Exploration & Production Company as Assignor and Callon Petroleum Operating Company, as Assignee, covering Ewing Bank Block 994, (OCS-G 18186).

Assignment of Oil and Gas Lease:

Dated effective October 1, 1999 between Santos USA Corporation as Assignor and Callon Petroleum Operating Company as Assignee, covering OCS-G 18186, Block 994 Ewing Bank.

Assignment, Bill of Sale and Conveyance:

Dated October 1, 1999 between Santos USA Corporation as Assignor and Callon Petroleum Operating Company as Assignee, covering OCS-G 18186 No. 1 Well, Block 994 Ewing Bank.

Exhibit B-5