

BETA OIL & GAS INC
Form 10-K/A
April 20, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No.1

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the Year Ended December 31, 2003

or

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**TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From to

Commission File Number: 000-25717

BETA OIL & GAS, INC.

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(Exact name of registrant as specified in its charter)

Nevada
(State of Incorporation)

86-0876964
(I.R.S. Employer Identification No.)

6100 S. Yale, Suite 300, Tulsa, OK
(Address of principal executive offices)

74136
(Zip Code)

(918) 495-1011
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value \$.001 per share**
(Title of Each Class)

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

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

The aggregate market value of such common stock held by non-affiliates was approximately \$15,052,365 based on the reported closing sales price of \$1.32 on the Nasdaq National Market on June 30, 2003.

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained within this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 16, 2004, 12,429,307 shares of the registrant's common stock were outstanding.

Certain sections of the registrant's proxy statement for the 2004 annual meeting of stockholders are incorporated by reference into Part III. Certain sections of amendment no. 3 to the registrant's preliminary proxy statement filed on March 17, 2004 are incorporated by reference into Part I.

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GLOSSARY OF TERMS

We are in the business of exploring for and producing oil and natural gas. Oil and gas exploration is a specialized industry. Many of the terms used to describe our business are unique to the oil and gas industry. We present the following glossary to clarify certain of these terms you may encounter while reading this Form 10-K.

Acquisition costs of properties means the costs incurred to obtain rights to production of oil and gas. These costs include the costs of acquiring oil and gas leases and other interests. These costs include lease costs, finder's fees, brokerage fees, title costs, legal costs, recording costs, options to purchase or lease interests and any other costs associated with the acquisition of an interest in current or possible production.

Area of mutual interest or **AMI** means, generally, an agreed upon area of land, varying in size, included and described in an oil and gas exploration and exploitation agreement which participants agree will be subject to rights of first refusal as among themselves, such that any participant acquiring any minerals, royalty, overriding royalty, oil and gas leasehold estates or similar interests in the designated area, is obligated to offer the other participants the opportunity to purchase their agreed upon percentage share of the interest so acquired on the same basis and cost as purchased by the acquiring participant. If the other participants, after a specific time period, elect not to acquire their pro-rata share, the acquiring participant is typically then free to retain or sell such interests.

Back-in interests also referred to as a carried interest, involve the transfer of interest in a property, with provision to the transferor to receive a reversionary interest in the property after the occurrence of certain events.

Bbl means barrel, 42 U.S. gallons liquid volume, used in this annual report in reference to crude oil or other liquid hydrocarbons.

Bcf means billion cubic feet, used in this annual report in reference to gaseous hydrocarbons.

Bcfe means billions of cubic feet of gas equivalent, determined using the ratio of six thousand cubic feet of gas to one barrel of oil, condensate or gas liquids.

Casing point means the point in time at which an election is made by participants in a well whether to proceed with an attempt to complete the well as a producer or to plug and abandon the well as a non-commercial dry hole. The election is generally made after a well has been drilled to its objective depth and an evaluation has been made from

drill cutting samples, well logs, cores, drill stem tests and other methods. If an affirmative election is made to complete the well for production, production casing is then generally cemented in the hole and completion operations are then commenced.

Development costs are costs incurred to drill, equip, or obtain access to proved reserves. They include costs of drilling and equipment necessary to get products to the point of sale and may entail on-site processing.

Exploration costs are costs incurred, either before or after the acquisition of a property, to identify areas that may have potential reserves, to examine specific areas considered to have potential reserves, to drill test wells, and drill exploratory wells. Exploratory wells are wells drilled in unproven areas. The identification of properties and examination of specific areas will typically include geological and geophysical costs, also referred to as G&G, which include topological studies, geographical and geophysical studies, and costs to obtain access to properties under study. Depreciation of support equipment, and the costs of carrying unproved acreage, delay rentals, ad valorem property taxes, title defense costs, and lease or land record maintenance are also classified as exploratory costs.

Farmout involves an entity's assignment of all or a part of its interest in or lease of a property in exchange for consideration such as a royalty.

Future net revenue, before income taxes means an estimate of future net revenue from a property, based on the production of the proven reserves of oil and natural gas believed to be recoverable at a specified date, after deducting production and ad valorem taxes, future capital costs and operating expenses, before deducting income taxes. Future net revenue, before income taxes, should not be construed as being the fair market value of the property.

Future net revenue, net of income taxes means an estimate of future net revenue from a property, based on the proven reserves of oil and natural gas believed to be recoverable at a specified date, after deducting production and ad valorem taxes, future capital costs and operating expenses, net of income taxes. Future net revenues, net of income taxes, should not be construed as being the fair market value of the property.

Gross oil or gas well or **gross** acre is a well or acre in which an owner has a working interest.

Mcf means thousand cubic feet, used in this annual report to refer to gaseous hydrocarbons.

Mcfe means thousands of cubic feet of gas equivalent, determined using the ratio of six thousand cubic feet of gas to one barrel of oil, condensate or gas liquids.

MMcf means million cubic feet, used in this annual report to refer to gaseous hydrocarbons.

MMbtu means million British thermal units, used in this annual report to refer to the energy content associated with natural gas and crude oil.

MBbl means thousand barrels, used in this annual report to refer to crude oil or other liquid hydrocarbons.

Net oil and gas wells or **net** acres are determined by multiplying **gross** wells or acres by the owner's working interest percentage in such wells or acres.

Oil and gas lease or **lease** means an agreement between a mineral owner, the lessor, and a lessee which conveys the right to the lessee to explore for and produce oil and gas from the leased lands. Oil and gas leases usually have a primary term during which the lessee must establish production of oil and or gas. If production is established within the primary term, the term of the lease generally continues in effect so long as production occurs on the lease. Leases generally provide for a royalty to be paid to the lessor from the gross proceeds from the sale of production.

Overpressured reservoir is a reservoir subject to abnormally high pressure as a result of certain types of subsurface conditions.

Present value of future net revenue, before income taxes means future net revenue, before income taxes, discounted at an annual rate of 10% to determine the present value. The present value is shown to indicate the effect of time on the value of the revenue stream and should not be construed as being the fair market value of the properties.

Present value of future net revenue, net of income taxes means future net revenue, net of income taxes discounted at an annual rate of 10% to determine their present value. The present value is shown to indicate the effect of time on the value of the revenue stream and should not be construed as being the fair market value of the properties. Also known as the Standardized Measure of Discounted Future Net Cash Flows if SEC pricing assumptions are used.

Production costs means operating expenses and severance and ad valorem taxes on oil and gas production.

Prospect means a location where both geological and economical conditions favor drilling a well.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Reservoirs are considered proved if economic recovery by production is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (B) the immediately adjoining portions not yet drilled, but which can reasonably be judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

Proved developed oil and gas reserves are those proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas reserves expected to be obtained

through the application of fluid injection or other improved secondary or tertiary recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as proved developed reserves only after testing by a pilot project or after the operation of an installed recovery program has confirmed through production response that increased recovery will be achieved.

Proved undeveloped oil and gas reserves are those proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it can be demonstrated with reasonable certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves attributable to any acreage do not include production for which an application of fluid injection or other improved recovery technique is required or contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

Reserve target see **Prospect** .

Royalty interest is a right to oil, gas, or other minerals that is not burdened by the costs to develop or operate the related property.

Seismic option generally means an agreement in which the mineral owner grants the right to acquire seismic data on the subject lands and grants an option to acquire an oil and gas lease on the lands at a predetermined price.

Trend means a geographical area along which a petroleum pay occurs (fairway).

Working interest or **WI** is an interest in an oil and gas property that is burdened with the costs of development and operation of the property.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Included in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-K which address activities, events or developments, which we expect or anticipate, will or may occur in the future are forward-looking statements. The words believes, intends, expects, anticipates, projects, estimates, predicts and similar expressions are also intended to identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations reflected in such forward-looking statements will prove to have been correct.

All forward-looking statements contained in this section are based on assumptions believed to be reasonable.

These forward-looking statements include statements regarding:

Estimates of proved reserve quantities and net present values of those reserves

Reserve potential

Business strategy

Capital expenditures amount and types

Expansion and growth of our business and operations

Expansion and development trends of the oil and gas industry

Production of oil and gas reserves

Exploration prospects

Wells to be drilled, and drilling results

Operating results and working capital

The proposed Petrohawk transaction described under PART I, Item 1. Business and Item 2. Properties General, Petrohawk Transaction

We can give no assurance that our expectations and assumptions will prove to be correct. The Petrohawk transaction is subject to approval by our stockholders at a special meeting which is expected to be held at the end of April or early May, 2004. Reserve estimates of oil and gas properties are generally different from the quantities of oil and natural gas that are ultimately recovered or found. This is particularly true for estimates applied to exploratory prospects and new production. Additionally, any forward-looking statements are subject to various known and

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unknown risks, uncertainties and contingencies, many of which are beyond our control. Such things may cause actual results, performance, achievements or expectations to differ materially from what we anticipated.

Factors that may affect such forward-looking statements include, but are not limited to:

Our ability to generate additional capital to complete our planned drilling and exploration activities

Risks inherent in oil and gas acquisitions, exploration, drilling, development and production

Oil and natural gas prices

Competition from other oil and gas companies

Shortages of equipment, services and supplies

General economic, market or business conditions

Economic, market or business conditions in the oil and gas industry and in the energy business generally

Government regulation

Environmental matters

Financial condition and operating performance of the other companies participating in the exploration, development and production of oil and gas ventures that we are involved in

Our failure to consummate the Petrohawk transaction

In addition, since some of our prospects are currently operated by third parties, we may not be in a position to control costs, safety and timeliness of work as well as other critical factors affecting a producing well or exploration and development activities.

PART I

Item 1. Business and Item 2. Properties

GENERAL

We are an independent oil and gas company engaged in the exploration, exploitation, development, production and acquisition of natural gas and crude oil. We are a Nevada corporation incorporated in June 1997. Our operations are currently focused on the exploration and development of oil and gas producing trends situated in Oklahoma, Texas, Louisiana and Kansas. Our Australian drilling concession expired in 2003.

At December 31, 2003, we owned interests in approximately 218 gross (181 net) producing wells, in the Mid-Continent, Texas and Louisiana regions and participated in the drilling and completion of 28 gross (7.0 net) wells during the year. Additionally, we own interests in 57,099 net acres in Kansas, Louisiana, Oklahoma, Texas, and Offshore Louisiana State and Federal Waters.

Total proved reserve volumes at December 31, 2003 were 22.4 Bcf of natural gas and 1,307.5 MBbl of oil, or 30.2 Bcfe of natural gas compared to December 31, 2002 proved reserves of 14.7 Bcf of natural gas and 608.6 MBbl of oil or 18.3 Bcfe of natural gas. Total 2003 proved reserves increased approximately 11.9 Bcfe, or 65%, from 2002 primarily due to: 1.) extensions or discoveries of approximately 7.5 Bcfe, 2.) reserve revisions of approximately 5.5 Bcfe due to performance and 3.) higher 2003 year end natural gas and crude oil prices compared to year end 2002 resulting in an increase of approximately 1.5 Bcfe. Average net daily production for 2003 was 7.2 MMcfe, down 12% from 2002 levels. At year-end 2003, the average net daily production was approximately 7.8 MMcfe, compared to 7.5 MMcfe from year end 2002 levels, up 4 percent.

At December 31, 2003, approximately 25.4 Bcfe of natural gas, or 84%, of our total proved reserves were classified as proved developed and approximately 4.7 Bcfe, or 16%, of our total proved reserves were classified as proved undeveloped reserves. As of year-end 2003, the proved undeveloped reserves represented approximately 25% of the total proved oil reserves and approximately 12% of the total proved natural gas reserves. Approximately 30% of the increase in our total reserves from year-end 2002 to year-end 2003 was classified as proved undeveloped reserves. These additions were mostly the result of our workover and drilling programs supported by detailed technical studies in our key areas located in Central Oklahoma (WEHLU), South Central Kansas and South Louisiana. We expect to make approximately \$3.6 million in capital expenditures to develop approximately 3.7 Bcfe, or 78%, of our proved undeveloped reserves in 2004. We expect to make approximately \$1.3 million in capital expenditures to develop the balance of approximately 1.0 Bcfe, or 22%, of our proved undeveloped reserves in 2005.

Petrohawk Transaction

On December 12, 2003, we entered into a securities purchase agreement (which we generally refer to as the Petrohawk purchase agreement) with Petrohawk Energy, LLC (Petrohawk) pursuant to which we have agreed to issue to Petrohawk for an aggregate of \$60,000,000 in cash:

15,151,515 shares of our common stock;

five year warrants to purchase up to an additional 10,000,000 shares of our common stock at an exercise price of \$1.65 per share; and

a convertible promissory note in the face amount of \$35,000,000 which will be convertible after two years into shares of our common stock at a conversion price of \$2.00 per share.

Because issuance of the shares of common stock to Petrohawk in connection with this transaction will result in a change of control of Beta, we are required by the rules of The Nasdaq Stock Market to obtain stockholder approval of the issuance of the shares. A special meeting of our stockholders is expected to be called at the end of April or early May 2004.

The transactions contemplated by the purchase agreement are required to be consummated at a closing that we expect to occur immediately following the approval of the proposal by our stockholders. Holders of approximately 28% of our outstanding common stock have entered into an agreement with Petrohawk in which they committed to vote their shares in favor of the transaction.

Assuming that the transaction is approved by our stockholders and is consummated, the proceeds from the sale of the securities will be added to our working capital and be available for the acquisition, development and exploration of oil and gas properties. A portion of these proceeds is expected to be used to pay off all of our existing long-term bank debt. Under the terms of the Petrohawk purchase agreement, all of our directors except Robert C. Stone, Jr. will resign and six persons designated by Petrohawk will be appointed as new directors. New management will also be appointed and it is anticipated that our headquarters will be moved to the Houston, Texas area.

A more complete discussion of the Petrohawk transaction is contained in the section captioned "Proposal No. 1: The Petrohawk Transaction" in our preliminary proxy statement which we filed on March 17, 2004. After the completion of the SEC review of our preliminary proxy statement, a definitive proxy statement will be filed with the SEC and is expected to be first sent to our stockholders at the end of March or beginning of April, 2004.

Much of the discussion in this report about our future business, operations and activities is subject to the effects of the Petrohawk transaction if and when it is consummated.

RISK FACTORS

The following risks relate specifically to the conduct of our business. You should also refer to the information under the heading "Forward Looking Statements" on page 5. These risk factors pertain to our business assuming that the Petrohawk transaction is not consummated. For a discussion of the risk factors relevant to the Petrohawk transaction, you should refer to the section captioned "Proposal No. 1: The Petrohawk Transaction - Certain Risks Associated with the Proposed Petrohawk Transaction" in our preliminary proxy statement which was filed with the SEC on March 17, 2004. This section is incorporated into this report by reference. After the completion of the SEC review of our preliminary proxy statement, a definitive proxy statement will be filed with the SEC and is expected to be first sent to our stockholders at the end of March or beginning of April, 2004.

We have a limited operating history and our developed property interests have incurred operating losses since inception.

We were incorporated in June 1997. We have a limited operating history and are subject to the associated risks. Since our inception, we have incurred operating losses every year except for 2000 and 2003. As of December 31, 2003, we had an accumulated deficit of \$22.6 million. If we are unable to generate positive cash flow from our oil and gas operations, we may continue to incur losses. Our ability to achieve and maintain profitability is uncertain.

We are reliant on the skill, ability and decisions of third party operators to a significant extent.

We operate 43% of the producing wells in which we own a working interest and we are a non-operating working interest owner in the remaining 57%. With respect to the latter, we have entered into joint operating agreements with third party operators for the conduct and supervision of drilling, completion and production operations of those wells and for the operation of those properties. The success of the drilling, development and production of the oil and gas properties in which we have a non-operating working interest is substantially dependent upon the decisions of such third-party operators and their diligence to comply with various laws, rules and regulations affecting such properties. The failure of any third-party operator to

make decisions,

perform their services,

discharge their obligations,

deal with regulatory agencies, and

comply with laws, rules and regulations affecting the properties in which we have an interest, including environmental laws and regulations

in a proper manner could result in material adverse consequences to our interest in any affected properties, including substantial penalties and compliance costs. Such adverse consequences could result in substantial liabilities to us, which could negatively affect our results of operations.

We have not paid, and do not anticipate paying, any dividends on our common stock in the foreseeable future.

We have never paid any cash dividends on our common stock. We do not expect to declare or pay any cash or other dividends in the foreseeable future on our common stock. Holders of our preferred stock are entitled to receive cumulative dividends at the annual rate of \$.74 per share when and as declared by our board of directors. No dividends may be paid on our common stock unless all cumulative dividends due on the preferred stock have been declared and paid. We may also enter into credit agreements or other borrowing arrangements, which may restrict our ability to declare dividends on our common stock.

Various factors, including fluctuations in oil and gas prices, economic conditions, environmental and other regulations, could have a material adverse effect on our financial condition and results of operations and may cause considerable volatility in the market price of our common stock.

The market value of our common stock may vary significantly in response to changes in our quarterly results of operations. We expect to experience substantial fluctuations in oil and gas prices due to changes in the supply of and demand for oil and gas, which may be caused by

weather conditions,

political conditions in the Middle East and other regions,

domestic and foreign reserves and supply of oil and gas,

the price and availability of alternative fuels,

the level of consumer demand, or

general economic and market conditions.

In addition, our revenues will be affected by the success or failure of the efforts to drill exploratory wells in the unproven prospects in which we have an interest, the availability of a ready market for the oil and gas production from the wells in which we have an interest and the proximity of such well sites to pipelines and production facilities. Drilling, completion and other costs and expenses will be affected by various market factors over which neither we nor our third party operators may have any control. Due to the uncertainty of our revenues, expenses and profits or losses, the market price of our stock may be volatile in the future.

Our future capital expenditures could exceed those amounts budgeted and could exceed our future funds available for those expenditures.

We project our 2004 capital expenditures to be approximately \$5 million and expect our cash flow from operations and funds received from internally-generated prospects to fund those expenditures. Our planned capital expenditures and/or administrative expenses could exceed those amounts budgeted and could exceed the available cash sourced for those expenditures. While our projected cash expenditures may be as forecasted, cash flow from operations could be unfavorably impacted by lower than projected natural gas and crude oil prices and/or lower than projected production rates. Additionally, lower natural gas and crude oil prices could adversely impact our ability to raise any funds from the sale of prospects. To the extent that the funds available from operations and prospect sales are insufficient to fund our activity, it may be necessary to raise additional funds through equity or debt financing. Any equity financing could result in dilution to our then-existing shareholders. Sources of debt financing may result in higher interest expense, further security interests in our assets, other equity interest to our lenders and similar developments. Any financing, if available, may be on terms unfavorable to us. If adequate funds are not obtained, we may be required to reduce or curtail operations. We anticipate that our existing capital resources will be adequate to satisfy our operating expenses and capital requirements for 2004.

Our hedging activities could result in losses.

We have previously engaged in oil and gas hedging activities and intend to continue to consider various hedging arrangements to realize commodity prices that we consider protective or favorable. See **Item 7A. Quantitative and Qualitative Disclosure About Market Risk** for a discussion of our current hedging activity. As with the natural gas contracts, the crude oil contracts are costless and no net premium is received in cash or as a favorable rate. The impact of changes in the market price for oil and gas on the average oil and gas prices received by us may be reduced from time to time based on the level of our hedging activities. These hedging arrangements may limit our potential gain if the market prices for oil and gas were to rise substantially over the ceiling price established by the hedge. In addition, our hedging arrangements expose us to the risk of financial loss in certain circumstances, including instances in which (1) production is less than expected or (2) the counterparties to our hedging arrangements fail to honor their financial commitments.

We have substantial long-term indebtedness.

Under our current credit facility, we have a total indebtedness outstanding of approximately \$13.3 million with a current total borrowing capacity of \$13.8 million, which is subject to an automatic monthly reduction of \$88,000, which commenced on July 31, 2003. Historically due to commodity price volatility and a reduction in our proved developed reserves, our borrowing capacity has not significantly increased and has not been a material source of funds. We are

currently required to pay interest only on the amount outstanding on a monthly basis. Should our proved developed reserves not materially increase and/or pricing substantially decrease before the next re-determination date, our current borrowing base may be reduced below the amount currently borrowed and outstanding. If this event occurs we would be obligated to pay down the outstanding amount to the re-determined borrowing capacity. We would rely on cash flow from operations and funds generated from prospect sales to make this pay down. Since the facility is secured by our producing oil and gas properties, should we be unable to pay down the obligation at re-determination or maturity, we could sustain a loss on our investment as a result of foreclosure by the lender on the interests in these properties. The next re-determination date is April 2004 and the credit facility matures in April 2005.

Our oil and gas activities are subject to various risks which are beyond our control.

Our operations are subject to many risks and hazards incident to exploring and drilling for, producing, transporting, marketing and selling oil and gas. Although we or the third party operator of the properties, in which we have an interest, may take precautionary measures, many of these risks and hazards are beyond our control and unavoidable under the circumstances. Many of these risks or hazards could materially and adversely affect our revenues and expenses, production of oil and gas in commercial quantities, the rate of production and the economics of the development of, and our investment in the prospects in which we have or will acquire an interest. Any of these risks and hazards could materially and adversely affect our financial condition, results of operations and cash flows. Such risks and hazards include:

human error, accidents, labor force and other factors beyond our control that may cause personal injuries or death to persons and destruction or damage to equipment and facilities,

blowouts, fires, pollution and equipment failures that may result in damage to or destruction of wells, producing formations, production facilities and equipment,

unavailability of materials and equipment,

engineering and construction delays,

unanticipated transportation costs and delays,

unfavorable weather conditions, hazards resulting from unusual or unexpected geological or environmental conditions,

environmental regulations and requirements,

accidental leakage of toxic or hazardous materials, such as petroleum liquids or drilling fluids into the environment,

changes in laws and regulations, including laws and regulations applicable to oil and gas activities or markets for the oil and gas produced,

fluctuations in supply and demand for oil and gas causing variations of the prices we receive for our oil and gas production,

the internal and political decisions of OPEC and oil and gas producing nations and their impact upon oil and gas prices.

As a result of these risks, expenditures, quantities and rates of production, revenues and cash operating costs may be materially adversely affected and may differ materially from those anticipated by us.

We depend substantially on the continued presence of key personnel for critical management decisions and industry contacts.

If the proposed Petrohawk transaction is not consummated, our future performance will be substantially dependent on the performance of our executive officers and key employees. The loss of the services of any of our executive officers or other key employees for any reason could have a material adverse effect on our business, operating results, financial condition and cash flows. The pendency of the Petrohawk transaction may make it difficult to retain all of our key employees.

Governmental and environmental regulations could adversely affect our business.

Our business is subject to federal, state and local laws and regulations on taxation, the exploration for and development, production and marketing of oil and gas and safety matters. Many laws and regulations require drilling permits and govern the spacing of wells, rates of production, prevention of waste, unitization and pooling of properties and other matters. These laws and regulations have increased the costs of planning, designing, drilling, installing, operating and abandoning our oil and gas wells and other facilities. In addition, these laws and regulations, and any others

that are passed by the jurisdictions where we have production, could limit the total number of wells drilled or the allowable production from successful wells, which could limit our revenues.

Our operations are also subject to complex environmental laws and regulations adopted by the various jurisdictions in which we have oil and gas operations. We could incur liability to governments or third parties for any unlawful discharge of oil, gas or other pollutants into the air, soil or water, including responsibility for remedial costs. We could potentially discharge these materials into the environment in any of the following ways: